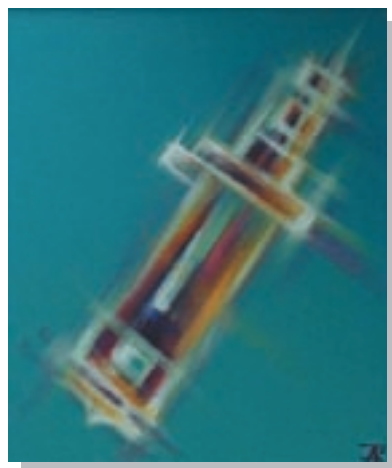


RÖSCH

RÖSCH AG Medizintechnik



A

ANNUAL REPORT
1999/2000





The english translation of the Annual Report
1999/2000 of RÖSCH AG Medizintechnik is for
information purposes only.



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Realising
Medical
Innovations
for People



Innovation is our business

RÖSCH AG Medizintechnik regards itself as a development and marketing specialist for innovative, user-oriented, cost-saving medical technology.

The strength of the company lies in the early identification of innovations in the field of medical technology and then bringing these innovations to market maturity with the goal of becoming the technology and market leader in selected niches of the global health care market.

Through the consistent orientation of the products to the needs of people who are dependent upon medical care, the company is taking into account its responsibility as a developer, manufacturer and distributor of medical products.

Conscious customer orientation ensures a market-oriented approach by the company and its executive bodies. On this basis for commercial success, the company is endeavouring, through the generation of a positive cash flow, to bring about a sustained growth in the value of the company and its stock to the benefit of all its shareholders.

The traditional area of business lies in the areas Dental, Paediatrics and Audiometry, in which the company has successfully operated for 10 years already. The decisive potential for growth, however, is offered by the market for needle-free injection, in which the company is represented with the re-usable **INJEX™** system and the disposable **ROJEX™** system. Both delivery systems are convincing thanks to their simple, totally risk-free handling and their market-oriented prices.

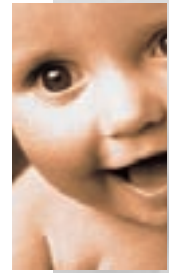
INJEX™ injector



ROJEX™ disposable injector



Within the framework of its marketing concept, RÖSCH AG Medizintechnik regards itself as a partner of the pharmaceutical industry and offers, on the basis of needle-free systems, its core competence in development, research and production for partnership-based co-operations.



RÖSCH Group's Financial Highlights

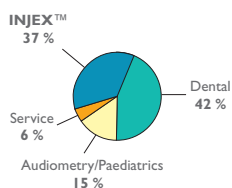
Result	1999/2000	01.01.1999-31.07.1999 ⁽¹⁾	1998
Sales	3.996 KEuro	2.489 KEuro	4.607 KEuro
Gross margin	1.825 KEuro	897 KEuro	1.449 KEuro
Gross margin as % of sales	45,7 %	36,0 %	31,5 %
Result from ordinary activities	- 1.649 KEuro	- 134 KEuro	- 472 KEuro
Result for the year (adjusted for IPO costs)	- 1.636 KEuro	- KEuro	- KEuro
Result for the year (with IPO costs)	- 3.829 KEuro	- 155 KEuro	- 476 KEuro
Result for the year to IAS	- 2.116 KEuro	- 99 KEuro	- 222 KEuro
Result for the year to DVFA/SG	- 1.804 KEuro	- 436 KEuro	- 531 KEuro
Earnings per share to HGB ⁽²⁾	- 0,80 Euro	- 0,16 Euro	- 2,17 Euro
to DVFA/SG ⁽²⁾	- 0,38 Euro	- 0,44 Euro	- 5,19 Euro
to DVFA/SG ⁽²⁾ diluted	- 0,37 Euro	- Euro	- Euro

(1) Short business year from 1 January 1999 to 31 Juli 1999 due to change in the business year.

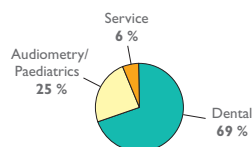
(2) The earnings per share for the short business year from 1 January to 31 Juli 1999, as well as those for the 1998 business year, were calculated on the basis of the assumption that the share capital of RÖSCH GmbH Medizintechnik had been converted into common stock shares and the pro rata value of one common stock share in the capital stock had been Euro 1 at the respective points in time. For the short business year as of 31 Juli 1999 the arithmetical number of shares was 985.157; the corresponding figure for the 1998 business year was 102.258.

Sales by segments

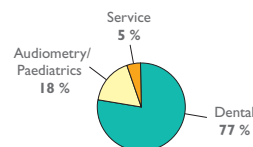
Sales share 1999/2000



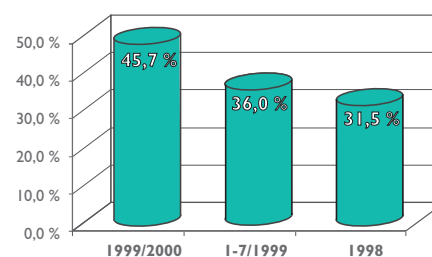
Sales share 1-7/1999



Sales share 1998



Development of gross margins



Balance sheet figures	31.07.2000	31.07.1999 ⁽¹⁾	1998
Balance sheet total	36.486 KEuro	3.745 KEuro	2.744 KEuro
Equity	35.095 KEuro	1.971 KEuro	-243 KEuro
Balance sheet total to IAS	35.981 KEuro	4.056 KEuro	2.755 KEuro
Equity to IAS	34.590 KEuro	2.282 KEuro	11 KEuro
Equity ratio to HGB	96,2 %	52,6 %	- 8,9 %
to IAS	96,1 %	56,3 %	0,4 %

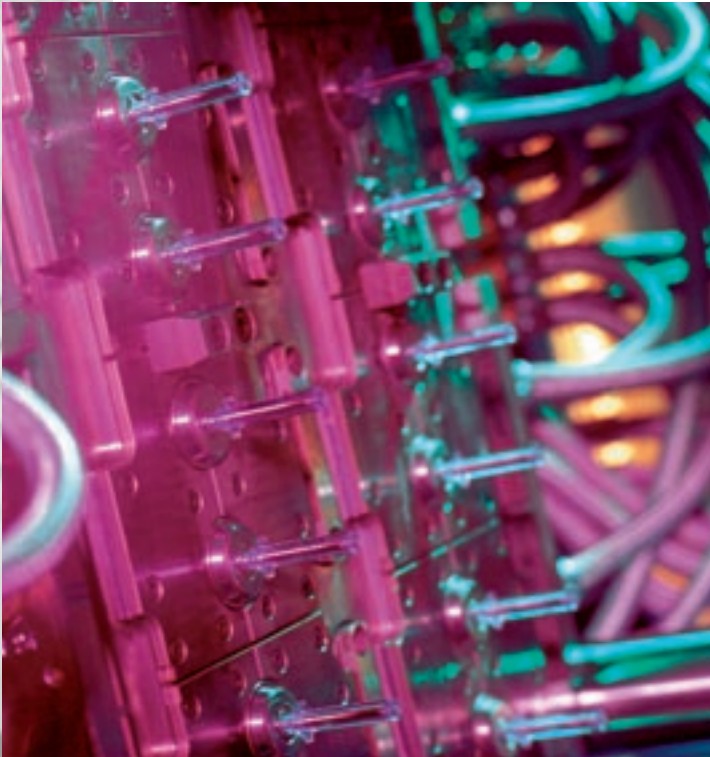
Investments	1999/2000	01.01.1999- 31.07.1999 ⁽¹⁾	1998
Intangible assets	73 KEuro	738 KEuro	0 KEuro
Tangible assets	1.790 KEuro	219 KEuro	53 KEuro

Employees	1999/2000	01.01.1999- 31.07.1999 ⁽¹⁾	1998
Average number	43	29	24
at the end of the period	45	29	25

(1) Short business year from 1 January 1999 to 31 Juli 1999 due to a change in the business year.

To our Shareholders

With the initial public offering in February 2000 and the market launch of the needle-free injection system **INJEX™** RÖSCH AG Medizintechnik underwent a transformation in the 1999/2000 business year – one which has been unique in the history of the company.



The production of ampoules at NYPRO Kunststofftechnik GmbH

These positive events were followed in the course of the year by a delay in the establishment of the fully-automated high-tech production plant for disposable ampoules, and thus the company had to maintain the selling price of the needle-free injection system at a high level so as to limit its market penetration. Sales themselves thus remained below the volume originally planned.

RÖSCH as a stock corporation

The transformation of RÖSCH GmbH Medizintechnik into a stock corporation and the ensuing initial public offering posed a fresh challenge for the company. Alongside the external requirements of statutory reporting and of communication with shareholders, financial analysts and the press, it was also necessary to implement internal measures for adaptation to the new situation. In particular the organisational structures had to be modified and a comprehensive controlling system had to be introduced. These internal tasks were fulfilled through the establishment of a middle management level and the implementation of a risk management system which meets the requirements of the Stock Corporation Act. The external demands have been complied with through the reconciliation of the HGB annual financial statements to international accounting standards (IAS), regular ad hoc announcements and press releases, as well as direct contact with shareholders and financial analysts.

Business activity

The sales planned for the year under review could not be attained as the company was obliged – as a result of the limited availability of high-quality ampoules for **INJEX™** – to consciously subdue demand by setting a very high price for the injector starter kit. Also the established line of business with the areas Dental, Paediatrics and Audiometry (Private Label / Reselling) did not fulfil our expectations as a result of the cutbacks associated with the reform of the health service in Germany. However, it was possible to compensate for some of the slump in sales in Germany by a higher export quota in the dental camera sector and by higher service income.

While it was possible to improve the costs-sales ratio compared to the short business year from 1 January to 31 July 1999, this figure is still not

satisfactory with the effect that despite an increase in the gross margin from 36.0 % to 45.7 %, the company has posted an operating loss of Euro 1,649k. The cost structure of the past business year resulted above all from the necessary development of distribution capacities. The overall result was also burdened by the extraordinary expenses of Euro 2,193k for the initial public offering.

Customer-oriented research and development

Through the establishment of our Medical Patent & Innovation Center (MPIC), whose task is that of taking up ideas, innovations and patents, and then evaluating their marketability on the basis of intensive studies and, if the studies arise, developing them to market maturity, we intend to orient our research and development capacities specifically towards the needs of people requiring medical assistance. At RÖSCH the focus is not therefore on pure research but on the specific development of medical technology which allows ill people to enjoy a better quality of life. The implementation of this ambitious objective will be made easier for the company through certification to DIN EN ISO 9001/ DIN EN 46001 in August 2000 as the necessary time-intensive prototype tests for new products will no longer be necessary, something which in turn considerably simplifies the market launch of such new products.

Outlook

After fully-automated ampoule production commenced at the beginning of the new business year, it was possible to reduce the price for the **INJEX™** starter kit to a marketable level, thus permitting cost reimbursement by the health insurance companies. Together with more intensive marketing of the needle-free injection system, the Board of Management is confident that the original planned market penetration may be attained within the next three business years and that the company will be making an operating profit in the near future.

With the launch of the initiative “Partner for the pharmaceutical industry”, which focuses on entering into development, production and

distribution co-operations with national and international pharmaceutical companies, it is intended to further develop the needle-free delivery systems in accordance with the requirements of the pharmaceutical companies and to develop new distribution channels.

With the expansion of the business area Private Label / Reselling by inclusion of digital X-ray technology, this area will also experience strong growth in the future and make a positive contribution to the overall performance of the company.

In the long term, probably in the 2002/2003 business year, the Board of Management expects to see a further positive impact on the growth of the company through the technology for needle-free blood sugar measurement; the company is currently working with partners so as to develop this technology to market maturity.

The fundamental prerequisites for long-term stable corporate growth have thus been laid, allowing us to meet the obligation to our shareholders and business partners to secure a sustainable growth in the value of the company.

Berlin, 29 September 2000

The Board of Management



Rösch
Chairman of the Board



von zur Gathen
Member of the Board



Supervisory Board's Statement

The 1999/2000 business year under review was one marked by major changes for RÖSCH AG Medizintechnik. In December 1999 the company was transformed into a stock corporation, a move that was associated with the appointment of the first Supervisory Board. A mere two months later, on 24 February 2000, the Supervisory Board was called upon to advise on and monitor the first listing of the company's stock on Neuer Markt in Frankfurt on the Main.

Activity

In the further course of the business year the work of the Supervisory Board focused, alongside its general controlling function, on advising the Board of Management on the fundamental business policy and on the strategically sensible appropriation of the funds from the initial public offering. In order to fulfil this task to the benefit of the company, its shareholders and business partners, the Supervisory Board looked closely at the position of the company, the course of business and the corporate planning in three joint meetings and on the basis of oral reports from the Board of Management. Furthermore it adopted four resolutions using circulars. In the case of a number of decisions affecting the available liquidity and the future strategy of the company, the Board of Management availed directly of the experience and consulting competence of individual members of the Supervisory Board.

Also of importance is the timely provision of information to the Supervisory Board by the Board of Management on the planned acquisition of entire companies and the planned acquisition of majority and minority shareholdings. Thus, the Supervisory Board was always granted the opportunity to evaluate the risks involved with any measure prior to the conclusion of legally-binding agreements, and to make well-founded decisions on the basis of the information received.

Strategy

Taking into account the fundamental corporate objective – the development and marketing of user-oriented and cost-saving medical technology – the focus is on strengthening the long-term earnings power of the company and attaining a constant increase in shareholder value.

Inasmuch the Supervisory Board supports the orientation towards needle-free injection for various applications as one of the future markets within the framework of medical health care. The deployment of the funds from the initial public offering primarily for the development and expansion of the necessary production capacities for **INJEX™**, **ROJEX™** and the ampoules is favoured, just as its increasing investment in marketing and distribution activities.

In the past business year the Supervisory Board also looked closely at the company's traditional area of business, Dental, Paediatrics and Audiometry. It fundamentally welcomes the Board of Management's planned further development and expansion of the product range against the background of changing market conditions in Germany in the wake of the reform of the health service.

Annual financial statements

The audit of the annual financial statements of RÖSCH AG Medizintechnik, as well as the consolidated financial statements and the management report summarised together with the group management report, was conducted by Ernst & Young Deutsche Allgemeine Treuhand AG, Berlin, which granted the annual financial statements and the consolidated financial statements unqualified audit opinions. The Supervisory Board has also examined these documents. Within the framework of the Supervisory Board meeting on 6 October 2000 the auditor reported on the essential results of his audit, and the Supervisory Board approved the results of the audit of the annual financial statements. The Supervisory Board approves the annual financial statements of RÖSCH AG Medizintechnik prepared by the Board of Management for the 1999/2000 business year. The annual financial statements are thus approved.

For the coming 2000/2001 business year the Supervisory Board will propose to the annual general meeting that the annual financial statements and consolidated financial statements will be audited by Ernst & Young Deutsche Allgemeine Treuhand AG, Berlin.

Berlin, 6 October 2000

The Supervisory Board



Dr. Leithäuser
Chairman



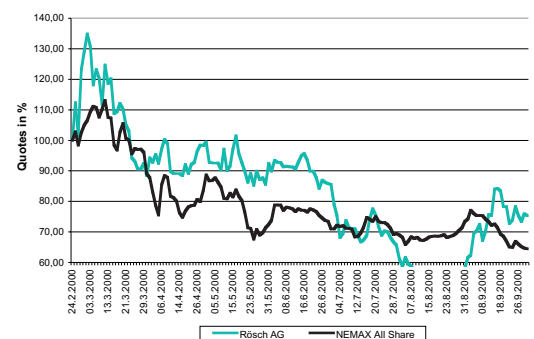
The Share

On 24 February 2000 the shares in RÖSCH AG Medizintechnik were admitted to the listing on Neuer Markt at Frankfurt Stock Exchange. With an issue price of Euro 26, the first listing of Euro 60 was at a pleasingly high level and thus clearly reflected the positive evaluation of the future outlook for the company by market players.



First quotation of RÖSCH AG's shares at Frankfurt Stock Exchange on 24 February 2000

In the course of the following weeks the Rösch share was able to assert itself at a high level compared to Neuer Markt, even though it has not remained unaffected by the generally negative trend on the German stock exchanges. The development of the price at the end of the business year was marked by the lower sales and earnings figures published in our 9-month report – figures which were lower due to the delay in the start-up of fully-automated ampoule production. Furthermore, the above-mentioned technical difficulties made it necessary to correct the budget figures, as reflected in the shift in price in July 2000. Compared to the Nemax All Share index the price has developed as follows since admission to the listing.



Index comparison Neuer Markt

The further price development in September 2000 continues to illustrate the positive evaluation of RÖSCH AG Medizin-technik by the markets. This also shows that the focus is not on a short-term view but that the medium and long-term possibilities for the development of the company are the basis for an appraisal by investors.

We would like to take this opportunity to thank our shareholders for the trust they have placed in the capabilities of the Board of Management and Supervisory Board, and in that of the employees of the company.

Essential developments since the end of the business year

After the statutory lock-up period for the shareholders invested in the company prior to the initial public offering expired on 22 August 2000, Concord Effekten AG, Frankfurt on the Main, TFG Venture Capital AG & Co. KGaA, Marl, and the Equidyne Corporation, Westford, Massachusetts, USA, have agreed to a voluntary, qualified lock-up period through to 31 January 2001.

Prior to the signing of the voluntary lock-up agreement by the Equidyne Corporation, the Board of Management of RÖSCH AG Medizintechnik was able – within the framework of an international roadshow – to transfer in off-market trading a significant number of the shares released by the Equidyne Corporation to international investors with a long-term strategy. This shows the increasing interest in RÖSCH AG Medizintechnik also outside Germany.

