

developing
and providing
innovative technology

Advanced Medical Solutions Group plc
Annual Report and Accounts 2005



Advanced Medical Solutions is a UK based company developing and providing leading edge technology to the global woundcare market



OUR PRODUCTS

Advanced Woundcare

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

These products pioneer the concept of moist wound healing to allow wounds to 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.



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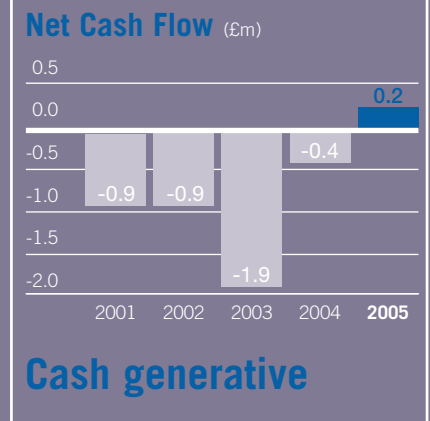
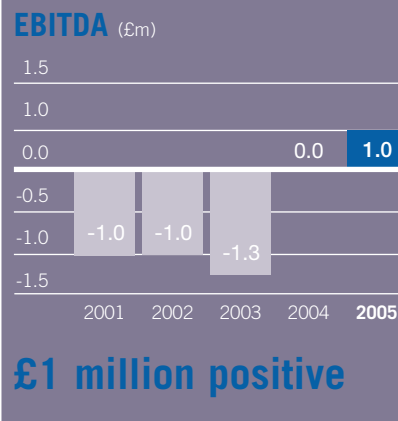
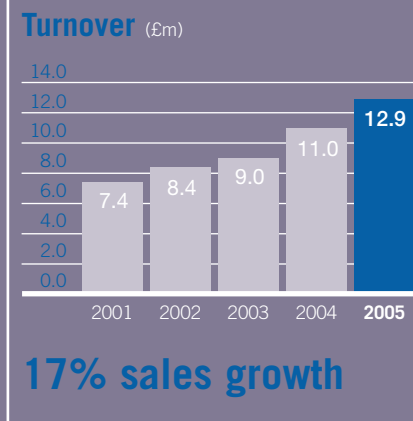
Wound Closure

Our products based on medical adhesives technology allow the closure of wounds following trauma or surgical incisions. 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.



HIGHLIGHTS



- Company reports maiden profits
- Positive EBITDA of £1.0 million (2004: break-even)
- Group turnover up 17% to £12.9 million (2004: £11.0 million)
- Gross margin further improved from 37% to 40%
- Positive total cash flow resulting in year-end cash of £3.4 million (2004: £3.2 million)
- New products launched and partnerships extended:
 - Silver alginate launches in US and Europe
 - LiquiBand Laparoscopic™ launched throughout Europe
 - Global deal with Kimberly-Clark for skin sealant
- Group well positioned for future growth:
 - US approval of LiquiBand™ range under way
 - Products undergoing approval in Japan and in China
 - NHS direct business building steadily

CHAIRMAN'S STATEMENT

The Group has delivered maiden profits providing a solid financial platform for future growth.



Overview

I am delighted to inform investors that AMS has delivered maiden profits following a profitable second half year.

Group turnover was up 17% to £12.9 million for the full year, with growth achieved across both business units, advanced woundcare and wound closure, and in all key markets. In advanced woundcare, the branded and private label partner business grew at double the market rate, as the Company strengthened its position in the dynamic silver alginate market with further launches in US and Europe during 2005. Good progress was made in the UK in establishing the ActivHeal® generic woundcare range. Independent technical and clinical evaluations have shown that these products offer equivalent performance when compared with branded products while still maintaining the quality of patient care. The ActivHeal® range has been shown to significantly reduce the

cost of treating wounds, offering real and immediate savings to the NHS. These savings are estimated to be of the order of £25 million per year. In wound closure, the Company broadened its LiquiBand® product range and is currently in the process of obtaining approval for these products in the US, Japan and China. Also it strengthened its position in Europe with the launch of LiquiBand Laparoscopic™.

The turnover growth, together with further improvement in gross margin from 37% to 40% and continued control of operating expenses, resulted in a small pre-tax profit in 2005, compared with a £1.0 million loss in the prior year. A post-tax profit of £0.3 million was reported following recognition of an R & D tax credit and a deferred tax asset. EBITDA improved from break-even to £1.0 million for the period. The Group generated a total of £0.2 million of cash in the year

resulting in cash of £3.4 million at the year-end.

Good progress has been made during 2005 in positioning the Company for major future growth opportunities in key business areas and global markets. By delivering its stated strategy of bringing the existing business through to break-even within current cash, management has now provided a solid financial platform for this future growth.

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



Local MP Stephen O'Brien opens a new manufacturing line at the AMS Winsford facility.

\$2.6 billion global market through either major woundcare companies under their leading brands or through private label distributors. Products based upon cyanoacrylate 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 the ActivHeal® brand.

Progress continues to be made in reducing the Group's dependence on the performance of its major branded partners for delivering revenue growth and profit. Its strategy of broadening its routes to market, by complementing these relationships with the provision of private label standard products to major distributors and by the expansion

of its direct sales presence in the UK home market, continues to be successful.

Advanced Woundcare

Advanced woundcare sales of £10.5 million were up 18% on the prior year, which at double the market growth rate reflects good progress made in gaining market share.

The Company's position in the dynamic silver market was strengthened with the introduction of its fibre based silver alginate technology into Europe under a leading brand and the launch by a number of partners of alginate dressings incorporating ionic silver alginate in the US. Silver is a broad spectrum antimicrobial that helps to prevent infections such as MRSA. In combination with alginate, a biopolymer derived from seaweed, AMS can provide products ideally suited to treatment of a wide variety of chronic wounds.

Excellent progress is being made in delivering a profitable, high value medical technology business.

This transition to higher value products fits with the Company's route to market strategy, whereby the Company licenses its new technology to major branded partners that are best placed to create these markets on a global basis, whilst the Company also addresses the cost pressures on healthcare budgets by providing a value range of products for routine use. These products are sold via private label distributors or direct to the NHS under its ActivHeal® brand.

Further progress has been made with the ActivHeal® offering during the year. Independent technical and clinical assessment has shown that ActivHeal® products are equivalent to or better than the branded versions whilst offering significant savings, typically 40%, against current spend. This represents £25 million per year in England and Scotland at a time of severe funding pressure. Nine Trusts are currently using ActivHeal® and realising savings. Central decision

making bodies are now being targeted to encourage early adoption and savings throughout the NHS to accelerate this programme.

Complementing this approach, the Group continues to fund the development of new differentiated products for licensing to its major branded partners.

Progress continues to be made in accessing the Far East market with a number of products currently undergoing regulatory approval in Japan in collaboration with a marketing partner, Nitto Medical.

