Giving Nature a Helping Hand.

Advanced Medical Solutions Group plc
Annual Report and Accounts 2004

Our Products

Advanced Woundcare

AMS provides a full range of advanced woundcare products for sale in hospitals, nursing homes and community care. The main indications are for chronic wounds such as ulcers and pressure sores.

These products utilise the concept of moist wound healing whereby it has been shown that wounds heal faster and with less pain and scarring if they remain moist. They protect the wound, deal with tissue fluids and provide an optimal environment for healing to occur.

Wound Closure

Products based upon superglue adhesives technology are provided for closing wounds following trauma or surgical incisions. These tissue adhesives offer significant benefits over conventional ways of closing wounds such as sutures, staples and adhesive strips.

They are simple to use, non-invasive, help to reduce the risk of infection, minimise trauma to the patient and provide good clinical and cosmetic outcomes.

Contents

Highlights

- Group revenues up **22% to £11.0 million**
  (2003: £9.0 million)

- EBITDA at **break-even**
  (2003: £1.3 million loss)

- Pre-tax **losses halved to £1.0 million**
  (2003: £2.3 million)

- Post-tax **losses reduced to £0.4 million**
  (2003: £2.1 million)

- **Positive cash flow** in second half-year resulting in cash of £3.2 million at year end, sufficient to take Group through to profitability (2003: £3.6 million)

- Management strategy of broadening routes to market covering branded partners, private label distributors and direct UK business proving successful both during the period and post-year end
  - Johnson & Johnson Wound Management launches silver alginate range in US in April and Europe in February 2005
  - Further licensing and distribution deals signed including three year supply agreement with Cardinal Health for private label woundcare products in the US in July
  - Collaborative agreement signed with Nitto Medical for Japan in May
  - Good progress made with UK direct business:
    - LiquiBand™ tissue adhesive range broadened
    - ActivHeal® advanced woundcare range widely available throughout NHS following inclusion on contracts for England in December and Scotland in January 2005

Chairman's Statement

"Management's strategy of broadening routes to market is proving to be successful in generating growth."

Overview

I am pleased to report that AMS has made considerable progress during 2004. Group turnover of £11.0 million was up 22% on prior year with growth being achieved across both business units, Advanced Woundcare and Wound Closure, and all geographic regions.

The broadening of its routes to market offers a win-win situation for AMS, its customers and its partners. Improved revenues and margins are available to AMS from offering a generic woundcare range direct to the NHS in the UK and through private label distributors in overseas markets. These generic products address the increasing cost pressures on healthcare budgets and the savings made by customers allow them to purchase new generation products. The Group continues to fund the development of new differentiated products for licensing to its major woundcare partners for sale under their leading brands.

Pre-tax losses were halved to £1.0 million. Post-tax losses were reduced to £0.4 million following recognition of R&D tax credits and deferred tax assets. The Group reached EBITDA break-even. This is a major milestone in moving the Group to profitability.

Operating Review

The Group's core focus remains the development and manufacture of advanced woundcare and wound closure products for sale in hospitals and long-term care facilities. Advanced woundcare products are marketed and distributed into the $1.5 billion global market through either major woundcare companies, such as 3M, Johnson & Johnson, Smith & Nephew and Mölnlycke, under their leading brands, or through private label distributors such as Cardinal Health. Products based upon super-glue technology address the emerging tissue adhesives segment of the $5 billion wound closure market. This market is currently accessed through a direct sales force in the UK and through distribution partners in Europe. The direct UK sales force also carries a full range of standard advanced woundcare products for sale into the NHS hospital and community care markets under our ActivHeal® brand.

The Group has made steady progress in reducing its dependence on the performance of its major branded partners for delivering revenue growth and profit. The strategy of broadening its routes to market by complementing these relationships with the provision of private label standard products to major distributors and expanding its direct sales presence in the UK home market is proving to be successful.

Advanced Woundcare

Sales of £8.9 million were up 20%, double the current woundcare market growth rate. This growth was spread across partners in Europe and the US and provides a solid business base for the future. New partners were added during the period with the Group establishing a broad presence in the important Far East market.

The launch of our fibre based silver alginate technology into the US and Europe by Johnson & Johnson Wound Management under their SilverCel™ brand provides AMS with a strong entry into this dynamic market segment.

Silver is a broad spectrum antimicrobial that helps to prevent infection. In combination with alginate, a biopolymer derived from seaweed, AMS can provide products ideally suited to treat a wide variety of acute and chronic wounds.

The three-year agreement with Cardinal Health announced in July is a major step forward in building our private label business. AMS will provide a full range of advanced woundcare products for Cardinal Health, for US distribution, under its Allegiance® brand.

The inclusion of our ActivHeal® advanced woundcare range on the NHS contracts for England and Scotland at the year end was earlier than expected and illustrates the commitment of the NHS to cost management of woundcare budgets. Response to our offering from senior management, purchasing officers and pharmacists of hospital Trusts has been very positive and conversion on the back of technical and clinical evaluations at the user level is already under way in a number of centres.

ActivHeal® Explained

AMS is a leading provider of advanced woundcare products for sale through marketing and distribution partners under their brands or private labels.

In response to cost constraints on woundcare budgets, AMS has put together a range of standard products under the ActivHeal® brand that offers significant savings to end users without compromising quality.

The range is sold directly into the NHS in our UK home market.

This approach allows healthcare providers a cost management strategy whereby savings made on the use of these standard products for routine procedures, allow funding of higher technology products for problematic wounds.

"The Group is well positioned to grow and to reach profitability within current cash."

Wound Closure

The tissue adhesive business continues to show good growth with sales up 33% at £2.1 million maintaining our market leadership position in the use of adhesives in the UK Accident and Emergency (A&E) arena. Adhesives are routinely used for closing facial and scalp wounds, particularly children's, and our LiquiBand™ product is being used to close around 30,000 wounds per month in the UK.

The launch of SkinLink™, an anchored adhesive strip, has strengthened our product portfolio and allows us to address the majority of wounds traditionally closed with stitches, staples and adhesive strips.

The introduction of LiquiBand Surgical™ throughout Europe during 2004 for closure of surgical incisions in the operating room arena has taken our adhesive technology into the largest segment of the $5 billion wound closure market.

Outlook

The outlook for the Group remains positive. With an established business base covering leading edge advanced woundcare and wound closure products and technology, and a direct sales team focusing on the UK home market supported by strong branded and private label partners, the Group is well positioned to continue to grow and to reach profitability within current cash.

Whilst the prime focus remains taking the Group through to sustainable profitability, the Board continues to review all strategic options to increase shareholder value.

I would like to thank all AMS employees for their efforts over the past year.

The Group looks forward to delivering a high value woundcare technology company for our stakeholders.

Dr Geoffrey N Vernon
Chairman
14 March 2005

LiquiBand™ Explained.

Super-glue based medical adhesives are a relatively recent innovation for closing wounds. These have evolved to a point where they are now used to close and seal the outer skin layer of a wide variety of trauma and surgical wounds as an alternative to sutures, staples and adhesive strips.

LiquiBand™ tissue adhesive was first introduced in the late 1990's in the UK and is now market leader in the Accident and Emergency (A&E) area with over 30,000 wounds being closed per month.

Developments in the adhesive, methods of application and the sterilisation process have led to a wide range of products now being available for sale in A&E and Operating Rooms throughout Europe.

Chief Executive's Review

Technology Platforms:
Advanced Woundcare

Film

Foam

Hydrocolloid

Technology Platforms:
Wound Closure

LiquiBand™

LiquiBand Flowcontrol™

Broadening its routes to market and moving to higher value technology remain the two key drivers to future earnings growth for AMS. The Group has made considerable progress in both of these areas during 2004.

Technology Platforms

The Group has established a broad range of material technologies for advanced woundcare and wound closure with strong IP protection, manufactured in dedicated state-of-the-art medical device facilities in the UK.

In advanced woundcare, a full range of materials are available covering: alginate, film, foam, hydrocolloid and hydrogel.

A major trend in the market is the inclusion of antimicrobials such as silver into the wound dressings to help prevent infection from a wide range of micro-organisms including MRSA. AMS has evaluated a number of silver technologies as a way of upgrading our base woundcare range with higher value products.

A silver fibre based alginate range has been licensed exclusively on a global basis to Johnson & Johnson Wound Management, who launched this into the US market in April under their SilverCel™ brand. Following receipt of European regulatory approval at year end, this product has now also been introduced into the European market.

In response to demand from existing partners for the addition of silver to their current alginate range, a new product has been developed utilising a different silver technology. 510(k) clearance for US sale was obtained in August and this product has now been introduced by a number of partners. This product will be progressed through European regulatory approval during 2005.

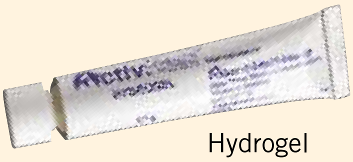
With two distinct silver technologies, the Group is well placed to address the dynamic silver market.

Improved alginate, foam and hydrocolloid products have been developed during 2004 and discussions are in progress to start commercialising these technologies in 2005. Good progress has been made in expanding our scar therapy business based on our proprietary foam technology. Building on the success of the product supplied to Novartis Spain for treating Caesarean section scars, a clinical trial was conducted in Holland with good results on a variety of scars. Based on this data the product range has been launched into Sweden and into the US private label OTC market through a strategic partner.