With the above-mentioned block trade, the stake held by the Equidyne Corporation in the capital stock has fallen from 26.43 % to less than 20 %, with the effect that the Equidyne Corporation has lost its blocking minority at the annual general meeting.

The shares held by the Board of Management are subject to a voluntary extended lock-up agreement of 12 months from the time of the initial public offering.





Products, Course of Business and Strategy

INJEX™

customers and not avail of the considerable market potential for **INJEX™**.

The product

The injection system **INJEX™** is an innovative product for the needle-free and virtually painless subcutaneous delivery of drugs; this system is designed for re-use. Instead of using a conventional needle, an injection ampoule is used to inject the drug at high pressure through the skin and into the subcutaneous tissue. Therefore, painful needle insertion is no longer necessary. A further major benefit of the system, which is fundamentally suited to use with all drugs which may be delivered subcutaneously, is the removal of the risk of infection through needle-stick injuries with contaminated needles, something which leads to a considerable increase in the level of protection for clinic personnel and patients.

Sales development in the 1999/2000 business year:

Sales in the period under review fell below the expectations of the company.

The reason for this was, above all, an insufficient supply of ampoules – one of the prerequisites for a high degree of market penetration for the **INJEX™** system. This initially resulted from quality problems with our sub-supplier and later from technical difficulties in the start-up of the company's own fully-automated production line, which had originally been scheduled for the third quarter of the 1999/2000 business year. Accordingly it was not possible to conduct aggressive marketing measures. On the contrary, the company was forced to maintain the purchase price for the system at as high a level as possible so as to stem demand despite great interest on the part of patients and diabetologists. Furthermore, the conclusion of negotiations with potential key accounts had to be postponed until a later date. RÖSCH AG Medizintechnik found itself in the less than pleasing situation of not being able to serve



The needle-free injection system **INJEX™**

Start-up of production

Following the teething problems outlined above it was possible to initiate the production and validation process for a fully-automated ampoule production line with a monthly output of 2.7 million units at the beginning of August 2000. In the middle of August of this year production was finally authorised; thus we have now fulfilled all the prerequisites to place the **INJEX™** system on the market at a volume which corresponds with our original planning.

The strategy

The focus of the market launch and further market penetration of the **INJEX™** system lies in the area of the delivery of insulin to diabetics who have to inject themselves several times a day. The company is seeking to secure a market share of at least 10 % in the medium term.

With the take-over of Acanthos GmbH, Hanover, which has direct contact to patients through its co-operation with some 170 outpatient health care providers throughout Germany, as well as the conclusion of an agreement with pharmexx sales & marketing intelligence GmbH, Mannheim, under which ten sales specialists from this company are active exclusively for RÖSCH AG Medizintechnik, a distribution structure has been created in Germany which guarantees a rapid proliferation of the system thanks to its market proximity.



Mediport GmbH Berlin

The European market outside Germany is covered by co-operations with international partners in various countries. Furthermore, RÖSCH AG Medizintechnik founded its own distribution company in Switzerland. This company's tasks will include distribution, and support for pharmaceutical companies domiciled in Switzerland or with offices there. Additional co-operations are also planned with partners in other European countries.

Alongside the development of the distribution network in the new business year, intensive marketing measures to increase the level of awareness of the system were also initiated so as to generate further demand on the part of end-users. At this point it is necessary to mention the reduction in the price of the **INJEX™** starter kit which eases cost reimbursement by the health insurance companies in Germany and abroad, and which therefore also contributes to fast market penetration.

Coming from the diabetes market as the financial base for further growth in the field of needle-free delivery of drugs, it is intended, in the short and medium term, to develop other areas of application for the **INJEX™** system, whereby the focus will be on the delivery of heparin and vaccines in clinics. Additional areas are cancer therapies, painkillers, AIDS wasting, the treatment of allergies, as well as local anaesthetics and dental anaesthetics.

The safety of the needle-free injection method has been demonstrated in extensive studies by RÖSCH with various drugs. Furthermore studies have been, and will continue to be, planned and conducted with competent clinics and universities in Germany and Europe so as to constantly expand the range of drugs for needle-free delivery. Amongst these are studies by the German Cardiac Centre Berlin (Charité), the University of Göttingen, the Tropical Institute in Hamburg, as well as the University of Innsbruck. Furthermore, there is a framework agreement with the Fraunhofer Institute in Hanover.

ROJEX™

The product

ROJEX™ is based on the innovative technology used in the main part of the **INJEX™** system – the injector; it is designed as a disposable system, however, and it is considerably cheaper to produce due to the fact that it is manufactured using plastic injection molding. Its design as a disposable system and the relatively low production costs mean that this injection method is predestined for thrombosis prevention outside clinics, the delivery of anaesthetics, growth hormones and vaccines, as well as in the treatment of AIDS.



The needle-free disposable injector **ROJEX™**

The strategy

ROJEX™ will not be marketed by the company in direct sales but sold to pharmaceutical companies and distributed by these, together with the respective drug. Following exploratory talks in the early summer of the past business year, which revealed considerable interest for this product, the first semi-automatically manufactured systems were made available in September 2000 to various companies in the pharmaceutical industry. These are currently conducting the necessary clinical trials, with the effect that upon the start-up of fully-automated production in the middle of the coming calendar year we can also expect this area to contribute to sales accordingly. The possible areas of application for **ROJEX™** are extensive and cover vaccines, cancer therapies, painkillers, AIDS wasting, infertility, the treatment of allergies, as well as the delivery of local anaesthetics and dental anaesthetics. The major

difference to the **INJEX™** system lies in its design as a disposable system, which means it is predestined for use over a limited period of use in hospitals, and above all in the home care sector, whereas **INJEX™** focuses on the treatment of chronic diseases and repeated use in hospitals.

Production is, as explained below, conducted with OLPE Jena GmbH, Jena, within the framework of a joint venture.

Private Label / Reselling

The products

The Private Label/Reselling business area comprises various product groups from the area Dental, Paediatrics and Audiometry; these are predominantly medical devices used as part of the equipment in doctors' surgeries and hospitals. The main sales pillars are the camera system **VIOLA™**, digital X-ray technology, the local anaesthetic system **The Wand™**, the **EchoCheck** and the **Pilot Hearing Test**. Furthermore, service and maintenance revenue makes a not inconsiderable contribution to sales.

VIOLA™ is a variable camera system with special lenses and optional peripheral equipment and is used as a communicative workstation in dental surgeries, as an otoscopy camera in paediatrics and

audiometry, as an endoscopy camera in veterinary medicine, and also as a reflected light microscope in dermatology. The versatility of the system, coupled with low conversion costs, means it is open to a large market which will be of significance for the future development of sales.



Camera System **VIOLA™**

With the shareholding in *mdc medical digital concepts GmbH & Co. KG*, Neu-Ulm, in August 2000 **RÖSCH AG Medizintechnik** has succeeded in expanding its product range to include the highly innovative field of digital X-ray technology. This technology stands out from conventional radiology as, above all, the radiation burden is 80 % lower; there is greater environment compatibility as it is possible to dispense with X-ray films and chemicals, and there is the opportunity for electronic processing of the X-ray images. Together with the camera system **VIOLA™** **RÖSCH** is thus in a position to offer dental surgeries state-of-the-art technologies which also take into account growing cost consciousness in the health care sector.

Since May 1999 the Dental product range of **RÖSCH AG Medizintechnik** has included the microprocessor-controlled local anaesthetic application system **The Wand™**. This system, which uses a needle and which is intended for use in dentistry, reduces the pain for the patient and, at the same time, increases the accuracy of the injection due to automated anaesthetic delivery and its enhanced handling compared to conventional syringes.

The method forms an ideal supplement to the needle-free injection system from **RÖSCH AG Medizintechnik**, which is currently only suitable for use in the particularly pain-sensitive area of the front teeth.



The WAND™

PILOT-HEARING-TEST



PILOT-HEARING-TEST

EchoCheck
OAE Screener



EchoCheck

The **EchoCheck** and the **Pilot Hearing Test** both serve to monitor the functioning of the inner ear, whereby the **EchoCheck** permits the measurement of otoacoustic emissions in a purely acoustic manner and has now become an objective test method in many surgeries and clinics.

Development of sales in the 1999/2000 business year

In the business area Private Label / Reselling it was possible to attain sales of Euro 2.5 million in the business year under review. This unsatisfactory development is a consequence of the considerable savings being attained in the health service in Germany. This has particularly impacted on the sale of dental products to dentists.

The strategy

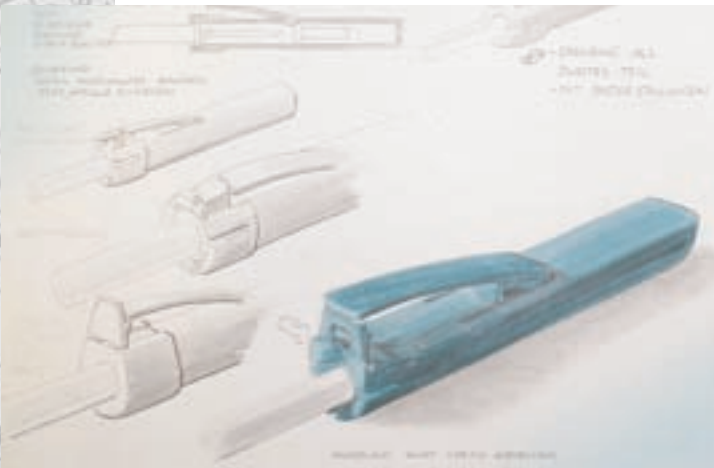
The company expects a positive impact on the development of sales in the area Private Label / Reselling from the planned co-operations with manufacturers and suppliers of equipment in the OEM sector and from the modernisation of physicians' surgeries. Furthermore, it is intended to expand the product range by inclusion of additional high-tech solutions for the dental market; these take into account forward-looking technologies and the growing cost pressure on practising physicians. This expansion of the business strategy in line with the demands of the market may be seen in the shareholding in *mdc GmbH & Co. KG*, Neu-Ulm, whose digital X-ray system is on a high technological level and at the same time meets the requirements of government policy for lower X-ray doses for the general population. The 2000/2001 business year will also be marked by greater sales internationalisation so as to cushion the fall in sales in Germany which is expected as a result of health policy measures.

The sales team has been virtually doubled with the shareholding in *mdc GmbH & Co. KG*, and re-structured so as to achieve optimum market coverage within Germany. The same is true analogously of the service area. The expansion of the international distribution structure is to remain unchanged with the current strategy of concluding framework agreements with distribution partners in the respective countries. Corresponding agreements have so far been concluded with partners in France and Italy.

Research & Development

R&D as a prerequisite for securing and expanding the market position

In the business year under review RÖSCH AG Medizintechnik has made considerable investments in research and development within the framework of the further development of the needle-free injection method, as well as through the expansion of the Medical Patent &



Development of ROJEX™

Innovation Center. In relation to sales revenues, total investments in this area amounted to more than 10%.

The result of the work was, in particular, the further development of the 0.3 ml ampoules through to mass production maturity, as well as the disposable injection system **ROJEX™**. Furthermore various accessories for the **INJEX™** system were developed to market maturity.

In the coming years a constant increase in research and development expenses in absolute numbers is planned; this means that the total investment in the 2002/2003 business year will amount to Euro 2.3 million.

The Medical Patent & Innovation Center (MPIC)

The MPIC focuses on the identification and further development of innovative ideas, prototypes and patents. It regards itself as a port of call for persons working in medicine, for inventors and companies who do not have sufficient infrastructure to implement their ideas without support from a third party. In particular, in the initial stage of a co-operation it offers an evaluation and market studies free of charge. In the event of a positive evaluation, we accompany the product from the idea through to market maturity, something which incorporates the procurement of capital, further technical development, the establishment of production capacities, as well as the development of distribution channels.

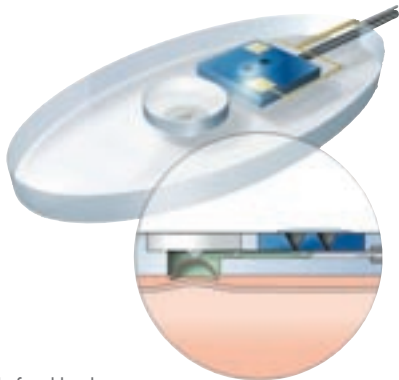
The Projects

Needle-free blood sugar measurement

RÖSCH AG Medizintechnik has concluded an agreement granting an exclusive global licence for the production, use and distribution of the innovative technology for needle-free blood sugar measurement with the ICB, Institut für Chemo- und Biosensorik, Münster e.V., Münster. The ICB is an independent research institute, which receives subsidies from the federal state of North-Rhine Westphalia and which is managed by Fraunhofer-Management-Gesellschaft; its core competencies lie in the areas of chemical analysis, biochemistry and sensor technology.

With the conclusion of the agreement RÖSCH AG Medizintechnik is endeavouring to become the first company in the world to offer a complete system for needle-free diabetes therapy.

The existing technology is secured by a global patent, yet has to be developed to final market maturity. To this end, and for the purposes of later production, it is foreseen that a joint venture be founded by ICB, RÖSCH AG Medizintechnik and an additional partner. The market launch is expected in the 2002/2003



NIMOS Needle-free blood sugar measurement

business year whereby distribution is to be conducted within the framework of a co-operation with one or more pharmaceutical companies.

Ampoules

In order to develop additional sales markets for the needle-free delivery systems, development projects are being commenced for 0.5 ml ampoules and for pre-filled ampoules. The area of application for the 0.5 ml ampoule is, above all, that of thrombosis prevention and in the delivery of vaccines. For patients and physicians/clinic personnel pre-filled ampoules have the benefit that there is no need to fill the ampoule before an injection and thus the use of the injector is further simplified.

The 0.5 ml ampoule has been available since July 2000. At present internal tests are being conducted with **INJEX™** and **ROJEX™** to determine the necessary pressure for an injection under exclusion of tissue injury.

The subject matter of the development of pre-filled ampoules is not so much the production technology and its implementation, which has for the most part been established, but rather the necessary studies with respect to storage and the maximum shelf life. The requisite studies will be conducted in the 2000/2001 business year.

Adapter

In accordance with our philosophy of improving the quality of life for those persons dependent upon medical care, we have expanded the accessories for **INJEX™** by a pen adapter and an adapter for snap-off ampoules. The former permits the dosage of insulin for the injector with the aid of a pen, thus simplifying the change-over from injecting with a needle to needle-free delivery. The latter is required, above all, for applications in local anaesthesia, thrombosis prevention and in homeopathy (e.g. mistletoe extract and vitamin preparations) as these drugs may only be delivered in snap-off ampoules in many cases.



Pen-Adapter

The INJEX™ pen

Within the framework of the market-oriented further development of **INJEX™**, RÖSCH AG Medizintechnik intends to develop an all-in-one injector. This injector is based on the current design and will unite forward-looking needle-free delivery and a dosage aid in one unit so that those accessories required to date are, for the greater part, no longer necessary. As a result of the relatively high development efforts, market maturity for this high-tech device is not to be expected until the end of the 2001 calendar year.



Investments

Total investments – excluding the capitalisation of business start-up expenses – by the RÖSCH companies in the business year ending on 31 July 2000 amounted to Euro 1,799k, of which Euro 1,770k was accounted for by RÖSCH AG Medizintechnik and Euro 29k by Acanthos GmbH, Hanover, which was taken over at the end of the year.

Tangible assets

Advance payments of Euro 1,272k were made on the production lines for the **INJEX™** ampoules, so that the cumulated investment through to the end of the business year was Euro 1,470k.

Furthermore, as a result of the move by RÖSCH AG Medizintechnik into new offices following its growth, an increase in the number of personnel and the acquisition of Acanthos GmbH, it was necessary to invest Euro 485k in office equipment and furnishings.

Financial assets

The investment in financial assets posted on the annual financial statements of RÖSCH AG Medizintechnik concerns the purchase price of Euro 130k for the take-over of Acanthos GmbH, Hanover, and the investment in shares of Equidyne Corporation, Westford, Massachusetts, USA.

Essential developments after the end of the business year / Outlook

Tangible assets

In the course of further market penetration on the part of the needle-free injection system it is intended that the investment volume be increased in the coming years. Initially the capacity of the existing production line for disposable ampoules will be increased from 2.7 million units to 6 million units a month. This measure will probably be concluded by the end of the 2000 calendar year. Depending upon the further development of sales of **INJEX™** and **ROJEX™**, additional fully-automated lines will be installed. In this respect the modular design of the plant is a positive factor as it permits production lines to be taken in operation at any location in the shortest-possible time.

Financial assets

The future corporate philosophy of RÖSCH AG Medizintechnik will lead to further company acquisitions, co-operations with partners from industry and the foundation of its own subsidiaries, as this is often the only way to meet the high demands placed on developing innovative, user-oriented, cost-saving medical technology and bringing it to market maturity. This strategy will, in conjunction with the company's own research and development activities, also lead to the expansion of the product range so as to further stabilise the market position of the company.



m@c medical digital concepts

The first fruit of this strategy was the acquisition of a majority stake in *mdc medical digital concepts GmbH & Co. KG*, Neu-Ulm, at the beginning of the current business year. *mdc GmbH & Co. KG* is a start-up company founded in 1999 which is doing business in the development and distribution of integrated solutions for modern digital surgery concepts.

A major sales pillar is the area of digital imaging processes based on the company's own image processing software as an interface between high-quality X-ray sensors and the requisite peripheral equipment for the evaluation and storage of X-ray images. This software solution offers the possibility to take and process digital X-ray images and panorama shots. It is outstanding thanks to its state-of-the-art technology, user-friendliness and optical presentation.