Wound Closure

The wound closure business grew 11% to £2.4 million in the year despite a slow first quarter in the NHS due to pressure on budgets. Although the core Accident & Emergency (A&E) business was affected, the Company maintained its strong market leadership position.

The European partner base has been broadened with the addition of Baxter

Healthcare Europe as a marketing and distribution partner for the key markets of France and Spain. This has now provided the Company with a presence in all the key markets in Europe for the products to be used in both A&E and the Operating Room (OR).

The launch of LiquiBand Laparoscopic™ takes the Company into an exciting new growth area. This product was specifically designed to target wound closure following laparoscopic (keyhole) surgery, which is an increasingly popular technique, with more than 1 million procedures currently performed in Europe each year. Closure of keyhole incisions with adhesives offers significant advantages to both the surgeon and patient in terms of clinical and cosmetic outcome. This product is now on sale throughout Europe. It forms an ideal complement to the LiquiBand Surgical™ product which is more suited to larger wounds, such as those following Caesarean sections or hip replacement.

Broadening routes to market

UK Direct

End User

Private Label Partners

Distributor

Cost management

Branded Partners

Marketing

New concepts

Developer and Manufacturer:
AMS

Three tier strategy to increase
revenue and margins

The Company has also initiated the regulatory approval of the LiquiBand™ product range by the Food & Drug Administration (FDA) in the US. Approval is anticipated in 2007, which will provide access to the major part of the global \$100 million tissue adhesives market. The Company is also progressing regulatory approval of wound closure products in Japan and China. These approvals in the US and Far East markets offer very exciting growth opportunities for the Company in the medium to long term.

Development activity continues with a view to extending the use of cyanoacrylate technology for closing wounds and protecting skin against breakdown. The strategic partnership with Kimberly-Clark for a novel surgical skin sealant announced in March 2006, offers a very exciting new business opportunity. The Company expects to make further major announcements about technology developments in 2006.

Outlook

The outlook for the Group is extremely positive. Good progress has been made during the year in growing market share. The Group is well positioned for continued organic growth in key global markets with its major branded and private label partners and through its direct UK sales into the NHS.

The Group's cash position and AIM status provide it with the opportunity to accelerate growth by making suitable acquisitions which fit with the Group's stated strategy and technologies.

I would like to thank all AMS employees for their efforts over the past year, particularly in bringing the business through to profitability.

The Group is making excellent progress in delivering a profitable high value medical technology business for its stakeholders.

Dr Geoffrey N Vernon

Chairman

13 March 2006



CHIEF EXECUTIVE'S REVIEW

AMS is ideally placed to become a new generation supplier balancing demands for innovation and cost management.

Modern healthcare providers are faced with the conflicting challenges of controlling budgets whilst meeting the demands of users for the latest products and treatments. AMS is ideally placed to help meet these needs by offering both leading edge technologies and value products to help manage spiralling costs.

New technologies are taken to market via major branded partners who have the ability to commercialise these on a global basis. This involves significant marketing and promotional support to train and educate users on the new concepts. AMS is also well placed to address the trend to private label in advanced woundcare through provision of own label ranges that deliver cost benefits in treating routine wounds. The Group continues to see real benefit

in selling direct into the NHS in its home market. As a UK based company, this allows it to interact directly with end users which helps drive innovation through R & D and manufacturing.

Technology Platforms

The Group has further strengthened its range of material technologies covering advanced woundcare dressings and tissue adhesives and sealants.

These products are manufactured in dedicated state of the art medical device facilities in the UK that conform to the very latest international quality system ISO 13485: 2003. The Group's tissue adhesives facility in Plymouth was approved to this standard in December 2005 and the advanced woundcare facility in Winsford followed in March 2006.

In advanced woundcare, a full range of materials are available covering alginate, film, foam, hydrocolloid and hydrogel. In September 2005, a new manufacturing line was installed and commissioned at Winsford that doubled the output of packed dressings per shift and a new dedicated hydrocolloid process was installed to support the launch of a new, improved product.

The market for silver dressings continues to expand rapidly and AMS is well placed to exploit this trend with a number of silver products and technologies. These products address the growing concerns over wound infection. The inclusion of silver in wound dressings helps to prevent infection from a wide range of micro-organisms such as MRSA.

Technology Platforms:

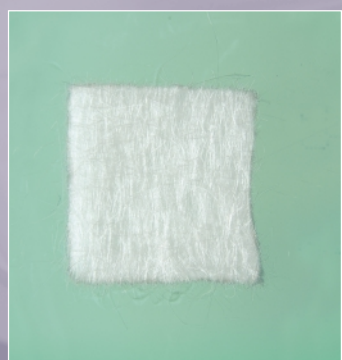
Advanced Woundcare





Silver Alginate

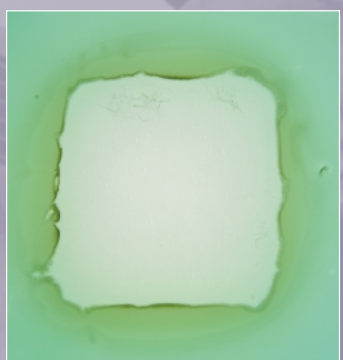
Silver alginate contains silver that has antimicrobial properties that help fight and kill micro-organisms



1 Growth of micro-organisms (stained green) is not inhibited by normal alginate dressing.



2 Silver alginate dressing kills micro-organisms and creates zone of inhibition.



3 There is also no growth underneath the dressing.

Silver is a broad spectrum antimicrobial that helps to prevent wound infections by a wide range of commonly occurring micro-organisms.

In combination with alginate, a naturally occurring biopolymer derived from seaweed, AMS can provide products ideally suited to treatment of a wide variety of chronic wounds.

Silver is effective against a wide range of micro-organisms:

- MRSA
- MRSE
- VRE
- Escherichia coli
- Staphylococcus aureus
- Pseudomonas aeruginosa
- Candida albicans



A silver fibre based alginate range is now on sale in most international markets including US and Europe through a major global partner under the partner's leading brand. Products based on an alternative silver technology have also been introduced into the US market during 2005 and will be introduced in Europe following regulatory approval.

Based on feedback from its UK customers and clinical advisers, AMS developed and launched an improved hydrocolloid dressing in February 2006. Hydrocolloid dressings have been widely used for many years for treating light to moderately exuding wounds, such as pressure sores or ulcers. The dressing absorbs fluid from the wound and forms a soft gel,

providing an optimal environment for healing and removal. The new product is thinner, more conformable and more integral, which aids intact removal from the wound. The product is highly breathable allowing moisture to pass through thereby increasing the fluid handling capability.