A major technology platform for AMS is medical grade cyanoacrylate (super-glue) tissue adhesives, which is the basis of our market leading LiquiBand™ range in the UK Accident and Emergency (A&E) arena.

A product aimed specifically at closing surgical incisions in the operating room environment, LiquiBand Surgical™, was launched at the beginning of 2004. This product comprises a fast-setting adhesive for closing the incision and a liquid bandage which is painted over the wound

"Our technology programmes are moving the Group to higher value products."



Hydrogel

Alginate

Silver Alginate

LiquiBand Surgical™

SkinLink™

to protect it against moisture and infection. Clear benefits over stitches and staples have been demonstrated to the surgeon, post-operative nursing staff and patients, particularly with large incisions such as Caesarean sections, breast surgery and total hip replacements, where prevention of infection and cosmetic outcome are key considerations.

Many surgical procedures are now conducted by laparascopic or keyhole surgery. A product specifically targeting wound closure following minimally invasive surgery has been developed and is expected to be introduced throughout Europe during 2005. These procedures are becoming increasingly popular in many countries and this product will complement the use of LiquidBand Surgical™ which is more suited to larger wounds.

The licensing and UK launch of a unique skin closure system, Skinlink™ announced in December, significantly strengthens our wound closure product portfolio. The product, licensed from Canadian company Biogentis, consists of a perforated adhesive strip on which an anchoring adhesive is applied. This offers significant benefits over current products such as sutures, staples or conventional adhesive strips in closing wounds where medical glues are inappropriate, for instance where there is significant swelling, tissue loss or skin tension such as over joints.

Development activity continues utilising our liquid film technology. Projects with partners are under way for products used for protecting skin from breakdown and for treating minor cuts and grazes.

Routes to Market

AMS has commercialised its advanced woundcare technology through branded partners using a business to business model.

Whilst allowing a broad global presence to be built with major global and regional partners under their brands, it has proved to be challenging for the Company to achieve consistent growth in revenues and margins and to extract sufficient value for its R&D investments.

One of the synergies of the acquisition of the MedLogic tissue adhesives business in 2002 was that it brought a direct UK sales and marketing infrastructure that could be exploited for taking the Group's advanced woundcare products direct to the NHS.

Additionally, the market trend identified last year, whereby major distributors are looking to source standard woundcare products under their private labels whilst the major woundcare companies are increasingly focusing on higher value products, has significantly strengthened. AMS remains ideally placed to take advantage of this trend and is actively doing so.

AMS's strategy to broaden its routes to market by offering its new differentiated products to the major players as they upgrade their product range, whilst providing generic products through private label distributors or direct to the NHS in its home market, is proving successful and has contributed to the increased growth in sales achieved in 2004.

Sales and Distribution Partners

- *B Braun*
- *Cardinal Health*
- *DKSH*
- *InterPharma*
- *Johnson & Johnson*
- *Mölnlycke*
- *Novartis*
- *Smith+Nephew*
- *TEVA*

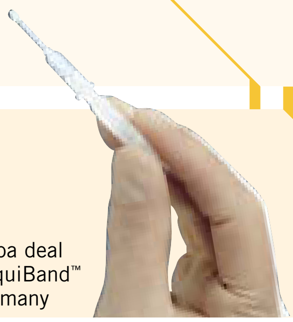
Chief Executive's Review *continued*

Newsflow

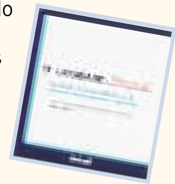
January 2004

510(k) for liquid bandage and supply agreement for Australia with InterPharma

Resorba deal for LiquiBand™ in Germany



Distribution deal with Endo Plus UK for LiquiBand Surgical™ in orthopaedics



US introduction of silver alginate by Johnson & Johnson Wound Management

The introduction into the US and Europe of a silver fibre alginate dressings range by Johnson & Johnson Wound Management under their SilverCel™ brand, as part of their active wound dressings range, is a good example of licensing new, differentiated technology to a major player. With their strong global presence and commitment to inventive products for chronic and acute wound management, they are an ideal partner for the marketing and distribution of this technology.

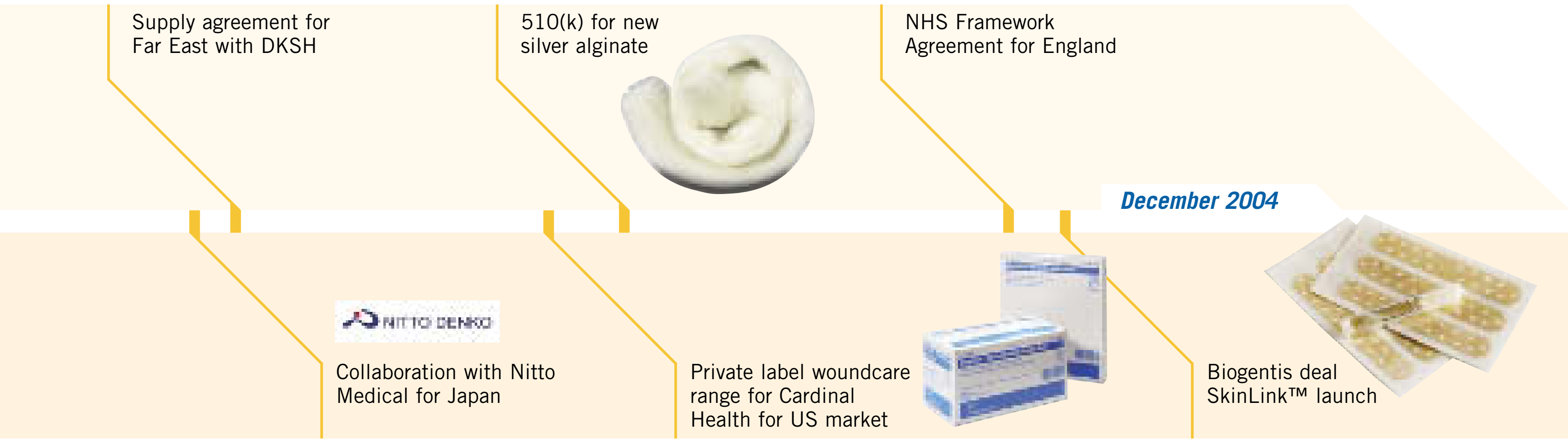
Significant private label activity has been seen in 2004 with many of the major US distributors contracting for supply of standard woundcare products. AMS is currently working with a number of these, with the three-year Cardinal agreement signed in July being a major step forward to entering this market segment. Cardinal Health is a leading provider to the healthcare industry and is ranked 17 in the Fortune 500 (2004).

Good progress has been made in accessing the Far East market. A collaboration agreement was signed in May with Nitto Medical, a division of Japan's £2 billion turnover Nitto Denko Group. This agreement allows Nitto to undertake market evaluation and regulatory approval of a number of AMS's woundcare products with the option of entering into marketing and distribution agreements for Japan. Two product groups have been identified initially with one of these submitted for regulatory approval. New marketing and distribution agreements were signed with InterPharma for Australia and DKSH for Malaysia, Hong Kong, Vietnam and Pakistan.

The launch of our branded ActivHeal® woundcare range into the NHS offers AMS a major growth opportunity. It is estimated that the NHS currently spends in excess of £100 million on advanced woundcare dressings for use in hospitals, nursing homes and community care. ActivHeal® is a rational response to the high profile cost pressures on woundcare budgets whereby savings made on standard products for routine wounds allow funding of higher technology products for problematic wounds.

As a UK-based technology company with a major focus on advanced woundcare R&D and manufacturing, AMS is ideally placed to become a new generation supplier through a balance of innovation and cost management by integrating with the end user market. This allows significant cost savings to be achieved by the NHS along the lines of the highly successful generic pharmaceutical model, limited only by the ability of individual hospital trusts to grasp the opportunity. ActivHeal® was included on the NHS hospital contract for England in December, Scotland in January 2005 and is available on the Drug Tariff allowing the products to be prescribed.

"Our direct sales force in the UK has established market leadership for LiquiBand™ tissue adhesive for wound closure in A&E departments."



The key driver of the UK direct business continues to be the LiquiBand™ tissue adhesive range. LiquiBand™ and LiquiBand Surgical™ have now been introduced into many countries in Europe. A distribution deal was signed with Resorba Clinica GmbH who launched in Germany in June and regular business is now being achieved from distributors in Italy, Denmark and Norway. Discussions are well advanced for Spain and France. Opportunities for collaborations with strategic partners for regulatory approval and introduction of these products into the US and Japanese markets are under discussion. In both markets the regulatory approval pathway is lengthy and expensive.

There has been a high level of interest from potential partners for the US who see the opportunity of replicating the success achieved in the highly competitive UK market in the much larger developed US market. This market is estimated to be approaching $100 million.