As a result of the relatively low digitalisation quota among dentists in Germany – approximately 5-7 % – RÖSCH AG Medizintechnik expects this shareholding to make a not inconsiderable contribution to sales in the Dental division.

RÖSCH AG Medizintechnik (Schweiz)

In co-operation with MSE, Medical Service Europe Holding B.V., Rosmalen, The Netherlands, RÖSCH AG Medizintechnik has founded RÖSCH AG Medizintechnik (Schweiz), which is domiciled in Zug. The company is responsible for the distribution of all medical products from RÖSCH AG Medizintechnik in Switzerland, and in particular for the needle-free injection systems **INJEX™** and **ROJEX™**. Its activities will focus to a significant degree on providing advice and support for all the pharmaceutical companies with their headquarters or a branch office in Switzerland.

Joint venture with OLPE Jena GmbH, Jena

OLPE Jena GmbH, Jena, the producer of the **INJEX™** injector and the necessary accessories, and RÖSCH AG Medizintechnik have agreed to found a joint venture company for the fully-automated production of **ROJEX™**. The production of this disposable injection system will initially be conducted directly by OLPE Jena GmbH, Jena, using a semi-automated method with a capacity of up to 160,000 units per month. For the fourth quarter of the 2000/2001 business year it is foreseen that within the framework of the above mentioned joint venture a fully-automated production line will be taken in operation so as to guarantee capacities and prices in line with the needs of the pharmaceutical industry. RÖSCH AG Medizintechnik will hold a stake of approx. 25 % in this company.

Through those measures explained above and implemented at the beginning of the new business year, as well as those currently being implemented, funds have been used specifically for the strategic expansion of the company. Other possible acquisitions, shareholdings and co-operations will follow in the coming business years, whereby their possible contribution to the company's development will be scrutinised beforehand. In this area the company is also taking a cautious approach, attaching greater significance to the long-term success of the company and not to a short-term increase in sales and earnings.



Our Employees

The initial public offering of RÖSCH AG Medizintechnik and the resulting organisational changes, the development of production capacities and the necessary expansion of our sales organisation have been a major challenge to the company – one which we have only been able to master thanks to the competence, skills and



The employees of RÖSCH AG Medizintechnik

commitment of our employees. The Board of Management would like to take this opportunity to thank all the employees of RÖSCH AG Medizintechnik for their performance and efforts in the past business year.

Personnel development

RÖSCH AG Medizintechnik increased the number of employees from 29 as of 31 July 1999 to 41 as of 31 July 2000. With the acquisition of Acanthos GmbH an additional 4 employees joined the Group, with the effect that at the end of the business year a total of 45 persons were employed in the Group. Furthermore, with the expansion of the sales organisation for the **INJEX™** system an agreement was concluded with pharmexx sales & marketing intelligence GmbH, Mannheim, under which 9 specialist pharmaceutical sales staff and a regional manager are to work exclusively for RÖSCH AG Medizintechnik in field sales. Thus, the company offers employment, directly and indirectly, to 55 people.

Organisation

The objective of the organisational structure at RÖSCH AG Medizintechnik and its subsidiary was that of retaining a lean hierarchy despite the rising number of personnel so as to guarantee decision-making paths oriented towards the needs of the market. This relatively simple organisational structure has allowed the company to react in a timely manner to changing needs in day-to-day operations.

The highest management level comprises the two members of the Board of Management and a managing director at Acanthos GmbH, all directly involved in the operating business. The second management level is formed by six employees who are responsible for the management and monitoring of the individual operating and administrative areas and who report directly to the Board of Management.

What has characterised the corporate culture at RÖSCH AG Medizintechnik in the past, and which will continue to be of great significance in the future, however, is the co-operation of all the employees as one team and the flow of information across all hierarchy levels.

Employee participation program

The company's annual general meeting on 21 January 2000 authorised the Board of Management to issue subscription rights to shares in RÖSCH AG Medizintechnik within the framework of a stock option plan. The subscription rights may be issued in a number of tranches, whose volumes are laid down by the Board of Management in agreement with the Supervisory Board, to a maximum total volume of Euro 353,605.

The beneficiaries are

- members of the Board of Management of the company, with up to 10 % of the respective tranche (Group 1),
- members of the management of affiliated companies insofar as they are not also members of the Board of Management of the company, with up to 20 % of the respective tranche (Group 2), and
- other employees of the company and affiliated companies, with up to 70 % of the respective tranche (Group 3),

whereby when a tranche is issued the highest-possible percentage share is to be allocated to each of the above groups. If there are no members of Group 2 at the point in time of the issue, the respective 20 % of the tranche is to be issued to the members of Group 3.

One subscription right grants the option to subscribe to two bearer shares in the company (Share A and Share B). The exercising of the subscription right for Share A is geared to the development of the price of the RÖSCH share in relation to the basic price of the subscription right; in the case of Share B it is geared to the percentage performance of the RÖSCH share in relation to the percentage rise in the Neuer Markt index.

In May 2000 the Board of Management made use of the above authorisation and, with the consent of the Supervisory Board, issued a first tranche of subscription rights totalling 45,088 rights.

Essential developments after the end of the business year / Outlook

Following the 1999/2000 business year the company further invested in the development of qualified personnel and recruited an additional 4 employees. Furthermore, through the shareholding in *mdc* GmbH & Co. KG, the number of employees within the Group has risen by 12 to a total of 61.

Future corporate growth will necessitate the ongoing recruitment of new staff so as to overcome the constant expansion of existing areas and the creation of new tasks. With the rising number of staff it will no longer be possible to maintain the extremely lean organisational structure with all the benefits which have assisted the company in recent months. Growth, which is essential to securing the company as a going concern and to increasing shareholder value, means greater demands will be placed on the risk management and thus on the implementation of additional controls.

Despite these demands, the Board of Management intends to foster the team spirit and independent co-operation in the coming years, and retain these as an essential part of the corporate culture. With a view to this goal, one focus of the remuneration system at RÖSCH AG Medizintechnik and its subsidiaries is the above mentioned employee participation model. It enhances the motivation of staff and the loyalty to the company, contributing considerably to higher motivation and performance. Thus the Board of Management has already adopted a resolution on the issue of a further tranche of subscription rights and submitted this to the Supervisory Board for approval.

The market for medical technology products

The European market is again expected to display stable economic growth in the coming business year. The extent to which companies operating in the medical technology market segment are able to profit from this fundamentally positive trend will depend to a great extent on having a product range which includes innovative ideas and on taking into account the increasing cost pressure in the health service sector and the growing requirements placed on the protection of patients and medical personnel.

RÖSCH AG Medizintechnik sees itself as well-positioned with its products from the corporate divisions needle-free injection systems and Private Label/Reselling. The concept for the needle-free system **INJEX™**, as well as the needle-free disposable injector **ROJEX™**, takes into account the needs of achieving a sustained reduction in health care costs – **INJEX™** because only the ampoule has to be changed while the injector retains its functionality over a period of many years, **ROJEX™** because it reduces hospital treatment periods for patients with certain conditions. Both systems are outstanding thanks to a lower infection/injury risk for patients and medical personnel compared to a conventional syringe. With the development of the pen injector and a system for needle-free blood sugar measurement the company is already investing in securing the company's medium and long-term position and sustained corporate growth in the area of needle-free delivery systems.

The Private Label/Reselling division with its focus on the dental market will continue to face tough competition in the 2000/2001 business year. At the same time RÖSCH AG Medizintechnik is confident that – with its intraoral camera system, digital X-ray technology, and re-entry onto the ENT market – it can withstand the ongoing pressure. Digital X-ray technology, as a diagnostic instrument in dentistry, combines lower treatment costs and lower radiation doses for the patient in one system, thus fulfilling a number of requirements from legislators and society. The ENT market will probably grow in the future as a result of the increasing burden upon the population from environmental pollution and stress. After selling off this business area in 1995 RÖSCH AG Medizintechnik entered into an obligation not to operate in this field for a period of five years. With re-entry into this market segment the company may avail of its expertise gathered over a number of years to expand the product range and thus also the significance of the Private Label/Reselling division.

Partner to the pharmaceutical industry

In addition to the development of our own sales activities on the diabetes market, one of the points of focus of the future distribution concept for needle-free systems will be co-operations with national and international pharmaceutical companies. Synergy effects are to be expected for both parties from such a co-operation as the market-oriented further development of **INJEX™** and **ROJEX™** is enhanced, and as the production of pre-filled ampoules and their distribution is co-ordinated to the requirements of the drug manufacturers.

ISO 9001 certification

At the beginning of August 2000 RÖSCH AG Medizintechnik received certification to DIN EN ISO 9001/DIN EN 46001, and thus now has a comprehensive quality assurance system. Seen against the background of research and development expenses, this certificate is of considerable significance as cost-intensive and time-consuming prototype tests are no longer required for new products and a separate application does not have to be submitted for CE approval. The savings in terms of time and financial resources may be invested in the development of new products.



IT

The demands made on a company's IT systems grow with an increase in sales. In order to continue to comply with the requirements made on a publicly-listed company and so as to accelerate internal organisational flows, RÖSCH AG Medizintechnik has decided to implement a new software package in the third quarter of the 2000/2001 business year. The desired solution will integrate all the corporate areas in a uniform environment, enhancing the flow of information between the various departments. Ultimately, with this investment the company is taking a further important step towards concentrating on its markets through a reduction in the resources dedicated to administrative tasks.

Executive Bodies of the Company

SUPERVISORY BOARD

Supervisory Board



from left to right: James Stuart Parsons, Markus Saller, Dr. Dieter Leithäuser

Dr. Dieter Leithäuser

Chairman

57, resident of Warburg/Westphalia, was elected as the Chairman of the Supervisory Board at the meeting of the Supervisory Board on 10 December 1999. Since 1978 Dr. Leithäuser has been a practising ear, nose and throat specialist in a private group practice and a senior hospital ENT consultant. Since 1979 he has been a regional physician consultant for National Health Association Westphalia Lippe (KV-Westfalen Lippe) in Dortmund/Münster. In addition, Dr. Leithäuser is the senior editor of the specialist HNO-Nachrichten (ENT News), Urban & Vogel Verlag, Munich (Bertelsmann Group); since 1999 he has held the status of Assessor pursuant to the EFQM Model (European Foundation for Quality Management, Brussels).

Markus Saller

Deputy Chairman

MBA, 34, resident in Garmisch-Partenkirchen, as the member of the Supervisory Board delegated by Concord Effekten AG, was elected as the Deputy Chairman of the Supervisory Board at the Supervisory Board meeting on 10 December 1999. Mr. Saller holds general commercial power of attorney at Concord Effekten AG and at Concord Corporate Finance GmbH.

James Stuart Parsons

Technical advisor to Equidyne Systems Inc., 80, resident in Aliso Viejo, California, USA, looks back on over 40 years' management experience in research and development in the fields of electronics, electromechanics, medical technology, as well as aviation and aerospace.

In the course of his career Mr. Parsons has been President, Executive Vice President, Vice President and Chief Engineer and holds a considerable number of patents in medical technology and navigation systems. He is the inventor of the **INJEX™** jet injector.

BOARD OF MANAGEMENT

Board of Management

Andy Rösch

Chairman

40, resident in Berlin, is one of the founders of RÖSCH AG Medizintechnik and looks back on 15 years' professional experience in medical technology. He was a member of the Board of Directors of AMERICAN Electromedics Corp., Amherst, New Hampshire, USA (now the Equidyne Corporation) and was a member of the Supervisory Board of Hortmann AG, Neckartenzlingen, for a time. Since the foundation of RÖSCH GmbH Medizintechnik he has been the managing director.

As the Chairman of the Board of Management he is responsible for Sales, Marketing, Investor Relations and Research and Development, as well as for the strategic management.



from left to right: Andy Rösch, Christoph von zur Gathen

Christoph von zur Gathen

MBA, 48, resident in Berlin, looks back on 23 years' professional experience, primarily in the financial sector. Among other positions, he has been employed at Daimler Benz AG, Stuttgart, and debis AG, Berlin, as an export financier and counter-trader; for 3 years he was also the managing director and holder of general commercial power of attorney at a subsidiary of Jenoptik AG, Jena. Mr. von zur Gathen took over the commercial management of RÖSCH GmbH Medizintechnik as of 1 April 1998.

As a member of the Board of Management he is responsible for Finances, Controlling and Personnel.

Mr. von zur Gathen is also a member of the management of Acanthos GmbH, Hanover.

Financial Position

The RÖSCH Group

Accounting standards

The consolidated financial statements and annual financial statements of RÖSCH AG Medizintechnik, as well as the annual financial statements of its subsidiary, have been prepared in accordance with the provisions for stock corporations of the German Commercial Code (HGB). The accounting and valuation principles of RÖSCH AG Medizintechnik have been applied to all the financial statements.

In order to comply with the reporting requirements for Neuer Markt, the company has prepared a transitional statement of the equity and the result for the year to IAS for the consolidated financial statements of RÖSCH AG Medizintechnik.

The comparative numbers of prior year indicated in the following refer to the annual financial statements of RÖSCH AG Medizintechnik for the short business year from 1 January till 31 July 1999, since consolidated financial statements have to be prepared for the business year ended 31 July 2000 at the first time.

Consolidated Balance Sheet

ASSETS	31.7.2000 KEuro	31.7.1999 KEuro
A. START-UP AND BUSINESS EXPANSION EXPENSES	505	337
B. FIXED ASSETS	2.937	1.125
C. CURRENT ASSETS		
I. Inventories	2.726	1.216
II. Accounts receivable and other assets	2.370	1.006
III. Securities	14.753	0
IV. Cash on hand, bank balances and cheques	13.168	50
	33.017	2.272
D. PREPAID EXPENSES	27	11
TOTAL ASSETS	36.486	3.745

Fixed assets

The increase of Euro 1,813k in the fixed assets essentially results from the goodwill of Acanthos GmbH, Hanover (book value: Euro 63k), the acquisition of the **INJEX™** patent in July 1999 (book value: Euro 590k), as well as payments on

account for the production lines for the ampoules (Euro 1,470k; p/y: Euro 198k).

Inventories

The relatively high stock of inventories of Euro 2,725k is explained by the postponement of INJEX™ sales as a result of the low availability of ampoules with a simultaneous maintenance of production output for the injector, which is based on contractually-agreed call-off volumes with the company's order producer.

Accounts receivable and other assets

The accounts receivable and other assets are slightly lower than budgeted, and increased compared to the previous year by Euro 1,364k, in particular because a number of distribution partners were granted extended payment targets so as to aid a careful market launch of **INJEX™**. Furthermore, the postponement of ampoule production also contributed to this development as the sales possibilities for the distribution partners were severely restricted.

Liquidity

Taking into account bank balances and short-term securities, the liquid funds available to RÖSCH as of 31 July 2000 amount to Euro 27,091k; thus the funds of Euro 31,172k received by the company following the initial public offering are still virtually available in full.

The revenue from the company's initial public offering has, taking into account the planned investments and rising interest rates, been invested in short-term securities (Euro 14,753k) and as time deposits (Euro 13,017k). Thus the Board of Management has observed the company's risk policy and has, firstly, waived possible higher interest rates with more risky capital investments, and, secondly, created a liquidity situation which guarantees sufficient flexibility.

EQUITY AND LIABILITIES	31.7.2000	31.7.1999
	KEuro	KEuro
A. EQUITY		
I. Subscribed capital	4.800	985
II. Capital reserve	34.626	1.487
III. Accumulated losses	-4.331	-501
	35.095	1.971
B. SPECIAL RESERVES WITH AN EQUITY PORTION	91	0
C. ACCRUALS	721	184
D. LIABILITIES	579	1.590
TOTAL EQUITY AND LIABILITIES	36.486	3.745

Equity

As a result of the capital increases in the run-up to the initial public offering and as a result of the IPO itself, the company's equity has increased over the previous year by Euro 33,124k.

Accruals

The change of Euro 537k in the provisions essentially results from the higher accruals for legal and consulting fees and for contingent liabilities.

Liabilities

It was possible to reduce the liabilities by Euro 1,011k. This reduction essentially results from the complete redemption of liabilities due to banks (p/y: Euro 1,001k) as well as a fall of Euro 54k in other liabilities, whereas trade accounts payable increased by Euro 44k.

Consolidated Statement of Income

CONSOLIDATED STATEMENT OF INCOME	1999/2000	Comparative-period⁽¹⁾	Short business year
	KEuro	1998/1999	1.1. -31.7.1999
		KEuro	KEuro
Operating performance	4.360	5.072	2.831
Cost of materials	2.171	2.922	1.592
Personnel expenses	1.548	1.066	668
Depreciation	415	62	43
Other operating expenses	2.238	1.035	617
Financial result	363	- 77	- 45
Result from ordinary activities	- 1.649	- 90	- 134
Extraordinary expenses	2.193	0	0
Taxes	13	- 20	- 21
Net loss for the year	-3.829	- 110	-155

⁽¹⁾ The comparative period was determined by deduction of the unaudited figures for the period 1 January till 31 July 1998 from the statement of income for 1998. To the resulting balance the short business year from 1 January till 31 July 1999 was added.

Operating performance

In the past business year RÖSCH was able to attain total sales of Euro 3.996k. The resulting shortfall of ca. 60 % compared to the budget figures is essentially a result of the insufficient



availability of high-quality disposable ampoules for **INJEX™**. This was a consequence of problems with the American supplier and with the commissioning of the company's own fully-automated production lines. The start-up of production originally planned for April 2000 had to be postponed a number of times due to the complexity of this high-tech lines, and could only be commenced at the beginning of the 2000/2001 business year. Thus in the reporting period it was only possible to sell approx. 4,900 systems, and the planned market penetration with **INJEX™**, as well as the increase in sales, has been postponed accordingly.