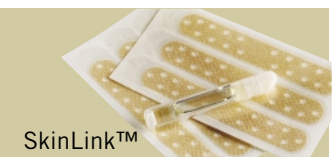
The Group strengthened its medical grade cyanoacrylate tissue adhesives and sealants technology platform during 2005. A strong portfolio of products are now available covering the closure of small cuts and trauma wounds through to large surgical incisions. These products are approved and sold throughout Europe under the LiquiBand™ brand.

Many surgical procedures are now conducted by laparoscopic or keyhole

surgery. These include many gynaecological procedures and routine general surgery operations, such as gall bladder removal and hernia repair. LiquiBand Laparoscopic™ was launched in June 2005 and designed specifically for closure of small surgical incisions up to 5 cm long, resulting from laparoscopic surgery. The product consists of a two-part adhesive system that seals and protects the wound resulting in reduced trauma, reduced risk of infection, excellent cosmetic outcomes with no sutures or staples to remove.

The Group has also developed an innovative new product for reducing the risk of skin flora contamination throughout a surgical procedure. Based on patented cyanoacrylate technology, the product consists of a film forming

Technology Platforms: Wound Closure



Many surgical procedures are now conducted by laparoscopic or keyhole surgery. These include many gynaecological procedures and routine general surgery operations such as gall bladder removal and hernia repair.



LiquiBand Laparoscopic™



LiquiBand Laparoscopic™ is designed for closure of small surgical incisions.



The surgical incision is first closed with the adhesive and then the wound coated with a liquid film that seals and protects.

Implementation of the AMS ActivHeal® value range allows NHS Trusts to reduce costs whilst maintaining the quality of woundcare.



solution that bonds to the skin sealing off spaces where bacteria can grow, preventing infection of the surgical site.

Surgical site infections occur in 2–5% of all surgical procedures which can lead to serious complications and increased morbidity to the patient and significant incremental costs to health care providers. A novel applicator has been developed that allows easy and effective application of the solution particularly to irregular and contoured areas of the body, such as shoulders and knees. This product has been exclusively licensed to Kimberly-Clark Healthcare on a global basis and launched in Europe.

Growth Opportunities

The Group has a number of significant opportunities for driving organic growth of the business.

■ Silver Alginate

The silver market continues to expand rapidly and is estimated to be \$100 million globally growing in excess of 25% with silver alginate the major part of this. The Company is well positioned in this dynamic market with products and partners.

■ NHS

Good progress has been made in getting the ActivHeal® value range of products adopted by the NHS. Of the £100 million spend on advanced woundcare in NHS Hospital and Primary Care Trusts, the ActivHeal® range addresses £60–70 million and offers savings of the order of £25 million assuming full conversion.

Nine Trusts had been converted to ActivHeal® by the end of 2005 and many more are currently evaluating the opportunity. A clinical study carried out by several Tissue Viability Nurses at St John's Hospital, West Lothian Healthcare NHS Trust, was published at the Wounds UK meeting in Harrogate in November 2005. The study was conducted in two medical wards over a four week period to provide feedback to

Scottish Healthcare Supplies on how the products work in clinical practice. The study compared the ActivHeal® range with branded products already in use within the Trust. The ActivHeal® range performed equally or better than the branded products in all cases over a range of wounds covering pressure ulcers, pre-tibial lacerations and graft donor sites. There were no problems recorded with any of the products in use. A cost benefit study, carried out following St John's Hospital's changing to the ActivHeal® range in August 2005, has shown a significant cost saving in the use of the ActivHeal® products.

It was concluded in the reported study that the products evaluated within the ActivHeal® range have allowed the cost of treating wounds within West Lothian to be reduced whilst still maintaining the quality of woundcare.

The recent addition of the Oxford Radcliffe Trust is a major step forward for the business. The ActivHeal® range has been implemented across the four hospitals in the Trust as first choice dressings.



■ New Territories

Progress continues to be made in getting US approval for the LiquiBand™ range and this is expected by the end of 2007. This will take the Company into the major part of the global \$100 million tissue adhesives market with a product that is well proven in Europe.

Japan is the second largest advanced woundcare market after the US at \$300 million. There is also a small emerging market for tissue adhesives. The collaboration with our strategic partner, Nitto Medical, was broadened with a further four products being identified for market evaluation, regulatory approval and subsequent marketing in Japan. The first product is expected to be approved and introduced during 2006 with further products following throughout 2007.

Good progress is also being made in getting approval for LiquiBand™ tissue adhesive in China. It is estimated that around 7 million surgical procedures are performed per year in large and

medium sized hospitals in China with the vast majority of surgical incisions being closed by sutures. We expect approval to enter this existing emerging market in 2007.

To support these growth opportunities, the Group has strengthened its commercial organisation.

In July 2005, Chris Meredith joined AMS as Group Commercial Director with the objective of integrating sales, marketing, customer service and business development across the Group. This realignment has been successfully completed and the commercial resources have been organised in line with the Company's market and partner focus.

I am pleased that Chris has now been appointed to the plc Board as a Director and believe this will give the Group a stronger commercial focus moving forward.

Summary

A solid financial platform has been established for the business. With a strong technology portfolio, exciting pipeline of new products, market expansion opportunities and good global reach through its partners, AMS is well positioned for future growth.

Dr Don W Evans

Chief Executive Officer
12 April 2006

FINANCIAL REVIEW

The Group has adequate funds to meet ongoing needs and to accelerate growth.

Sales

Turnover increased by 17% to £12.9 million (2004: £11.0 million) with advanced woundcare sales growing 18.5% to £10.5 million (2004: £8.9 million) and wound closure sales growing by 11% to £2.4 million (2004: £2.1 million). Growth continues to be seen across all territories but was particularly significant in the UK, where sales grew 32% or £0.9 million from both sales to branded partners and to the NHS, and into Europe, where sales to branded partners increased by 11% or £0.6 million.

Increasingly, the Group is seeing seasonality in its sales, largely due to the NHS, which is slow to order in the first quarter of the year. As a result, turnover was 20% higher in the second half of the year compared with the first six months.

Margin

The gross margin for the Group improved to 40% (2004: 37%), with the Company's strategy of selling higher value products, together with

improvements in manufacturing efficiency and operational gearing, proving successful.

Operating Expenses

Net operating expenses were at a similar level to last year at £5.2 million. Going forward the Company anticipates that further investment will be made in sales and marketing. The Company continues to develop new products including LiquiBand Laparoscopic™ which was launched in July 2005 and the new formulation of hydrocolloid which was launched in February 2006. Some of this R&D expenditure qualifies for a tax credit. As the Group moves into profit, it will no longer be able to surrender this tax relief for payable tax credits in cash. Other operating income includes development fees and milestone payments received from partners for ongoing projects.

Operating Profit

The Group reported a small profit before tax for the year compared with a prior year loss of £1.0 million. EBITDA was £1.0 million compared with break-even in 2004.

Interest and Taxation

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

The Group recognised a tax credit of £0.1 million which is payable in cash together with a deferred tax asset of £0.1 million (2004: £0.4 million).

