Advanced Medical Solutions Group plc ANNUAL REPORT AND ACCOUNTS 2006

Advanced Medical Solutions Group plc
Technology Platforms for Growth

ANNUAL REPORT AND ACCOUNTS 2006

Advanced Medical Solutions Group plc

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.

Wound Closure and Sealants

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.

CONTENTS

Financial Highlights **Financial position considerably improved:**

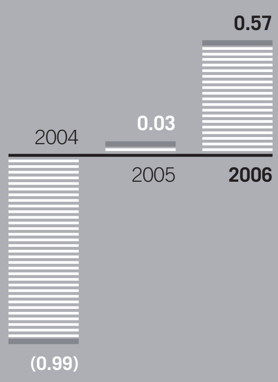
- Pre-tax profit increased to £0.6 million (2005: £27,000)
- EPS more than doubled to 0.5p (2005: 0.2p)
- Positive total cash flow of £1.2 million (2005: £0.2 million) resulting in year-end cash of £4.6 million (2005: £3.4 million)
- Group turnover up 11% to £14.3 million (2005: £12.9 million) with gross margin further improved to 42% from 40%

Business Highlights **Continued progress in key organic growth drivers:**

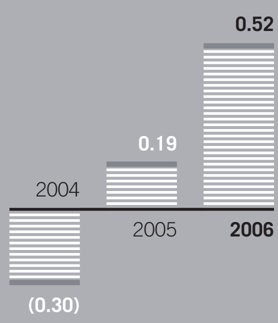
- Silver alginate — Further silver alginate launches in US and Europe with strategic partners
- NHS woundcare — NHS direct business building steadily with over 40 Trusts now using ActivHeal® range
- Surgical skin sealant — Kimberly-Clark Health Care launches surgical skin sealant in Europe and US
- New territories — LiquiBand® regulatory approval progressing in US

Turnover
up 11% to
£14.3m
(2005: £12.9m)

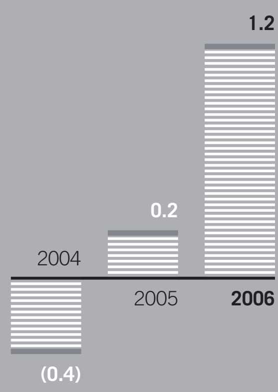
Profit before tax
increased to
£0.6m
(2005: £0.03m)



Earnings per share
up 174% to
0.52p
(2005: 0.19p)



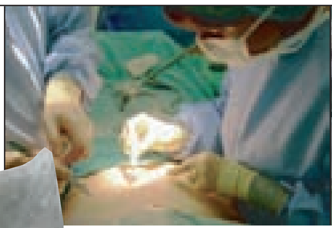
Net Cash flow
increased to
£1.2m
(2005: £0.20m)



Advanced Woundcare
Wound Closure and Sealants

CHAIRMAN'S STATEMENT

"A solid financial platform has been created for future growth."



Overview

I am delighted to inform investors that AMS has gone from strength to strength in 2006, improving its financial position considerably and progressing key future growth opportunities.

Group turnover increased 11% to £14.3 million with growth achieved across both business units, advanced woundcare (up 9%) and wound closure and sealants (up 21%). Gross margins continued to improve from 40% to 42%.

Pre-tax profits increased to £0.6 million following achievement of break-even in 2005. Post-tax profits more than doubled to £0.7 million resulting in earnings per share (EPS) increasing 174% to 0.52p. EBITDA was up 37% to £1.4 million. The Group generated a total of £1.2 million of cash in the year resulting in cash of £4.6 million at the year-end and net funds of £4.2 million (2005: £3.1 million). These results provide a solid financial platform for future growth.

Good progress was made during 2006 with the key identified organic growth drivers:

- Silver alginate — The Group further strengthened its position in the dynamic silver alginate market with launches in Europe and the US with strategic partners.
- NHS woundcare — The number of NHS Trusts using the ActivHeal® product range has doubled to over 40 with good geographical coverage of hospitals and Primary Care Trusts in England and Scotland in addition to the Northern Ireland contract.
- Surgical skin sealant — An exciting new market for surgical skin sealants was entered into with Kimberly-Clark Health Care, a global leader in infection control in the operating room.
- New territories — US approval of the LiquiBand® tissue adhesives range has been progressed with entry expected in 2008.

Operating Review

The Group's core focus remains the development, manufacture and sale of advanced woundcare dressings and products for closing wounds and sealing tissue.

AMS provides a full range of advanced woundcare dressings for sale into the hospital, nursing home and community care market. These products are used mainly for chronic wounds such as ulcers and pressure sores.

Products based upon cyanoacrylate adhesive technology allow the closure of wounds following trauma or surgical incisions, or seal skin to protect against breakdown or wound infection. These products address the emerging tissue adhesives and sealants segment of the wound closure market.

AMS has successfully adopted a three tier route to market strategy:

- Branded Partners — The Group believes that the most effective way of rapidly commercialising new technologies/concepts on a global basis is through strategic partnerships with major branded companies.
- Private Label — AMS also addresses the increasing trend towards private label in advanced woundcare, driven by cost constraints by health care providers, by provision of own label products to distributors. These products allow savings to be made on treatment of routine wounds alongside the use of the new innovative products for more difficult wounds.
- Direct — AMS sells direct to the NHS in its own home market.

Advanced Woundcare

Advanced woundcare sales of £11.5 million were up 9% on the prior year.

Following US launches during 2005, the Group further strengthened its position in the dynamic silver market with the European launch of a range of calcium alginate woundcare dressings containing ionic silver technology by a number of branded partners. The ionic silver technology allows AMS to provide selected partners an entry into the expanding silver alginate woundcare market, which is currently estimated at over $100 million worldwide and growing in excess of 20% per year. AMS introduced its fibre-based silver alginate technology into the US in 2004 and Europe in 2005 under an exclusive, global agreement with a leading brand. The Group now has a broad range of partners covering different channels (hospitals, nursing homes, home health) in Europe and the US.

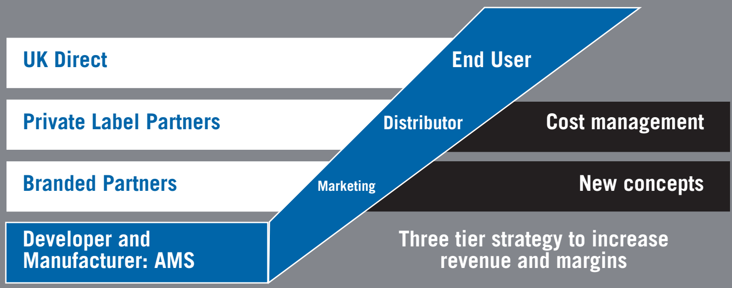
Silver is a broad spectrum anti-microbial that helps to prevent infections such as MRSA. In combination with alginate, a biopolymer derived from seaweed, AMS can provide products ideally suited to the treatment of a wide variety of chronic wounds.

Steady progress continues to be made with the Company's direct ActivHeal® offering to the NHS. More than 40 NHS Hospital and Primary Care Trusts across the UK have now adopted the ActivHeal® range of advanced woundcare products allowing them to achieve substantial cost savings at a time of severe funding

"NHS BUSINESS BUILDING STEADILY"

BROADENING ROUTES TO MARKET

Management's strategy of broadening its routes to market continues to be successful. Growth has been achieved by commercialising new technologies through major branded partners, providing private label woundcare products to distributors to address cost constraints and by selling direct to the NHS in the UK home market.



CHAIRMAN'S STATEMENT CONTINUED

"The outlook for the Group is extremely positive."

pressures without compromising patient care. Many more centres are currently evaluating the product offering. The move to ten Strategic Health Authorities within the NHS should be a positive development for the business as this should result in a more streamlined, centralised approach being adopted for product evaluation and selection. Under the present system each Trust independently evaluates the product range being offered, which delays the process of introducing generic substitutes or replacement new products.

We remain confident that our strategy of delivering innovation to the NHS through our R&D activities with major branded companies, and offering real cost savings through the ActivHeal® range, will be successful, enabling us to capture a significant share of the estimated £100 million UK advanced woundcare market.

Wound Closure and Sealants
The wound closure and sealants business grew 21% to £2.9 million in the period as the Group maintained its strong market leadership position in the UK Accident & Emergency arena and strengthened its European partner business.

Based on cyanoacrylate medical adhesive technology, the LiquiBand® range covers products for closure of small cuts and trauma wounds particularly to the face and scalp, through to large surgical incisions such as caesarean sections and hip replacements. These products are approved and on sale throughout Europe for use in Accident & Emergency (A&E) and in Operating Rooms. A number of NHS Ambulance Trusts in the UK have also now adopted LiquiBand® to close trauma wounds at the scene of injury, thus potentially reducing the number of A&E admissions.

Development activity to extend the cyanoacrylate adhesive technology into new areas has resulted in an exciting strategic partnership with Kimberly-Clark for a novel surgical skin sealant to help control the risk of skin flora contamination throughout a surgical procedure, a key factor in the development of surgical site infections. AMS has developed an innovative film-forming solution that bonds to the skin sealing off the spaces where bacteria can grow. Based upon patented technology, the product immobilises endogenous pathogens thereby reducing the risk of skin flora contamination of the surgical site.