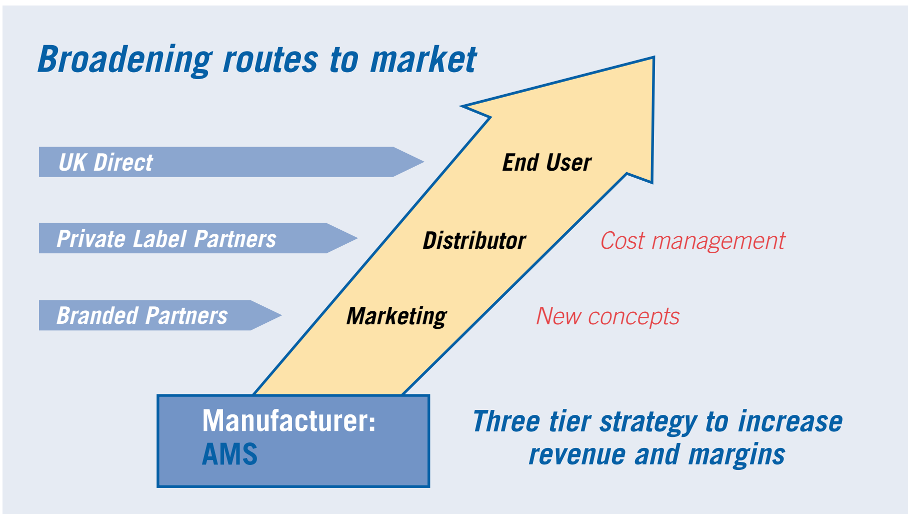
Summary

Woundcare is a $15 billion market growing at 10%, of which AMS is actively participating in an available market of around $400 million.

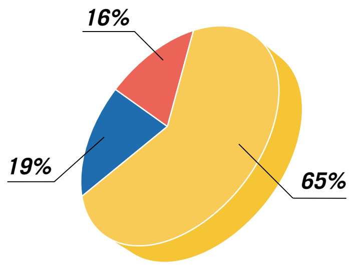
The Group has broadened its routes to market during 2004 and is well positioned to exploit key market trends towards advanced woundcare dressings containing antimicrobials such as silver and the use of tissue adhesives for closing wounds.

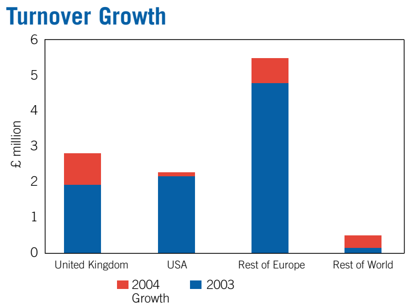
With strong technology platforms and an improved financial position, AMS is well positioned to deliver a high value woundcare technology company.

Dr Don W Evans
Chief Executive Officer
14 March 2005



Financial Review





Sales

Turnover for the year was £11.0 million (2003: £9.0 million), an increase of 22%. Sales into the US continued to be affected by the weak dollar which depreciated 12% against sterling year on year. Adjusting for this effect, underlying sales growth would have been 25%. Growth was seen in both business units, with advanced woundcare increasing by 20% and wound closure increasing by 33%.

Margin

The gross margin for the Group improved to 37.3% (2003: 35.6%). Adjusting for the exchange effect, the gross margin would have shown an improvement to 38.6%. Gross margins of wound closure products improved to 71% from 69% while gross margins on the advanced woundcare business improved to 29%. (2003: 28%).

Operating expenses

Net operating expenses decreased to £5.2 million (2003: £5.6 million) reflecting a reduction in sales and marketing expense supporting the consumer business, and a more focused spend on patents and research and development. The Group continues to launch and develop new products including the new silver alginate, utilising an ionic silver technology and the SkinLink™ product for closing wounds with swelling and tissue loss. Some of this expenditure qualifies for a tax credit.

Losses

The operating loss for the year was £1.1 million a 56% reduction on the prior year (2003: £2.4million). EBITDA was break-even for the full year compared with a £1.3 million loss in 2003.

Interest and taxation

The net interest received in the year was unchanged at £0.1 million.

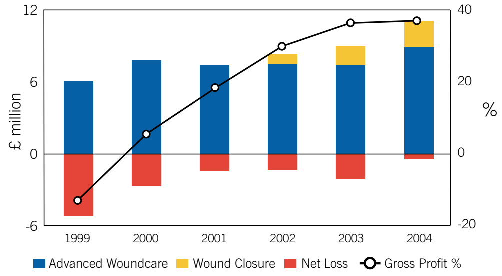
The Group has recognised a tax credit on qualifying R&D amounting to £0.1 million (2003: £0.2 million). In recognition that profitability is anticipated, the Group has also recognised a deferred tax asset in accordance with FRS19, which has given rise to a tax credit of £0.4 million.

The overall loss for the Group is £0.4 million, an improvement of 80% and the loss per share is 0.3p (2003: 1.5p).

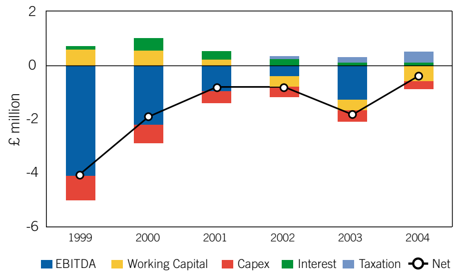
Balance sheet and cash flow

Working capital excluding cash, as a percentage of sales increased to 21.6% (2003: 21.4%). Stock increased by £0.2 million to £1.5 million but remained at the same level as the half year. The stock turn of 4.6 is at a similar level to last year (2003: 4.5). Trade debtors increased by £0.3 million in line with the growth in business and debtor days outstanding were 54 (2003: 51). Creditors reduced by £0.3 million and creditor days were 90 (2003: 91).

Group Sales/Net Loss/Gross Profit: 1999–2004



Net Cash flow 1999–2004



Operating cash flow being the net of earnings before interest, tax, depreciation and amortisation and working capital movements amounted to an outflow of £0.6 million (2003: £1.7 million). The Group had a cash inflow from operating activities of £0.4 million in the second half-year. Capital expenditure was £0.3 million (2003: £0.4 million). The Group had £3.2 million of cash at the year end (2003: £3.6 million) and net funds of £2.8 million (2003: £3.2 million).

Treasury

The Group's main exposure is to the US dollar. The Group's policy is to hedge significant transaction exposure to the dollar by using forward contracts and options and has options in place to the end of 2005. The Group does not hedge the exposure arising from the translation of overseas assets as they are a small proportion of the Group's assets. The Group is able to mitigate its exposure to the Euro by sourcing raw materials from Europe.

The Group invests funds which are surplus to short-term requirements in fixed rate deposits operating within parameters for credit ratings and credit limits for individual institutions that are approved and monitored by the Board.

International Financial Reporting Standards (IFRS)

The Group will be required to report under IFRS for the year ending 31 December 2007. Work has been progressing to identify the changes that will be needed. The principal areas where there may be a significant impact on the reported results of the Group are:

Intangible assets (IAS38)

Certain development expenditure is required to be capitalised. Current Group policy is to write off such expenditure as it is incurred.

Share-based payment (IFRS2)

The fair value of share options issued will be required to be charged to the profit and loss account over the relevant measurement period. The UK standard FRS20 captures the same requirements and the Group will be required to report under this standard for the year ending 31 December 2006.

Mary G Tavener
Finance Director
14 March 2005

Board of Directors

01


02


03


04


Dr Geoffrey N Vernon
Non-Executive Chairman
BPharm, PhD, MBA

Dr Vernon is a former Executive Director of Rothschild Asset Management and partner of the venture capital group Advent Limited. He joined AMS as a non-executive director in July 1998 and became Chairman in January 2001.

He has over 20 years' experience in healthcare and life sciences. He is a non-executive chairman and director of a number of quoted and privately owned companies. He is a Chartered Director of the Institute of Directors.

In 2004, he became chairman of XL TechGroup GP, LLC and XL TechGroup Inc, AIM quoted companies based in the USA and Genable Ltd, a private drug development company based in Eire. He also resigned as non-executive director from Bionex Investments plc.

Dr Don W Evans
Chief Executive Officer
BChemEng, MASc, PhD

After completing a degree in Chemical Engineering at the University of Queensland and a PhD in Biomedical Engineering at the University of Toronto, Dr Evans joined Johnson & Johnson UK where he worked for 19 years in Research & Development and Manufacturing. He was subsequently appointed as Vice-President of European Operations for Johnson & Johnson Professional. Dr Evans joined AMS in 1997 as Operations Director and was appointed Managing Director of Advanced Woundcare in January 1999. He became Group Chief Executive in January 2000.

Mary G Tavener
Finance Director
ACMA, MCT, BA (Hons) Chem (Oxon)

Ms Tavener joined AMS as Finance Director in 1999. Prior to this she was the Group Financial Controller at BTP plc during a period of considerable corporate activity and was involved in the acquisition and disposal of several businesses that repositioned BTP plc as a fine chemical company. Her experience has been gained in manufacturing and she has held financial positions with Cadburys Ltd and Parker Hannifin, a US Engineering Corporation. Prior to BTP plc, she was the Finance Director of Churchill Tableware Ltd.

R Stephen Harris
Non-Executive Director
BPharm, FRPharmS

Mr Harris was appointed as a non-executive director of AMS in January 2001. His career has been in both prescription and consumer healthcare sectors, with sales, marketing and general management experience with MSD, Lilly, Boots and Reckitt & Colman before becoming a main Board Director of Medeva plc. In 1995 he set up his own consultancy business. He now holds non-executive appointments with a number of quoted and privately owned healthcare companies, including SkyePharma plc and Sinclair Pharmaceuticals plc.