The operating performance also includes own work capitalised of Euro 256k (budget: Euro 507k) and other operating income of Euro 108k (budget: Euro 151k).

Cost of materials

The cost of materials has fallen slightly compared to the budget figures in line with the development of sales, although the sales-cost of materials ratio has deteriorated slightly as the gross margin in the Dental and Paediatric sector is lower than that with the needle-free delivery system **INJEX™**.

On the other hand, the relatively low share contributed by these systems has led to a not insignificant improvement in the margin over the previous year.

Depreciation

Depreciation has risen considerably with the ordinary depreciation of the **INJEX™** patent acquired in 1999 (Euro 148k) and of the business start-up expenses (Euro 88k), as well as extraordinary depreciation on fixed assets at the company's old offices in the wake of the transfer of offices; taking into account the postponement in the start-up of ampoule production, the depreciation is as budgeted.

Personnel expenses

As a result of the rise in the number of employees throughout the Group to 45 (p/y: 29), the personnel expenses have increased to Euro 1,548k (p/y: Euro 668k). The recruitment of additional staff thus corresponded in general

with the targets, whereby the increase in terms of absolute sums is lower than planned as the direct costs per employee have been lower than originally expected due to the company's stock option plan.

Other operating expenses

The other operating expenses were 23 % lower than the expected figure, and in particular as a result of the advertising and travelling expenses being lower by a sum of Euro 0.4 million. The development of the advertising and travelling expenses is a direct result of the lower-than-expected sales as, due to the lack of disposable ampoules, the marketing expenses for **INJEX™** originally foreseen for the second quarter of the business year had to be postponed until the first quarter of the new business year. The development of the research and development expenses is also in line with the lower sales of **INJEX™** as it had been agreed between RÖSCH AG Medizintechnik and the Equidyne Corporation, Westford, Massachusetts, USA, that the fee for the use of the corresponding capacities at the American company would be based on sales.

Compared with the short business year for the previous year, other operating expenses have increased from Euro 617k to Euro 2,238k. The reasons for this are, above all, an increase in legal and consulting fees to Euro 356k (p/y: Euro 40k), in costs for product sales to Euro 343k (p/y: Euro 47k), in direct research and development expenses to Euro 267k (p/y: Euro 39k) as well as in office costs to Euro 206k (p/y: Euro 53k). Costs for product sales include expenses for 10 sales staff who, under an agreement with pharmexx sales & marketing intelligence GmbH, Mannheim, are working exclusively for RÖSCH AG Medizintechnik.

Financial result

The financial result of the company has been better than planned, with a profit of Euro 363k. The reason for this lies in the liquid funds received by the company from the initial public offering, which were higher than expected, in a slight shift in investments in production lines for ampoules to later business years with the associated lower tied-up capital and reduced interest expenses.

Extraordinary expenses

The extraordinary expenses exclusively concern the costs of the initial public offering of Euro 2,193k in the 1999/2000 business year, which, as a result of the very successful IPO strategy of the company and the associated high inflow of liquid funds, was higher than the expected sum of Euro 1,735k.

Taxes

As a result of the net losses shown in the annual financial statements for the past business year at RÖSCH AG Medizintechnik and its subsidiary there are no taxes on income.

The accumulated losses at the end of the 1999/2000 business year at RÖSCH AG Medizintechnik cannot, however, be offset against fiscal profits in future financial years because the company falls under the provisions of Art. 8 Section 4 KStG [German Corporation Tax Act] as a consequence of the initial public offering on 24 February 2000.

Result

To summarise it may be stated that the delay in the start-up of fully-automated ampoule production, and the associated shortfall in sales targets, have had a negative impact on the operating result-costs ratio. This has occurred, above all, as investment in the future of the company, such as in the development of personnel capacities, continued to be necessary. The result from ordinary activities was, therefore, Euro -1,649k.

Consolidated Cash Flow

CASH FLOW STATEMENT	1999/2000	Short business year
	KEuro	1.1.-31.7.1999 KEuro
Operating Cash Flow before IPO Costs	-1.406	- 407
IPO Costs	2.193	0
Cash Flow	- 3.599	- 407
Cash outflow from business activities	- 6.758	- 1.394
Cash outflow from investing activities	-2.140	- 927
Cash inflow from financing activities	36.769	2.362
Cash and cash equivalents at the beginning of the period	50	9
Cash and cash equivalents at the end of the period	27.921	50
Change in cash and cash equivalents	27.871	41

The cash flow and the change in cash and cash equivalents are two of the main indicators used by the company to monitor its business development and which it uses for future decisions.

In the past business year, based on the net loss, the essential factors for the cash flow were depreciation (Euro 415k) and start-up and business expansion expenses (Euro 256k).

Taking into account the costs of the IPO, which will only be incurred once in this business year, the company is posting a negative operating cash flow of Euro 1,406k.

The short-term liquid funds available to the company as of 31 July 2000 have primarily increased through capital increases in the run-up to the initial public offering and through the IPO itself. This cash inflow is contrasted with investment in the stock of inventories, the above mentioned increase in accounts receivable, and payments on account for the fully-automated ampoule production.

The Companies



RÖSCH AG, Berlin

As a developer and marketer of innovative medical technology, the strategic orientation of RÖSCH AG Medizintechnik is towards its own development and marketing of new applications, as well as on shareholdings in companies which either already have high-quality, marketable medical technology products or which are in the start-up phase with a good idea.

The demands placed on the company with this strategy, such as the procurement of the necessary liquid funds, high research and development costs, as well as the early development of personnel capacities and distribution channels, have had a considerable impact on the annual financial statements of RÖSCH AG Medizintechnik in the year under review.

The annual result before and after adjustment for the IPO costs clearly shows the effect of the procurement of capital, which was necessary so as to pre-finance the rapid development of production capacities and distribution structures for **INJEX™**. In the medium term, some of this capital and the cash flow generated by business activities is available for the further development and expansion of the corporate activity.

Qualified personnel is, even in an increasingly automated business world, the key factor to success for every company. The selection and recruitment of highly motivated and competent employees is often associated with considerable periods of time, with the effect that the requisite funds have to be invested in the development of capacities at an early stage so as to attain the planned corporate growth. RÖSCH AG Medizintechnik has recognised this necessity and, taking into account its budget figures for the coming years, has established a corresponding employee base. For this reason, the personnel expenses in the 1999/2000 business year have risen to 39 % of the sales but will fall in the coming two business years in relation to revenues.

The following figures from the annual financial statements of RÖSCH AG Medizintechnik are thus also a clear reflection of these investments in the development of the company.

Result	1999/ 2000	01.01.1999- 31.07.1999 ⁽¹⁾	1998
Sales	3.996 KEuro	2.489 KEuro	4.607 KEuro
Gross margin	1.825 KEuro	897 KEuro	1.449 KEuro
Gross margin as % of sales	45,7 %	36,0 %	31,5 %
Result from ordinary activities	-1.649 KEuro	134 KEuro	- 472 KEuro
Result for the year (adjusted for IPO costs)	- 1.636 KEuro	- KEuro	- KEuro
Result for the year (with IPO costs)	- 3.829 KEuro	- 155 KEuro	- 476 KEuro
Result for the year to IAS	- 2.116 KEuro	- 99 KEuro	- 222 KEuro
Result for the year to DVFA/SG	- 1.804 KEuro	- 436 KEuro	- 531 KEuro

Balance sheet figures	31.07.2000	31.07.1999 ⁽¹⁾	1998
Balance sheet total	36.385 KEuro	3.745 KEuro	2.744 KEuro
Equity	35.095 KEuro	1.971 KEuro	-243 KEuro
Balance sheet total to IAS	35.880 KEuro	4.056 KEuro	2.755 KEuro
Equity to IAS	34.590 KEuro	2.282 KEuro	11 KEuro
Equity ratio to HGB	96,5 %	52,6 %	-8,9 %
to IAS	96,4 %	56,3 %	0,4 %

Employees	1999/ 2000	01.01.1999- 31.07.1999 ⁽¹⁾	1998
Personnel expenses	1.548 KEuro	668 KEuro	1.024 KEuro
Personnel expenses as % of sales	38,7 %	26,8 %	22,2 %
Average number	39	29	24
at the end of the period	41	29	25

(1) Short business year from 1 January 1999 to 31 July 1999 due to a change in the business year.





Acanthos GmbH, Hanover

Acanthos GmbH, Hanover, which was taken over from the company's founder and sole shareholder by RÖSCH AG Medizintechnik in July 2000, has focused since its foundation on co-operations throughout Germany with health care providers; it currently co-operates directly with some 170 such services. The emphasis of the company's activities to date has been on support for innovative therapy strategies in day hospitals and practices focusing on oncology. Furthermore, the company has been active in the preparation of clinical tests and studies.

With the take-over of Acanthos GmbH by RÖSCH AG Medizintechnik there will be a considerable shift in the corporate subject matter as Acanthos is to assume responsibility for the distribution of the needle-free injection system to pharmacists, diabetic centres and end-users, as well as for providing specialist support and advice in Germany. Thanks to this re-orientation, for which the co-operations with the some 170 care services is of not inconsiderable importance, RÖSCH AG Medizintechnik has taken a further significant step towards optimising its distribution channels.

The figures reproduced here illustrate that the re-structuring and re-orientation have affected the business development as the necessary preparatory measures, in particular the training of the health care providers, have led to the tying up of personnel capacities as a result of which the company's traditional area of business has declined. With the expected increase in the distribution of injectors, it is expected that the current 2000/2001 business year will show a clear improvement in results.

Result	01.01.2000- 31.07.2000⁽¹⁾	1999	04.06.1998- 31.12.1998⁽¹⁾
Sales	190 KEuro	685 KEuro	283 KEuro
Gross margin	187 KEuro	679 KEuro	279 KEuro
Gross margin as % of sales	98,4 %	99,1 %	98,6 %
Result from ordinary activities	- 42 KEuro	54 KEuro	1 KEuro
Result for the year to HGB	- 25 KEuro	25 KEuro	0,5 KEuro

The gross margin was calculated in line with the figures on the consolidated financial statements as the difference between sales and the cost of materials. As a result of the orientation as a service company with very low material costs, the margin is high. Taking into account personnel costs the margin amounts to 27.2 % in 2000, 68.5 % in 1999 and 69.9 % in 1998.

Balance sheet figures	01.01.2000⁽¹⁾- 31.07.2000	1999	04.06.1998⁽¹⁾- 31.12.1998
Balance sheet total	176 KEuro	268 KEuro	132 KEuro
Equity	67 KEuro	51 KEuro	26 KEuro
Equity ratio to HGB	38,1 %	19,0 %	19,7 %

The change in equity compared to the 1999 business year consists of the loss for the short business year from 1 January till 31 July 2000 in the amount of Euro 25k as well as other cash contributions to the equity by the former sole shareholder in the amount of Euro 41k.

Employees	01.01.2000⁽¹⁾- 31.07.2000	1999	04.06.1998⁽¹⁾- 31.12.1998
Average number	4	4	3
at the end of the period	4	5	3

(1) Short business years, in 1998 as a result of the foundation of the company and in 2000 as a result of the amendment in the business year to that of RÖSCH AG.





Annual and Consolidated Financial Statements

RÖSCH AG Medizintechnik
to 31 July 2000

Annual and Consolidated Financial Statements

Audit Opinion

We have audited the annual financial statements, together with the bookkeeping system, of the RÖSCH AG Medizintechnik, Berlin, and the consolidated financial statements prepared by the Company and the management report which is combined with the group management report (management report) for the business year from 1 August 1999 to 31 July 2000. The preparation of these documents in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, the bookkeeping system, the consolidated financial statements as prepared by the Company, and the management report based on our audit.

We conducted our audit of the annual financial statements and the consolidated financial statements in accordance with § 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer e.V. (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements and in the consolidated financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and consolidated financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the annual financial statements, the consolidated financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements and the consolidated financial statements give a true and fair view of the net assets, the financial position and results of operations of the Company and of the Group in accordance with principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's and the Group's position and suitably presents the risks of future development.

Berlin, 15 September 2000

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft

Dr. Michael Schlößer
Auditor

Franz-Josef Epping
Auditor

RÖSCH AG Medizintechnik, Berlin
**Consolidated Balance Sheet as of
 31 July 2000**

ASSETS	Euro	Euro
A. START-UP COSTS AND BUSINESS EXPANSION EXPENSES		505.069,08
B. FIXED ASSETS		
I. Intangible Assets		
1. Software	9.574,92	
2. Patents	590.168,49	
3. Goodwill	<u>63.429,14</u>	663.172,55
II. Tangible Assets		
1. Technical equipment	28.669,84	
2. Other equipment, factory and office equipment	482.726,61	
3. Payments on account	<u>1.470.464,30</u>	1.981.860,75
III. Financial Assets		
Participations		292.280,99
C. CURRENT ASSETS		
I. Inventories		
1. Merchandise	2.720.378,23	
2. Payments on account	<u>5.112,92</u>	2.725.491,15
II. Receivables and Other Assets		
1. Trade receivables	1.722.171,52	
2. Receivables from enterprises in which participations are held	78.760,36	
3. Other assets	<u>569.255,79</u>	2.370.187,67
III. Securities held as Current Assets		
Other securities		14.752.826,80
IV. Cash-in-Hand and Bank Balances		13.168.023,34
D. PREPAID EXPENSES		<u>26.781,26</u>
		36.485.693,59

EQUITY AND LIABILITIES		Euro	Euro
A. EQUITY			
I. Subscribed Capital			4.800.000,00
Conditional Capital	Euro 353.605,00		
II. Capital Reserves			34.625.546,81
III. Accumulated Losses			<u>4.330.548,00</u>
			35.094.998,81
B. SPECIAL RESERVES WITH AN EQUITY PORTION			
			17.895,22
C. SPECIAL RESERVES FOR INVESTMENT GRANTS			
			72.878,36
D. ACCRUALS			
1. Accruals for pension and similar obligations		20.515,59	
2. Tax accruals		10.745,31	
3. Other accruals		<u>689.944,62</u>	
			721.205,52
E. LIABILITIES			
1. Trade payables		483.798,45	
2. Other liabilities		<u>94.917,23</u>	
- of which taxes	Euro 45.062,65		
- of which relating to social security	Euro 44.398,25		
			<u>578.715,68</u>
			36.485.693,59

RÖSCHAG Medizintechnik, Berlin
**Consolidated Statement of Income for the
 business year from 1 August 1999 to
 31 July 2000**

	Euro	Euro
1. Sales		3.995.990,97
2. Own work capitalised		256.146,61
3. Other operating income		<u>107.525,48</u>
		4.359.663,06
4. Cost of materials		
a) Cost of purchased merchandise	2.126.001,11	
b) Cost of purchased services	<u>45.016,19</u>	
		2.171.017,30
5. Personnel expenses		
a) Wages and salaries	1.324.345,49	
b) Social securities and other pension costs	223.812,13	
- of which in respect of pension costs Euro 15.210,09		
		<u>1.548.157,62</u>
6. Depreciation on intangible fixed assets and tangible assets as well as on capitalised start-up costs and business expansion expenses		414.959,57
7. Other operating expenses		2.237.762,95
		<u>6.371.897,44</u>
8. Income from other investments	454.493,99	
9. Other interest and similar income	33.063,99	
10. Amortization on investments in current assets	85.692,52	
11. Interest and similar expenses	<u>38.711,15</u>	
		<u>363.154,31</u>
12. Results from ordinary activities		-1.649.080,07
13. Extraordinary expenses		2.192.912,88
14. Taxes on income		-19.893,43
15. Other income		<u>7.267,56</u>
16. Net loss for the year		3.829.367,08
17. Losses carried forward		<u>501.180,92</u>
18. Accumulated Losses		4.330.548,00

RÖSCH AG Medizintechnik, Berlin
Balance Sheet as of 31 July 2000

ASSETS	31.07.1999	
	Euro	KEuro
A. START-UP COSTS AND BUSINESS EXPANSION EXPENSES	505.069,08	337
B. FIXED ASSETS		
I. Intangible Assets		
1. Software	7.288,37	1
2. Patents	590.168,49	738
	597.456,86	739
II. Tangible Assets		
1. Technical equipment	28.669,84	0
2. Other equipment, factory and office equipment	455.768,21	188
3. Payments on account	1.470.464,30	198
	1.954.902,35	386
III. Financial Assets		
1. Shares in affiliated enterprises	130.716,32	0
2. Participations	292.280,99	0
	422.997,31	0
C. CURRENT ASSETS		
I. Inventories		
1. Merchandise	2.720.378,23	1.204
2. Payments on account	5.112,92	12
	2.725.491,15	1.216
II. Receivables and Other Assets		
1. Trade receivables	1.656.798,35	809
2. Receivables from affiliated enterprises	0,00	22
3. Receivables from shareholders	0,00	39
4. Receivables from enterprises in which participations are held	78.760,36	0
5. Other assets	534.917,50	136
	2.270.476,21	1.006
III. Securities held as Current Assets		
Other securities	14.752.826,80	0
IV. Cash-in-Hand and Bank Balances	13.130.985,87	50
D. PREPAID EXPENSES	24.724,51	11
	36.384.930,14	3.745

RÖSCH AG Medizintechnik, Berlin
**Statement of Income for the business year
 from 1 August 1999 to 31 July 2000**

	01.01.-31.07.1999	
	Euro	KEuro
1. Sales	3.995.990,97	2.489
2. Own work capitalised	256.146,61	295
3. Other operating income	107.525,48	47
	4.359.663,06	2.831
4. Cost of materials		
a) Costs of purchased merchandise	2.126.001,11	1.570
b) Cost of purchased services	45.016,19	22
	2.171.017,30	1.592
5. Personnel expenses		
a) Wages and salaries	1.324.345,49	562
b) Social securities and other pension costs	223.812,13	106
- of which in respect of pension costs Euro 15.210,09 (p/y KEuro 9)		
	1.548.157,62	668
6. Depreciation on intangible fixed assets and tangible assets as well as on capitalised start-up costs and business expansion expenses	414.959,57	43
7. Other operating expenses	2.237.762,95	617
	6.371.897,44	2.920
8. Income from other investments	454.493,99	0
9. Other interest and similar income	33.063,99	8
10. Amortization on investments in current assets	85.692,52	0
11. Interest and similar expenses	38.711,15	53
	363.154,31	-45
12. Results from ordinary activities	-1.649.080,07	-134
13. Extraordinary expenses	2.192.912,88	0
14. Taxes on income	-19.893,43	20
15. Other taxes	7.267,56	1
16. Net loss for the year (p/y net loss for the period)	3.829.367,08	155
17. Losses carried forward	501.180,92	346
18. Accumulated Losses	4.330.548,00	501

RÖSCH AG Medizintechnik

Notes to the Annual and Consolidated Financial Statements for the Business Year from 1 August 1999 to 31 July 2000

General notes

The following annual financial statements of RÖSCH AG Medizintechnik were prepared in accordance with Art. 242 et seq. and Art 264 et seq. HGB, and with the relevant provisions of the German Stock Corporation Act. RÖSCH AG Medizintechnik has complied with the provisions applicable to large stock corporations.