AMS has entered into an exclusive global agreement with Kimberly-Clark Health Care for the marketing and distribution of the product under the Kimberly-Clark* InteguSeal* Microbial Sealant brand. Following regulatory approvals, this product was launched in Europe in March 2006 and in the US in February 2007.

Approval of the LiquiBand® product range continues to progress in the US. The Group anticipates entry into this $110 million market in 2008 via a partner, with a product range that is well proven in Europe. We believe this will lead to significant value creation in future.

Research & Development
The Group continued to build on its previous successful technology programmes in advanced woundcare dressings, silver alginate and novel tissue adhesives and sealants, by investing £1 million (7% of turnover) on R&D during 2006. This activity is maintaining a strong pipeline of new products for our direct business and as a technology provider for strategic partners.

Board
The AMS Board was strengthened with the appointment of Chris Meredith as Commercial Director in April 2006 and Steve Bellamy as non-executive director in February 2007. Chris has made a major contribution to the continued successful commercialisation of the Company's technologies and Steve's strong City experience will be of great value as the Group continues to look for strategic corporate opportunities to enhance growth.

Outlook
The outlook for the Group is extremely positive with a strong start to 2007.

Organic growth is expected to progress due to favourable woundcare demographics, a blue chip partner base, the dynamic silver market and widening acceptance of our ActivHeal® woundcare range by NHS Trusts in the UK. US approval and entry for our LiquiBand® tissue adhesive range, and the new surgical skin sealant market entry offer step change opportunities for future growth and value creation. The Company's move to profitability and positive cash flow is also allowing management to consider suitable acquisitions to leverage AMS' technology and distribution base.

I would like to thank all AMS employees for their continued efforts during 2006 in strengthening the Group's position as a profitable, cash generative business.

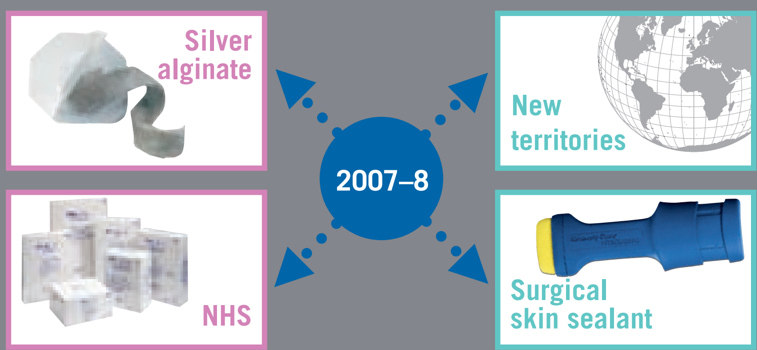
This is a very exciting time for AMS.

Dr Geoffrey N Vernon
Chairman
12 March 2007

"SURGICAL SKIN SEALANT LAUNCHED"

GROWTH STRATEGY
KEY DRIVERS OF ORGANIC GROWTH

The Group has identified four key drivers of organic growth over the next few years. Each of these offers strong growth opportunities for the existing product portfolio.



//// Advanced Woundcare
//// Wound Closure and Sealants

CHIEF EXECUTIVE'S REVIEW

"Excellent progress has been made in building a leading, global woundcare technology company."

Chris Meredith, Group Commercial Director, with Customer Services Executives Helen Hinde and Michelle Woodward.

AMS has made great strides during 2006 in building a leading, global woundcare technology company. Progress has been made on multiple fronts — improving the financial position, strengthening the technology portfolio and expanding into new growth markets. This has been achieved for both business segments — advanced woundcare and wound closure and sealants.

Advanced Woundcare

The AMS advanced woundcare products pioneer the concept of moist wound healing to allow wounds to heal faster and with less pain and scarring compared with traditional wound dressings. The products protect the wound, deal with tissue fluids and provide an optimal healing environment.

The standard product range contains film, foam, hydrocolloid, hydrogel and alginate materials which are sold into hospitals, nursing homes and community care markets worldwide through branded partners, private label distributors and direct to the NHS in the UK.

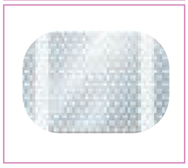
AMS supplies a broad range of marketing and distribution partners across the world with advanced woundcare products and has a particularly strong position with its alginate technology. It is able to provide either differentiated products to branded partners who are looking for new innovative products, or value ranges to own-label distributors, who are addressing the increasing pressure on budgets by health care providers. Good progress was made on both these fronts in 2006 with new partners being added and existing partners adding new product codes in US and Europe.

Fuelled by concerns over wound infection by "super-bugs" such as MRSA, there is a strong trend towards the use of anti-microbial dressings, with silver the dominant anti-microbial technology currently utilised in advanced woundcare. The global market for anti-microbial dressings in 2007 is estimated at over $200 million, growing at 20%. The majority of this market is for silver alginate. AMS is very well placed to exploit this trend and has developed a strong competitive position by developing various silver technologies to combine with its alginate, a naturally occurring biopolymer ideally suited to the concept of moist wound healing. Alginate absorbs wound fluid, forms a soft gel in contact with the wound which aids removal and has a haemostatic effect, reducing minor bleeding.

AMS' initial silver alginate product, based on silver fibre technology was licensed exclusively to a major branded partner in 2004 who has now launched in the key global markets. In order to provide other selected partners with a silver product, AMS has developed a range of ionic silver alginate dressings which were approved by the FDA and launched into the US in 2005 and approved and launched by a number of partners in Europe in 2006. In November 2006, the FDA granted 510(k) clearance for an AMS silver alginate wound dressing for use over a period of up to 21 days. This 21 day approval, combined with the inherent absorbency of the dressing, may reduce the frequency of having to change dressings thus reducing

Technology Platforms: Advanced Woundcare

Film

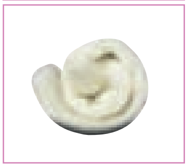


Foam

Hydrocolloid

Hydrogel

Alginate



Silver Alginate

ORGANIC GROWTH DRIVERS — SILVER ALGINATE

	2006	2007	2008
Silver alginate market ($m)	100	120 (+20%)	144 (+20%)
Available market to AMS ($m)	40	48	57
STATUS/FUTURE			
Silver fibre — Leading brand	Global exclusive	Global exclusive	Global exclusive
Ionic silver — Multi-partner	US/EU	US/EU	Global

Silver Alginate

TECHNOLOGY PLATFORM
//// Advanced Woundcare

KEY PRODUCT FEATURES

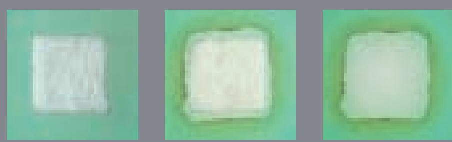
Silver is a broad spectrum anti-microbial that helps to prevent wound infections by a wide range of commonly occurring micro-organisms.

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**

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.

CHIEF EXECUTIVE'S REVIEW CONTINUED

"New NHS Hospital and Primary Care Trusts have been added steadily during the last year."

Ed Surman, Operations Manager, Advanced Woundcare, in amorphous hydrogel manufacturing clean room at Winsford facility with Process Leader Paul Walker.

the time and overall cost of treatment and providing a better opportunity for healing to progress undisturbed. A scientific poster presented at the Wounds UK Conference in Harrogate North Yorkshire on 14 November 2006 showed that the AMS silver alginate product was effective against a broad spectrum of micro-organisms for a full 21 days whereas the anti-microbial action of a leading silver brand diminished significantly after 14 days.

Increasingly, healthcare providers are seeking ways to manage woundcare budgets whilst being able to afford new innovative technologies such as silver. Whilst these products may reduce the overall cost of patient care by preventing infection and accelerating healing of difficult wounds, they put pressure on local budgets. Hence there is interest in value products that address routine wounds at lower costs, without compromising patient care. This need is driving the trend to private label and has been addressed by AMS in the UK with the introduction of the ActivHeal® range as a first line therapy sold direct to NHS Trusts through its UK sales force, complementing the use of its new technologies on more difficult wounds, sold through strategic partners. Independent technical and clinical evaluations have shown that the ActivHeal® generic woundcare range offers equivalent performance to similar branded products but at a substantially reduced cost thereby delivering real and immediate savings.

Data from multi-centre clinical evaluations presented at the Wounds UK Conference held 14 November 2006 showed that 98% of ActivHeal® woundcare responses were equivalent to or better than responses from other dressings. Whilst independent laboratory tests have previously shown that the ActivHeal® range has comparable physical properties to market leaders, this new information strongly endorses the clinical effectiveness of AMS' products. The study data was collated from more than 150 applications from 9 NHS Trusts, including 5 Hospitals and 4 Primary Care Trusts.

The addition of the Oxford Radcliffe Hospital NHS Trust at the end of March 2006 was a major step forward for the business. Significant changes to the Trusts' formulary for woundcare dressings were introduced under the direction of the Chief Nurse working in conjunction with Pharmacy to implement the ActivHeal® range as first choice dressings.

New Hospital and Primary Care Trusts have been added steadily during the last year and many more are currently evaluating the products.