Directors

01 **Dr G N Vernon**
Non-Executive Chairman

02 **Dr D W Evans**
Chief Executive Officer

03 **M G Tavener**
Finance Director

04 **R S Harris**
Non-Executive Director

Committees and Advisers

Corporate Governance Standing Committees
Audit Committee
Dr G N Vernon, Chairman
R S Harris

Remuneration Committee
R S Harris, Chairman
Dr G N Vernon

Nominations Committee
Dr G N Vernon, Chairman
R S Harris
Dr D W Evans

Company Secretary
M G Tavener

Registered Office
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Winsford, Cheshire, CW7 3PD

Registered Number
2867684

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Robert W Baird, Mint House,
77 Mansell Street, London, E1 8AF

Stockbrokers
Robert W Baird, Mint House,
77 Mansell Street, London, E1 8AF

Auditors
Baker Tilly
No. 1 Old Hall Street, Liverpool, L3 9SX

Solicitors
Wragge & Co, 55 Colmore Row,
Birmingham, B3 2AS

Registrars and Transfer Office
Capita IRG Plc, The Registry,
34 Beckenham Road, Beckenham,
Kent, BR3 4TU

Bankers
HSBC Bank plc, City Branch,
4 Dale Street, Liverpool, L69 2BZ

Patent Attorneys
Marks & Clerk, Manchester Office,
Sussex House, 83–85 Mosley Street,
Manchester, M2 3LG

Foley & Lardner, 1530 Page Mill Road,
Palo Alto, California 94304 1125

Report of the Directors
for the year ended 31 December 2004

The directors present their report and the audited financial statements for the year ended 31 December 2004.

Dividends

The Group made a loss for the year to 31 December 2004 of £0.4 million. The directors do not recommend the payment of a dividend and the whole of the loss will be transferred to reserves.

Principal activities, trading review and future developments

The principal activity of the Group comprises the design, development and manufacture of novel high performance polymers (both natural and synthetic) and medical adhesives for the healthcare market. A review of the operations for the year and future developments is contained within the Chief Executive's review on pages 6 to 9 and the financial review on pages 10 and 11.

Research and Development

The Group spent £1,220k (2003: £1,413k) in the year ended 31 December 2004 on research and development, all of which has been written off to the profit and loss account.

Creditors payment policy

The Group's policy for the year to 31 December 2004, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms, and to abide by the agreed terms of payment provided that the supplier performs its obligations. Where terms have not been specifically agreed, it is the Group's practice to settle invoices in line with local and industry requirements. The Group's trade creditors at 31 December 2004 represented approximately 90 days of purchases (2003: 91 days).

Charitable and political contributions

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

Directors

The directors of the Company at 31 December 2004 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary shares of 5p each 31 December 2004		Ordinary shares of 5p each 31 December 2003	
	Options	Shares	Options	Shares
G Vernon	—	675,164	—	545,164
D Evans	1,366,666	517,680	2,600,000	517,680
M Tavener	675,000	51,562	1,275,000	51,562
S Harris	—	197,857	—	197,857

There have been no changes in directors' interests between the end of the financial year and 18 April 2005 being less than one month prior to the date of notice of the Annual General Meeting.

Reappointment

At the forthcoming Annual General Meeting, Geoffrey Vernon will retire by rotation and, being eligible, will be proposed for reappointment. Details of the current directors of the Company are shown on page 12.

Substantial shareholdings

The Company's major shareholders at 28 February 2005 are:

	Number of Shares	Per cent
Newton Investment Management	19,572,870	13.78
Invesco	14,574,938	10.26
Close Finsbury Asset Management	9,397,983	6.61
Cavendish Asset Management	8,225,000	5.79
Electra Investment Trust	5,882,352	4.14
Noble Asset Managers Limited	5,888,352	4.14
Aerion Fund Management	5,677,972	4.00
SG Asset Management	4,900,000	3.45
William Samual Clive Richards OBE	4,600,000	3.24

Share capital and issue of ordinary shares

The authorised and issued share capital of the Company is set out in Note 23 to the accounts on pages 38 and 39.

Employees

The Group's policy is to consult and discuss with employees, through meetings, those matters likely to affect employees' interests. The Employees' Consultative Committee, which comprises representatives of employees and management, meets regularly to discuss business issues and areas of concern.

Employees are encouraged directly through share option schemes, performance reviews, and training and development opportunities. Each line manager is responsible for implementing this approach.

It is the Group's policy to give full and fair consideration to all applications for employment from disabled persons having regard to their particular aptitudes and abilities and to encourage the training and career development of all personnel employed by the Group, including disabled persons. Should an employee become disabled, the Group would, where practicable, seek to continue the employment and arrange appropriate training.

Health and Safety and the Environment

The Group is committed to high standards in health, safety and environmental performance. It is the Group policy to abide by all laws, directives and regulations pertinent to its field of operations, and to act in a manner so as to minimise the effects of its operations on the environment. Regular audits are undertaken to evaluate compliance with Health & Safety laws and Company policy. The Group will be working to obtain ISO 14001 accreditation in 2005.

Directors' interests in contracts

None of the directors had an interest in any contract of significance to which the Group or a subsidiary undertaking was a party during the financial year.

Auditors

Resolution 2 to reappoint Baker Tilly as auditors to the Company will be proposed at the Annual General Meeting and authorises the directors to agree payment for their services.

Special business at the Annual General Meeting

Resolution 4 proposes the adoption of a Long Term Incentive Plan by Advanced Medical Solutions Group plc, the details of which are set out in Appendix I to the Chairman's letter, which accompanies this Annual Report.

Resolution 5 establishes the Advanced Medical Solutions Employee Trust details of which are set out in Appendix II to the Chairman's letter which accompanies this Annual Report.

The effect of Resolution 6 to be proposed at the meeting would be to disapply the statutory pre-emption rights conferred by Section 89 of the Companies Act 1985 to a limited extent, that is to say:

- in connection with generally pre-emptive issues; or
- in respect of shares having an aggregate nominal value of £355,206.34 representing approximately 5 per cent of the nominal value of the Company's current issued ordinary share capital.

The resolution will cease to have an effect at the conclusion of the Company's Annual General Meeting to be held in 2006 or, if earlier, fifteen months after the date of the passing of this resolution.

Annual General Meeting

The Annual General Meeting will be held at The Park Royal Hotel, Stretton Road, Stretton, Warrington, Cheshire, WA4 4NS, on 24 May 2005 at 11.00 a.m. Details of the notice of the Annual General Meeting are given on pages 43 and 44. The Annual General Meeting provides an opportunity for private shareholders to question your Board and to meet informally with the executive management after the meeting.

By order of the Board

M G Tavener
Company Secretary
14 March 2005

Remuneration Report

The members of the Remuneration Committee are all non-executive directors of the Group and have no personal financial interest arising from cross-directorship and no day-to-day involvement in running the business.

The Board has accepted the Remuneration Committee's recommendations in full.

The Remuneration Committee, on behalf of the Board and in consultation with the Chief Executive, determines the Group's policy on executive remuneration, employment conditions and the individual remuneration packages of executive directors and management earning in excess of £50,000 per annum and administers the Share Option Schemes.

The Group has complied during the year with Section 1B 'Directors' Remuneration' of the provisions of the Combined Code and the Schedules A & B to the Combined Code.

Remuneration policy

The remuneration policy is based on the need to offer competitive packages to attract and retain senior executives of the highest calibre. Regular reviews of the policy are carried out, supported by independent advice, to ensure that the range and level of emoluments and incentive schemes continue to match current market practice.

Salary

Salaries are measured against performance and market mediums.

Annual performance bonus

The service agreements provide that each executive director shall be entitled to receive an annual bonus to be determined by the Remuneration Committee based on the Group's financial and operating performance. Each participant may receive up to 40% of his or her salary dependent upon performance measured against targets resulting from the completion of the Group's business plan and the performance of the Group as measured by total shareholder return compared with the FTSE Small Cap Index.

Long-term incentives

All executive directors, together with employees, are eligible to join the Executive Share Option Scheme and/or the Unapproved Scheme. The policy of the Group is to grant options to all employees. Options granted under these Schemes are not offered at a discount. The exercising of options under these schemes is conditional on certain performance conditions which are pre-determined by the Remuneration Committee and which accord with the Joint Statement from the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

Shareholders are invited to approve all new long-term incentive schemes which potentially commit Shareholders' funds over more than one year or dilute their equity.

Pension

Executive directors are entitled to become a member of the Group Pension and Life Assurance Scheme, which was set up with effect from 1 February 1999. This covers all employees and requires a contribution of 3% by the employee and 6% by the Group. Executive directors may contribute up to 10%, which is matched by the Group. The Pension Plan is a money purchase scheme.

Service agreements.

The service agreements for Don Evans and Mary Tavener are terminable by either party giving not less than 12 months' notice in writing.

Private healthcare

Executive directors are entitled to private healthcare and permanent health insurance.

Car

The Company has reviewed its policy in providing company vehicles to executive directors and now considers that it is no longer market practice. As leases become due for renewal on executive directors' cars, these will no longer be renewed.

Non-executive directors

The fees of the non-executive directors are determined by the executive directors. Non-executive directors receive travel expenses but do not participate in any incentive arrangements. The non-executive directors have entered into terms of appointment. Geoffrey Vernon's appointment is terminable by either party upon six months' notice in writing. Steve Harris's appointment is terminable by either party upon three months' notice in writing.