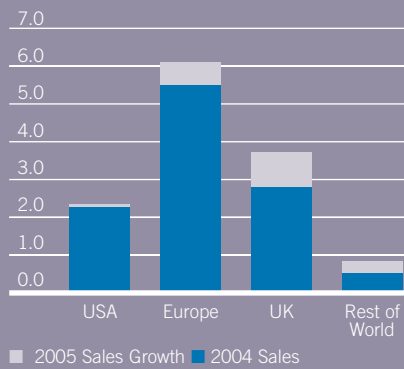
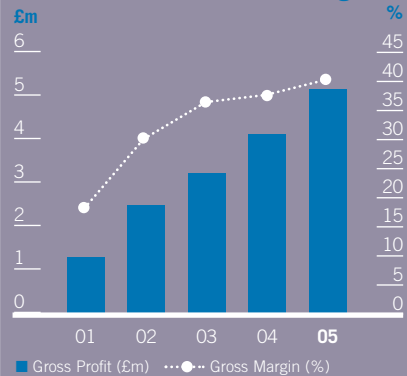
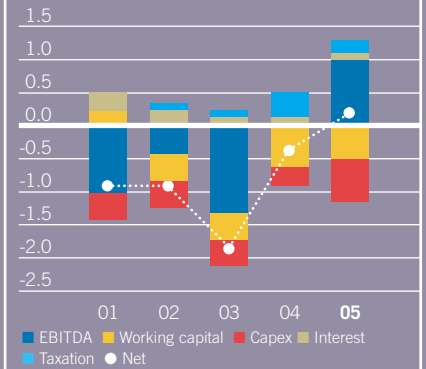
The overall profit for the Group was £0.3 million and the earnings per share was 0.19p.

Balance Sheet and Cash Flow

Net working capital excluding cash was £2.7 million which represents 21.1% of sales. (2004: 21.6%).

Operating cash being the net of earnings before interest, tax, depreciation and amortisation and working capital movements resulted in a cash inflow of £0.5 million, compared with a cash outflow of £0.6 million in 2004.

Capital expenditure increased to £0.6 million (2004: £0.3 million) with new converting equipment commissioned in the second half of the year and the upgrade of the hydrocolloid plant. These investments are already delivering the efficiencies anticipated.

Turnover Growth (£m)**Gross Profit (£m) and Gross Margin (%)****Net Cash Flow (£m)**

The Group ended the year with £3.4 million of cash (2004: £3.2 million) and net funds of £3.1 million (£2.8 million).

The Group is confident that it has adequate funds to meet on-going working capital and internal investment needs and will be looking to accelerate growth of the business through licensing and acquisition.

Treasury

The Group's main exposure is to the US dollar with around 20% of the Group's sales denominated in US dollars. The Group's policy is to hedge significant transaction exposure to the dollar by using forward contracts and options and has both contracts and options in place to the end of 2006. 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 is progressing to implement the new international accounting standards.

Mary G Tavener

Finance Director
13 March 2006

BOARD OF DIRECTORS

Dr Geoffrey N Vernon BPharm, PhD, MBA, Ch.Dir. **Non-Executive Chairman**

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.



Dr Don W Evans BChemEng, MAsC, PhD **Chief Executive Officer**

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 ACMA, MCT, BA (Hons) Chem (Oxon) **Finance Director**

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 BPharm, FRPharmS **Non-Executive Director**

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. He resigned as a director of Medeva in 1995 to set up his own consultancy business. He now holds non-executive appointments with a number of quoted and privately owned healthcare companies.



Chris Meredith BSc (Hons) **Group Commercial Director** (appointed 11 April 2006)

Mr. Meredith joined AMS as Group Commercial Director in July 2005. He began his career in sales for Beecham Pharmaceuticals and has continued to hold commercial roles within the healthcare industry ever since. His experience covers contract manufacturing, product development, clinical

research and branded product sales all within the medical device, pharmaceutical or consumer healthcare markets. Mr. Meredith has previously held senior commercial positions at Cardinal Health, Banner Pharmacaps, Aster Ceplac and Smiths Industries.



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

Company Secretary

M G Tavener

Nominations Committee

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

Registered Office

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Winsford, Cheshire, CW7 3PD

Registered Number

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128 Queen Victoria Street,
London EC4V 4BJ

NOMAD

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Old Change House,
128 Queen Victoria Street,
London EC4V 4BJ

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Baker Tilly
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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, LLC,
1530 Page Mill Road,
Palo Alto, California, 94304–1125

Public Relations

Buchanan Communications,
45 Moorfields, London, EC2Y 9AE

REPORT OF THE DIRECTORS

For the year ended 31 December 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005.

The directors state that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that they have taken all reasonable steps to ascertain such information and to establish that the auditors are aware of it.

Principal Activities, Trading Review and Future Developments

The principal activity of the Group comprises the development and manufacture of advanced woundcare and wound closure products for sale into hospitals and long-term care facilities. A review of the operations for the year and future developments is contained within the Chief Executive's review on pages 6 to 11 and the financial review on pages 12 and 13.

Dividends

The Group made a profit for the year to 31 December 2005 of £0.3 million. The directors do not recommend the payment of a dividend and the whole of the profit will be transferred to reserves.

Research and Development

The Group spent £1,147k (2004: £1,220k) in the year ended 31 December 2005 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 2005, 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 2005 represented approximately 76 days of purchases (2004: 90 days).

Charitable and Political Contributions

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

Post-Balance Sheet Events

Chris Meredith was appointed as a director to the Main Board in April 2006. His details are shown on page 14.

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 42 and 43.

Substantial Shareholdings

The Company's major shareholders at 29 March 2006 are:

	Number of Shares	Per cent
Newton Investment Management	19,174,026	13.50
Invesco	14,574,938	10.26
Cavendish Asset Management	12,950,000	9.11
Framlington	10,127,300	7.13
Electra Investment Trust	5,882,352	4.14
Artemis	5,882,352	4.14
Aerion Fund Management	5,677,972	4.00

Employees

The Group's policy is to consult and discuss with employees, through meetings, both formal and informal, 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's 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.

Directors and their Interests

The directors of the Company at 31 December 2005 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary shares of 5p each 31 December 2005			Ordinary shares of 5p each 31 December 2004		
	Shares	Options	LTIP	Shares	Options	LTIP
G Vernon	800,000	—	—	675,164	—	—
D Evans	642,680	616,666	1,865,173	517,680	1,366,666	—
M Tavener	101,562	300,000	1,348,571	51,562	675,000	—
S Harris	197,857	—	—	197,857	—	—

There have been no changes in directors' interests between the end of the financial year and 12 April 2006 being less than one month prior to the date of notice of the Annual General Meeting. Chris Meredith, who was appointed to the Board on 11 April 2006, has an interest in 500,000 Ordinary Shares of 5p each under the Long Term Incentive Plan (LTIP).