The classifications have remained unchanged. The statement of income has been prepared using the type of expenditure format.

The consolidated financial statements to be prepared as of the business year-end for the first time ever were prepared in accordance with Art. 290 et seq. HGB.

The consolidated statement of income has been prepared using the type of expenditure format, too.

Reporting entity and year-end date

The reporting entity comprises the parent company RÖSCH AG Medizintechnik and Acanthos GmbH, Hanover, which was acquired in the business year.

With the notarial recording of the agreement from 28 June 2000 RÖSCH AG Medizintechnik acquired any and all of the business shares in Acanthos GmbH, Hanover. For this reason, Acanthos GmbH was included in the consolidated financial statements to be prepared for the first time ever as of 31 July 2000 in accordance with the principles of full consolidation.

The balance sheet date of Acanthos GmbH had originally been 31 December of each year. Within the framework of the acquisition of the business shares by RÖSCH AG Medizintechnik, with the resolution adopted by the shareholders meeting on 28 June 2000 Acanthos GmbH changed its business year to the period from 1 August of each year to 31 July of the following year. The corresponding Commercial Register entry was made on 27 July 2000.

For these reasons, Acanthos GmbH had to prepare annual financial statements as of 31 July 2000 for the short business year from 1 January to 31 July 2000.

Consolidation principles

The capital consolidation used the book value method, with the offsetting of the book value of the shares in Acanthos GmbH against the pro rata equity of the subsidiary as of the balance sheet date.

The point in time for the first inclusion in the consolidated financial statements was 31 July 2000.

As the book value of the acquisition costs exceeded the pro rata equity capital by 63,429.14 at the point in time of the first consolidation and as no hidden reserves were contained in the various balance sheet items of Acanthos GmbH to which the surplus sum could have been allocated, the difference is posted on the consolidated balance sheet as goodwill.

Receivables and liabilities between the two companies on the reporting entity have been eliminated through the offsetting of such items.

As the company acquired the shares in Acanthos GmbH, Hanover, on 28 June 2000 and as 31 July 2000 was chosen as the point in time for the first consolidation, it was decided to waive the apportionment and pro rata inclusion of expenses and income of Acanthos GmbH, Hanover, due to their subordinate significance.

There is no deferred taxation in the consolidated financial statements.

Accounting and valuation principles

The annual financial statements of the companies in the reporting entity have been prepared to uniform accounting and valuation principles.

Unchanged to the previous year the following essential accounting and valuation methods have been applied.

In 1998 costs were incurred by various areas with the first introduction of the new product group "INJEX™"; these costs have been capitalised as business expansion expenses in accordance with Art. 269 HGB. In the 1999/2000

business year further expenses of Euro 256,000 were capitalised. At the same time, in the period under review the expenses capitalised in prior years were, in compliance with Art. 282 HGB, amortised by 25 % for each of the business years following their initial capitalisation.

Acquired intangible assets are stated at acquisition costs minus scheduled depreciation in accordance with their useful life. In July 1999 the patent for the production and distribution of **INJEX™** was purchased. The patent will be depreciated over a total period of five years beginning with the current business year.

The goodwill resulting from the first consolidation is amortised at annual rates of at least 25 % in accordance with the provisions of Art. 309 Section 1 HGB beginning in the following business year.

Tangible assets are stated at acquisition costs minus scheduled depreciation using the straight-line method in accordance with the probable useful life. Low-value assets with a value of up to DM 800.00 are depreciated in full in the year of acquisition. The depreciation on additions to tangible assets is performed pro rata temporis. In the case of movable tangible assets the half-year rule of R 44 Section 2 of the German Income Tax Regulations is applied.

A fixed value was formed for the “equipment presentation room” capitalised in the tangible assets.

The item payments on account in the tangible assets contains payments of Euro 1,470,000 for the first fully-automated production line for the **INJEX™** ampoules. The total investment sum for this line will be Euro 1,985,000. The machine is due to be commissioned in the next business year.

Financial assets stated on the annual financial statements of RÖSCH AG Medizintechnik correspond to the business shares in Acanthos GmbH, Hanover, which were purchased in the 1999/2000 business year, and the shares purchased in the Equidyne Corporation. The financial assets are stated at acquisition costs.

Inventories are stated at purchase costs or at lower market values. All recognisable risks in the inventories arising from above-average storage, lower marketability or lower re-purchase costs, have been taken into account

through suitable reductions in value.

Accounts receivable and other assets have been stated at the nominal value. All items associated with any risk have been taken into consideration through the formation of suitable specific allowances for doubtful accounts.

Other securities have been stated at the lower appropriate value as of the balance sheet date in compliance with Art. 253 Section 3 HGB.

In the 1998 and 1999 business years Acanthos GmbH formed a special reserve with an equity portion in accordance with Art. 7g of the German Income Tax Act. As of 1 January 1999 this special reserve was carried as a liability to the amount of the maximum permissible amount for the planned investment measure of Euro 69,000 at Acanthos GmbH.

As a result of the acquisition of any and all shares in Acanthos GmbH by RÖSCH AG Medizintechnik, the special reserve with an equity portion formed in prior years in accordance with Art. 7g of the German Income Tax Act was not further required in full, with the effect that as of the balance sheet date 31 July 2000 Acanthos GmbH released a partial sum of Euro 51,000 affecting results. The remaining amount of Euro 18,000 has been posted on the annual financial statements of Acanthos GmbH as of the balance sheet date, and included to the same amount in the consolidated financial statements. The reversal on the annual financial statements in the period under review did not have any impact on the consolidated result due to both the first inclusion of Acanthos GmbH in the consolidated financial statements as of 31 July 2000 and the renunciation to partially include the statement of income.

Accruals for pensions and similar obligations are posted at the permissible fiscal amount. The partial value, determined using actuarial principles in accordance with Art. 6a of the German Income Tax Act, is based on an interest rate of 6 %.

Other reserves take into consideration all the contingent liabilities.

Liabilities are stated at the redemption amount.

Liabilities in foreign currencies have been stated using the higher exchange rate on the balance sheet date or on the day they were first booked.

Comments on the balance sheet

Business expansion expenses

The development of the business expansion expenses and the depreciation for the business year are shown in the fixed assets movement schedule.

Fixed assets

The development of the individual items among the fixed assets is shown in the fixed assets movement schedule with details of the depreciation in the business year.

As a result of the transfer to new business premises in the 1999/2000 business year, extraordinary depreciation on fixed assets at the company's old premises (Euro 81,000) was performed.

Financial assets

The financial assets posted on the annual financial statements of RÖSCH AG correspond to the acquisition costs of the business shares in Acanthos GmbH, Hanover, and to shares in Equidyne Corporation, Westford, Massachusetts, USA, which were acquired in the business year.

Notes on shareholdings

As of the balance sheet date RÖSCH AG Medizintechnik holds 100 % of the shares in Acanthos GmbH. As of 31 July 2000 Acanthos GmbH has an equity amounting to Euro 67,000. The loss incurred in the short business year from 1 January to 31 July 2000 at Acanthos GmbH is Euro 25,000.

The shares in Equidyne Corporation, Westford, Massachusetts, USA, amount to less than 20 % of the entire capital stock of this company.

Inventories

Inventories include merchandise to the amount of Euro 2,720,000, as well as payments on account of Euro 5,000.

Accounts receivable and other assets

Trade accounts receivable include a partial amount of Euro 42,000 with a term of more than one year.

Other assets include an amount of Euro 43,000 with a residual term of more than one year.

Other assets essentially include tax reimbursement receivables, receivables against employees, and rental guarantees.

Receivables from enterprises in which participations are held are all due from the shareholder Equidyne Corporation, Westford, Massachusetts, USA.

Prepaid expenses

Prepaid expenses essentially comprise advance payments for insurance premiums and trade fair costs which will become expenses in the following year.

Subscribed capital

The subscribed capital of the former RÖSCH GmbH Medizintechnik amounted to DM 1,926,800.00 on 1 August 1999.

With the notarial recording on 30 September 1999 the share capital of the former RÖSCH GmbH Medizintechnik was increased by DM 3,000,000.00 against cash contributions. With the same document, a resolution was adopted on a capital increase of DM 1,600,000.00 from business funds.

With the notarial recording from 23 November 1999 a further capital increase of DM 388,400.00 was adopted.

The extraordinary general meeting on 10 December 1999 adopted a resolution to convert the share capital of the former RÖSCH GmbH Medizintechnik to Euro 3,535,685.63 in accordance with the official conversion rate of DM 1.95583 = Euro 1, and, with a view to the conversion, to conduct a capital increase of Euro 364.37 to Euro 3,536,050.00.

With the same document a resolution was adopted on the transformation of the company and change of legal form into a stock corporation in accordance with Art. 190 et seq. of the German Company Transformation Act. The change in legal form was entered in the Commercial Register on 14 January 2000.

At the general meeting on 21 January 2000 a resolution was adopted to increase the capital stock from Euro 3,536,050.00 by Euro 1,263,950.00 to Euro 4,800,000.00, through the issue of 1,263,950 new bearer shares. The new common stock shares were issued at the amount of Euro 1.00 per common stock share. The subscription rights of the shareholders were excluded. Concord Effekten AG assumed the new shares as a third-party trustee for the account of a bank consortium with the obligation to offer the new shares for public sale to as wide a circle of investors as possible. The difference between the issuing price of Euro 1.00 per common stock share and the selling price after the deduction of the remuneration and commission due on the shares amounted to Euro 31,172,000, and was transferred to the company.

As of the balance sheet date 31 July 2000 4,800,000 bearer shares had been issued.

Authorised capital

With the resolution adopted by the general meeting on 10 December 1999 the Board of Management was authorised, once the company has been listed on Frankfurt Stock Exchange, and subject to the approval of the Supervisory Board, to increase the capital stock of the company by a maximum of Euro 1,768,025 in the period through to 31 December 2004 through one or several issues of new common stock against cash contributions or contributions in kind.

The extraordinary general meeting on 21 January 2000 adopted a resolution on an increase in the authorised capital. Accordingly the Board of Management is authorised, once the company has been listed on Frankfurt Stock Exchange, and subject to the approval of the Supervisory Board, to increase the capital stock of the company by a maximum of Euro 2,400,000.00 in the period through to 31 December 2004 through one or several issues of new common stock against cash contributions and/or contributions in kind. The Board of Management is authorised, subject to the approval of the Supervisory Board, to decide on the exclusion of subscription rights. The exclusion of subscription rights is only permissible

- for a capital increase against contributions in kind to acquire a shareholding, and
- for the listing of shares on a stock exchange.

The authorised capital was entered in the Commercial Register on 28 January 2000.

Conditional capital

The extraordinary general meeting on 21 January 2000 adopted a resolution to conduct a conditional capital increase of up to Euro 353,605.00, divided into up to 353,605 common stock shares. The conditional capital increase exclusively serves the issue of up to 353,605 common stock shares to service subscription rights to be granted within the framework of a stock option plan by RÖSCH AG Medizintechnik on the basis of the authorisation granted on 21 January 2000; these options are being granted to employees and members of the management of the company and affiliated companies. The subscription rights of the shareholders are excluded therefore.

This measure was entered in the Commercial Register on 28 January 2000.

The subscription rights may be issued by the Board of Management with the consent of the Supervisory Board in a number of tranches. The subscription rights are granted as options to purchase two bearer shares in the company (Share A and Share B). The exercising of the subscription right to a share of Type A is dependent upon the development of the stock market price of the share in RÖSCH AG Medizintechnik in relation to the basic price, and the exercising of the subscription right to a share of Type B is dependent upon the development of the stock market price of the share in RÖSCH AG Medizintechnik in relation to the Neuer Markt Index.

The group of beneficiaries covers members of the Board of Management of the company with up to 10 % of the respective tranche (Group 1), members of the management of affiliated companies insofar as they are not also members of the Board of Management of the company with up to 20 % of the respective tranche (Group 2), and other employees of the company and affiliated companies with up to 70 % of the respective tranche (Group 3). If at the point in time of the issue of a tranche there are no beneficiaries in Group 2, the 20 % to be allocated to Group 2 are to be issued to the beneficiaries in Group 3.

The exercising of the subscription rights is only possible after a waiting period of at least 2 years.

As of the balance sheet date 45,088 subscription rights had been subscribed to by beneficiaries. As each subscription right contains a share of Type A and one share of Type B, Euro 90,176 of the conditional capital has been subscribed.

Capital reserve

The capital reserve on the annual financial statements of RÖSCH AG Medizintechnik corresponds to the premium in accordance with Art. 272 Section 2 No. 1 HGB and exclusively results from the capital increases conducted in the year under review and in the previous business year, as well as from the premium from the placement of 1,263,950 bearer shares on Frankfurt Stock Exchange.

The transfers to the capital reserve of RÖSCH AG Medizintechnik totalled Euro 33,956,000 in the 1999/2000 business year.

The capital reserve posted on the consolidated financial statements includes another capital contribution of Euro 41,000 into the equity of the company by the shareholders in accordance with Art. 272 Section 2 No. 4 HGB.

Accumulated losses

Accumulated losses are identical on the annual financial statements and on the consolidated financial statements; they amount to Euro 4,331,000. Accumulated losses include a loss carried forward of Euro 501,000.

Special reserves

The special reserves with an equity portion posted as a liability on the annual and consolidated financial statements of RÖSCH AG Medizintechnik and amounting to Euro 73,000 includes investment subsidies granted as part of the joint task "Improvement in regional economic structure".

The consolidated financial statements include in the special reserves with an equity portion Euro 18,000 in this item which have been carried as liabilities at Acanthos GmbH within the framework of the use of special depreciation in accordance with Art. 7g of the German Income Tax Act.

Accruals for pensions and similar obligations

The maximum permissible fiscal amounts were transferred to the pension reserve in the year under review. The pension commitment remains unchanged over the previous year for the Chairman of the Board of Management Mr Andy Rösch.

Other accruals

Other accruals essentially concern holiday entitlement, audit fees, commissions, legal and consulting costs, contributions to the social insurance against occupational accidents, guarantee claims, and outstanding invoices.

Statement of liabilities in KEuro
RÖSCH AG Medizintechnik

Form of liability	up to 1 year	1 to 5 years	Term collateralised with/	Total	
				31.07.2000	31.07.1999
1. Liabilities to banks					1.001
(previous year)	(1.001)				
2. Trade payables	437			437	440
(previous year)	(440)				
3. Liabilities to affiliated enterprises	8			8	0
(previous year)	(0)				
4. Other liabilities	80			80	149
(previous year)	(149)				
- of which taxes	37			37	
(previous year)	(27)				27
- of which relating to social security	39			39	
(previous year)	(23)				23

Consolidated balance sheet

Form of liability	up to 1 year	1 to 5 years	Term collateralised with/	Total	
				31.07.2000	
1. Trade payables	484			484	
2. Other liabilities	95			95	
- of which taxes	45			45	
- of which relating to social security	44			44	

Other financial obligations

As of the balance sheet date there are fixed rental and lease agreements leading to other financial obligations to the amount of Euro 1,078,000. The rental and leasing agreements expire between 2000 and 2005.

As of 31 July 2000 there are other financial obligations of Euro 784,000 concerning the order obligations from awarded investment orders. The financial obligations from supply agreements for merchandise amount to Euro 7,468,000 as of the balance sheet date.

Comments on the statement of income

Sales

■ by units	12 months 1999/2000		7 months 1999	
	KEuro	%	KEuro	%
Dental	1.666	42	1.724	69
INJEX™	1.468	37	0	0
Paediatrics/ Audiometry	587	15	610	25
Service	275	6	155	6
	3.996	100	2.489	100

■ by regions	12 months 1999/2000		7 months 1999	
	KEuro	%	KEuro	%
Germany	2.254	56	1.772	71
EU countries	1.514	38	622	25
Other countries	228	6	95	4
	3.996	100	2.489	100

Other operating income

Other operating income essentially comprises exchange-rate profits, subsidies affecting results and offset payments in kind.

Income from the reversal of the special reserves for investment grants for RÖSCH AG Medizintechnik are included to the amount of Euro 8,000.