In October 2006 AMS was selected by the Central Services Agency Regional Supplies Services for inclusion on a contract to supply the NHS hospitals of Northern Ireland with ActivHeal® hydrocolloid and foam products. Uptake of these products is expected to occur during 2007.

A full range of support services are provided by AMS clinical nurse team to ensure effective introduction and usage of the ActivHeal® products. These include training, education, launch days and formulary and evaluation support. A basic woundcare education package has been prepared and is available free to general nurses to help facilitate good practice and to achieve the best clinical outcomes for the patient, nurse and Trust.

ORGANIC GROWTH DRIVERS — NHS ADVANCED WOUNDCARE

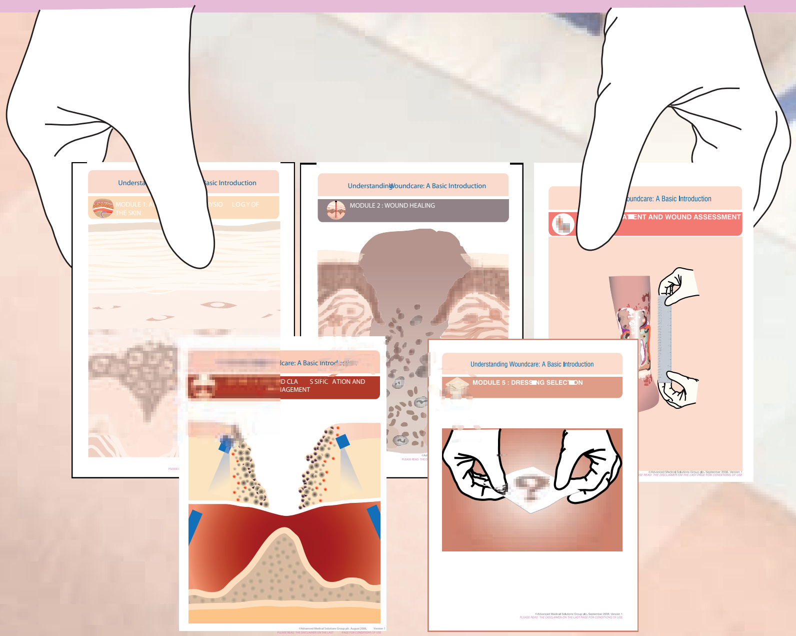
	2006	2007	2008
NHS market (£m)	100	110 (+10%)	121 (+10%)
Available market to AMS (£m)	50	55	60
STATUS/FUTURE			
Routine wounds	**ActivHeal®**	First line therapy	**Generics**
Difficult wounds	Strategic partners	Infection Active healing	**Brands**

ActivHeal®

TECHNOLOGY PLATFORM
//// Advanced Woundcare

Understanding Woundcare: A Basic Introduction

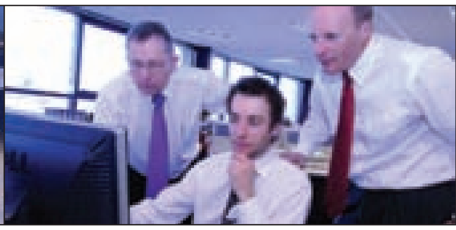
Basic Woundcare Education for General Nurses



“Understanding Woundcare: A Basic Introduction” is a web-based, product independent, education package that is available free to General Nurses to help facilitate good practice in woundcare, and to achieve the best clinical outcomes for the patient, nurse and Trust. Produced under the editorial guidance of qualified Tissue Viability Nurses, and other clinical specialists, “Understanding Woundcare” is independent of brands and freely available to all.

CHIEF EXECUTIVE'S REVIEW CONTINUED

"AMS has developed an exciting new application of its cyanoacrylate adhesive technology as a skin sealant to help reduce the level of wound infection following surgery."

Richard Stenton, Technical Director, Wound Closure and Sealants, reviewing CAD model of new applicator for delivery of tissue adhesive with design engineers George Reed and Paul Brown-Church.

Wound Closure and Sealants
The LiquiBand® tissue adhesive product range has been broadened by the addition of a 0.25g mini version for closure of small topical skin wounds. The LiquiBand® range consists of cyanoacrylate tissue adhesives covering the closure of small cuts and trauma wounds through to large surgical incisions. The products are sold directly to the NHS in the UK and through partners in other European countries.

The LiquiBand® mini has been developed in response to customer feedback for a product containing less adhesive to provide a cost-effective option for small wounds. The product is indicated for the non-invasive closure of clean and fresh minor skin wounds with easily apposed edges. It also delivers all the benefits of the LiquiBand® tissue adhesive technology, namely: fast, strong, secure closure, improved patient comfort, excellent cosmetic results and no sutures/staples to remove.

The addition of a smaller size to the range improves the choice, cost-effectiveness and thus competitive appeal of the LiquiBand® products. In some countries, such as Italy, this also significantly improves the opportunity to tender for wound closure contracts.

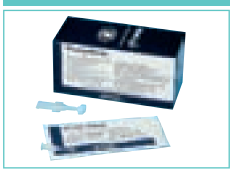
The intellectual property protection around these products has been strengthened by the granting of a European patent covering the Laparoscopic wound closure device. LiquiBand Laparascopic™ offers real clinical and patient benefits in infection control and cosmetic outcomes that support the growing trend to conduct surgical procedures by keyhole surgery. The patent covers a multi-tipped device used to initially close and seal the wound and then used to apply a secondary liquid bandage. The liquid bandage is used to protect the wound from bacteria, dirt and moisture during healing without the need for secondary dressings. A patent covering this device has previously been granted in the US.

AMS has developed an exciting new application of its cyanoacrylate adhesive technology as a skin sealant, to help reduce the level of wound infection following surgery. There are an estimated 60 million surgical procedures conducted worldwide per year, of which 2–5% of the surgical sites become infected. This can lead to serious complications and increased morbidity to the patient and significant incremental costs to healthcare providers. A key factor in the development of surgical site infection is contamination of the wound by the patient's skin borne micro-flora. Current practice to minimise this risk is to "prep" the skin with an anti-bacterial solution to reduce the level of micro-flora, and then apply an adhesive film drape over the site prior to the surgeon making the incision through the drape. However, contamination can occur, particularly during a lengthy procedure, from re-colonisation of skin flora.

The product developed by AMS consists of a film-forming solution that seals the patient's skin thus reducing the potential for wound contamination. The solution is dispensed from a novel applicator that allows easy and effective application to body contours. Fast drying, the versatile

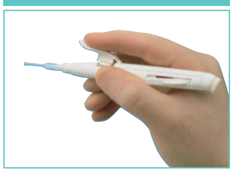
Technology Platforms: Wound Closure and Sealants

LiquiBand®



LiquiBand Flow Control™

LiquiBand Surgical™



LiquiBand Laparoscopic™

SkinLink™

ORGANIC GROWTH DRIVERS — SURGICAL SKIN SEALANT

- **60 million surgical procedures performed per year**
- **2–5% of surgical incisions become infected**
- **AMS has developed innovative new product**
  – Liquid film bonds to skin immobilising skin flora
  – Novel applicator allows easy and effective application to body contours
- **Exclusive global deal signed with Kimberly-Clark**
- **Launched in Europe 2006 and in US in February 2007**

Surgical Skin Sealant

TECHNOLOGY PLATFORM
//// Wound Closure and Sealants

KEY PRODUCT DEVELOPMENT

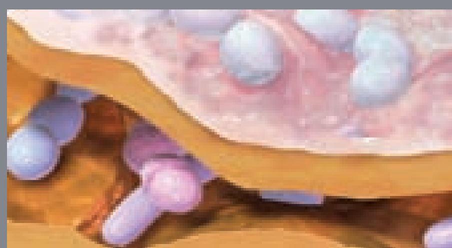
Introducing a novel skin sealant designed to reduce the risk of skin flora contamination of a surgical wound.

Contamination by the patient's own skin flora is recognized as a major factor in the development of surgical site infection during surgical procedures. Compared with uninfected patients, those with surgical site infections have been shown to remain in hospital seven days longer, are 60% more likely to be re-admitted to intensive care units, are five times more likely to return for treatment within 30 days of discharge and have double the mortality rate[1].

Working with Kimberly-Clark Health Care, a global leader in infection control, AMS has developed InteguSeal* Microbial Sealant, an innovative product designed to protect against skin flora migration into surgical incisions.

InteguSeal* Microbial Sealant consists of a liquid adhesive film applied to the skin surface using a novel applicator prior to surgery. Skin flora are immobilised during the time of the surgery thus reducing the potential for contamination of the surgical site.

[1] Barnard, B (2003) *Prevention of Surgical Site Infections*. Infection Control Today.



CHIEF EXECUTIVE'S REVIEW CONTINUED

“The Group has maintained its R&D activities during 2006 to ensure a strong new product pipeline for the future.”

Dr Richard Freeman, R&D Manager, Advanced Woundcare, with Dr Xiaodong Wang and Dr Mark O'Brien in the analytical testing laboratory.

film bonds to the skin surfaces with different curvature, hair-content or amount or types of flora present. It can be used with a variety of patient skin preparation treatments and surgical products such as electrocautery, sutures, staples and wound adhesives.

