

*Giving Nature
a Helping Hand.*



Advanced Medical Solutions Group plc
Interim Report 2005



Advanced Medical Solutions Group plc

Highlights for the year to date

- Group turnover increased 13% to £5.9 million (2004: £5.2 million)
- Pre-tax losses reduced 26% to £0.4 million (2004: £0.55 million) after profitable second quarter
- EBITDA positive at £0.1 million (2004: break-even)
- Cash of £2.9 million (2004: £2.7 million) sufficient to take the Group through to sustainable profitability
- New products launched and partnerships extended:
 - Silver alginate launches in US and Europe
 - LiquiBand Laparoscopic™ launched throughout Europe
 - Marketing agreements signed for LiquiBand™ for France and Spain
- Group well positioned for future growth:
 - US approval of LiquiBand™ range underway
 - Products undergoing approval in Japan
 - NHS direct business building steadily

Overview

I am pleased to report that AMS continued to deliver good revenue growth and strengthened its financial position during the period with sufficient cash to take the Company through to profitability. On the back of a profitable second quarter the Company further reduced its losses and moved into positive EBITDA. Good progress has been made during the period in positioning the Company for major future growth opportunities within key global markets.

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 \$2.6 billion global market through either major woundcare companies, under their leading brands or through private label distributors. Products based upon superglue technology address the emerging tissue adhesives segment of the \$5 billion wound closure market. This market is currently accessed by the Company through a direct sales force in the UK and through distribution partners in Europe. The direct UK sales force also carries a full range of standard advanced woundcare products for sale into the NHS hospital and community care markets under our ActivHeal® brand.

The Company continues to make progress in reducing its heavy dependence on the performance of its major branded partners for delivering revenue growth and profit. The Company's 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 £4.8 million for the six months to 30 June 2005 were up 12% against the same period last year with growth spread across the product range via branded and private label partners.

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

This transition to higher value products fits with our route to market strategy whereby we look to license our new technology to the major brands, which are best placed to create these markets on a global basis, whilst we also address 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 our ActivHeal® brand.

The Company made steady progress with its ActivHeal® offering during the period despite a number of external factors. Typically, many NHS Trusts came under severe funding restrictions during the first quarter as funds ran out at the end of the budget cycle. Ironically, this prevented active assessment of our cost reduction offering. However, we have made real progress as many user evaluations have been successfully completed and a growing number of Hospital and Primary Care Trusts are now routinely using the ActivHeal® range. We remain confident that this strategy of providing a value range direct from the manufacturer offering major savings will be increasingly



successful and will capture a significant share of the £100 million NHS advanced woundcare spend.

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 our marketing partner, Nitto Medical.

Wound Closure

The wound closure business grew 14% to £1.1 million in the period despite a slow first quarter in the NHS due to pressure on budgets. This affected our core Accident & Emergency (A&E) business where we maintained our strong market leadership position and also delayed the take-up of our new SkinLink™ skin closure strip which is under evaluation in a large number of sites. This product offers significant benefits over current products such as sutures, staples and conventional adhesive strips in closing wounds where medical glues are inappropriate due to swelling, tissue loss or skin tension over joints, and significantly strengthens our product portfolio.

We have broadened our European partner base with the addition of Baxter Healthcare Europe as our marketing and distribution partner for the key markets of France and Spain. This has now given us a presence in all the key markets in Europe for our products for both A&E and Operating Room (OR) use.

The recent launch of LiquiBand Laparoscopic™ takes us 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. Closure of keyhole

incisions with glue offers significant advantages to both the surgeon and patient in terms of clinical and cosmetic outcome. This product is now on sale in the UK and initial orders have been received from a number of our European partners. It forms an ideal complement to our LiquiBand Surgical™ product which is more suited to larger wounds such as those following Caesarean sections or hip replacement.

The Company has now 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 then give us access to the world's dominant tissue glue market with a value estimated to be around \$100 million. The approval process is being supported financially by a marketing partner that has the capability of replicating in the US the success that the product has seen in Europe in winning market share against the same competitive products. This offers a very exciting growth opportunity for the Company in the medium to long term.

Development activity continues to extend the use of our cyanoacrylate glue technology for closing wounds or protecting skin against breakdown. A number of projects are under way with partners as well as products under development to strengthen our direct presence in this evolving market.