Directors' detailed emoluments

	Salary & fees £'000	Annual bonus £'000	Benefits £'000	Pension £'000	Compensation for loss of office	Paid to third parties £'000	Total year ending 2004 £'000	Total year ending 2003 £'000
Executive								
Don Evans	160	—	15	15	—	—	190	188
Graeme Brookes	—	—	—	—	—	—	—	61
Mary Tavener	104	—	9	10	—	—	123	120
Non-Executive								
Geoffrey Vernon	—	—	—	—	—	44	44	47
Steve Harris	—	—	—	—	—	26	26	24
	264	—	24	25	—	70	383	440

Interests in share options

Details of Grant	Option Price	D W Evans	M G Tavener
Unapproved Executive Share Option Scheme			
21 May 2002	8.75p	750,000	375,000
15 July 2004	9.00p	616,666	300,000
At 31 December 2004		1,366,666	675,000

The opening share price for the year was 10.75p and the closing price on the last trading day of 2004 (31 December) was 8.25p.

The range during the year was 12.25p (high) and 7.5p (low). (Source: daily official list of the London Stock Exchange.)

Share Performance

Since Advanced Medical Solutions Group plc announced the acquisition of MedLogic Global Holdings Ltd and associated Intellectual Property Rights on 28 March 2002, its share price has outperformed the FTSE All Share by 9%, FTSE Techmark by 8% and FTSE Health by 1% and underperformed the the FTSE Small Cap Index by 10% and AIM by 32%.

By order of the Board

Mary Tavener
Company Secretary
14 March 2005

Corporate Governance

The Board is committed to the principles of corporate governance and has continued to apply the Combined Code in a manner which it considers appropriate for the size of the Group. In compliance with the Code, the narrative below describes how the Group applied the principles. The second part of the statement details where the Group has not complied with the provisions of the Combined Code and the reasons for this.

The Board of directors

The Board retains full and effective control of the Group and has a schedule of matters specifically reserved for its decision. The Board meets on a formal basis regularly, and met six times in 2004. Prior to each Board Meeting, directors are sent an agenda including monthly management accounts and accompanying reports from the executive directors. The Board is responsible for formulating the Group's corporate strategy, approval of budgets, monitoring financial performance, approval and review of major capital expenditure and corporate governance matters. Operational control is delegated to the executive directors. All directors have access to the advice and services of the Company Secretary and can take independent professional advice, if necessary, at the Group's expense. The non-executive directors are able to contact the executive directors at any time for further information.

The Board comprises two executive directors and two non-executive directors. The Board considers this adequate to deal with the management of a Group of this size but this matter continues to be reviewed. The Chairman is one of the non-executive directors and there is a clear division of responsibility between the Chairman and Chief Executive. The non-executive directors are independent of the executive management. All directors are required to stand for re-election at the first annual general meeting following their appointment and, as a minimum, every three years thereafter.

Board Committees

The Board has delegated specific authority to the Remuneration Committee, the Nominations Committee and the Audit Committee. The non-executives are the only members of the Remuneration and Audit Committees.

The Audit Committee is chaired by Geoffrey Vernon and met twice in 2004. The Committee considers the appointment and fees of the auditors and discusses the scope of the audit and its findings. It is also responsible for monitoring the Group's accounting policies, assessing the Group's internal controls and reviewing the annual and interim statements prior to their submission for approval by the Board. The Committee has the right of access to the external auditors without the attendance of the executive directors. The size of the Audit Committee is not in strict compliance of the Combined Code but is appropriate for a Group of this size.

The Audit Committee also undertakes a formal assessment of the auditor's independence which includes:

- A review of non-audit services provided to the Group and related fees.
- Discussion with the auditors of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence.

- A review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner.
- Obtaining written confirmation from the auditors that, in their professional judgement, they are independent.
- An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in note 4 of the financial statements.

The Remuneration Committee is chaired by Steve Harris and, in consultation with the Chief Executive, determines the Group's policy on executive remuneration, employment conditions and the individual remuneration packages of executive directors and senior management earning in excess of £50,000 per annum. It approves all grants of options under the Group's Share Option Schemes. The Remuneration Committee met four times in 2004 and its report is included on pages 16 and 17.

The Nominations Committee nominates and recommends the appointment of new directors to the Board. The Committee is chaired by the Chairman of the Group and comprises the non-executive directors and the Chief Executive. The Nominations Committee did not meet in 2004.

Investor Relations

The Group maintains a regular dialogue with institutional shareholders, mainly in the periods following the announcement of the interim and final results, but also at other times during the year. Existing and potential institutional investors are encouraged to visit the Group to improve their understanding of the Group's business. The Board encourages the participation of shareholders at its annual general meeting, notice of which is sent to shareholders at least 20 working days before the meeting. The AMS website 'www.admedsol.com' is regularly updated and provides additional information on the Group including information of the Group's products and technology.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In the context of the Group's business any such system can only reasonably be expected to manage rather than eliminate risks arising from its operations. It can therefore only provide reasonable and not absolute assurance against material loss or misstatement.

The Combined Code required directors to review the effectiveness of the Group's system of internal control in the wider sense, encompassing operational and compliance matters in addition to the traditional financial issues.

Key features of the internal control system are as follows:

- The Group has an organisational structure with clearly established responsibilities and lines of accountability. The Group promotes the values of integrity and professionalism.
- The Board has a schedule of matters expressly reserved for its consideration. This schedule includes acquisitions, major capital projects, treasury, risk management policies and approval of budgets.
- An ongoing risk management process has been implemented which identifies the key business risks facing the Group including both financial and operational risks.

- The controls in place to minimise the occurrence of the risk are documented and analysed for effectiveness. These include procedures for the approval of major expenditure or commitment of resources.
- The Board monitors the activities of the Group through the management accounts forecasts and other reports on current activities and plans. The executive management regularly monitors financial and operational performance in detail and takes any necessary corrective action.
- The Board specifically reserves an item on the agenda to review areas of the business in the light of the results of the risk analysis.

The Board reviews and continues to review the effectiveness of the Group's procedure in managing risk and, therefore, believes it meets the requirements of the Guidance.

The Board has considered the need for internal audit. It is of the opinion that, given the size and nature of the Group's operations and the other controls in place, it would not be appropriate at the present time. The matter continues to be reviewed. The Group does call on the services of external bodies to review the controls in certain areas of the Group. The British Standards Institute (BSI) reviews and reports on the quality assurance systems every 6 months. The British Safety Council also reviews and reports on the Health and Safety Systems in the Group each year.

Going Concern

The directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Compliance with the Combined Code

During the year ended 31 December 2004, the Group has been in compliance with the requirements of the Combined Code, except in the following areas:

- The Board believes that given its size and complexity it is not appropriate to specify a 'senior' non-executive director.
- The Group has only two non-executives. Consequently, the Audit Committee does not comprise at least three non-executive directors.

Statement of Directors' Responsibilities

Company law requires that the directors prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.
In preparing the financial statements for the year ended 31 December 2004, the directors confirm that:

- Suitable accounting policies have been used and applied consistently.
- Judgements and estimates that are reasonable and prudent have been made.
- Applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Mary G Tavener
Company Secretary
14 March 2005

Independent Auditor's Report to the Members of Advanced Medical Solutions Group plc

We have audited the financial statements on pages 22 to 41.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Review, the Financial Review, the Remuneration Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's affairs at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly
Registered Auditor
Chartered Accountants
Liverpool
14 March 2005

Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Note	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Turnover	2	**11,019**	9,015
Cost of sales		**(6,913)**	(5,809)
Gross profit		**4,106**	3,206
Distribution costs		**(153)**	(86)
Administration costs		**(5,352)**	(5,859)
Other operating income	3	**328**	304
Operating loss	4	**(1,071)**	(2,435)
Interest receivable and similar income	7	**114**	152
Interest payable and similar charges	8	**(33)**	(35)
Loss on ordinary activities before taxation		**(990)**	(2,318)
Taxation	9	**573**	234
Loss sustained for the year	10	**(417)**	(2,084)
Basic and fully diluted loss per share	11	**(0.3)p**	(1.5)p

The above results relate to continuing operations.

There is no difference between reported and historical profits and losses.

The notes on pages 26 to 41 form part of these financial statements.

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

	Group	
	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Loss for the financial year	**(417)**	(2,084)
Currency translation differences on foreign currency net investments	**(13)**	(19)
Total losses recognised since last annual report	**(430)**	(2,103)

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2004

	Group		Company	
	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000	**Year ended 31 December 2004 £'000**	Year ended 31 December 2003 £'000
Opening shareholders' funds	**12,004**	14,107	**12,758**	14,430
Loss for the financial year	**(417)**	(2,084)	**(304)**	(1,672)
Currency translation differences on foreign currency net investments	**(13)**	(19)	**—**	—
Closing shareholders' funds	**11,574**	12,004	**12,454**	12,758

The loss for the Company includes an exceptional write-down in the value of investments of £427k (2003: £1,842k).

Balance Sheets

At 31 December 2004

	Note	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Fixed assets					
Intangible assets	12	**2,070**	2,238	**—**	—
Tangible assets	13	**3,706**	4,373	**—**	—
Investments	14	**—**	—	**9,589**	9,427
		5,776	6,611	**9,589**	9,427
Current assets					
Stocks	15	**1,506**	1,279	**—**	—
Debtors — due within one year	16	**2,754**	2,793	**72**	35
— due after more than one year	16	**638**	200	**200**	200
Cash at bank and in hand		**3,160**	3,608	**2,755**	3,223
		8,058	7,880	**3,027**	3,458
Creditors: amounts falling due within one year	17	**(1,884)**	(2,139)	**(162)**	(127)
Net current assets		**6,174**	5,741	**2,865**	3,331
Total assets less current liabilities		**11,950**	12,352	**12,454**	12,758
Creditors: amounts falling due after more than one year	18	**(376)**	(348)	**—**	—
		11,574	12,004	**12,454**	12,758
Capital and reserves					
Called up share capital	23	**11,782**	11,782	**11,782**	11,782
Share premium account	24	**37,978**	37,978	**37,978**	37,978
Other reserve	24	**1,531**	1,531	**—**	—
Profit and loss account	24	**(39,717)**	(39,287)	**(37,306)**	(37,002)
Equity shareholders' funds		**11,574**	12,004	**12,454**	12,758

These financial statements were approved by the Board on 14 March 2005.