For the year ended 31 December 2005

Further details of the directors' remuneration and benefits are included in the Remuneration Report on pages 19 to 21.

Reappointment

At the forthcoming Annual General Meeting, Steve Harris will retire by rotation and, being eligible, will be proposed for reappointment. Details of the current directors of the Company are shown on page 14.

Chris Meredith was appointed to the Board on 11 April 2006 and offers himself for reappointment at the Annual General Meeting.

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 5 proposes the adoption of a Deferred Share Bonus Plan by Advanced Medical Solutions Group plc, the details of which are set out in 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 £710,412.68 representing approximately 10 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 2007 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 11:00am on 31st May 2006 at Oaklands Hotel, Millington Lane, Gorstage, Weaverham, Northwich, Cheshire CW8 2SU. Details of the notice of the Annual General Meeting are given on pages 47 and 48. 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.

M G Tavener

Company Secretary
12 April 2006

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 medians.

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 employees, except for participants in the Long Term Incentive Plan (LTIP), can be granted options over shares in the Company under the Company's Executive Share Option Schemes, under which both Enterprise Management Incentive (EMI) options and Unapproved options may be granted. 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.

Following feedback from shareholders, proposals for the adoption of a LTIP were introduced as the most appropriate vehicle for long-term incentivisation for executive directors and other key employees. The Company's LTIP was approved by shareholders on 24 May 2005. Those individuals who are entitled to awards under the LTIP are no longer eligible to receive options under the Company's Executive Share Option Schemes. Any options issued to those employees prior to the introduction of the LTIP will still be exercisable subject to the relevant performance criteria being met.

The objectives of the LTIP are to align the interests of executives with those of shareholders by making a part of remuneration dependent on the success of management in delivering superior returns to shareholders.

Awards under the LTIP are subject to performance conditions determined by the Remuneration Committee.

Participants may be awarded shares up to a maximum value of 150% of their basic annual salary in any year. The shares will vest three years after the date of award provided certain performance conditions are met.

The release of shares to participants will depend upon growth in AMS's Total Shareholder Return (TSR) over a three year period relative to a comparator group of companies at the start of the period. TSR is a measure of the return on an investment in the Company's shares based on both share price improvement and dividends. No shares will be released unless the company's TSR performance is ranked at least the median performing company within the comparator group. At this level 30% of the award will vest at the end of the performance period. If AMS achieves a ranking in the top quartile of the comparator group, 100% of the award will vest. Where the Company achieves a ranking between the median and the top quartile the amount of the award will be determined on a straight-line basis.

As with share options granted under the Company's share options plans, awards will not vest if the company is not profitable at the end of the performance period.

TSR was selected by the Committee to be the appropriate measure for this plan as it believes it to be a long-term indication of financial success and one which is acceptable to the shareholders.

Deferred Share Bonus Plan

The Company is proposing the adoption of a Deferred Share Bonus Plan (the 'DSB') which will be available to all employees. The DSB allows for part payment of any annual bonus to be in the form of shares. It also allows for the provision of additional matching shares if the bonus shares are held for a set period. The DSB encourages employees to acquire shares in the Company and retain those shares to receive additional free shares from the Company. It will act as a valuable retention tool for the Company. Full details of the DSB are included in the Remuneration Committee Chairman's letter which accompanies this Annual Report.

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% and the Group contributes 10%. The Pension Plan is a money purchase scheme.

Service Agreements

The service agreements for Don Evans, Mary Tavener and Chris Meredith 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.

Cars

The Company no longer considers it to be market practice to offer company vehicles to executive directors. Salaries now include an amount to cover the cost of a car.

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	Paid to third parties £'000	Total year ending 2005 £'000	Total year ending 2004 £'000
Executive							
Don Evans	163	—	16	16	—	195	190
Mary Tavener	118	—	4	10	—	132	123
Non-Executive							
Geoffrey Vernon	—	—	—	—	45	45	44
Steve Harris	—	—	—	—	26	26	26
	281	—	20	26	71	398	383

The opening share price for the year was 8.25p and the closing price on the last trading day of 2005 (31 December) was 9.25p.

The range during the year was 10.75p (high) and 8.25p (low). (Source: daily official list of the London Stock Exchange.)

Directors' Interests in Share Options

Unapproved Executive Share Option Scheme.

	Number of Ordinary shares under option			Exercise Price (p)	Date of Grant
	As at 31 December 2004	Lapsed in the year	As at 31 December 2005		
D W Evans	1,366,666	750,000	616,666	9.00	15 July 2004
M G Tavener	675,000	375,000	300,000	9.00	15 July 2004

These options are exercisable on or after the third anniversary of the date of the grant and will lapse on the tenth anniversary of the date of the grant.

Directors Interests in the Long-Term Incentive Plan (LTIP)

The maximum number of shares to be allocated to the directors under the LTIP, in each case for an aggregate consideration of £1, are as follows:

	As at 31 December 2004	Granted in the year	As at 31 December 2005	Market Price at date of grant (p)	First vesting date
D W Evans	—	1,865,173	1,865,173	8.75	1 January 2008
M G Tavener	—	1,348,571	1,348,571	8.75	1 January 2008

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on pages 19 and 20. The figures shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved. In addition C. Meredith was granted 500,000 shares under the LTIP. The market price at the date of grant was 8.75p and the first vesting date is 1 January 2008.

Awards made have no performance retesting facility.

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 FTSE Health by 16.2%, the FTSE Techmark by 14.7% and the FTSE All Share by 3.6% and underperformed the AIM All Share by 21.2% and the FTSE Small Cap by 19.1%.

Mary Tavener

Company Secretary
12 April 2006

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, any details of non-compliance 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 eight times in 2005. All of the directors attended all of the meetings. 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.

In 2005, the Board consisted of two executive directors and two non-

executive directors. The Board considered this adequate to deal with the management of a Group of this size. The Board now considers that the Board should be strengthened. As a result, Chris Meredith joined the Board on 11 April 2006 as an executive director. The composition of the Board does not meet the Code requirements that at least half of the Board excluding the Chairman, should comprise of non executive directors and the Board will be appointing a further non-executive director. While this still does not meet the Code requirements, the Board believes it is appropriate for the size of the Group. The Chairman is one of the non-executive directors and there is a clear division of responsibility between the Chairman and Chief Executive. Both of the non-executive directors are considered to be independent and independent of the executive management. They are able to discuss matters without the executive directors present. Given the size of the Board, the Board does not have a Senior Independent Director. 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, 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 three times in 2005. 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 consistent with 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 the both audit and non-audit services during the year is set out in note 4 of the financial statements.

The lead external audit partner is rotated on a five-year basis, consequently a new lead partner has taken over in respect of the financial year ending 2005. For the year ended 31 December 2005 the Committee has concluded that the external auditor remains independent and is effective.