In March 2006 AMS entered into an exclusive agreement with Kimberly-Clark Health Care, a $1 billion turnover business unit within the global Kimberly-Clark Corporation, for global marketing and distribution of the product under their InteguSeal* Microbial Sealant brand. The product was launched in Europe and other geographies in March 2006 and has been used in more than 15,000 applications during surgical procedures internationally. Clearance for sale in the US was granted by the FDA in October 2006 and US introduction followed in February 2007 with the product being unveiled during the annual meeting of the Society of Thoracic Surgery in San Diego, California. With its strong presence and focus on the operating room, Kimberly-Clark Health Care is an ideal marketing and distribution partner for global commercialisation of this technology.

In November 2006 AMS entered into a partnership with AT3, a Canadian technology company, and BSN Medical, a global medical device company, for manufacturing and distribution of Leukosan® SkinLink, a novel wound closure product.

Leukosan® SkinLink consists of a perforated adhesive closure strip on which cyanoacrylate topical glue is applied to produce a non-invasive system for closing trauma wounds in Accident and Emergency and surgical incisions in the Operating Room. The product provides stronger, more secure closure compared to conventional adhesive strips and complements tissue adhesives by being better suited to high tension wounds, over joints or where swelling is present.

Montreal-based AT3 owns the Intellectual Property rights covering SkinLink. AMS has been granted exclusive distribution rights to the UK and an exclusive manufacturing licence to supply the product for other markets. BSN medical of Hamburg, Germany, acquired an exclusive marketing licence for the product for all European countries outside the UK. BSN medical has recently launched SkinLink throughout Europe under its Leukosan® brand and plans to market it in more than twenty countries around the world.

Progress continues to be made in gaining approval for the LiquiBand® product range in territories outside Europe with the key focus being to obtain clearance from the FDA to enter the lucrative US market. US approval is proceeding via the Pre-Market Approval (PMA) route. However, at a meeting in August 2006, the General and Plastic Surgery Devices Panel of the FDA Medical Advisory Committee recommended that these products be re-classified to the less onerous 510(k) approval process. Following adoption of this recommendation by the FDA, the approval process will be greatly streamlined which will be of enormous significance to the future growth opportunities for AMS in the US market.

Research & Development

AMS maintained its R & D activities during 2006 to ensure a strong new product pipeline for the future. Good progress was made in broadening the current product ranges in both business divisions, and in evaluating new technology platforms that continue the move by the Group to higher value products.

ORGANIC GROWTH DRIVERS — LIQUIBAND® NEW TERRITORIES

	2006	2007	2008
Tissue Adhesives market ($m)	110	121 (+10%)	133 (+10%)
Available market to AMS ($m) (after approval)	17	25	60
STATUS/FUTURE			
	Sold direct in UK and via partners in Europe	Far East entry	US entry

New Territories

TECHNOLOGY PLATFORM
//// Wound Closure and Sealants

In advanced woundcare, activity is focused on fully exploiting silver technologies, evaluating alternative anti-microbial agents and in developing higher performance dressings including the addition of actives that can help accelerate wound healing.

In wound closure and sealants, the focus is on developing indication specific devices and evaluating further applications of the technology for internal use and in the higher value surgical Operating Room environment.

Manufacturing Operations
The Group continued to make capital investments in its UK manufacturing facilities although at a modest level less than depreciation due to significant investments made in plant and equipment in previous years. A new manufacturing line for hydrocolloid wound dressings was opened in September 2006 by Science and Innovation Minister Lord Sainsbury. This involved a £100,000 investment in upgrading manufacturing equipment and clean room facilities to provide increased capacity to support future growth of this product.

Investments were also made in Health, Safety and Environmental to ensure AMS remains in compliance with evolving regulations and legislation. The Company is reviewing opportunities to rationalise its operations at Winsford, to achieve operational efficiencies and ensure sufficient capacity for future growth of the business. As part of this review, non-strategic activities will be outsourced and internal know-how on core technical areas will be strengthened.

Summary
The Group has made excellent progress during 2006 in advancing all elements of its multi-faceted growth strategy:

- Delivering innovative products to major branded partners via its R & D programmes
- Providing private label offerings to distributors addressing cost pressures on woundcare budgets
- Broadening the use of generic woundcare dressings by the NHS in the UK
- Progressing approval in the world's largest tissue adhesive market (the US) with the well proven LiquiBand® product range
- Entering the new surgical skin sealants market with a global leader
- Strengthening its presence in the surgery (OR) arena

As a technology rich, profitable, cash generative medical device business, the future prospects for the AMS Group are extremely positive.

Dr D W Evans
Chief Executive Officer
13 April 2007

FINANCIAL REVIEW

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

At the Company's current stage of development, the key performance indicators (KPIs) the Company uses to measure progress are turnover, gross margin, operating profit and earnings per share.

Turnover
Turnover increased by 11% to £14.3 million (2005: £12.9 million) with advanced woundcare sales growing 9% to £11.5 million (2005: £10.5 million) and wound closure and sealant sales growing by 21% to £2.9 million (2005: £2.4 million). As reported in the interim statement, due to consolidation in the healthcare industry and a change in direction in one of its European partners, the Group experienced a loss of business for one of its non-core products in the advanced woundcare sector in 2006. Adjusting for this lost business, the advanced woundcare business would have reported an underlying growth of 21% and the Group would have also reported growth of 21%.

The Group has chosen to rename its wound closure division to 'wound closure and sealants' to include the cyanoacrylate surgical skin sealant product that has been launched with Kimberly-Clark. The new name for the division provides a better description of the products that are now being developed using cyanoacrylate and reflects their wider application.

Growth was particularly strong in the US with sales increasing 52% reflecting the strong demand for silver-based alginate products. Good sales growth was also shown in the UK, where sales into the NHS continue to progress well. The decline in sales in Europe reflects the lost advanced woundcare business to a European partner.

Gross margin
The gross margin for the Group improved to 42% (2005: 40%). The Group continues to benefit from its strategy of supplying innovative products to partners and supplying a value range of products direct into the UK NHS. Manufacturing improvements also continue to improve margins.

Operating expenses
Net operating expenses increased to £5.6 million (2005: £5.2million) with an additional £0.2 million investment being made in sales and marketing. Administration costs were increased by £0.1 million as the Group accounted for share options in accordance with FRS 20. Details of the share option schemes in place are given in the Remuneration Report on pages 21 to 23. The assumptions on the valuation are outlined in note 23 on pages 44 to 46.

Other operating income includes development fees and milestone payments received from partners for ongoing projects.

Operating profit
The Group reported an operating profit of £0.4 million, compared with a small loss for the prior year. EBITDA was £1.4 million compared with £1.0 million in the prior year.

Interest and taxation
Net interest received in the year was £0.2 million (2005: £0.1 million); £55k results from unwinding the discount factors relating to the deferred tax asset. The Group further recognised a deferred tax asset of £0.1 million in accordance with FRS 19 to the extent that recoverability can be foreseen with reasonable probability. Further details on this are set out in note 22 on page 43.

Earnings per share
The overall profit for the Group of £0.7 million is more than double that of the prior year (2005: £0.3 million) delivering an earnings per share of 0.52p (2005: 0.19p).

Balance sheet and cash flow
Net working capital excluding cash was £2.8 million representing 19.2% of sales (2005: 21.1%).

Operating cash resulted in a cash inflow of £1.3 million (2005: £0.5 million).

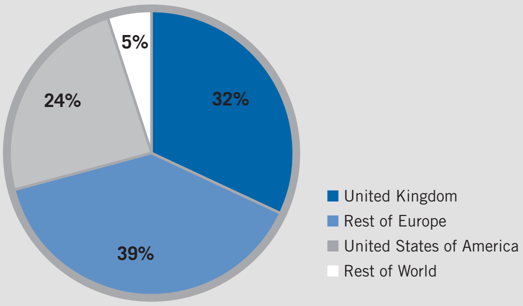
Capital expenditure was £0.3 million (2005: £0.6 million) and is expected to increase in 2007 with investment anticipated in improved automation in manufacturing with the intention of reducing costs.

Overall, there was a positive total net cash inflow of £1.2 million (2005: £0.2 million).

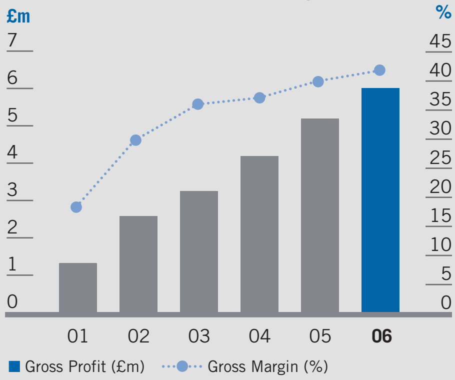
The Group ended the year with £4.6 million of cash (2005: £3.4 million) and net funds of £4.3 million (2005: £3.1 million).

The Group has adequate funds to meet ongoing working capital requirements and investment needs and to enable growth of the business.

Turnover Analysis



Gross Profit (£m) **and Gross Margin** (%)



Capital Reorganisation

The Company, as a public Company, may only distribute dividends to its shareholders out of distributable profits.