Dr D W Evans
Chief Executive Officer

The notes on pages 26 to 41 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Note	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Net cash outflow from operating activities	26	**(595)**	(1,708)
Returns on investments and servicing of finance			
Interest received		**102**	158
Interest element of finance lease rental and hire purchase payments		**(3)**	(5)
Interest paid		**(30)**	(30)
Net cash inflow from returns on investments and servicing of finance		**69**	123
Taxation		**389**	153
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(284)**	(400)
Sale of tangible fixed assets		**—**	7
Net cash outflow for capital expenditure and financial investment		**(284)**	(393)
Cash outflow before use of liquid resources and financing		**(421)**	(1,825)
Management of liquid resources			
Sale of term deposits		**203**	2,249
Financing			
Repayment of secured loan	28	**(11)**	(10)
Net movement of capital element of finance lease rental and hire purchase payments	28	**(3)**	(94)
Net cash outflow from financing		**(14)**	(104)
(Decrease)/increase in cash	27	**(232)**	320

The notes on pages 26 to 41 form part of these financial statements

Notes Forming Part of the Financial Statements

1. Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and under the historical cost convention. The Company has taken advantage of the exemption from presenting its own profit and loss account. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

Basis of consolidation

The consolidated accounts include the financial statements of Advanced Medical Solutions Group plc and all of its subsidiary undertakings made up to 31 December 2004. The Group uses both the acquisition and the merger method of accounting to consolidate the results of subsidiary undertakings. Intra-Group sales and profits are eliminated fully on consolidation.

Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group accounts, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary in the year it joins the Group are included for the whole period. Any difference between the nominal value of the shares acquired by the Group and those issued by the Group to acquire them is taken to reserves. Share premium attributable to the subsidiary is included as Other Reserve.

Acquisition accounting

The results of the subsidiary undertakings are included from the date control passes. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control, are charged to the post-acquisition profit and loss account. Goodwill arising on the acquisition of subsidiaries in previous years has been written off immediately against reserves and has not been reinstated on the introduction of Financial Reporting Standard (FRS) 10.

Investments

Investments in subsidiary undertakings are stated at cost less provision for any loss in value considered permanent.

Goodwill

Goodwill arising on acquisitions made after 1 April 1998 is capitalised and amortised over the estimated useful economic life of 20 years. Goodwill previously eliminated against reserves has not been reinstated, but will be charged to the profit and loss account on subsequent disposal of the businesses to which it relates. Negative goodwill, being the difference between the purchase consideration in subsidiary undertakings and the Group's share of the fair value of the net assets acquired is included on the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered.

Turnover

Turnover represents sales and royalty income received under licence agreements from external customers at invoiced amounts less value added tax.

Other operating income

Operating income represents non-refundable upfront licence payments received for the grant of rights for the development and marketing of products, contributions received to research and development, Government grants of a revenue nature and other sundry income.

Tangible fixed assets

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, over their expected useful lives from the date that the asset is brought into use. It is calculated at the following rates:

Freehold property	— 4% per annum
Leasehold improvements	— over the length of the lease
Motor vehicles	— 25% per annum on cost
Plant and machinery	— 10 to 33.3% per annum on cost
Fixtures and fittings	— 6.67 to 20% per annum on cost
Computers	— 33.3% per annum on cost

No depreciation is provided on freehold land.

Intangible fixed assets

Intangible fixed assets that are acquired and which can be separately identified and valued are capitalised and amortised over their estimated useful economic lives, usually not exceeding 18 years. In determining the useful economic life, each asset is reviewed separately and consideration given to the period over which the Group expects to derive economic benefit from the asset.

Stock

Stocks are valued at the lower of cost or net realisable value. Cost is calculated as follows:

Raw materials	— cost of purchase on first in, first out basis
Work in progress and finished goods	— cost of raw materials and labour and attributable overheads.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the period in which it is incurred. Development costs are also charged to the profit and loss account in the period of expenditure.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a discounted basis.

Government grants

Grants relating to expenditure on tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the assets to which the grants relate. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are credited to the profit and loss account in the period to which they relate.

Leases

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pensions

The Group operates a money purchase pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Foreign currency

Assets, liabilities and transactions of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Differences on exchange arising from the translation of the opening net investment in subsidiary companies are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Liquid resources

Liquid resources comprise variable term deposits that are accessible with less than 12 months' notice.

2. Segmental information

Turnover by geographical customers:

	Turnover	
	2004	2003
	£'000	£'000
United States of America	**2,259**	2,167
Rest of Europe	**5,481**	4,789
United Kingdom	**2,810**	1,918
Rest of World	**469**	141
	11,019	9,015

Turnover by business unit:

	Turnover	
	2004	2003
	£'000	£'000
Advanced woundcare	**8,893**	7,412
Wound closure	**2,126**	1,603
	11,019	9,015

It is not possible to identify loss before taxation and net asset by business unit because of the use of common services.

Turnover, loss before tax and net assets by origin:

	2004 Turnover	**2004 Loss**	**2004 Net Assets**	2003 Turnover	2003 Loss	2003 Net Assets
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
United Kingdom	**11,019**	**(879)**	**11,576**	9,015	(2,217)	11,996
United States	**—**	**(111)**	**(2)**	—	(101)	8
Group	**11,019**	**(990)**	**11,574**	9,015	(2,318)	12,004

The turnover and loss before taxation is wholly attributable to the principal activity of the Group.

3. Other operating income

	Year ended 31 December 2004	Year ended 31 December 2003
	£'000	£'000
Licence fees	**61**	220
Grants received	**—**	48
Development fees	**267**	36
	328	304

4. Operating loss

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Operating loss arrived at after charging/(crediting):		
Government grants	—	(50)
Depreciation	**953**	942
Amortisation	**168**	168
Profit on sale of fixed assets	—	(2)
Operating lease rentals — plant and machinery	**89**	104
— land and buildings	**294**	274
Auditors' remuneration — audit services	**29**	28
— non-audit services	**23**	15
Research and development	**1,220**	1,413
Exchange loss	**30**	17

5. Employees

The average monthly number of employees of the Group during the year, including executive directors, was as follows:

	Year ended 31 December 2004 Number	Year ended 31 December 2003 Number
Production	**113**	110
Research and development	**19**	25
Sales and marketing	**24**	21
Administration	**21**	19
	177	175

Sales and marketing includes 1 person (2003: 1) employed in the United States.

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	**4,360**	4,185
Social Security costs	**440**	407
Pension costs	**186**	176
	4,986	4,768

6. Directors' emoluments

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Remuneration for management services	**288**	291
Pension	**25**	29
Amounts paid to third parties	**70**	71
Compensation for loss of office	**—**	49
	383	440
Retirement benefits are accruing to the following number of directors under money purchase schemes	**2**	2

The disclosures required in relation to the highest paid director are contained within the Remuneration Report on pages 16 to 17.

7. Interest receivable and similar income

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Bank interest	**108**	144
Rent deposit interest	**6**	8
	114	152

8. Interest payable and similar charges

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Finance leases and hire purchase contracts	**3**	5
Other loan interest	**30**	30
	33	35

9. Taxation on loss on ordinary activities

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
(a) **Analysis of credit for the year**		
Current tax:		
UK corporation tax	**135**	234
Deferred tax:		
Origination and reversal of timing differences	**504**	—
Discount	**(66)**	—
Tax on loss on ordinary activities	**573**	234
(b) **Factors affecting tax credit for the year**		
The tax credit assessed for the year is lower than the standard rate of corporation tax in the UK (30%) as explained below:		
Loss on ordinary activities before tax	**(990)**	(2,318)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	**(297)**	(695)
Effects of:		
Expenses not deductible for tax purposes	**38**	38
Deductions allowed	**(74)**	—
Depreciation for period less than capital allowances	**(72)**	(118)
Expensive leased cars disallowed costs	**2**	1
Loss on disposal of fixed assets	**—**	1
Trading losses carried forward	**201**	146
Trading losses utilised	**202**	627
Research and development relief	**(135)**	(234)
Current tax credit for the year (note 9(a))	**(135)**	(234)

10. Loss for the financial year

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Loss dealt with in the accounts of the parent company	**(304)**	(1,672)
Loss retained by subsidiary undertakings	**(599)**	(2,327)
Consolidation adjustment	**486**	1,915
	(417)	(2,084)

The Company has taken advantage of section 230 of the Companies Act 1985 not to publish its own profit and loss account.

11. Loss per share

The basic loss per share has been calculated on a weighted average number of shares in issue during the year, namely 142,082,536 (2003: 142,082,536) and loss of £417k (2003: £2,084k).

12. Intangible fixed assets

	Intellectual Property Rights £'000
Group	
Cost	
At beginning and end of year	**2,518**
Amortisation	
At beginning of year	280
Charged in year	168
At end of year	**448**
Net book value	
At 31 December 2004	**2,070**
At 31 December 2003	2,238

The intellectual property rights have been amortised over their useful economic lives which averages 15 years.