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 new incentive schemes, the grants of options under the Group's Share Option Schemes, and the grant of shares under the Group's Long Term Incentive Plan (LTIP). The Remuneration Committee met six times in 2005. Its report is included on pages 19 to 21.

The Nominations Committee nominates and recommends the appointment of new directors to the Board. In making recommendations, the Committee takes into account the balance of skill, knowledge and experience of 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 2005.

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. 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.

The Company proposes separate resolutions for each separate issue and specifically relating to the reports and accounts. The Company ensures all proxy votes are counted and indicates the level of proxies on each resolution along with the abstentions after it has been dealt with on a show of hands.

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 quality assurance systems are reviewed by the Group's notified bodies, the British Standards Institute (BSI) and TUV Product Service on a regular basis. 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 2005, 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.
- Although the Board has evaluated its performance and identified the need for it to be strengthened, this was not a formal process.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 2005, 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

12 April 2006

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADVANCED MEDICAL SOLUTIONS GROUP plc

We have audited the financial statements on pages 26 to 45.

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 (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 Company 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 other transactions 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 and the Financial Review. 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 Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and Company'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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and parent company's affairs as at 31 December 2005 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly

Registered Auditor
Chartered Accountants
Liverpool
12 April 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2005

	Note	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Turnover	2	12,892	11,019
Cost of sales		(7,753)	(6,913)
Gross profit		5,139	4,106
Distribution costs		(123)	(153)
Administration costs		(5,604)	(5,352)
Other operating income	3	546	328
Operating loss	4	(42)	(1,071)
Interest receivable and similar income	7	101	114
Interest payable and similar charges	8	(32)	(33)
Profit/(loss) on ordinary activities before taxation		27	(990)
Taxation	9	249	573
Profit/(loss) sustained for the year	10	276	(417)
Earnings/(loss) per share			
Basic	11	0.19p	(0.3)p
Diluted		0.19p	(0.3)p

The above results relate to continuing operations.

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

The notes on pages 30 to 45 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2005

	Group	
	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Profit/(loss) for the financial year	276	(417)
Currency translation differences on foreign currency net investments	(3)	(13)
Total profit/(losses) recognised since last annual report	273	(430)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2005

	Group		Company	
	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Opening shareholders' funds	11,574	12,004	12,454	12,758
Profit/(loss) for the financial year	276	(417)	196	(304)
Currency translation differences on foreign currency net investments	(3)	(13)	—	—
Closing shareholders' funds	11,847	11,574	12,650	12,454

The profit for the Company includes a reversal of an exceptional write-down in the value of investments of £101k (2004: £427k write-down).

BALANCE SHEETS

At 31 December 2005

	Note	Group		Company	
		2005 £'000	2004 £'000	2005 £'000	2004 £'000
Fixed assets					
Intangible assets	12	1,902	2,070	—	—
Tangible assets	13	3,403	3,706	—	—
Investments	14	—	—	9,570	9,589
		5,305	5,776	9,570	9,589
Current assets					
Stocks	15	1,669	1,506	—	—
Debtors — due within one year	16	3,247	2,754	14	72
— due after more than one year	16	747	638	200	200
Cash at bank and in hand		3,388	3,160	2,989	2,755
		9,051	8,058	3,203	3,027
Creditors: amounts falling due within one year	17	(2,193)	(1,884)	(123)	(162)
Net current assets		6,858	6,174	3,080	2,865
Total assets less current liabilities		12,163	11,950	12,650	12,454
Creditors: amounts falling due after more than one year	18	(316)	(376)	—	—
		11,847	11,574	12,650	12,454
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	(39,444)	(39,717)	(37,110)	(37,306)
Equity shareholders' funds		11,847	11,574	12,650	12,454

These financial statements were approved by the Board and authorised for issue on 13 March 2006.

Dr D W Evans

Chief Executive Officer

The notes on pages 30 to 45 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Net cash inflow/(outflow) from operating activities	26	534	(595)
Returns on investments and servicing of finance			
Interest received		131	102
Interest element of finance lease rental and hire purchase payments		(2)	(3)
Interest paid		(30)	(30)
Net cash inflow from returns on investments and servicing of finance		99	69
Taxation		189	389
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(575)	(284)
Net cash outflow for capital expenditure and financial investment		(575)	(284)
Cash inflow/(outflow) before use of liquid resources and financing		247	(421)
Management of liquid resources			
(Purchase)/sale of term deposits		(342)	203
Financing			
Repayment of secured loan	28	(13)	(11)
Net movement of capital element of finance lease rental and hire purchase payments	28	(3)	(3)
Net cash outflow from financing		(16)	(14)
Decrease in cash	27	(111)	(232)

The notes on pages 30 to 45 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 2005. 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 invoiced sales and royalty income receivable under licence agreements from external customers at 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	— 6.67 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 assets are recognised, on a discounted basis, to the extent that they are regarded as recoverable, when on the basis of all available evidence it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

2. Segmental information

Turnover by geographical customers:

	Turnover	
	2005 £'000	2004 £'000
United States of America	2,288	2,259
Rest of Europe	6,098	5,481
United Kingdom	3,731	2,810
Rest of World	775	469
	12,892	11,019

Turnover by business unit:

	Turnover	
	2005 £'000	2004 £'000
Advanced woundcare	10,535	8,893
Wound closure	2,357	2,126
	12,892	11,019

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

Turnover, profit/(loss) before tax and net assets by origin:

	2005 Turnover £'000	2005 Profit/(loss) £'000	2005 Net assets £'000	2004 Turnover £'000	2004 Loss £'000	2004 Net assets £'000
United Kingdom	12,892	137	11,845	11,019	(879)	11,576
United States	—	(110)	2	—	(111)	(2)
Group	12,892	27	11,847	11,019	(990)	11,574

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

3. Other operating income

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
	Licence fees	—
Development fees	546	267
	546	328

4. Operating loss

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Operating loss arrived at after charging/(crediting):		
Depreciation	877	953
Amortisation	168	168
Loss on disposal of fixed assets	(1)	—
Operating lease rentals — plant and machinery	90	89
— land and buildings	294	294
Auditors' remuneration — statutory audit	33	29
— further assurance services	9	4
— tax compliance	15	7
— tax advisory	5	12
Research and development	1,147	1,220
Exchange (profit)/loss	(47)	30

5. Employees

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

	Year ended 31 December 2005 Number	Year ended 31 December 2004 Number
Production	115	113
Research and development	21	19
Sales and marketing	24	24
Administration	20	21
	180	177

Sales and marketing includes 1 person (2004: 1) employed in the United States.

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	4,441	4,360
Social Security costs	430	440
Pension costs	180	186
	5,051	4,986

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

6. Directors' emoluments

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Remuneration for management services	301	288
Pension	26	25
Amounts paid to third parties	71	70
	398	383
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 19 to 21.