As at 31 December 2006, the Company had an accumulated net realised loss balance of £36.7 million. Accordingly, the Company is currently unable to distribute dividends to its shareholders and will be unable to distribute dividends until the deficit on its profit and loss account reserve has been eliminated. Special resolution 6 proposes a capital reorganisation scheme which when completed will eliminate the deficit of £36.7 million and create a distributable profit reserve of approximately £5.9 million. The Board believes that this capital reorganisation will be of benefit to the Company and will be in the best interests of its shareholders as a whole. It will enable the Group to pay dividends, should the Board make a recommendation to do so. Full details of this proposal are included in the Explanatory Statement accompanying this Report and Accounts.

Financial Risk

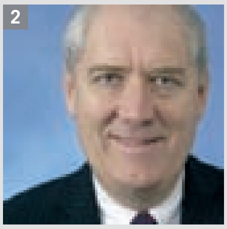
- *Market.* The Group's main currency exposure is to the US dollar with around 22% of the Group's sales denominated in US dollars. The Group's policy is to hedge significant transaction exposure to the dollar by using forward contracts and options and has both contracts and options in place to the end of 2007. 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.
- *Liquidity and Cash Flow.* 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.
- *Credit.* The Company assesses the risk of contracting with each customer and sets credit limits which are carefully monitored. If a significant risk is identified credit facilities are withdrawn and transactions are carried out on a cash basis.
- *Price.* Supplier costs, discounts and rebates are monitored and checked in line with budgets and documentary evidence. Wherever possible, contracts are in place with key suppliers which define prices and terms.

International Financial Reporting Standards (IFRS)

The Group will be reporting under IFRS for the first time in 2007. Work is ongoing in implementing the new standards. The main changes that the Group anticipates will be the capitalisation of development work which under UK GAAP was expensed in the year it was incurred. It is anticipated that in the short term the impact of IFRS will reduce operating expenses by £0.2 million to £0.3 million depending on timing. The Group does not expect any other significant changes to result from implementation.

Mary G Tavener
Finance Director
13 April 2007

BOARD OF DIRECTORS



1 **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.

2 **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.

3 **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.

4 **A. Chris Meredith** BSc (Hons)
Group Commercial Director

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 Cephac and Smiths Industries.

5 **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.

6 **Stephen G. Bellamy** BCom & ACA (NZ)
(appointed 20 February 2007)
Non-Executive Director

Mr Bellamy was appointed as non-executive director of AMS on 20 February 2007. He is currently Chairman of the First Close Technology Fund which invests in early stage UK technology companies. Formerly an executive director of Sherwood International plc and Brierley Investments' London operations he has held a number of non-executive directorships including Budgens plc, the food retailer acquired in 2002 by the Musgrave Group for £315 million and Dr. Foster Limited, a provider of information to the UK health industry. He is a former member of the advisory committeee to ISIS Capital plc and is a qualified chartered accountant.

COMMITTEES AND ADVISERS

Corporate Governance Standing Committees

Audit Committee
Dr G N Vernon, Chairman
R S Harris
S G Bellamy (from 20 February 2007)

Remuneration Committee
R S Harris, Chairman
Dr G N Vernon
S G Bellamy (from 20 February 2007)

Nominations Committee
Dr G N Vernon, Chairman
R S Harris
S G Bellamy (from 20 February 2007)
Dr D W Evans

Company Secretary
M G Tavener

Registered Office
Road Three, Winsford Industrial Estate, Winsford, Cheshire, CW7 3PD

Registered Number
2867684

Financial Adviser
Bridgewell Limited,
Old Change House,
128 Queen Victoria Street,
London, EC4V 4BJ

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

Auditors
Baker Tilly UK Audit LLP
Number One Old Hall Street,
Liverpool, L3 9SX

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

Registrars and Transfer Office
Capita IRG Plc, Northern House,
Woodsome Park, Fenay Bridge,
Huddersfield, West Yorkshire,
HD8 0LA

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,
Building 3, Palo Alto Square,
3000 El Camino Real,
Palo Alto, CA 94306

Public Relations
Buchanan Communications,
45 Moorfields, London, EC2Y 9AE

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their report and the audited financial statements for the year ended 31 December 2006.

The directors who were in office on the date of approval of these financial statements have confirmed, so far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed 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 design, development and manufacture of novel high performance polymers (both natural and synthetic) and medical adhesives for the healthcare market. A review of the operations for the year, future developments and Key Performance Indicators (KPIs) are contained within the Chief Executive's review on pages 6 to 13 and the financial review on pages 14 and 15.

Dividends
The Group made a profit for the year to 31 December 2006 of £0.7 million. The directors do not recommend the payment of a dividend and the whole of the gain will be transferred to reserves.

Research and Development
The Group spent £973k (2005: £1,147k) in the year ended 31 December 2006 on research and development, all of which has been written off to the profit and loss account. Further details on the Group's research and development are included in the Chief Executive's review on pages 6 to 13.

Creditors' payment policy
The Group's policy for the year to 31 December 2006, 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 2006 represented approximately 85 days of purchases (2005: 76 days).

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

Post-balance sheet events
Stephen Gerard Bellamy was appointed as a director to the Main Board on 20 February 2007. His details are shown on page 16.

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 44 to 46. As at 13 April 2007, the issued share capital of the Company has increased to 142,815,424 ordinary shares following the exercise of 50,000 share options under the Executive Share Option Scheme by an employee and the subscription of 682,888 ordinary shares under the Deferred Share Bonus Plan.

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, deferred share bonus schemes, performance reviews, and training and development opportunities. The Group's aim is to recruit and retain sufficient skilled and motivated employees to meet the needs of the business. The required skills are defined and employees are encouraged to acquire additional skills for which, through a skill grid structure, they are remunerated. 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.

Substantial shareholdings
The Company's major shareholders at 30 March 2007 are:

	No. of Ordinary Shares	Per cent
Newton Investment Management	17,572,491	12.36
Axa Framlington	16,772,500	11.80
Cavendish Asset Management	14,885,000	10.47
Amvescap (including Invesco & Aim)	14,574,938	10.25
Electra Partners Europe	5,882,352	4.14
Artemis Fund Managers	5,882,352	4.14
Aerion Fund Management	5,677,972	3.99

The issued share capital as at 30 March 2007 was 142,132,536 following the exercise of 50,000 options under the Executive Share Option Scheme by an employee.

Employees' Share Schemes
All employees, except for participants in the Long Term Incentive Plan (LTIP), are eligible after a period of service, to be granted options over shares in the Company under the Company's Executive Share Options Schemes, under which both Enterprise Management Incentive (EMI) options and the 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 Committtees of the Association of British Insurers and the National Association of Pension Funds. Options are exercisable no earlier than 3 and not later than 10 years after the date of grant. Details of the options granted are provided in note 23 on pages 44 to 46.

The Company also operates a Deferred Share Bonus Scheme (DSB) in which all employees are invited to participate. The DSB will encourage employee share ownership and will align the employees' interests with those of the shareholders. The details on the Deferred Share Bonus Scheme are provided in the Remuneration Report on pages 21 to 23.

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

The business is proactive in assessing its impact on the environment. It ensures that all removal of waste is only made by suitable registered and accredited organisations.

Risks and Uncertainties
There are a number of potential risks and uncertainties which could have a material impact on the Company's performance.

Global Economic Conditions
The Company has a widespread geographical market sector and customer base which minimises the impact of any single event. With an ageing population increasingly suffering health problems such as obesity and diabetes, the incidence of chronic wounds is increasing and the demographics are beneficial for the Company.

There has been consolidation in the Healthcare Industry in recent years which is ongoing. This presents both opportunities and risks. Consolidation could result in the loss of a partner which could have a material effect on the results of the Company.

Commercial Relationships
The Company benefits from close commercial relationships with a number of key customers and suppliers. The loss of any of these key partners could have a material impact on results. The Company tries wherever possible to formalise its relationship with its partners through contracts and to maintain more than one source of supply of key materials.

Competitors
The Company operates in a competitive market; technical advances, design and product innovation and price competition would affect the Company's results. The Company aims to mitigate these effects by investing significant resources in design and research and development to ensure a pipe-line of innovative products which are patented whenever possible.

The Company also seeks to transfer risk to insurers where cost-effective.

Directors and their interests
The directors of the Company at 31 December 2006 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary shares of 5p each 31 December 2006			Ordinary shares of 5p each 31 December 2005		
	Shares	**Options**	**LTIP**	Shares	Options	LTIP
G Vernon	**860,000**	**—**	**—**	800,000	—	—
D Evans	**700,000**	**616,666**	**1,865,173**	642,680	616,666	1,865,173
M Tavener	**111,562**	**300,000**	**1,348,571**	101,562	300,000	1,348,571
S Harris	**237,857**	**—**	**—**	197,857	—	—
A C Meredith	**15,000**	**—**	**500,000**	—	—	500,000

On 12 April 2007, Don Evans and Mary Tavener subscribed for 43,859 and Chris Meredith subscribed for 30,136 new Ordinary shares as part of the Deferred Share Bonus Plan (the 'Plan'). These shares were subscribed at a price of 18.25p per share and are held in Trust on their behalf. Also on 12 April 2007, Don Evans was granted 1,136,000 new share options, Mary Tavener was granted 866,000 new share options and Chris Meredith was granted 708,000 new share options under the Advanced Medical

REPORT OF THE DIRECTORS CONTINUED

Solutions Long Term Incentive Plan. Other than the above there have been no changes to the directors' interests between the end of the financial year and 13 April 2007 being less than the month prior to the date of notice of the Annual General Meeting.