Financial Review

Turnover increased 13% to £5.9 million (2004: £5.2 million) for the six months ended 30 June 2005. Both businesses grew well with advanced woundcare growing 12% and wound closure growing 14%. Turnover increased in the UK by 34% through direct sales and sales to branded partners despite a slow first quarter caused by budgetary constraint within the NHS. Sales into Europe grew 6% while sales into the US declined slightly by 2%, the latter reflecting nothing more significant than the ordering patterns of some US distributors.

The gross margin for the Company was 37%, which was similar to the previous year. This is expected to improve as sales of wound closure products increase and our routes to market broaden.

With net operating expenses of £2.6 million at a similar level to last year (2004: £2.5 million), the Company reported an operating loss of £0.45 million (2004: £0.58 million) and a positive EBITDA of £0.1 million (2004: neutral). The overall loss for the Company narrowed to £0.4 million (2004: £0.55 million).

Working capital decreased to £2.7 million (2004: £3.0 million). Stock increased by £0.4 million partly to meet the shorter lead times required when selling direct and partly to cover the commissioning of some new equipment. Trade debtors increased to £2.3 million (2004: £2.2 million) although debtor days were reduced to 58 (2004: 64). Creditors increased to £2.5 million (2004: £2.0 million).

Net operating cash flow reduced to an outflow of £0.1 million compared with £1.0 million in the previous period. This leaves the Group with £2.9 million of cash (2004: £2.7 million) and net funds of £2.5 million.

Outlook

The outlook for the Company remains positive with the progress made during the first six months continuing into the second half of the year.

With sufficient cash to take it through to profitability, routes to market broadened for the existing product range, major growth opportunities afforded by launching LiquiBand™ in the US and by selling directly to the NHS, the Company is extremely well positioned for the future.

Dr Geoffrey N Vernon
Chairman



ADVANCED MEDICAL SOLUTIONS GROUP plc
CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited six months ended 30 June 2005 £'000	Unaudited six months ended 30 June 2004 £'000	Audited twelve months ended 31 December 2004 £'000
Turnover	2	5,857	5,206	11,019
Cost of sales		(3,675)	(3,294)	(6,913)
Gross profit		2,182	1,912	4,106
Distribution costs		(76)	(51)	(153)
Administration costs		(2,632)	(2,599)	(5,352)
Other operating income		78	154	328
Operating loss		(448)	(584)	(1,071)
Interest receivable and similar income		57	52	114
Interest payable and similar charges		(16)	(16)	(33)
Loss on ordinary activities before taxation		(407)	(548)	(990)
Taxation		—	—	573
Loss sustained for the period		(407)	(548)	(417)
Basic and fully diluted loss per share	3	(0.29)p	(0.39)p	(0.3)p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Unaudited six months ended 30 June 2005 £'000	Unaudited six months ended 30 June 2004 £'000	Audited twelve months ended 31 December 2004 £'000
Loss for the financial period	(407)	(548)	(417)
Currency translation differences on foreign currency net investments	(8)	(7)	(13)
Total recognised losses relating to the period	(415)	(555)	(430)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Unaudited six months ended 30 June 2005 £'000	Unaudited six months ended 30 June 2004 £'000	Audited twelve months ended 31 December 2004 £'000
Opening shareholders' funds	11,574	12,004	12,004
Loss for the period	(407)	(548)	(417)
Currency translation differences on foreign currency net investments	(8)	(7)	(13)
Closing shareholders' funds	11,159	11,449	11,574



ADVANCED MEDICAL SOLUTIONS GROUP plc
CONSOLIDATED BALANCE SHEETS

	Unaudited six months ended 30 June 2005 £'000	Unaudited six months ended 30 June 2004 £'000	Audited twelve months ended 31 December 2004 £'000
Fixed assets			
Intangible assets	1,986	2,154	2,070
Tangible assets	3,402	4,030	3,706
	5,388	6,184	5,776
Current assets			
Stocks	1,895	1,536	1,506
Debtors			
— due within one year	3,232	3,189	2,754
— due after more than one year	638	200	638
Cash at bank and in hand	2,859	2,665	3,160
	8,624	7,590	8,058
Creditors: amounts falling due within one year	(2,528)	(1,973)	(1,884)
Net current assets	6,096	5,617	6,174
Total assets less current liabilities	11,484	11,801	11,950
Creditors: amounts falling due after more than one year	(325)	(352)	(376)
	11,159	11,449	11,574
Capital and reserves			
Called up share capital	11,782	11,782	11,782
Share premium account	37,978	37,978	37,978
Other reserve	1,531	1,531	1,531
Profit and loss account	(40,132)	(39,842)	(39,717)
Equity shareholders' funds	11,159	11,449	11,574