Other operating expenses

Other operating expenses primarily include advertising and travel expenses (Euro 399,000), expenses in connection with the market launch of **INJEX™** (Euro 166,000), legal and consulting costs (Euro 356,00), research and development costs (Euro 101,000), accounting and auditing costs (Euro 104,000), office rental (Euro 206,000), costs for goods dispatch (Euro 343,000) and vehicle costs (Euro 115,000).

Extraordinary expenses

The extraordinary expenses exclusively cover the expenses incurred in the business year in connection with the listing of the shares on Frankfurt Stock Exchange.

Financial position of RÖSCH AG

The change in the cash and cash equivalents of RÖSCH AG as well as the cash flows responsible for this are shown on the basis of the following cash flow statement:

	1999 / 2000 KEuro	01.01.-31.07.1999 KEuro
1. Operating area		
Net loss for the year (previous year: net loss for the period)	- 3.829	- 155
Depreciation of fixed assets	415	43
Change in pension reserves	2	3
Income from the capitalisation of expansion expenses not affecting cash	- 256	- 295
Income from the increase in the capitalised value of a re-insurance policy not affecting cash	-4	-3
Change in special reserves for investment grants	73	0
Change in inventories, accounts receivables and other assets	- 2.784	-21
Change in trade payables and other liabilities	- 375	- 966
Cash flow from operating activities	- 6.758	- 1.394
2. Investing area		
Cash inflow from disposal of fixed assets	16	29
Payments for investments in		
tangible assets	- 1.763	- 219
intangible assets	- 7	- 737
financial assets	- 423	0
Cash flow from investing activities	- 2.177	- 927
3. Financing area		
Cash inflow from capital increases	2.997	883
Cash inflow to capital reserve (premium from capital increase)	33.956	1.487
Cash inflow from the raising of loans	0	512
Cash outflow from the re-payment of loans	- 184	- 520
Cash flow from financing activities	36.769	2.362
4. Cash and cash equivalents		
Change in cash and cash equivalents affecting payments (sub-totals 1-3)	27.834	41
Cash and cash equivalents at the beginning of the period	50	9
Cash and cash equivalents at the end of the period	27.884	50
5. Composition of the cash and cash equivalents		
Liquid funds	13.131	50
Securities held as current assets	14.753	0
Cash and cash equivalents at the end of the period	27.884	50

Financial position of the group

The change in the cash and cash equivalents of the group as well as the cash flows responsible for this are shown on the basis of the following cash flow statement:

	1999/2000 KEuro
I. Operating area	
Net loss for the year	- 3.829
Depreciation of fixed assets	415
Change in pension reserves	2
Income from the capitalisation of expansion expenses not affecting cash	-256
Income from the increase in the capitalised value of a re-insurance policy not affecting cash	-4
Change in special reserves for investment grants	73
Change in inventories, accounts receivable and other assets	-2.784
Change in trade payables and other liabilities	-375
Cash flow from operating activities	-6.758
2. Investing area	
Cash inflow from disposal of fixed assets	16
Payments for investments in tangible assets	-1.763
intangible assets	-7
financial assets	-292
Cash outflow from the acquisition of consolidated companies	-94
Cash flow from investing activities	-2.140
3. Financing area	
Cash inflow from capital increases	2.997
Cash inflow from shareholders (premium from capital increase)	33.956
Cash outflow from the re-payment of loans	-184
Cash flow from financing activities	36.769
4. Cash and cash equivalents	
Change in cash and cash equivalents effecting payments (sub-totals 1-3)	27.871
Cash and cash equivalents at the beginning of the period	50
Cash and cash equivalents at the end of the period	27.921
5. Composition of the cash and cash equivalents	
Liquid funds	13.168
Securities held as current assets	14.753
Cash and cash equivalents at the end of the period	27.921

Of the purchase price of Euro 130.000 for the acquisition of Acanthos GmbH, Hanover, an amount of Euro 37.000 is apportioned to payments.

Segment reporting

Information on the segments is disclosed on the last page of the notes to the annual and consolidated financial statements.

Other details

Managing director

The sole managing director of the former RÖSCH GmbH Medizintechnik was Mr. Andy Rösch, Berlin. Mr. Rösch represented the company alone and was exempt from the restrictions of Art. 181 BGB.

Board of Management

With the resolution adopted by the extraordinary general meeting on 10 December 1999 it was decided to transform the company into a stock corporation.

At the meeting of the Supervisory Board on 10 December 1999 the following persons were appointed to the Board of Management of RÖSCH AG Medizintechnik:

- Andy Rösch, businessman, Berlin, as the Chairman of the Board of Management, and
- Christoph von zur Gathen, MBA, Berlin, as a member of the Board of Management.

The Chairman of the Board of Management, Andy Rösch, has been granted power of sole representation. Mr. Rösch is exempt from the restrictions of Art. 181, 2nd Case BGB.

Mr. Rösch was a member of the Board of Directors of the Equidyne Corporation until 24 February 2000.

Mr. von zur Gathen has also been the managing director of Acanthos GmbH, Hanover, since 28 June 2000.

Remuneration of the Board of Management

The remuneration of the former managing director of RÖSCH GmbH Medizintechnik and of the Board of Management of RÖSCH AG Medizintechnik amounted to Euro 296,000 in the period under review.

As of the balance sheet date 3,588 subscription rights had been assumed by the Board of Management. Each subscription right comprises a share of Type A and one of Type B.

Supervisory Board

At the annual general meeting on 10 December 1999 the following persons were appointed as the members of the first Supervisory Board:

- Dr. Dieter Leithäuser, Doctor of Medicine, Warburg, Chairman,
- Markus Saller, MBA, Garmisch Partenkirchen Deputy Chairman,
- James Stuart Parsons, Technical Consultant, Aliso Viejo, California, USA.

The members of the Supervisory Board are not represented on other Supervisory Boards or control committees.

Remuneration of the Supervisory Board

The Supervisory Board did not receive any remuneration in the 1999/2000 business year. This remuneration is to be laid down by the annual general meeting on 28 November 2000.

Employees

The average number of employees at RÖSCH AG Medizintechnik during the business year:

	1999/2000	1999
Employees	38	28
Trainees	1	1
	39	29

An average of 43 persons were employed within the Group in the period under review.

Berlin, September 2000



Rösch
Chairman of the Board



von zur Gathen
Member of the Board

Consolidated Fixed Assets Movement Schedule

	Historical Costs			31.07.2000
	01.08.1999	Additions	Disposals	
A. START-UP COSTS AND BUSINESS EXPANSION EXPENSES	350.358,15	256.146,61	0,00	606.504,76
B. FIXED ASSETS				
I. Intangible Assets				
1. Software	17.618,47	9.414,07	613,55	26.418,99
2. Patents	737.710,64	0,00	0,00	737.710,64
3. Goodwill	0,00	63.429,14	0,00	63.429,14
	755.329,11	72.843,21	613,55	827.558,77
II. Tangible Assets				
1. Technical equipment	0,00	33.080,58	0,00	33.080,58
2. Other equipment, factory and office equipment	368.538,92	484.753,80	166.868,03	686.424,69
3. Payments on account	198.507,23	1.271.957,07	0,00	1.470.464,30
	567.046,15	1.789.791,45	166.868,03	2.189.969,57
III. Financial Assets				
1. Participations	0,00	292.280,99	0,00	292.280,99
	0,00	292.280,99	0,00	292.280,99
	1.322.375,26	2.154.915,65	167.481,58	3.309.809,33

01.08.1999	Accumulated Depreciation			31.07.2000	Book Values 31.07.2000
	Additions	Disposals			
13.846,30	87.589,38	0,00	101.435,68		505.069,08
16.210,38	1.247,24	613,55	16.844,07		9.574,92
0,00	147.542,15	0,00	147.542,15		590.168,49
0,00	0,00	0,00	0,00		63.429,14
16.210,38	148.789,39	613,55	164.386,22		663.172,55
0,00	4.410,74	0,00	4.410,74		28.669,84
180.968,78	174.170,06	151.440,76	203.698,08		482.726,61
0,00	0,00	0,00	0,00		1.470.464,30
180.968,78	178.580,80	151.440,76	208.108,82		1.981.860,75
0,00	0,00	0,00	0,00		292.280,99
0,00	0,00	0,00	0,00		292.280,99
197.179,16	327.370,19	152.054,31	372.495,04		2.937.314,29

**Fixed Assets Movement Schedule of
RÖSCH AG Medizintechnik**

	01.08.1999	Historical Costs		31.07.2000
		Additions	Disposals	
A. START-UP COSTS AND BUSINESS EXPANSION EXPENSES	350.358,15	256.146,6	0,00	606.504,76
B. FIXED ASSETS				
I. Intangible Assets				
1. Software	17.618,47	7.127,52	613,55	24.132,44
2. Patents	737.710,64	0,00	0,00	737.710,64
	755.329,11	7.127,52	613,55	761.843,08
II. Tangible Assets				
1. Technical equipment	0,00	33.080,58	0,00	33.080,58
2. Other equipment, factory and office equipment	368.538,92	457.795,41	172.430,89	653.903,44
3. Payments on account	198.507,23	1.271.957,07	0,00	1.470.464,30
	567.046,15	1.762.833,06	172.430,89	2.157.448,32
III. Financial Assets				
1. Shares in affiliated enterprises	0,00	130.716,32	0,00	130.716,32
2. Participations	0,00	292.280,99	0,00	292.280,99
	0,00	422.997,31	0,00	422.997,31
	1.322.375,26	2.192.957,89	173.044,44	3.342.288,71

Accumulated Depreciation				Book Values	
01.08.1999	Additions	Disposals	31.07.2000	31.07.2000	31.07.1999
13.846,30	87.589,38	0,00	101.435,68	505.069,08	336.511,85
16.210,38	1.247,24	613,55	16.844,07	7.288,37	1.408,09
0,00	147.542,15	0,00	147.542,15	590.168,49	737.710,64
16.210,38	148.789,39	613,55	164.386,22	597.456,86	739.118,73
0,00	4.410,74	0,00	4.410,74	28.669,84	0,00
180.968,78	174.170,06	157.003,61	198.135,23	455.768,21	187.570,14
0,00	0,00	0,00	0,00	1.470.464,30	198.507,23
180.968,78	178.580,80	157.003,61	202.545,97	1.954.902,35	386.077,37
0,00	0,00	0,00	0,00	130.716,32	0,00
0,00	0,00	0,00	0,00	292.280,99	0,00
0,00	0,00	0,00	0,00	422.997,31	0,00
197.179,16	327.370,19	157.617,16	366.932,19	2.975.356,52	1.125.196,10

Segment Information

Description	INJEX™	Private Label/ Reselling*	General Administration	Participations	Total
	KEuro	KEuro	KEuro	KEuro	KEuro
Sales	1.468	2.528			3.996
Cost of materials	355	1.816			2.171
Gross margin	1.113	712			1.825
Own work capitalised	256				256
Other operating income					108
Personnel expenses					1.548
Depreciation					415
Other operating expenses					2.238
Financial results					363
Results before taxes on income and extraordinary items					-1.649
Investments	1.446	196	221	292	2.155
Fixed assets as of 31 July 2000	2.230	195	220	292	2.937
Business expansion expenses as per 31 July 2000	505				505

* dental, audiometry, paediatrics, service

Group Management Report

Management Report and Group Management Report to Art. 289 HGB and Art. 315 HGB for RÖSCH AG Medizintechnik as of 31 July 2000

A. Presentation of the course of business in the business year from 1 August 1999 to 31 July 2000

I. Development of sales and orders

The business year from 1 August 1999 to 31 July 2000 at RÖSCH AG Medizintechnik was marked by major developments in the history of the company.

As a preliminary comment it must be stated that the figures for the comparative period for the previous year are only comparable with those for the period under review to a limited degree as they are figures for the previous short business year 1999 (1.1.1999 to 31.7.1999) and therefore only cover a period of 7 months. The figures for the period under review cover the period from 1 August 1999 to 31 July 2000, a period of 12 months therefore. Furthermore, it is to be noted that the following analyses and comments focus on the annual financial statements of RÖSCH AG Medizintechnik. The pro rata inclusion of the expenses and earnings of Acanthos GmbH, Hanover, which was consolidated for the first time ever as of 31 July 2000, was waived due to their subordinate commercial significance.

It also has to be stated that during the period under review the development of sales has been influenced by the business area Private Label / Reselling as well as by the further development and market launch of **INJEX™**. The business area Private Label / Reselling encompasses the activities of the company for the distribution of paediatric and audiometry equipment and the distribution of intraoral and dermatological cameras and their accessories.

With the sale of parts of the audiometry business in April 1999 to Maico Diagnostic GmbH, Berlin, it was agreed that parts of the audiometry business would be relinquished in the 1999 calendar year. This had a corresponding impact on the development of sales in this partial area of the company.

In all sales in the Dental area developed from Euro 1,724,000 (previous year) to Euro 1,666,000. In percentage terms sales in the Dental sector fell from 69 % to 42 % as a proportion of the company's total sales. This scheduled percentage reduction is due in particular to the development and market launch of **INJEX™**. Thus the targets were not attained in the Dental unit to the extent originally planned. The reasons for this lie, on the one hand, in the ongoing public debate on the future of the invoicing methods in the health care sector in general, which have led to a longer-than-expected continuation of the investment reticence on the part of physicians, and, on the other hand, to the fact that the strength of the company's sales team in this area was not restored until May 2000 with the recruitment of a new sales manager. As in the previous year, it was possible to extend annual agreements with the main buyers in the export sector (France and Italy) for dental cameras, which thus form the basis for the regular sales of the main sales pillar in this area, the **VIOLA™** system. In other export markets it was possible to achieve improvements, with the effect that sales to EU countries and other countries rose from Euro 717,000 (previous year) to Euro 1,742,000. The export agreements with EU countries and other countries are concluded on the basis of DM or Euro with the effect that currency risks do not result from these transactions.

Sales in the Paediatrics / Audiometry area developed from Euro 610,000 (previous year) to Euro 587,000. In percentage terms this area's share of total sales fell from 25 % to 15 %. The reasons for this lie, on the one hand, in the sale of a part of the audiometry unit and, on the other hand, in the fact that the market launch of **INJEX™** has taken place in the meantime. The service area saw an increase in sales in absolute terms from Euro 155,000 to Euro 275,000; in percentage terms there has been no change in the share of sales over the previous year (6 %).

In the **INJEX™** unit sales of Euro 1,468,000 were attained (previous year: Euro 0).

In the Dental area in particular it has been seen in the past that the price pressure from last year has not relented. Through an improvement in the buying conditions it was possible to counter this pressure on the procurement side.

During the period under review it was possible to acquire a new product for distribution in the Dental division in Germany: “**The Wand™**”. This processor-controlled device is used by dentists and permits the use of local anaesthetics in the mouth with virtually no pain and extremely accurate dosages. With the market launch of this device throughout Germany in May 2000 it was possible to arouse the interest of dentists, with the effect that sales of this product will increase in the future.

The measures announced in the past to bring about an increase in the number of personnel and enhanced qualifications for the employees in the Dental division have been conducted as scheduled. The company intends to expand this area through additional measures. The company's initial public offering in February 2000 has ensured that the level of awareness of the company has grown considerably among physicians, and for this reason we expect additional positive stimulus.

The nature of the business in Private Label / Reselling means that a large number of long-term orders on hand are not attained except for those agreements concluded for exports. As the products are essentially sold through direct sales, the positive image of RÖSCH AG Medizintechnik among customers is also beneficial in this area, as customers appreciate the prompt service and short delivery times of the company.

2. INJEX™

The main portion of the material and personnel resources of the company were oriented towards the development of **INJEX™** in the entire period under review.

As of 1 September 1999 the company was granted the necessary approvals for the distribution of **INJEX™** by MEDCERT as the responsible body in accordance with DIN ISO 9002 / DIN EN 46002 as well as the certificate on the requisite prototype test (CE approval). Thus a major milestone had been reached for the product.

The agreement on the production of **INJEX™** in its new stainless steel version had already been concluded with OLPE Jena GmbH, Jena (a shareholding of the JENOPTIK Group) in the previous year. The co-operation with OLPE Jena GmbH has proven to be a very uncomplicated one in the period under review. OLPE Jena GmbH commenced with the production of **INJEX™** as laid down in the agreement, and thus developed stocks which will allow for sufficient flexibility with rising demand in the future. In this regard, we refer to the discussion of the risk factors below.

The development of fully-automated ampoule production commenced in the period under review, but with a considerable delay. The contractual partners, Nypro, Inc. and Nypro Kunststofftechnik GmbH in Oldenburg / Schleswig-Holstein, have both informed the company of the reasons for the delays. The company was in a position, therefore, to react in a timely manner to the change in the situation.

In the course of August 2000 fully-automated production of 0.3 ml ampoules commenced in Oldenburg. The final validation of the production line is currently being conducted. The company already has CE-certified ampoules from its own production for distribution. This is notable in that the supplies of ampoules prior to the commencement of production in Oldenburg came from Equidyne Systems, Inc. (San Diego, USA). In the first calendar months of the year 2000 the company was not able to assume with any certainty that the ordered volumes could be supplied by the US company with the required quality. It has to be mentioned especially that a big part of the delivered ampoules due to quality problems could not be

placed into the market. As a result of the fact that ampoule supply was not secured, the planned market penetration with **INJEX™** was not attained as of 31 July 2000.

Ampoule production is now to take place in Oldenburg in line with the agreements. In this respect it is to be noted that the guaranteed useful life of a production line is at least four years, and that the company does not have to assume any maintenance costs in this period. In order to double the production capacity for 0.3 ml ampoules (at present 2.7 million units per month), the company placed an order for the second production line with Nypro, Inc. on 3 April 2000. The investment volume of Euro 784,000 is considerably lower than with the first partial production line as only the tools for the plastic extrusion of the complete ampoules are required in the second investment stage. The first partial production line was designed from the very outset – from the production process of full automation – for a capacity of 5.4 million ampoules per month. The order volume for the second partial line had already been laid down in a Memorandum of Understanding with Nypro, Inc. on 16 July 1999. There have been no changes with regard to the investment volume.