Further details of the directors' remuneration and benefits are included in the Remuneration Report on pages 21 to 23.

Reappointment
At the forthcoming Annual General Meeting, Mary Tavener and Don Evans will retire by rotation and, being eligible, will be proposed for reappointment. Details of the current directors of the Company are shown on page 16.

Stephen Bellamy was appointed to the Board on 20 February 2007 and offers himself for reappointment at the Annual General Meeting.

Auditors
The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect 1 April 2007, in accordance with the provisions of the Companies Act 1989, 526(5), Baker Tilly UK Audit LLP has indicated its willingness to continue in office. Resolution 2 to reappoint Baker Tilly UK Audit LLP 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
The effect of Resolution 6 to be proposed at the meeting, details of which are contained in the Explanatory Statement included with this report, would be to:

- reduce the share capital of the Company by cancelling and extinguishing all of the issued 93,553,394 Deferred Shares of 5p each in the Capital of the Company; and
- cancel the share premium account of the Company.

The effect of Resolution 7 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 2008 or, if earlier, fifteen months after the date of the passing of this resolution.

Annual General Meeting
The Annual General Meeting will be held on 6 June 2007 at 11.00 a.m. at the Oaklands Hotel, Millington Lane, Gorstage, Weaverham, Northwich, Cheshire, CW8 2SU. Details of the notice of the Annual General Meeting are given on pages 51 and 52. The Annual General Meeting provides an opportunity for private shareholders to question your Board and to meet informally with the Directors after the meeting.

M G Tavener
Company Secretary
13 April 2007

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, succession planning 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 is 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. Full details of these are included in note 23 on pages 44 to 46.

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 shareholders.

Deferred Share Bonus Plan

The Company has also set up a Deferred Share Bonus Plan (the 'DSB') which is available to all employees. The DSB allows for the payment of any bonus to be made 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 to retain those shares to receive additional free shares from the

REMUNERATION REPORT CONTINUED

Company. It will act as a valuable retention tool and align the employees' interests with those of shareholders. The first year that the DSB will operate will be 2007.

Pension
Executive directors are entitled to become members 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.

Car
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 of 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.

Steve Bellamy was appointed as a non-executive director on 20 February 2007. He has been appointed on a one year fixed contract. After the first year his appointment is terminable by either party upon six 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 2006 £'000**	Total year ending 2005 £'000
Executive							
Don Evans	167	49	14	16	—	**246**	195
Mary Tavener	115	35	—	11	—	**161**	132
Chris Meredith	112	10	1	11	—	**134**	—
Non-executive							
Geoffrey Vernon	—	—	—	—	46	**46**	45
Steve Harris	—	—	—	—	26	**26**	26
	394	94	15	38	72	**613**	398

The opening share price for the year was 9.25p and the closing price on the last trading day of 2006 (31 December) was 13.75p.

The range during the year was 13.75p (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				
	as at 31 Dec 2005	lapsed in the year	as at 31 Dec 2006	Exercise Price (p)	Date of Grant
D W Evans	616,666	—	616,666	9.00	15 July 2004
M G Tavener	300,000	—	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 2005	Granted in the year	**As at 31 December 2006**	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
A C Meredith	500,000	—	**500,000**	8.75	1 January 2008

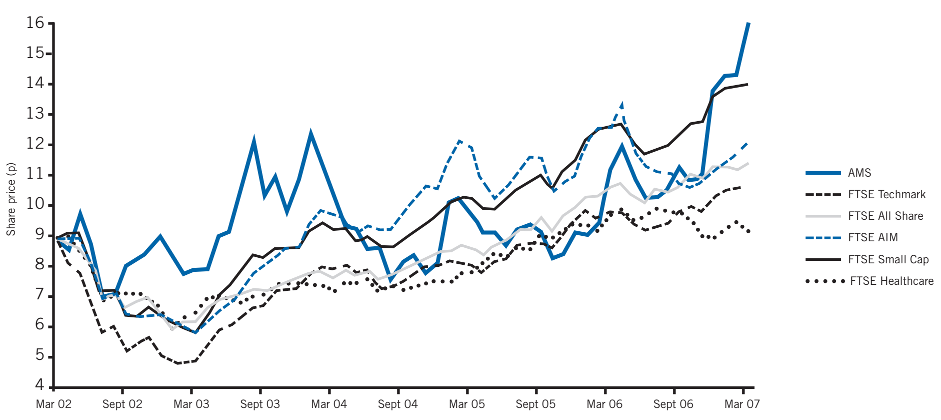
The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 21. The figures shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved.

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, as at 30 March 2007 its share price has outperformed the FTSE All Share by 52.1%, FTSE Techmark by 60.3%, FTSE Health by 76.9%, the FTSE Small Cap Index by 23.1% and AIM by 44.1%.

AMS performance relative to indices



Mary Tavener
Company Secretary
13 April 2007

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 six times in 2006. 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.

Chris Meredith joined the Board as an executive director on 11 April 2006. As a result, the Board consisted of three executive directors and two non-executive directors. In 2006 the composition of the Board did not meet the Code requirements that at least half of the Board, excluding the Chairman, should comprise non-executive directors. As part of its annual performance review, the Board identified the need for it to be strengthened. As a result, Steve Bellamy was appointed to the Board as a non-executive director on 20 February 2007. Steve became a member of the Audit Committee, the Remuneration Committee and the Nominations Committee upon appointment. Whilst the Board still does not meet the Code requirements, the Board believes its composition 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. All 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 two times in 2006. 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 both the 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. For the year ended 31 December 2006 the Committeee has concluded that the external auditor remains independent and is effective. Following the 2006 Audit, Geoffrey Vernon will be replaced by Steve Bellamy as Chairman of the Audit Committee. Geoffrey Vernon will remain on the Audit Committee.

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, succession planning 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 two times in 2006. Its report is included on pages 21 and 23.

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 experiencee 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 met three times in 2006.

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 on the Group's products and technologies.

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.

CORPORATE GOVERNANCE CONTINUED

- 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.

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 2006, the Group has been in compliance with the requirements of the Combined Code, except in the following areas:

The composition of the Board did not meet the code requirements that at least half of the Board, excluding the Chairman, should comprise non-executive directors.

The Board believes that given its size and complexity it is not appropriate to specify a 'senior' non-executive director.

The Group had only two non-executives. Consequently the Audit Committee does not comprise at least three non-executive directors. With the appointment of Steve Bellamy, the Group will be in compliance.

Statement of Directors' Responsibilities
The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 2006, 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 UK accounting standards have been followed.
- The financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at anytime the financial position of the Company and to enable them to ensure that the financial statements comply with requirements of the Companies Act 1985. They are also responsible 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

By order of the Board

Mary G Tavener
Company Secretary
13 April 2007

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

We have audited the financial statements on pages 28 to 48.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 and Financial Highlights, Business Highlights, the Chairman's Statement, the Chief Executive's Review, the Financial Review, Report of the Directors, Remuneration Report and Corporate Governance. 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 2006 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly UK Audit LLP
Registered Auditor
Chartered Accountants
Number One Old Hall Street
Liverpool, L3 9SX
20 April 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	**Year ended 31 December 2006 £'000**	Year ended 31 December 2005 £'000
Turnover	2	**14,322**	12,892
Cost of sales		**(8,279)**	(7,753)
Gross profit		**6,043**	5,139
Distribution costs		**(107)**	(123)
Administration costs		**(6,022)**	(5,604)
Other operating income	3	**480**	546
Operating profit/(loss)	4	**394**	(42)
Interest receivable and similar income	7	**204**	101
Interest payable and similar charges	8	**(29)**	(32)
Profit on ordinary activities before taxation		**569**	27
Taxation	9	**167**	249
Retained profit for the year	10	**736**	276
Earnings per share			
Basic	11	**0.52p**	0.19p
Diluted		**0.50p**	0.19p

The above results relate to continuing operations.

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2006

	Group	
	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Profit for the financial year	**736**	276
Currency translation differences on foreign currency net investments	**17**	(3)
Total profit recognised since last annual report	**753**	273

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2006

	Group		Company	
	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000	**Year ended 31 December 2006 £'000**	Year ended 31 December 2005 £'000
Opening shareholders' funds	**11,847**	11,574	**12,650**	12,454
Profit for the financial year	**736**	276	**361**	196
Share based payments	**60**	—	**60**	—
Currency translation differences on foreign currency net investments	**17**	(3)	**—**	—
Closing shareholders' funds	**12,660**	11,847	**13,071**	12,650

The profit for the Company includes the reversal of a provision against the carrying value of investments of £388k (2005: £101k).