13. Tangible assets

	Freehold land, property and improvements £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Group						
Cost						
At beginning of year	865	1,143	8,130	535	44	10,717
Additions	—	—	284	2	—	286
Disposals	—	—	(16)	—	—	(16)
At end of year	865	1,143	8,398	537	44	**10,987**
Depreciation						
At beginning of year	35	624	5,227	426	32	6,344
Provided for the year	20	18	882	22	11	953
Disposals	—	—	(16)	—	—	(16)
At end of year	55	642	6,093	448	43	**7,281**
Net book value						
At 31 December 2004	**810**	**501**	**2,305**	**89**	**1**	**3,706**
At 31 December 2003	830	519	2,903	109	12	4,373

The net book value of tangible fixed assets includes £Nil of motor vehicles (2003: £8k) and £178k of plant and machinery (2003: £212k) held under finance leases and hire purchase contracts. The related depreciation charge for the year was £8k for motor vehicles (2003: £11k) and £38k for plant and machinery (2003: £36k).

	Group		**Company**	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Commitments for capital expenditure				
Authorised for future capital expenditure				
and not provided in the financial statements	**299**	143	**—**	—

Notes Forming Part of the Financial Statements *continued*

14 Fixed asset investments

	2004 £'000	2003 £'000
Company		
Loans to Group undertakings	**9,589**	9,427

Shares in Group undertakings and loans to Group undertakings have been written down to recognise losses in subsidiary companies. The following were subsidiary undertakings at the end of the year and have all been included in the consolidated accounts.

Name	Country of operation	Proportion of voting rights and ordinary share capital held	Nature of business
Advanced Medical Solutions Limited	England	100%	Development and manufacture of medical products
Advanced Medical Solutions (UK) Limited	England	100%	Holding Company
Advanced Healthcare Systems Limited	England	100%*	Dormant
Innovative Technologies Limited	England	100%	Dormant
Flowers Park Limited	England	100%‡	Dormant
Advanced Medical Solutions Group Inc.	USA	100%†	Holding Company
Advanced Medical Solutions (Delaware) Inc.	USA	100%§	Development and manufacture of medical products
MedLogic Global Holdings Limited	England	100%¶	Holding Company
MedLogic Global Limited	England	100%	Development and manufacture of medical products

* Held indirectly through Advanced Medical Solutions Limited.
‡ Held indirectly through MedLogic Global Holdings Limited.
† Held indirectly through Advanced Medical Solutions (UK) Limited.
§ Held indirectly through Advanced Medical Solutions Group Inc.
¶ Held indirectly through MedLogic Global Limited.

15. Stocks

	Group		Company	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Raw materials	**698**	666	**—**	—
Work in progress	**459**	365	**—**	—
Finished goods	**349**	248	**—**	—
	1,506	1,279	**—**	—

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

16. Debtors

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Due within one year				
Trade debtors	**2,098**	1,836	**—**	—
Corporation tax	**119**	373	**—**	—
Other debtors	**203**	238	**—**	—
Prepayments and accrued income	**334**	346	**72**	35
	2,754	2,793	**72**	35
Due after more than one year				
Other debtors — leasehold rental deposit	**200**	200	**200**	200
Deferred tax asset (note 22)	**438**	—	**—**	—
	638	200	**200**	200

17. Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Trade creditors	**1,216**	1,450	**56**	57
Taxation and social security	**245**	260	**—**	—
Other loans	**12**	11	**—**	—
Other creditors	**4**	4	**—**	—
Obligations under finance leases and hire purchase contracts	**4**	3	**—**	—
Accruals and deferred income	**403**	411	**106**	70
	1,884	2,139	**162**	127

18. Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Obligations under finance leases and hire purchase contracts	**12**	14	**—**	—
Deferred income	**42**	—	**—**	—
Other loans	**322**	334	**—**	—
	376	348	**—**	—

The maturity profile of the Group's financial liabilities is described in note 20(a).

19. Analysis of borrowings

The maturity by currency of total borrowings comprised:

(i) Finance leases and hire purchase contracts

	Less than 1 year £'000	**2–5 years £'000**	**Total 2004 £'000**	Less than 1 year £'000	2–5 years £'000	Total 2003 £'000
Sterling	**4**	**12**	**16**	3	14	17

(ii) Other loans

See note 20(a).

The loan is secured by a fixed charge on the freehold property. It is repayable in monthly instalments and interest is payable at 8½% fixed rate.

20. Derivatives and other financial instruments

Page 11 of the Financial Review provides an explanation of the financial risks faced by the Group and the objectives and policies for managing those risks. The information below deals with the financial assets and liabilities. Short-term debtors and creditors have been excluded from the analysis as permitted by FRS13. The carrying value of the Group's financial assets and liabilities equals their fair value.

(a) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, of which other loans and finance lease creditors and hire purchase contracts are at fixed rates and denominated in sterling, is as follows:

	On demand or within one year £'000	**Between one and two years £'000**	**Between two and five years £'000**	**Five years or more £'000**	**Total medium/ long-term £'000**	**Total financial liabilities £'000**	**Interest rate %**
Group							
Other loans	12	13	46	263	322	334	8.5
Finance lease creditors and hire purchase contracts	4	5	7	—	12	16	15.5
At 31 December 2004	**16**	**18**	**53**	**263**	**334**	**350**	**—**
Other loans	11	12	43	279	334	345	8.5
Finance lease creditors and hire purchase contracts	3	4	10	—	14	17	15.8
At 31 December 2003	14	16	53	279	348	362	—

20. Derivatives and other financial instruments continued

	2004		2003	
	Fixed rate financial liabilities Weighted average period for which rate is fixed Years	**Financial liabilities on which no interest is paid Weighted average period until maturity Years**	Fixed rate financial liabilities Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid Weighted average period until maturity Years
Other loans	**15**	**—**	16	—
Finance lease creditors and hire purchase contracts	**3**	**—**	4	—

(b) Interest rate and currency of financial assets

The currency and interest rate profile of the financial assets of the Group is as follows:

	Total £'000	**Floating £'000**	**Fixed £'000**	**Non-interest bearing £'000**	**Fixed rate weighted average interest rate %**
Currency					
Sterling	2,881	57	2,646	178	4.6
US Dollar	110	110	—	—	—
Euro	169	169	—	—	—
At 31 December 2004	**3,160**	**336**	**2,646**	**178**	**—**
Sterling	3,175	77	2,863	235	3.9
US Dollar	344	344	—	—	—
Euro	89	89	—	—	—
At 31 December 2003	3,608	510	2,863	235	—

The floating rate financial assets comprise bank deposits bearing interest at commercial rates.

The financial assets all mature within one year.

(c) Currency exposures

At 31 December 2004 the Group had unhedged US Dollar currency exposures of £64k (2003: £491k) and unhedged Euro currency exposures of £137k (2003: £168k).

21. Foreign exchange rates

	Average rate		Closing rate		Percentage change	
					Average	Closing
	2004	2003	**2004**	2003	%	%
Currency						
US Dollar	**1.832**	1.635	**1.920**	1.791	12.0	7.2
Euro	**1.474**	1.446	**1.413**	1.420	1.9	(0.5)

22. Deferred tax

	2004	2003
	£'000	£'000
Balance at 1 January	**—**	—
Transfer to profit and loss account	**438**	—
Balance at 31 December	**438**	—
Provision for deferred tax has been made as follows:		
Provision		
Excess of tax allowances over depreciation	**44**	83
Sundry timing differences	**(3)**	(2)
Unutilised tax losses carried forward	**(41)**	(81)
	—	—
Asset		
Tax losses	**504**	—
Discount	**(66)**	—
Discounted deferred tax asset	**438**	—

A discounted deferred tax asset of £438k (2003: Nil) has been recognised which is the extent to which recoverability can be foreseen with reasonable probability.

There is approximately a further £10.3 million (2003: £10.8 million) of tax losses at future rates of tax which have not been recognised.

23. Share capital

	Group and Company	
	2004	2003
	£'000	£'000
Authorised		
300,000,000 (2003: 300,000,000) ordinary shares of 5p each	**15,000**	15,000

	Group and Company	
	2004	2003
	£'000	£'000
Allotted, called up and fully paid		
142,082,536 (2003: 142,082,536) ordinary shares of 5p each and 93,553,394 (2003: 93,553,394) deferred shares of 5p each	**11,782**	11,782

23. Share capital continued

Shares to be issued

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 2004.