In the development of the production process in co-operation with the Nypro Group a number of modifications were made in connection with the further development of ampoules for the **INJEX™** system; these serve to improve the marketability of **INJEX™** and have been implemented by mutual consent without any additional costs being incurred by the company.

The dosage adapters for **INJEX™** are manufactured in co-operation by Nypro Kunststofftechnik GmbH (Oldenburg) and OLPE Jena GmbH. Further new developments to round off the range have been commissioned for the **INJEX™** system with OLPE Jena GmbH and Nypro GmbH, Mainz, and are currently in various stages of development, approval or production preparation. These developments are the pen adapter and a further development of the dosage adapter.

Objections have been raised by B. Braun Medical, S.A. (Spain) against the Spanish part of the registration of the trademark **INJEX™** and against the registration of the trademark

INJEX™ with the German Patent and Trademark Office by B. Braun Melsungen AG. An extra-judicial settlement has been rejected. In the opinion of the company's patent attorney the company has a chance of successfully asserting the trademark.

3. ROJEX™

On 16 November 1999 the company applied for the registration of **ROJEX™** (a disposable injection device) with the German Patent and Trademark Office. The trademark was applied for on 3 January 2000 in the trademark register. The trademark was registered on 15 June 2000. For a complete registration the registered trademarks "ROJEX" and "RÖJEX" were also submitted to the trademark register as of the same date. The mandate to the attorney for the global trademark registration of the name **ROJEX™** dates from 29 June 2000.

The above-mentioned pleasing co-operation with OLPE Jena GmbH is also expressed in the fact that OLPE Jena GmbH has developed the prototypes of **ROJEX™** in close co-operation with the company. On 12 May 2000 the company and OLPE Jena GmbH reached an agreement on the steps and technological standards for the production of **ROJEX™**. In particular, agreements were reached on Technology Level One and Technology Level Two. During Technology Level One the maximum production volume is to be 160,000 units, as presented to us larger quantities can be produced. In order to aid Technology Level Two, during which fully-automated production of **ROJEX™** is to commence, the company and OLPE Jena GmbH have also agreed that a joint venture company will be responsible for the fully-automated production of **ROJEX™**. The development and structure of the joint venture are currently under discussion.

4. Investment measures

Further scheduled interim payments were made to the company Nypro Inc. for the development of fully-automated production of 0.3 ml ampoules; these payments totalled Euro 1,493,000 (previous year: Euro 198,000). The remaining payments on the first fully-automated production line were invoiced in line with the progress made by Nypro, and will probably be due in September 2000.

Should the **INJEX™** business division develop as planned, further investment for additional capacities for ampoule production will have to be made in the 2000 / 2001 business year.

Thanks to the company's initial public offering, the provision of the necessary funds for additional investment has been secured.

Furthermore, the IPO ensured that not only the manufacture of the 0.3 ml ampoules is secured in financial terms but also that additional production measures for the 0.5 ml **INJEX™** and the requisite ampoules and the production of the **ROJEX™** may be conducted.

As the investment decisions are taken a long time before the actual commencement of production, in this regard it cannot be excluded that decisions may be reached which with hindsight may be seen to be the wrong decisions. The company endeavours, however, to ensure that the respective investment decisions are reached taking into consideration all the legal and relevant market limitations. In this respect we would refer to the after founding procedure problems described below.

A sum of Euro 458,000 was invested in the area of office equipment and furnishings; these were required as a result of the company's move of premises in November 1999 and January 2000 into new offices. The application submitted by the company to Investitions Bank Berlin on 2 June 1999 for a subsidy for the expansion investment within the framework of the joint task fund "Improvement in regional business structures", was confirmed with the subsidy declaration from Investitions Bank Berlin on 14 December 1999. Thus a total of 24.17 % of the measures eligible for subsidies have been subsidised. The company received the first portion of the applied amounts in July 2000.

As of 28 June 2000 the company took over 100 % of the share capital in Acanthos GmbH, which is domiciled in Hanover, from its then managing director, Dr. Jakschies. The purchase price was Euro 130,000; Acanthos GmbH is thus included in the consolidated financial statements for the first time ever. Since its foundation in 1998 Acanthos GmbH has focused on co-operation throughout Germany with health care providers, and in the meantime works together with some 170 contractual health care providers, so as, among other things, to monitor special care products in the home care sector. The main subject matter of Acanthos GmbH is the provision of specialist support for innovative therapy strategies in day hospitals and practices specialising in oncology, as well as the preparation of clinical tests in the medical-pharmaceutical sector with simultaneous complete documentation of all the data. The company intends to use Acanthos GmbH for the optimisation of the central control and marketing of the needle-free injection systems **INJEX™** and **ROJEX™**. The training of the Acanthos employees on the company's materials management system took place in July 2000 at the company's business premises. It is intended that direct integration comes into effect as of 1 September 2000.

5. Financing measures

The initial public offering is of particular note in this area. With the resolution adopted on 10 December 1999 the company was transformed from RÖSCH GmbH Medizintechnik into RÖSCH AG Medizintechnik. The transformation was entered on the Commercial Register of Charlottenburg Local Court in Berlin on 14 January 2000. The necessary increase of Euro 1,263,950 in the capital stock, from Euro 3,536,050 to Euro 4,800,000, was adopted on 21 January 2000 and entered on the Commercial Register on 28 January 2000. As of the same date the company adopted a resolution on a conditional capital increase of up to Euro 353,605, as well as an increase of an additional Euro 2,400,000 in the authorised capital. These measures were also entered on the Commercial Register on 28 January 2000. Thus, on the one hand, the prerequisites for the company's initial public offering were fulfilled and, on the other, so were those for the employee participation program. On the basis of a relatively positive market appraisal, taking into consideration corporate data and the market environment, the bookbuilding range for the RÖSCH share was established at Euro 22 to Euro 26. At an early stage (on 16 February 2000) the books for the initial public offering were closed as it was clear that the offering was over-subscribed. On 24 February the RÖSCH share was admitted to trading for the first time on Frankfurt Stock Exchange, in the Neuer Markt segment. The issuing price of the RÖSCH share (RSB, WKN 529 140) was established at Euro 26 (at the upper end of the bookbuilding range therefore). The first listing of the share was Euro 60. Through the initial public offering the company therefore received a gross sum of Euro 32,862,700 (minus the initial public offering costs and commissions).

40.3 % of the capital stock was freely floated with the first listing. Fundamentally, the Board of Management is satisfied with the share's price development in the 1999 / 2000 business year. As the lock-up period for the majority of the shareholders expired on 22 August 2000, it could not be excluded that shareholders would sell their shares in the company with the expiry of the lock-up period. On 28 August 2000 the company was able to announce, however, that the shareholders Equidyne Corporation,

Concord Effekten AG and TFG Venture Capital AG had agreed to a voluntary qualified lock-up through to 31 January 2001. This agreement was reached in connection with the sale of shares by the Equidyne Corporation to various international and national investors. In an evaluation of the price development, one not only has to take into consideration the corporate data but also the general developments on the stock exchanges. In particular the Neuer Markt segment has weakened since March / April 2000 (Nemax All Share Index: 24.02.2000: 7,567.43, 31.07.2000: 5,369.16, i.e. it is down by 29 %). The company has informed its shareholders and the public of the development of the company through a number of ad hoc announcements, press releases and the letter to shareholders.

The credit lines with banks have been retained.

The income for the company from the initial public offering has primarily been earmarked for the financing of the further expansion of the company. As the expansion investment covers a long period, it is necessary to choose suitable forms of investment for the funds in the meantime. The company has been guided in this respect by the principle that no risk should be taken with the cash investment and that a suitable interest rate should be attained for the sums invested.

6. Personnel and social matters

The company employed an average of 38 staff (as of 31.07.1999: 28) and one trainee. Taking into consideration the shareholding in Acanthos GmbH the number of employees is 45 as of the business year-end. In the period under review the entire personnel costs, including social security and expenses, amounted to Euro 1,548,000 (in the comparative period: Euro 668,000). The average increase over the previous year is essentially a result of the recruitment of employees with higher qualifications and of modifications of salaries. The company does not have a Works Council. It is not bound by contractually-agreed wage scales. In addition, as of 31 July 2000 the sales team includes 9 external employees and one external regional manager. The costs for this sales staff, who works exclusively for the company, are invoiced through a separate service agreement with the company pharmexx sales & marketing intelli-

gence GmbH, Mannheim. The total costs in the business year were Euro 194,000 (previous year: Euro 0).

The average age structure of the employees directly employed by the company is low (37); there has been no change over the previous year. Fundamentally all the employees are granted a fixed monthly salary and a number of voluntary payments such as asset-forming payments, child care and accident insurance. Some of the employees also receive additional remuneration components which are determined according to the individual gross profit.

In connection with the first listing of the RÖSCH share on Frankfurt Stock Exchange all the employees of the company were offered the possibility to participate in the employee participation program laid down in the company's articles of association. All the employees accepted the offer. The employee participation program is to contribute to motivating the employees and increasing their loyalty to the company.

All the employees working in distribution and service attend regular product training courses in accordance with the Medical Device Directive Act; all of the courses are documented.

7. After founding procedures

In accordance with Art. 52 Section 1 Sentence 1 of the German Stock Corporation Act, agreements concluded by a stock corporation under which the stock corporation is to acquire existing equipment or equipment as yet to be constructed or other assets for a remuneration which exceeds one tenth of the capital stock and which are concluded in the first two years following the entry of the company in the Commercial Register are only effective with the approval of the annual general meeting and entry on the Commercial Register. In addition, a number of formalities have to be complied with in full; these have to be fulfilled before the annual general meeting may adopt the necessary resolutions.

The company is aware that this provision under the Stock Corporation Act may considerably delay and, under certain circumstances, hinder investment.

The company is aware that as of 15.11.1999 the German Ministry of Justice submitted draft legislation on an act dealing with registered shares and so as to ease the exercising of voting rights (NaStraG). Under this draft legislation – and once the Act has been promulgated – the provisions on after founding procedure are only to be valid for agreements on the part of the company with “founders or shareholders subject to disclosure requirements”. This change in legislation would, however, considerably restrict the existing after founding procedure provisions and thus ease investment decisions for the company. At the same time the considerable financial effects involved in the process of after founding procedure (foundation audit by an auditor, the convening of a general meeting, etc.) may be avoided. The draft legislation also foresees that these new regulations should be retroactively valid as of 1 January 2000. It is known that the new legislation has been approved by the cabinet in Germany without any amendment to the sections concerning after founding procedure and that it is to be submitted to parliament for approval. The German Ministry of Justice expects the legislation to come into effect as of 1 January 2001, including the provisions on it coming into effect retroactively.

It remains to be stated, however, that the known provisions are still applicable. The Board of Management is orienting its action towards the existing provisions, and for this reason reserves the right to submit after founding procedures to the shareholders for a decision in each individual case at the next annual general meeting.

8. Quality management, ISO certification

On 12 September 1997 the certification agency MEDCERT Zertifizierungs- und Prüfungsgesellschaft für die Medizin GmbH, Hamburg, granted a certificate attesting that RÖSCH AG Medizintechnik has introduced and uses a quality assurance system in accordance with the requirements of DIN EN ISO 9002 and Appendix VI of Guideline 93/42/EEC of the Council of Ministers on Medical Products /DIN EN 46002.

The regular reviews by MEDCERT have not led to any objections to date.

Since September 1997 RÖSCH AG Medizintechnik has, therefore, fulfilled the necessary legal prerequisites for the marketing of medical products, which first became legally effective on 14 July 1998.

In July 2000 audits were conducted in the business premises of the company and also at the suppliers' of the **INJEX™** components; the result of these audits was that the company was attested that it conforms with the requirements of DIN EN ISO 9001 and Appendix VI of Guideline 93/42/EEC of the Council of Ministers on Medical Products.

A further milestone was attained with the higher qualification of the internal quality management system, from DIN EN ISO 9002 to DIN EN ISO 9001. The certificates from MEDCERT date from 11 August 2000.

9. Important events in the business year

The Board of Management regards the initial public offering mentioned under point 5 (financing measures) as being the most significant event in the course of the business year. Through to the initial public offering the following capital measures were completed:

With the notarial recording of the shareholding agreement from 30 September 1999 the Equidyne Corporation (previously American Electromedics Corp. [AMER]) sold and assigned business shares with a total nominal value of DM 200,000 to Concord Effekten AG.

In addition, with the notarial recording of the shareholding agreement from 30 September 1999 the business share of the Equidyne Corporation in RÖSCH GmbH with a nominal

value of DM 1,245,000 was divided into a business share with a nominal value of DM 963,600 and a business share with a nominal value of DM 281,400. AMER then sold and assigned its partial business share with a nominal value of DM 281,400 to Concord Effekten AG. The purchase price for the business shares of AMER sold under this shareholding agreement comprised a fixed and a variable portion. The registration in the Commercial Register took place on 11 November 1999.

The extraordinary shareholders' meeting on 30 September 1999 adopted a resolution to increase the share capital of the company by a total of DM 3,000,000 through cash contributions, from DM 1,926,800 to DM 4,926,800. This cash capital increase was entered on the Commercial Register at Charlottenburg Local Court on 11 November 1999.

With the same document an increase in the share capital from capital reserve was also adopted. A sum of DM 1,600,000 from the capital reserve of DM 2,908,300 posted on the annual financial statements of RÖSCH GmbH Medizintechnik as of 31 July 1999 was converted into share capital. The share capital of the company was thus increased by DM 1,600,000, from DM 4,926,800 to DM 6,526,800.

The entry of the capital increase through the conversion of the capital reserve on 30 September 1999 on the Commercial Register at Charlottenburg Local Court was made on 11 November 1999.

With the notarial recording from 5 November 1999 Equidyne Corporation (previously: AMER) sold and assigned a partial business share with a nominal value of DM 326,300 to Mr. Andy Rösch.

In accordance with the notarial recording of the shareholding agreement from 23 November 1999, a business share held by Equidyne Corporation (previously: AMER) was sold and assigned to Synergy I Life Science Beteiligungen AG & Co. KG, Heidelberg. The measure was entered on the Commercial Register on 17 December 1999.

Synergy I KG acquired a further business share through a cash capital increase. The extraordinary shareholders' meeting on 23 November 1999 adopted a resolution with notarial

recording to increase the share capital of the company by DM 388,400 against cash contributions, from DM 6,526,800 to DM 6,915,200. This cash capital increase was entered in the Commercial Register on 17 December 1999.

The extraordinary shareholders' meeting on 10 December 1999 adopted a resolution with notarial recording to convert the share capital of RÖSCH GmbH to Euro 3,535,685.63 in accordance with the official conversion rate (DM 1.95583 = Euro 1.00), and, at the same time, to conduct a share capital increase of a total of Euro 364.37 against cash contributions to Euro 3,536,050.00 with a view to conversion to Euro and the smoothing of figures. The conversion of the capital stock and the cash capital increase were entered in the Commercial Register of Charlottenburg Local Court on 14 January 2000.

With the same document a resolution was adopted at the extraordinary shareholders' meeting on 10 December 1999 on the transformation of the company with a change in legal form into a stock corporation in accordance with Art. 190 et seq. of the German Company Transformation Act. The stock capital at that time amounted to Euro 3,536,050.

The prior business shares of the shareholders in RÖSCH GmbH became the capital stock of the company. The articles of association are a constituent part of the resolution on the transformation. Individual shareholders were not granted any benefits or special rights. The change in form was entered in the Commercial Register of Charlottenburg Local Court on 14 January 2000.

At the extraordinary general meeting on 21 January 2000 a resolution was adopted to increase the capital stock of the company by Euro 1,263,950 against cash contributions, from Euro 3,536,050 to Euro 4,800,000.

Furthermore, the general meeting adopted resolutions to conduct a conditional capital increase of up to Euro 353,065 and to increase the authorised capital to Euro 2,400,000. The resolutions were entered on the Commercial Register on 28 January 2000.

The following points are also to be mentioned:

The personnel development within the company has ensured that the basis for the implementation of the ambitious corporate objectives has been laid.

With regard to the distribution of **INJEX™** on the diabetes market in the Federal Republic of Germany, it was decided at the end of March 2000 to move away from the exclusive use of a distribution partner and to develop our own sales force (as explained above). The sales force's target group is, above all, medical practices focusing on diabetes, pharmacists focusing on diabetes, and those hospitals which deal with large numbers of diabetics. The opinion-makers in this field will also be addressed to a stronger degree by the company.

Through the acquisition of Acanthos GmbH in Hanover, which secures the training of patients in the use of **INJEX™** through the some 170 contractual health care providers, it is possible to guarantee fast reaction to the needs of patients throughout the whole of Germany.

The foreign partners which have already been integrated are working intensively on the market launch of **INJEX™**; in some cases, however, they have to comply with country-specific approval procedures. In the Netherlands our contractual partner has been able to negotiate cost reimbursement for **INJEX™** and its components, analogously to the insulin pen. In Poland a new agreement has been concluded; this does not, however, foresee deliveries until November 2000. The reason for this lies in the fact that the company first has to ensure an adequate stock of supplies, and in the fact that the market launch in Poland has to be conducted cautiously.

During the past business year the Supervisory Board held three meetings. The Board of Management also informed the members of the Supervisory Board of the respective current status of the company by telephone and in personal meetings.