BALANCE SHEETS
AT 31 DECEMBER 2006

		Group		Company	
		2006	2005	**2006**	2005
	Note	**£'000**	£'000	**£'000**	£'000
Fixed assets					
Intangible assets	12	**1,734**	1,902	**—**	—
Tangible assets	13	**2,877**	3,403	**—**	—
Investments	14	**—**	—	**8,904**	9,570
		4,611	5,305	**8,904**	9,570
Current assets					
Stocks	15	**1,786**	1,669	**—**	—
Debtors — due within one year	16	**3,728**	3,247	**93**	14
— due after more than one year	16	**957**	747	**200**	200
Cash at bank and in hand		**4,552**	3,388	**3,961**	2,989
		11,023	9,051	**4,254**	3,203
Creditors: amounts falling due within one year	17	**(2,678)**	(2,193)	**(87)**	(123)
Net current assets		**8,345**	6,858	**4,167**	3,080
Total assets less current liabilities		**12,956**	12,163	**13,071**	12,650
Creditors: amounts falling due after more than one year	18	**(296)**	(316)	**—**	—
		12,660	11,847	**13,071**	12,650
Capital and reserves					
Called up share capital	23	**11,782**	11,782	**11,782**	11,782
Share based payments reserve	24	**60**	—	**60**	—
Share premium account	24	**37,978**	37,978	**37,978**	37,978
Other reserve	24	**1,531**	1,531	**—**	—
Profit and loss account	24	**(38,691)**	(39,444)	**(36,749)**	(37,110)
Equity shareholders' funds		**12,660**	11,847	**13,071**	12,650

These financial statements were approved by the Board and authorised for issue on 12 March 2007 and are signed on its behalf by

Dr D W Evans
Chief Executive Officer

The notes on pages 32 to 48 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	**Year ended 31 December 2006 £'000**	Year ended 31 December 2005 £'000
Net cash inflow from operating activities	26	**1,343**	534
Returns on investments and servicing of finance			
Interest received		**74**	131
Interest element of finance lease rental and hire purchase payments		**(1)**	(2)
Interest paid		**(28)**	(30)
Net cash inflow from returns on investments and servicing of finance		**45**	99
Taxation		**78**	189
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(309)**	(575)
Receipts from sale of tangible fixed assets		**8**	—
Net cash outflow from capital expenditure and financial investment		**(301)**	(575)
Cash inflow before use of liquid resources and financing		**1,165**	247
Management of liquid resources			
Purchase of term deposits		**(964)**	(342)
Financing			
Repayment of secured loan	28	**(13)**	(13)
Net movement of capital element of finance lease rental and hire purchase payments	28	**(5)**	(3)
Net cash outflow from financing		**(18)**	(16)
Increase/(decrease) in cash	27	**183**	(111)

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 2006. 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 difference 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.

Share based payments
The Group has applied the requirements of FRS20 Share-based Payments. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value as determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-tranferability, exercise restrictions, and behavioural considerations.

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 CONTINUED

2. Segmental information

Turnover by geographical customers:

	Turnover 2006 £'000	Turnover 2005 £'000
United Kingdom	**4,524**	3,731
Rest of Europe	**5,600**	6,098
United States of America	**3,480**	2,288
Rest of World	**718**	775
	14,322	12,892

Turnover by business unit:

	Turnover 2006 £'000	Turnover 2005 £'000
Advanced woundcare	**11,462**	10,535
Wound closure and sealants	**2,860**	2,357
	14,322	12,892

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

Turnover, profit before tax and net assets by origin:

	2006 Turnover £'000	2006 Profit/(loss) £'000	2006 Net Assets £'000	2005 Turnover £'000	2005 Profit/(loss) £'000	2005 Net Assets £'000
United Kingdom	**14,322**	**654**	**12,656**	12,892	137	11,845
United States	**—**	**(85)**	**4**	—	(110)	2
Group	**14,322**	**569**	**12,660**	12,892	27	11,847

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 2006 £'000	Year ended 31 December 2005 £'000
Development fees	**456**	546
Other	**24**	—
	480	546

4. Operating profit/(loss)

		Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Operating profit/(loss) arrived at after charging/(crediting):			
Depreciation		**816**	877
Amortisation		**168**	168
Loss on disposal of fixed assets		**11**	1
Operating lease rentals	— plant and machinery	**90**	90
	— land and buildings	**294**	294
Auditor's remuneration	— statutory audit	**38**	33
	— further assurance services	**11**	9
	— tax compliance	**8**	15
	— tax advisory	**4**	5
Research and development		**973**	1,147
Exchange loss/(profit)		**105**	(47)

5. Employees

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

	Year ended 31 December 2006 Number	Year ended 31 December 2005 Number
Production	**109**	115
Research and development	**15**	21
Sales and marketing	**26**	24
Administration	**20**	20
	170	180

Sales and marketing includes 1 person (2005: 1) employed in the United States.

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	**4,734**	4,441
Social Security costs	**461**	430
Pension costs	**194**	180
Share-based payments (see note 23)	**60**	—
	5,449	5,051

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

6. Directors' emoluments

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Remuneration for management services	**503**	301
Pension	**38**	26
Amounts paid to third parties	**72**	71
	613	398
Retirement benefits are accruing to the following number of directors under money purchase schemes	**3**	2

The disclosures required in relation to the highest paid director are contained within the Remuneration Report on pages 21 to 23.

7. Interest receivable and similar income

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Bank interest	**143**	90
Rent deposit interest	**6**	6
Unwinding of discount on deferred tax asset	**55**	5
	204	101

8. Interest payable and similar charges

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Finance leases and hire purchase contracts	**1**	2
Other loan interest	**27**	28
Bank Interest	**1**	2
	29	32

9. Taxation on profit on ordinary activities

	2006 £'000	2005 £'000
a) Analysis of credit in the year		
Current tax:		
UK corporation tax	**17**	75
Adjustment in respect of previous period	**3**	70
Deferred tax (note 22)	**147**	104
Tax on profit on ordinary activities	**167**	249
b) Factors affecting tax credit for the year		
The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%) as explained below:		
Profit on ordinary activities before tax	**569**	27
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%) as explained below:	**171**	8
Effects of:		
Expenses not deductible for tax purposes	**19**	2
Discounts allowed	**(34)**	—
Depreciation for period less than capital allowances	**(33)**	(62)
Expensive leased cars disallowed costs	**3**	3
Trading losses carried forward	**—**	70
Trading losses utilised	**(126)**	(31)
Research and development relief	**(17)**	(75)
Other	**—**	10
Adjustment in respect of previous period	**(3)**	(70)
Current tax credit for the year (note 9a)	**(20)**	(145)

10. Retained profit for the financial year

	2006 £'000	2005 £'000
Profit dealt with in the accounts of the parent company	**361**	196
Loss retained by subsidiary undertakings	**704**	113
Consolidation adjustment	**(329)**	(33)
	736	276

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

11. Earnings per share

The basic earnings per share has been calculated on a weighted average number of shares in issue during the year, namely 142,082,536 (2005: 142,082,536) and profit of £736k (2005: profit of £276k).

The diluted earnings 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 146,114,345 (2005: 142,948,093) and a profit of £736k (2005: profit of £276k).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

12. Intangible fixed assets

	Intellectual property rights £'000
Group	
Cost	
At beginning and end of year	**2,518**
Amortisation	
At beginning of year	616
Charged in year	168
At end of year	**784**
Net book value	
At 31 December 2006	**1,734**
At 31 December 2005	1,902

The intellectual property rights have been amortised over their useful economic lives which average 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	1,141	8,970	540	44	11,560
Transfers	—	(685)	1,063	(378)	—	—
Additions	—	—	309	—	—	309
Disposals	—	—	(136)	—	—	(136)
At end of year	**865**	**456**	**10,206**	**162**	**44**	**11,733**
Depreciation						
At beginning of year	60	659	6,931	463	44	8,157
Transfers	—	(269)	590	(321)	—	—
Provided for the year	4	19	778	15	—	816
Disposals	—	—	(117)	—	—	(117)
At end of year	**64**	**409**	**8,182**	**157**	**44**	**8,856**
Net book value						
At 31 December 2006	**801**	**47**	**2,024**	**5**	**—**	**2,877**
At 31 December 2005	805	482	2,039	77	—	3,403

The net book value of tangible fixed assets includes £Nil of motor vehicles (2005: £Nil) and £103k of plant and machinery (2005: £174k) held under finance leases and hire purchase contracts. The related depreciation charge for the year was £Nil for motor vehicles (2005: £8k) and £38k for plant and machinery (2005: £38k).

13. Tangible assets continued

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Commitments for capital expenditure Authorised for future capital expenditure and not provided in the financial statements	**77**	164	**—**	—

14 Fixed asset investments

	2006 £'000	2005 £'000
Company		
Loans to Group undertakings	**8,904**	9,570

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%†	Dormant
Advanced Medical Solutions (US) Inc	USA	100%§	Development and manufacture of medical products
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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

15. Stocks

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Raw materials	**652**	649	**—**	—
Work in progress	**500**	540	**—**	—
Finished goods	**634**	480	**—**	—
	1,786	1,669	**—**	—

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	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Due within one year				
Trade debtors	**3,023**	2,575	**—**	—
Corporation tax	**17**	75	**—**	—
Other debtors	**359**	179	**—**	—
Prepayments and accrued income	**329**	418	**93**	14
	3,728	3,247	**93**	14
Due after more than one year				
Other debtors — leasehold rental deposit	**200**	200	**200**	200
Prepayments	**8**	—	**—**	—
Deferred tax asset	**749**	547	**—**	—
	957	747	**200**	200

17. Creditors: amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Trade creditors	**1,519**	1,297	**14**	44
Taxation and social security	**244**	229	**—**	—
Other loans	**14**	13	**—**	—
Other creditors	**78**	113	**—**	—
Obligations under finance leases and hire purchase contracts	**5**	5	**—**	—
Accruals and deferred income	**818**	536	**73**	79
	2,678	2,193	**87**	123

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

	Group		Company	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Obligations under finance leases and hire purchase contracts	**1**	7	**—**	—
Other loans	**295**	309	**—**	—
	296	316	**—**	—

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

19. Analysis of borrowings

The maturity by currency of total borrowings comprised:

(i) Finance leases and hire purchase contracts

	Less than 1 year	**2–5 years**	**Total 2006**	Less than 1 year	2–5 years	Total 2005
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Sterling	**5**	**1**	**6**	5	7	12

(ii) Other loans
See note 20a.