	Date of Grant	Option Price	Number of Options At 1 January 2004	Issued	Lapsed	Number of Options At 31 December 2004
Unapproved Executive Share Option Scheme						
	26.10.98	41.35p	781,122	—	781,122	—
	01.12.98	36.56p	195,280	—	195,280	—
	17.12.98	36.56p	74,777	—	74,777	—
	19.05.99	28.29p	11,487	—	11,487	—
	21.06.99	25.68p	11,487	—	11,487	—
	15.07.99	26.99p	574,354	—	574,354	—
	19.07.99	38.30p	371,530	—	371,530	—
	25.01.00	25.50p	156,945	—	156,945	—
	26.05.00	13.50p	908,514	—	908,514	—
	21.05.02	8.75p	75,000	—	—	**75,000**
	14.04.03	8.75p	30,000	—	—	**30,000**
	15.07.04	9.00p	—	279,842	—	**279,842**
Executive Share Option Scheme						
	19.07.99	38.30p	93,507	—	93,507	—
	19.01.00	25.50p	125,500	—	125,500	—
	08.05.01	18.25p	128,000	—	128,000	—
Enterprise Management Incentive Scheme						
	21.05.02	8.75p	2,043,000	—	220,000	**1,823,000**
	09.10.02	8.75p	491,000	—	30,000	**461,000**
	14.04.03	8.75p	460,000	—	—	**460,000**
	07.10.03	11.50p	207,000	—	17,000	**190,000**
	07.04.04	10.00p	—	103,000	11,000	**92,000**
	15.07.04	9.00p	—	1,189,003	27,576	**1,161,427**
	16.07.04	9.00p	—	9,824	—	**9,824**
	16.09.04	9.00p	—	62,000	—	**62,000**
			6,738,503	1,643,669	3,738,079	**4,644,093**

In normal circumstances, the options granted under the Unapproved Executive Share Option Scheme and the Executive Share Option Scheme are exercisable subject to the satisfaction of the relevant performance criteria, not earlier than 3 and not later than 7 years after the date of the grant.

24. Share premium account and reserves

	Share premium account £'000	Other reserve £'000	Profit and loss account £'000
Group			
As at 1 January 2004	37,978	1,531	(39,287)
Loss for the year	—	—	(417)
Currency translation differences on foreign currency net investments	—	—	(13)
As at 31 December 2004	**37,978**	**1,531**	**(39,717)**
Company			
As at 1 January 2004	37,978	—	(37,002)
Loss for the year	—	—	(304)
As at 31 December 2004	**37,978**	**—**	**(37,306)**

The other reserve represents Advanced Medical Solutions Limited's share premium account arising from merger accounting (see note 1).

The cumulative goodwill written off to reserves is £5,586k (2003: £5,586k).

25. Commitments under operating leases

As at 31 December 2004, the Group had annual commitments under non-cancellable operating leases as set out below:

	2004 Land and buildings £'000	**2004 Other £'000**	2003 Land and buildings £'000	2003 Other £'000
Operating leases which expire:				
Within one year	**—**	**13**	—	7
In two to five years	**259**	**30**	—	32
Greater than five years	**—**	**—**	259	—
	259	**43**	259	39

26. Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Operating loss	**(1,071)**	(2,435)
Depreciation	**953**	942
Amortisation of intangible fixed assets	**168**	168
Profit on sale of fixed assets	**—**	(2)
Increase in stocks	**(227)**	(361)
Increase in debtors	**(203)**	(274)
(Decrease)/increase in creditors	**(215)**	254
Net cash outflow from operating activities	**(595)**	(1,708)

27. Reconciliation of net cash flow to movement in net funds (note 28)

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
(Decrease)/increase in cash in year	**(232)**	320
Cash outflow from reductions in debt and finance leases	**14**	104
Cash inflow from decrease in liquid resources	**(203)**	(2,249)
Change in net funds resulting from cash flows	**(421)**	(1,825)
New finance leases	**(2)**	(19)
Translation difference	**(13)**	(19)
Movement in net funds in year	**(436)**	(1,863)
Net funds at 1 January 2004	**3,246**	5,109
Net funds at 31 December 2004	**2,810**	3,246

28. Analysis of net funds

	1 January 2004 £'000	Cash flows £'000	Non-cash changes £'000	Exchange movements £'000	31 December 2004 £'000
Cash	761	**(232)**	**—**	**(13)**	**516**
Term deposits	2,847	**(203)**	**—**	**—**	**2,644**
Cash at bank and in hand	3,608	**(435)**	**—**	**(13)**	**3,160**
Debt due within one year	(11)	**(1)**	**—**	**—**	**(12)**
Debt due after one year	(334)	**12**	**—**	**—**	**(322)**
Finance leases	(17)	**3**	**(2)**	**—**	**(16)**
Total	3,246	**(421)**	**(2)**	**(13)**	**2,810**

Five Year Summary

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Consolidated profit and loss account					
Turnover	**11.0**	9.0	8.4	7.4	7.8
Operating loss (before exceptional items)	**(1.1)**	(2.4)	(1.7)	(1.9)	(3.1)
Net interest receivable	**0.1**	0.1	0.2	0.3	0.4
Retained loss	**(0.4)**	(2.1)	(1.4)	(1.5)	(2.7)
Basic loss per share	**(0.3)p**	(1.5)p	(1.1)p	(1.6)p	(2.9)p
Weighted average number on shares in issue after adjusting for rights issue	**142.1m**	142.1m	126.1m	93.6m	93.2m
Consolidated balance sheet					
Net assets employed					
Fixed assets	**5.8**	6.6	7.3	4.8	5.4
Cash and other net current assets	**6.2**	5.7	7.3	7.4	8.4
Creditors due after one year	**(0.4)**	(0.3)	(0.5)	(0.2)	(0.3)
Net assets	**11.6**	12.0	14.1	12	13.5
Capital and reserves					
Called up share capital	**11.8**	11.8	11.8	9.4	9.4
Share premium account	**38.0**	38.0	38.0	36.9	36.9
Other reserve	**1.5**	1.5	1.5	1.5	1.5
Profit and loss account	**(39.7)**	(39.3)	(37.2)	(35.8)	(34.3)
Equity shareholders' funds	**11.6**	12.0	14.1	12	13.5

Notice of Meeting

Notice is hereby given that the eleventh Annual General Meeting of the Company will be held at 11.00 a.m. on 24 May 2005 at The Park Royal Hotel, Stretton Road, Stretton, Warrington, Cheshire, WA4 4NS.

As ordinary business:

1. To receive the Report of the Directors and the Financial Statements of the Company for the year ended 31 December 2004 (together with the report of the auditors thereon).
2. To reappoint Baker Tilly as auditors and to authorise the directors to fix their remuneration.
3. To re-elect Geoffrey Vernon (who retires by rotation in accordance with the Articles of Association) as a director of the Company.

As special business:

To consider and, if thought fit, to pass Resolutions 4 and 5, which will be proposed as ordinary resolutions and Resolution 6, which will be proposed as a special resolution.

4. That the rules of the proposed Advanced Medical Solutions Group plc Long Term Incentive Plan ("Plan") the principal features of which are summarised in Appendix I to the Chairman's letter contained in the Circular dated 15 April 2005 (a draft of which is produced to the meeting and initialled by the Chairman for the purposes of identification) be and are hereby approved and the directors be and are hereby authorised to do all things necessary or expedient to carry the Plan into effect.
5. That the deed establishing the Advanced Medical Solutions Employee Trust ("Trust") the principal features of which are summarised in Appendix II to the Chairman's letter contained in the Circular dated 15 April 2005 (a draft of which is produced to the meeting and initialled by the Chairman for the purposes of identification) be and is hereby approved and any two officers are authorised to execute the same.
6. That the directors be empowered pursuant to and in accordance with Section 95 of the Companies Act 1985 ("Act") to allot equity securities pursuant to the authority conferred by a special resolution of the Company dated 19 May 2004 as if Section 89(1) of the Act did not (insofar as it would otherwise do) apply to any such allotment, provided that:

i) this power shall expire on the date fifteen months after the date of passing of this resolution or at the conclusion of the next Annual General Meeting of the Company, whichever is the earlier, save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired and provided further that such allotments would have fallen within the limit hereinafter mentioned if made before such expiry;

ii) equity securities allotted otherwise than in connection with a Pro Rata Offer (as defined below) or a scrip dividend alternative offered in accordance with Article 151 of the Company's Articles of Association or pursuant to the terms of any share option scheme for employees approved by the members in general meeting shall not exceed an aggregate nominal value of £355,206.34 and for this purpose an issue of securities convertible into ordinary shares shall be deemed to be an allotment of the number of shares which would be required to satisfy the conversion rights attached to those securities in full at the initial conversion price provided for in the terms and conditions of the issue.

In this resolution:

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

(b) the expression "Pro Rata Offer" means an offer of equity securities open for acceptance for a period fixed by the directors to holders of ordinary shares on the register on a fixed record date in proportion (or as nearly as may be) to their then holdings of such ordinary shares (but subject to such exclusions or other arrangements as the directors may consider necessary or expedient in relation to fractional entitlements or on account either of legal problems under the laws of any territory or the requirements of any recognised regulatory body or any other stock exchange).

By order of the Board

Mary G Tavener
Company Secretary
14 March 2005

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

Notice of Meeting

Notes

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
2. A form of proxy is enclosed for use by members. To be effective, it must be completed and deposited at the offices of the Company's Registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent, BR3 4BR, not less than 48 hours before the time fixed for the Meeting.
3. The register of directors' interests in the shares of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (public holidays excepted) until the date of the Meeting and also on that date and at the place of the Meeting from 9.00 a.m. until the conclusion of the Meeting.
4. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the Register of Members of the Company as at 6.00 p.m. on 22 May 2005 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their names at that time. Changes in the entries in the relevant register of Securities after 6.00 p.m. on 22 May 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. The Board reserves the right up to the commencement of the Annual General Meeting to make such amendments and additions to the rules of the Plan or the terms of the Trust as they may consider necessary or desirable, provided such amendments do not conflict in any material respect with the summary set out in the Circular which accompanies this Annual Report. A full copy of the rules of the Plan and the draft deed establishing the Trust as proposed is available for inspection at the Company's registered office.

Designed and Printed by Jones & Palmer Limited, Birmingham. *tel:* **(0121) 236 9007**

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