7. Interest receivable and similar income

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Bank interest	95	108
Rent deposit interest	6	6
	101	114

8. Interest payable and similar charges

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Finance leases and hire purchase contracts	2	3
Other loan interest	28	30
Bank Interest	2	—
	32	33

9. Taxation on profit/(loss) on ordinary activities

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
a) Analysis of credit in the year		
Current tax:		
UK corporation tax	75	135
Adjustment in respect of previous period	70	—
Deferred tax (note 22)	104	438
Tax on profit/(loss) on ordinary activities	249	573
b) Factors affecting tax credit for the year		
The tax assessed for the year is lower/(higher) than the standard rate of corporation tax in the UK (30%) as explained below:		
Profit/(loss) on ordinary activities before tax	27	(990)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	8	(297)
Effects of:		
Expenses not deductible for tax purposes	2	38
Depreciation for period less than capital allowances	(62)	(72)
Expensive leased cars disallowed costs	3	2
Trading losses carried forward	70	127
Trading losses utilised	10	202
Research and development relief	(116)	(135)
Other	10	—
Current tax credit for the year (note 9a)	(75)	(135)

10. Profit/(loss) for the financial year

	2005 £'000	2004 £'000
Profit/(loss) dealt with in the accounts of the parent company	196	(304)
Profit/(loss) retained by subsidiary undertakings	113	(599)
Consolidation adjustment	(33)	486
	276	(417)

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

11. Earnings/(loss) per share

The basic earnings/(loss) per share has been calculated on a weighted average number of ordinary shares in issue during the year, namely 142,082,536 (2004: 142,082,536) and profit of £276k (2004: loss of £417k).

The diluted earnings/(loss) per share has been calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential shares, namely 142,948,093 (2004: 142,082,536) and a profit of £276k (2004: loss of £417k).

12. Intangible fixed assets

	Intellectual property rights £'000
Group	
Cost	
At beginning and end of year	2,518
Amortisation	
At beginning of year	448
Charged in year	168
At end of year	616
Net book value	
At 31 December 2005	1,902
At 31 December 2004	2,070

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	8,398	537	44	10,987
Additions	—	—	572	3	—	575
Disposals	—	(2)	—	—	—	(2)
At end of year	865	1,141	8,970	540	44	11,560
Depreciation						
At beginning of year	55	642	6,093	448	43	7,281
Provided for the year	5	18	838	15	1	877
Disposals	—	(1)	—	—	—	(1)
At end of year	60	659	6,931	463	44	8,157
Net book value						
At 31 December 2005	805	482	2,039	77	—	3,403
At 31 December 2004	810	501	2,305	89	1	3,706

The net book value of tangible fixed assets includes £Nil of motor vehicles (2004: £8k) and £174k of plant and machinery (2004: £212k) held under finance leases and hire purchase contracts. The related depreciation charge for the year was £8k for motor vehicles (2004: £11k) and £38k for plant and machinery (2004: £36k).

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Commitments for capital expenditure Authorised for future capital expenditure and not provided in the financial statements	164	299	—	—

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

14 Fixed asset investments

	2005 £'000	2004 £'000
Company		
Loans to Group undertakings	9,570	9,589

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 Medical Solutions Trustee Company Limited	England	100%	Trustee Company
MedLogic Global Limited	England	100%	Development and manufacture of medical products
Advanced Healthcare Systems 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
Advanced Medical Solutions (US) Inc	USA	100%§	Dormant
Advanced Medical Solutions Inc	USA	100%†	Dormant
MedLogic Global Holdings Limited	England	100%¶	Holding Company
Innovative Technologies Limited	England	100%‡	Dormant

* 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.

The above table reflects the situation at the year end.

15. Stocks

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Raw materials	649	698	—	—
Work in progress	540	459	—	—
Finished goods	480	349	—	—
	1,669	1,506	—	—

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	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Due within one year				
Trade debtors	2,575	2,098	—	—
Corporation tax	75	119	—	—
Other debtors	179	203	—	—
Prepayments and accrued income	418	334	14	72
	3,247	2,754	14	72
Due after more than one year				
Other debtors — leasehold rental deposit	200	200	200	200
Deferred tax asset	547	438	—	—
	747	638	200	200

17. Creditors: amounts falling due within one year

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Trade creditors	1,297	1,216	44	56
Taxation and social security	229	245	—	—
Other loans	13	12	—	—
Other creditors	113	4	—	—
Obligations under finance leases and hire purchase contracts	5	4	—	—
Accruals and deferred income	536	403	79	106
	2,193	1,884	123	162

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

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Obligations under finance leases and hire purchase contracts	7	12	—	—
Deferred income	—	42	—	—
Other loans	309	322	—	—
	316	376	—	—

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

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 2005 £'000	Less than 1 year £'000	2-5 years £'000	Total 2004 £'000
Sterling	5	7	12	4	12	16

(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 8¹/₂% fixed rate.

20. Derivatives and other financial instruments

Page 13 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 FRS 13. 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	13	14	50	245	309	322	8.5
Finance lease creditors and hire purchase contracts	5	6	1	—	7	12	15.5
At 31 December 2005	18	20	51	245	316	334	—
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	—

20. Derivatives and other financial instruments continued

	2005		2004	
	Fixed rate financial liabilities which no interest is paid	Financial liabilities on which no interest is paid	Fixed rate financial liabilities	Financial liabilities on which no interest is paid
	Weighted average period for which rate is fixed	Weighted average period until maturity	Weighted average period for which rate is fixed	Weighted average period until maturity
	Years	Years	Years	Years
Other loans	14	—	15	—
Finance lease creditors and hire purchase contracts	2	—	3	—

(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	3,127	141	2,986	—	4.6
US Dollar	158	—	—	158	—
Euro	103	—	—	103	—
At 31 December 2005	3,388	141	2,986	261	4.6
Sterling	3,175	77	2,863	235	3.9
US Dollar	344	344	—	—	—
Euro	89	89	—	—	—
At 31 December 2004	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 2005 the Group had unhedged US Dollar currency exposures of £Nil (2004: £64k) and unhedged Euro currency exposures of £119k (2004 : £137k).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

21. Foreign exchange rates

	Average rate		Closing rate		Percentage change	
	2005	2004	2005	2004	Average %	Closing %
Currency						
US Dollar	1.819	1.832	1.717	1.920	(0.7)	10.6
Euro	1.463	1.474	1.455	1.413	(0.7)	3.0

22. Deferred tax

	2005 £'000	2004 £'000
Balance at 1 January	438	—
Profit and loss account — Deferred tax	104	438
Profit and loss account — Interest receivable	5	—
Balance at 31 December	547	438
Provision for deferred tax has been made as follows:		
Provision		
Excess of tax allowances over depreciation	62	44
Sundry timing differences	(15)	(3)
Un-utilised tax losses carried forward	(47)	(41)
	—	—
Asset		
Tax losses	715	504
Discount	(168)	(66)
Discounted deferred tax asset	547	438

A discounted deferred tax asset of £547k (2004: £438k) has been recognised which is the extent to which recoverability can be foreseen with reasonable probability.