CONSOLIDATED CASH FLOW STATEMENT

	Note	Unaudited six months ended 30 June 2005 £'000	Unaudited six months ended 30 June 2004 £'000	Audited twelve months ended 31 December 2004 £'000
Net cash outflow from operating activities		(122)	(967)	(595)
Returns on investments and servicing of finance				
Interest received		21	33	102
Interest element of finance lease rental and hire purchase payments		(1)	(1)	(3)
Interest paid		(15)	(15)	(30)
Net cash inflow from returns on investments and servicing of finance		5	17	69
Taxation		—	167	389
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(168)	(146)	(284)
Sale of tangible fixed assets		—	1	—
Net cash outflow for capital expenditure and financial investment		(168)	(145)	(284)
Cash outflow before use of liquid resources and financing		(285)	(928)	(421)
Management of liquid resources				
Sale of term deposits		297	656	203
Financing				
Repayment of secured loan	5	(6)	(6)	(11)
Net movement of capital element of finance lease rental and hire purchase payments	5	(2)	(2)	(3)
Net cash outflow from financing		(8)	(8)	(14)
Increase/(decrease) in cash	4	4	(280)	(232)



1. Basis of Preparation

The interim statements have been prepared in accordance with the accounting policies set out in the annual report for the year ended 31 December 2004. The results for the six months ended 30 June 2005 and 30 June 2004 have not been audited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

The results for the year ended 31 December 2004 are extracted from the audited annual financial statements on which the auditors reported without qualification. Full financial statements for that year have been filed with the Registrar of Companies.

2. Segmental information

	Unaudited six months ended 30 June 2005 £'000	Unaudited six months ended 30 June 2004 £'000	Audited twelve months ended 31 December 2004 £'000
Turnover by geographical region:			
United States of America	993	1,014	2,259
Rest of Europe	3,042	2,863	5,481
United Kingdom	1,543	1,155	2,810
Rest of World	279	174	469
	5,857	5,206	11,019
Turnover by business unit:			
Advanced woundcare	4,766	4,245	8,893
Wound closure	1,091	961	2,126
	5,857	5,206	11,019

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

Turnover, loss before tax and net assets by origin

	£'000	£'000	£'000
Turnover			
United Kingdom	5,857	5,206	11,019
United States	—	—	—
	5,857	5,206	11,019
Loss before Tax			
United Kingdom	(356)	(495)	(879)
United States	(51)	(53)	(111)
	(407)	(548)	(990)
Net Assets			
United Kingdom	11,159	11,446	11,576
United States	—	3	(2)
	11,159	11,449	11,574

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

3. Loss per share

The basic loss per share has been calculated on a weighted average number of shares in issue for the six months ended 30 June 2005, namely 142,082,536 (2004: 142,082,536) and losses of £407k (2004: £548k).

4. Reconciliation of net cash flow to movement in net funds (note 5)

	Unaudited six months ended 30 June 2005 £'000	Unaudited six months ended 30 June 2004 £'000	Audited twelve months ended 31 December 2004 £'000
Increase/(decrease) in cash during the period	4	(280)	(232)
Cash outflow to repay debt and finance leases	8	8	14
Cash inflow from decrease in liquid resources	(297)	(656)	(203)
Change in net funds resulting from cash flows	(285)	(928)	(421)
New finance leases	—	—	(2)
Translation difference	(8)	(7)	(13)
Movement in net funds in the period	(293)	(935)	(436)
Net funds at 1 January 2005	2,810	3,246	3,246
Net funds at 30 June 2005	2,517	2,311	2,810

5. Analysis of net funds

	1 January 2005 £'000	Cash flows £'000	Exchange Movements £'000	30 June 2005 £'000
Cash	516	4	(8)	512
Term deposits	2,644	(297)	—	2,347
Cash at bank and in hand	3,160	(293)	(8)	2,859
Debt due within one year	(12)	—	—	(12)
Debt due after one year	(322)	6	—	(316)
Finance leases	(16)	2	—	(14)
Total	2,810	(285)	(8)	2,517



Advanced Medical Solutions Group plc

Road 3, Winsford Industrial Estate
Winsford, Cheshire, CW7 3PD, UK

Tel: +44 (0)1606 863500 **Fax:** +44 (0)1606 863600

E-mail: info@admedsol.com **Web:** www.admedsol.com