10. Net worth, financial position and results of operations

In commercial terms the consolidated financial statements are essentially formed by the annual financial statements of RÖSCH AG. The following analyses and comments focus therefore on the annual financial statements of RÖSCH AG.

10.1. Net worth

Business expansion expenses

The increase in the capitalised cost of self-constructed assets from Euro 337,000 to Euro 505,000 concerns the expenses incurred in the business year for the market launch of **INJEX™** (Euro 256,000) minus the depreciation on the capitalised expenses from the previous year (Euro 88,000). The capitalised expenses essentially concern personnel and advertising costs.

Fixed assets

The fixed assets rose from Euro 1,125,000 to Euro 2,975,000, essentially as a result of the payments on account of Euro 1,214,000 made through to the business year-end for a production line for the manufacture of ampoules required for the distribution of the injection systems **INJEX™** and **ROJEX™**. Furthermore, business equipment and office furnishings to a value of Euro 458,000 were purchased in connection with the move of office premises and the planned expansion.

Inventories

The increase in inventories from Euro 1,216,000 to Euro 2,726,000 resulted from the stock of **INJEX™** to the value of Euro 1,558,000. As a consequence of problems with the procurement of ampoules, the distribution of **INJEX™** did not correspond with the planning; this led to a build-up of stocks in the 1999 / 2000 business year.

The stock of items from the company's traditional area of business has risen only slightly over the previous year.

Short-term receivables

The development of the short-term receivables, which increased from Euro 816,000 to Euro 1,693,000, essentially results from distribution agreements with distribution companies and pharmaceutical wholesalers; these agreements may include payment targets of as much as six months.

Liquid funds, securities held as current assets, other assets

The rise from Euro 161,000 to Euro 28,401,000 reflects the inflow of liquid funds as a result of the successful initial public offering.

Equity

The equity ratio has risen to 97 per cent (previous year: 53 per cent) of the balance sheet total as a result of capital increases to Euro 4,800,000 and the initial public offering.

Short-term liabilities

The reduction in short-term liabilities from Euro 1,732,000 to Euro 1,165,000 results from the re-payment of overdraft facilities.

10.2. Financial position

The company's financial position is very solid following the initial public offering. Although the cash outflow from operating activities rose over the previous year from Euro 1,394,000 to Euro 6,758,000, this is essentially a result of the increase in the amount of the net annual loss plus initial public offering costs from Euro 155,000 to Euro 3,829,000, as well as to a change in the inventories and the accounts receivable from Euro 21,000 to Euro 2,784,000. Furthermore, the cash outflow from investment activities of Euro 2,177,000 (previous year: Euro 927,000) essentially results from the investment in ampoule production as well as expansion investment in office equipment and furnishings.

The cash inflow of Euro 36,769,000 (previous year: Euro 2,362,000) from financing activities results from the capital increases and the company's initial public offering in the business year. The cash and cash equivalents at the end of the business year, which increased from

Euro 50,000 to Euro 27,884,000, reflect the high liquidity of the company.

10.3. Results of operations

In the 1999 / 2000 business year sales focused on the market launch of **INJEX™**, whereby the company saw the first sales of Euro 1,468,000 in this area. The planned sales were not attained. This was essentially due to the difficulties in the procurement of ampoules, one of the prerequisites for the successful marketing of **INJEX™**.

In the product areas Dental and Paediatrics/ Audiometry the fall in sales over a projected period of twelve months would have been more than 40 per cent. This development is due, above all, to the reserved investment attitude among physicians as a result of the savings in the health care sector. Furthermore, a partial area of the Audiometry unit was relinquished with the sale to Maico Diagnostic GmbH in April 1999.

The service fees attained by the company were at around the same level as in the previous year. These account for approx. 6 per cent of all sales.

Own work capitalised

The own work capitalised of Euro 256,000 (previous year: Euro 295,000) result from the expenses incurred and capitalised through to the market launch of **INJEX™** for the expansion of the business to include the area of needle-free injection system **INJEX™**.

Cost of materials

The ratio of the cost of materials to the gross performance has fallen from 57 per cent to 51 per cent. The above-average reduction in the cost of materials results from the different margins in the various product areas. The margins for the newly-launched needle-free injection system **INJEX™**, with which sales were attained for the first time in the 1999/2000 business year, are considerably higher than in the other product areas. In the 1999 / 2000 business year **INJEX™** accounted for approx. 37 per cent of sales (previous year: 0 %).

Moreover, as a result of the current price pres-

sure in the dental sector it was possible to attain improved conditions in purchasing.

Personnel expenses

The increase in personnel expenses from Euro 668,000 to Euro 1,548,000 is due to the rise in the average number of staff from 29 to 39. Furthermore, in the 1999 / 2000 business year salary increases were granted, with the effect that for a twelve-month period the average personnel costs per employee per annum have risen from Euro 39,000 to Euro 40,000.

Depreciation

The scheduled depreciation has risen by Euro 291,000 over the previous year, from Euro 43,000 to Euro 334,000. The increase is due, above all, to the first depreciation in the 1999 / 2000 business year of the patent acquired in July 1999 for **INJEX™** (Euro 148,000) as well as the depreciation of business expansion expenses to the amount of Euro 88,000 (previous year: Euro 14,000) in accordance with the provisions of Art. 282 HGB.

The further increase in depreciation results from investments in office equipment and furnishings in the course of business expansion.

Other operating expenses deducted by other operating expenses

Capitalised business expansion expenses for the build up of the business area needle-free injection **INJEX™** are fully included in other operating expenses.

	1999/2000	01.01.1999 31.07.1999	Change
	KEuro	KEuro	KEuro
Operating costs	919	271	648
Advertising and travel expenses	399	142	257
Office costs	206	53	153
Cost of goods dispatch	343	47	296
Vehicle costs	115	46	69
Other expenses	219	44	175
Insurance premiums	37	14	23
	2.238	617	1.621

The above-average increase in operating costs essentially results from legal and consulting fees in connection with the initial public offering and the planned registration of the company with the SEC.

The market launch of **INJEX™** led to an increase in the advertising and travel expenses.

The increase in the office costs results from the move into new premises, and from a settlement sum of Euro 26,000 for the premature termination of the lease agreement for the old business premises.

The costs of goods dispatch concern, above all, services provided by pharmexx sales & marketing intelligence GmbH for the distribution of **INJEX™**.

B. The future outlook for the development of the company

I. Opportunities and risks for the 2000 / 2001 business year

With the beginning of the 2000 / 2001 business year the production technology prerequisites have been fulfilled for a clear increase in the market penetration of **INJEX™**. The price for the **INJEX™** system, which has been maintained at an artificially high level to date, may be reduced in the forthcoming business year. Essentially a decision will have to be taken within the company on the extent to which the price for the injector is to be reduced. In the case of ampoules and other components, this question is not applicable at present. A decision on a reduction in the purchase price depends on a number of factors which are currently being analysed within the company. A barrier in terms of pricing could be the extent to which the statutory health insurance companies are prepared to reimburse costs without examining each individual case. To this end, talks are being conducted with various health insurance companies and umbrella organisations. The company expects it will be a position to make a decision in the course of August 2000, in time for the end of the general summer vacation period and before the first trade fairs, which are regarded as an important barometer of consumer conduct. The company assumes that **INJEX™** can contribute greatly to a considerable increase in sales in Germany in the 2000 / 2001 business year. Likewise it is to be assumed that further agreements may be concluded abroad for **INJEX™** once production has commenced.

The funds for the development of additional production capacities are available, so that a bottleneck is not to be expected in this respect.

As **ROJEX™** is essentially of interest to pharmaceutical companies and as semi-automated production cannot commence until the 2000 / 2001 business year, agreements are to be expected once all the framework conditions have finally been agreed upon with the companies concerned.

With regard to sales expectations, the announcement of interest on the part of numerous pharmaceutical companies allows us

to conclude that it will be possible to complete an agreement of a long-term global nature in the 2000 / 2001 business year. Naturally the conclusion of such an agreement cannot be guaranteed. It is to be noted in this regard that all the global agreements which could affect **INJEX™** also have to be agreed upon separately with Equidyne Corporation as RÖSCH AG Medizintechnik only holds the patent and distribution rights for Europe. The situation for agreements which concern **ROJEX™** is quite different. As the company holds the global rights for **ROJEX™**, agreements concluded in this area are the responsibility of the company and the corresponding income is solely due to the company. A number of additional applications for **INJEX™ / ROJEX™** have arisen in the course of negotiations with pharmaceutical companies. These include applications for which a 0.5 ml ampoule with the requisite injection device is required. The production capacity for injectors is provided by OLPE Jena GmbH. Ampoule production for 0.5 ml ampoules has to be ensured through external made-to-order production companies. The financing for the placing of such an order has been secured; such an order would, however, most probably be subject to post-formation acquisition regulations. Negotiations in this regard are currently being conducted. Before an order may be placed studies have to be conducted to clarify whether the 0.5 ml injector may be used just as successfully as the 0.3 ml injector.

The Board of Management assumes that the current business area Private Label / Reselling will be continued yet with the proviso that the area makes a positive contribution to results in the individual areas, i.e. in both the Dental and Audiometry sectors, and also through personnel measures. Through the recruitment of a sales manager, the expansion of the product base and other personnel measures, developments in this area should be positive. The company intends to conclude distribution co-operations with third parties.

In the MPIC (Medical Innovation & Patent Center) product ideas are presented, examined by the company with a view to their technical feasibility and marketability, and in the event of a positive evaluation placed on the market by the company. Naturally the company obtains highly sensitive information in this area. It is to be expected that this innovative business area,

which has also seen a rise in the number of personnel, will produce very interesting products which could influence the business development. As some of the ideas and products deemed worthy of a market launch are still in a very early development stage, these new products may, under certain circumstances, only make a positive contribution to the company's results in the distant future.

As the complete production of **INJEX™ / ROJEX™** is conducted by the contractual partners Nypro and OLPE, the company assumes that the current personnel measures will be adequate. Should it transpire that the personnel measures are not sufficient to complete the foreseen tasks in time, there is the general possibility of taking action at very short notice.

Should there be unexpected difficulties in the marketing of **INJEX™** and **ROJEX™** which could have a fundamental and sustained negative impact on the earnings of the company, a number of rationalisation measures will have to be taken; these would, however, only take effect in the medium term. In particular the investments in ampoule production – which are associated with long run-up periods – would be misinvestments, which the company's traditional areas of business could not cushion in the short term.

In spite of increasing revenues the company still expects for the fiscal year 2000/2001 a deficit of Euro 2,718,000.

Opportunities and risks in the subsequent business years

The continuation and intensification of the research and development work of the company in connection with **INJEX™ / ROJEX™** and other products will, in all probability, lead to new products in the future which represent a further improvement for users, patients and physicians. The resulting potential for the company cannot be quantified at the time of the preparation of this report. The company plans to make available considerable sums for its research and development work insofar as the medium-term outlook for specific development work is such that the work would make a positive contribution to earnings.

In the further development it has to be remembered that it cannot be assumed that existing or new competitors are not in a position to develop and offer a product for pain-free delivery of drugs for subcutaneous delivery, or that among the drugs to be delivered subcutaneously, and in particular in the biotechnology sector, that these developments lead to the subcutaneous delivery of drugs being replaced at least in part by other forms of delivery. The company assumes, however, that the subcutaneous delivery of drugs will not be replaced in full by other forms of delivery within a suitable time framework.

As a result of the inflow of funds from the initial public offering the company has also been placed in a position to considerably increase its research and development endeavours. As the research and development work generally tends to lead to a considerable potential for sales and earnings, the effects will probably be positive in the long term. Naturally, it cannot be excluded that fundamental errors in the evaluation of the facts may lead to considerable misinvestment in this area.

C. Events of particular significance after the end of the business year

With the notarial recording of the agreement from 3 August 2000 RÖSCH AG Medizintechnik acquired a share of 60 % in the limited liability capital of DM 800,000 in *mdc medical digital concepts GmbH & Co. KG*, Neu-Ulm, as well as in the share capital of Euro 25,000 in the general partner of this company, *mdc medical digital concepts Verwaltungs GmbH*, Neu-Ulm. *mdc* was founded in 1999 and its business focuses on the field of digital imaging methods and the development and distribution of integrated solutions for contemporary, digital medical practice concepts. The company is currently in the development stage and will require considerable liquid funds in the future; the bulk of these funds will have to be provided by RÖSCH AG Medizintechnik. This additional investment is subject, as is the purchase price, to the customary high loss risks with start-up companies, with the effect that there may, in the medium or long term, be the need to depreciate this shareholding by as much as 100 %. As a result of the innovative and forward-looking technology of digital imaging methods, and in particular digital X-rays, and the fact that this technology complements the product range in the Dental unit, RÖSCH AG Medizintechnik is, however, of the opinion that the risks and opportunities are suitably balanced.

In addition, as of 31 May 2000 RÖSCH AG Medizintechnik adopted a resolution to found its own distribution company in Switzerland. The foundation documents have been approved as of the same date as the management report. The actual foundation is to take place in the coming weeks. The tasks of the company will include the distribution of **INJEX™/ROJEX™** in Switzerland, as well as the provision of support for pharmaceutical companies with their headquarters or a branch office in Switzerland. Additional co-operations with partners in other countries are also to be concluded.

Furthermore, in August 2000 RÖSCH AG Medizintechnik concluded an agreement granting a global exclusive licence for the production, use and distribution of the area of application needle-free blood sugar measure-

ment with the ICB, Institut für Chemo- und Biosensorik, Münster e.V., Münster. The ICB has already developed a technologically functional needle-free blood sugar measurement system which is to be developed to market maturity by 2002 / 2003 in co-operation with RÖSCH AG Medizintechnik and another partner.

Under the agreement with the ICB, RÖSCH AG Medizintechnik paid an option of Euro 479,000 in August 2000, and has thus acquired the right to conclude the above-mentioned global and exclusive license agreement once initial clinical trials have confirmed the fundamental suitability of the system from a medical stance. Should the above-mentioned trials lead to negative results and RÖSCH AG not exercise the option, the option bonus is lost in full. On the other hand, this risk is countered by the possibility of becoming the first company in the world to offer a complete system for needle-free diabetes therapy through the combination of needle-free blood sugar measurement and needle-free insulin injection.

Berlin, 12 September 2000

RÖSCH AG Medizintechnik

Röschi
Chairman of the Board

von zur Gathen
Member of the Board



Reconciliation to IAS

Result of the Audit

We have audited the reconciliation from HGB to IAS presented to us, shown in attachment I, on the basis of the consolidated financial statements as of 31 July 2000 audited by us in accordance with HGB.

In our opinion, the reconciliation of the consolidated loss for the business year ended on 31 July 2000 and of the consolidated equity as of 31 July 2000 shown in attachment I, presents fair the differences between the consolidated loss for the year and the consolidated equity according to HGB and to International Accounting Standards (IAS) in all material respects.

Berlin, 15 September 2000

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft

Dr. Michael Schlößer
Auditor

Detlef Diederichs
Auditor

Attachment I referred to by Ernst & Young Deutsche Allgemeine Treuhand AG in the result of the audit is presented on page 83 in this annual report.

RÖSCH AG Medizintechnik, Berlin

Adjustments to reconcile consolidated shareholder's equity as of 31 July 2000 and consolidated loss for the year for the business year ended as of 31 July 2000 according to International Accounting Standards (IAS)

	31 July 2000 KEuro
Reconciliation of consolidated shareholder's equity	
Shareholder's equity to HGB	35.095
Elimination of start-up costs and business expansion expenses capitalised as of 31 July 2000	-505
Shareholder's equity according to IAS	34.590
	1999/2000 KEuro
Reconciliation of consolidated loss for the year	
Consolidated net loss for the year according to HGB	-3.829
Elimination of income from the release of the general bad debt allowance on trade receivables	- 7
Elimination of income from start-up costs and business expansion expenses accounted for in the business year 1999/2000	-256
Elimination of depreciation on capitalised start-up costs and business expansion expenses charged to the statement of income in the business year 1999/2000	88
Reclassification of costs resulting from the initial public offering	2.193
Write off of deferred taxes	- 305
Consolidated net loss for the year according to IAS	- 2.116

Computation of Earnings by DVFA/SG

	KEuro	01.01.-31.07.1999 KEuro
Net loss for the year (Net loss for the period)	- 3.829	- 155
Expenses relating to the initial public offering	2.193	0
Income from the capitalisation of start-up costs and business expansion expenses	- 256	- 295
Depreciation on capitalised start-up costs and business expansion expenses	88	14
Net loss in accordance with DVFA/SG	- 1.804	- 436
Number of shares on which the computation is based	4.800.000	985.000
Net loss per share according to DVFA/SG	- 0,38 Euro	- 0,44 Euro
to DVFA/SG diluted	- 0,37 Euro	-
to HGB	- 0,80 Euro	- 0,16 Euro

The net loss per share figure for the period 1 August 1999 to 31 July 2000 is based on 4.800.000 shares, since any increases in share capital during that period included an retroactive profit participation as of 1 August 1999.

The net loss per share figure for the period 1 January to 31 July 1999 is based on 985.000 shares outstanding. This number of shares corresponds with the share capital in the amount of 1.926.800 outstanding at that time for RÖSCH GmbH Medizintechnik and assuming that this share capital would have been converted in shares equalling 1 Euro per share.

The dilution of the net loss per share is caused by the issue of stock options to employees.

Corporate Calendar

Dates 2000

Analyst Presentation, Berlin	14 November 2000
Press Conference, Berlin	14 November 2000
General Meeting, Berlin	28 November 2000
Publication of the three months statement 01.08.2000-31.10.2000	31 December 2000

Contact persons

If you should have any question to our Annual Report please do not hesitate to contact:

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