There is approximately a further £9.8 million (2004: £10.3 million) of tax losses at future rates of tax which have not been recognised.

23. Share capital

	Group and Company	
	2005 £'000	2004 £'000
Authorised		
300,000,000 (2004: 300,000,000) ordinary shares of 5p each	15,000	15,000
Group and Company		
2005		
£'000		
2004		
£'000		
Allotted, called up and fully paid		
142,082,536 (2004: 142,082,536) ordinary shares of 5p each and 93,553,394 (2004: 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 2005.

	Date of grant	Option price (p)	Number of options		Number of options At 31 December 2005	
			At 1 January 2005	Issued		Lapsed
Unapproved Executive Share Option Scheme						
	21.05.02	8.75	75,000	—	75,000	—
	14.04.03	8.75	30,000	—	30,000	—
	15.07.04	9.00	279,842	—	45,120	234,722
	12.09.05	9.25	—	100,000	—	100,000
Enterprise Management Incentive Scheme						
	21.05.02	8.75	1,823,000	—	1,823,000	—
	09.10.02	8.75	461,000	—	461,000	—
	14.04.03	8.75	460,000	—	370,000	90,000
	07.10.03	11.50	190,000	—	110,000	80,000
	07.04.04	10.00	92,000	—	16,000	76,000
	15.07.04	9.00	1,161,427	—	37,883	1,123,544
	16.07.04	9.00	9,824	—	2,500	7,324
	16.09.04	9.00	62,000	—	17,000	45,000
	21.03.05	10.20	—	16,000	—	16,000
	12.09.05	9.25	—	502,000	—	502,000
			4,644,093	618,000	2,987,503	2,274,590

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.

Long Term Incentive Plan

Date of grant	Market price at date of grant (p)	Number of LTIPs		Number of LTIPs at 31 December 2005	
		at 1 January 2005	Issued		Lapsed
12.10.05	8.75	—	3,713,744	—	3,713,744
		—	3,713,744	—	3,713,744

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on pages 19 and 20. The numbers shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

24. Share premium account and reserves

	Share premium account £'000	Other reserve £'000	Profit and loss account £'000
Group			
As at 1 January 2005	37,978	1,531	(39,717)
Profit for the year	—	—	276
Currency translation differences on foreign currency net investments	—	—	(3)
As at 31 December 2005	37,978	1,531	(39,444)
Company			
As at 1 January 2005	37,978	—	(37,306)
Profit for the year	—	—	196
As at 31 December 2005	37,978	—	(37,110)

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 (2004: £5,586k).

25. Commitments under operating leases

As at 31 December 2005, the Group had annual commitments under non-cancellable operating leases as set out below:

	2005 Land and buildings £'000	2005 Other £'000	2004 Land and buildings £'000	2004 Other £'000
Operating leases which expire:				
Within one year	—	4	—	13
In two to five years	290	45	259	30
Greater than five years	—	—	—	—
	290	49	259	43

26. Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Operating loss	(42)	(1,071)
Depreciation	877	953
Amortisation of intangible fixed assets	168	168
Loss on sale of fixed assets	1	—
Increase in stocks	(163)	(227)
Increase in debtors	(567)	(203)
Increase/(decrease) in creditors	260	(215)
Net cash inflow/(outflow) from operating activities	534	(595)

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

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Decrease in cash in the year	(111)	(232)
Cash outflow from reductions in debt and finance leases	16	14
Cash outflow/(inflow) from increase/(decrease) in liquid resources	342	(203)
Change in net funds resulting from cash flows	247	(421)
New finance leases	—	(2)
Translation difference	(3)	(13)
Movement in net funds in year	244	(436)
Net funds at 1 January 2005	2,810	3,246
Net funds at 31 December 2005	3,054	2,810

28. Analysis of net funds

	1 January 2005 £'000	Cash flows £'000	Exchange movements £'000	31 December 2005 £'000
Cash	516	(111)	(3)	402
Term deposits	2,644	342	—	2,986
Cash at bank and in hand	3,160	231	(3)	3,388
Debt due within one year	(12)	(1)	—	(13)
Debt due after one year	(322)	13	—	(309)
Finance leases	(16)	4	—	(12)
Total	2,810	247	(3)	3,054

FIVE YEAR SUMMARY

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Consolidated profit & loss account					
Turnover	12.9	11.0	9.0	8.4	7.4
Operating loss (before exceptional items)	0	(1.1)	(2.4)	(1.7)	(1.9)
Net interest receivable	0.1	0.1	0.1	0.2	0.3
Retained profit/(loss)	0.3	(0.4)	(2.1)	(1.4)	(1.5)
Basic profit/(loss) per share	0.2p	(0.3)p	(1.5)p	(1.1)p	(1.6)p
Weighted average number on shares in issue after adjusting for rights issue	142.1m	142.1m	142.1m	126.1m	93.6m
Consolidated balance sheet					
Net assets employed					
Fixed assets	5.3	5.8	6.6	7.3	4.8
Cash and other net current assets	6.8	6.2	5.7	7.3	7.4
Creditors due after one year	(0.3)	(0.4)	(0.3)	(0.5)	(0.2)
Net assets	11.8	11.6	12.0	14.1	12.0
Capital and reserves					
Called up share capital	11.8	11.8	11.8	11.8	9.4
Share premium account	38.0	38.0	38.0	38.0	36.9
Other reserve	1.5	1.5	1.5	1.5	1.5
Profit and loss account	(39.5)	(39.7)	(39.3)	(37.2)	(35.8)
Equity shareholders' funds	11.8	11.6	12.0	14.1	12.0

NOTICE OF MEETING

Notice is hereby given that the twelfth Annual General Meeting of the Company will be held at 11:00 a.m. on 31 May 2006 at Oaklands Hotel, Millington Lane, Gorstage, Weaverham, Northwich, Cheshire, CW8 2SU.

As ordinary business:

1. To receive the Report of the Directors and the Financial Statements of the Company for the year ended 31 December 2005 (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 R S Harris (who retires by rotation in accordance with the Articles of Association) as a director of the Company.
4. To re-elect C Meredith as a director of the Company.

As special business:

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

5. That the rules of the proposed Advanced Medical Solutions Group plc Deferred Share Bonus Plan (the "DSB") (a draft of which is produced to the meeting and initialled by the Chairman of the Remuneration Committee for the purposes of identification) the principal features of which are summarised in the Chairman of the Remuneration Committee's letter contained in the Circular dated 12 April 2006, 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.

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 24 May 2005 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 £710,412.68 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
12 April 2006
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 29 May 2006 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 29 May 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.



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