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

20. Derivatives and other financial instruments

Pages 14 and 15 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	14	15	55	225	295	309	8.5
Finance lease creditors and hire purchase contracts	5	1	—	—	1	6	15.5
At 31 December 2006	**19**	**16**	**55**	**225**	**296**	**315**	**—**
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	—

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

20. Derivatives and other financial instruments continued

	2006		2005	
	Fixed rate financial liabilities Weighted average period for which rate is fixed Years	**Financial liabilities on which no interest is paid Weighted average period until maturity Years**	Fixed rate financial liabilities Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid Weighted average period until maturity Years
Other loans	**13**	**—**	14	—
Finance lease creditors and hire purchase contracts	**1**	**—**	2	—

(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	4,422	472	3,950	—	5.0
US Dollar	30	—	—	30	—
Euro	100	—	—	100	—
At 31 December 2006	**4,552**	**472**	**3,950**	**130**	**5.0**
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

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 2006 the Group had unhedged US Dollar currency exposures of £Nil (2005: £Nil) and unhedged Euro currency exposures of £175k (2005: £119k).

21. Foreign exchange rates

	Average rate		Closing rate		Percentage change	
	2006	2005	**2006**	2005	Average %	Closing %
Currency						
US Dollar	**1.843**	1.819	**1.957**	1.717	1.3	14.0
Euro	**1.467**	1.463	**1.484**	1.455	(0.0)	2.0

22. Deferred Tax

	2006 £'000	2005 £'000
Balance at 1 January	**547**	438
Profit and loss account — Deferred tax	**147**	104
Profit and loss account — Interest receivable and similar income	**55**	5
Balance at 31 December	**749**	547
Provision for deferred tax has been made as follows:		
Provision		
Excess of depreciation over tax allowance	**(78)**	(16)
Sundry timing differences	**(4)**	(1)
Unutilised tax losses carried forward	**82**	17
	—	—
Asset		
Tax losses	**817**	715
Discount	**(68)**	(168)
Discounted deferred tax asset	**749**	547

A discounted deferred tax asset of £749k (2005: £547k) has been recognised which is the extent to which recoverability can be foreseen with reasonable probability.

There is approximately a further £9.4 million (2005: £9.8 million) of tax losses at future rates of tax which have not been recognised.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

23. Share capital

	Group and Company 2006 £'000	2005 £'000
Authorised		
206,446,606 (2005: 206,446,606) ordinary shares of 5p each and 93,553,394 (2005: 93,553,394) deferred shares of 5p each	**15,000**	15,000

	Group and Company 2006 £'000	2005 £'000
Allotted, called up and fully paid		
142,082,536 (2005: 142,082,536) ordinary shares of 5p each and 93,553,394 (2005: 93,553,394) deferred shares of 5p each	**11,782**	11,782

The charge for share based payments under FRS 20 arises across the following schemes:

	Group and Company 2006 £'000
Unapproved Executive Share Option Scheme	**3**
Enterprise Management Incentive Scheme	**25**
Long Term Incentive Plan	**32**
	60

This is the first year of adoption of FRS 20 share based payments. The charge to the profit and loss includes an amount for the cost of the share based payments relating to prior years as follows:

	Group and Company 2006 £'000
Charge for share based payments prior to 2006	**18**
Charge for current year	**42**
	60

A prior year adjustment has not been made as the charge for share based payments prior to 2006 is not material.

The fair value of the executive options is calculated based on a Black-Scholes model assuming the inputs below:

Grant date	14/4/03	7/10/03	7/4/04	15/7/04	16/7/04	16/9/04
Share price at grant date	8.75p	11.5p	10p	9p	9p	9p
Exercise price	8.75p	11.5p	10p	9p	9p	9p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk free rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Expected volatility	30%	30%	30%	30%	30%	30%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Fair value of option	1p	2p	1p	1p	1p	1p

Grant date	12/3/05	12/9/05	15/3/06	6/4/06	21/9/06
Share price at grant date	10.2p	9.25p	10.75p	10.75p	11.25p
Exercise price	10.2p	9.25p	10.75p	10.75p	11.25p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk free rate	4.5%	4.5%	4.5%	4.5%	4.5%
Expected volatility	30%	30%	30%	30%	30%
Expected dividend yield	0%	0%	0%	0%	0%
Fair value of option	1p	2p	1p	1p	1p

23. Share capital continued

Volatility has been estimated by taking the historic volatility in the Company's share price since May 2002. The resulting fair value is expensed over the three year vesting period.

Shares to be issued

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 2006.

	Date of grant	**Option price (p)**	**Number of options at 1 January 2006**	**Remaining life 31 December 2005**	**Issued**	**Lapsed**	**Number of options at 31 December 2006**	**Remaining life 31 December 2006**
Unapproved Executive Share Option Scheme								
	15.07.04	9.00	234,722	8.5	—	—	**234,722**	**7.5**
	12.09.05	9.25	100,000	9.7	—	—	**100,000**	**8.7**
Enterprise Management Incentive Scheme								
	14.04.03	08.75	90,000	7.3	—	—	**90,000**	**6.3**
	07.10.03	11.50	80,000	7.8	—	—	**80,000**	**6.8**
	07.04.04	10.00	76,000	8.3	—	—	**76,000**	**7.3**
	15.07.04	9.00	1,123,544	8.5	—	6,125	**1,117,419**	**7.5**
	16.07.04	9.00	7,324	8.5	—	—	**7,324**	**7.5**
	16.09.04	9.00	45,000	8.7	—	3,000	**42,000**	**7.7**
	21.03.05	10.20	16,000	9.2	—	—	**16,000**	**8.2**
	12.09.05	09.25	502,000	9.7	—	10,000	**492,000**	**8.7**
	15.03.06	10.75	—		1,815,000	200,000	**1,615,000**	**9.2**
	06.04.06	10.75	—		150,000	—	**150,000**	**9.3**
	21.09.06	11.25	—		32,000	—	**32,000**	**9.7**
			2,274,590		1,997,000	219,125	**4,052,465**	

The weighted average remaining contractual life of the options outstanding at 31 December 2006 is 8.4 (2005: 8.8).

	2006		2005	
	Number of options	**Weighted average exercise price (p)**	Number of options	Weighted average exercise price (p)
Outstanding at beginning of the period	**2,274,590**	**9.19**	4,644,093	8.97
Granted	**1,997,000**	**10.76**	618,000	9.27
Exercised	**—**	**—**	—	
Forfeited	**(219,125)**	**10.61**	(628,503)	9.30
Expired	**—**	**—**	(2,359,000)	8.75
Outstanding at end of the period	**4,052,465**	**9.88**	2,274,590	9.19
Exercisable at end of period	**170,000**	**10.04**	—	—

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

23. Share capital continued

Under the terms of the Company's Share Options Schemes, approved by shareholders in 1999 and amended in 2001 and 2002, the Board may offer options to purchase ordinary shares in the Company to all employees of the Company at the market price on a date to be determined prior to the date of the offer. Since 2005 individuals who are entitled to awards under the LTIP are no longer eligible to receive options under the Company's Share Option Schemes.

Performance targets are assessed over a three-year period from the date of grant. Once options have vested they can be exercised during the period up to ten years from the date of grant.

	Date of grant	Market price at date grant (p)	Number of of LTIPs at 1 January 2006	Remaining life 31 December 2005	Issued	Lapsed	Number of LTIPs 31 December 2006	Remaining life 31 December 2006
Long Term Incentive Plan	12.10.05	8.75	3,713,744	9.8	—	—	**3,713,744**	**8.8**
			3,713,744		—	—	**3,713,744**	

The weighted average remaining contractual life of the LTIPs outstanding at 31 December 2006 is 8.8 (2005: 9.8).

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 21. The number shown is a maximum entitlement and the actual number of shares (if any) will depend on these performance conditions being achieved.

	2006		2005	
	Number of options	**Weighted average exercise price (p)**	Number of options	Weighted average exercise price (p)
Outstanding at beginning of the period	**3,713,744**	**8.75**	—	—
Granted	—	—	3,713,744	8.75
Exercised	—	—	—	—
Forfeited	—	—	—	—
Expired	—	—	—	—
Outstanding at end of the period	**3,713,744**	**8.75**	3,713,744	8.75
Exercisable at end of period	—	—	—	—

The fair value of the executive options is calculated based on a Black-Scholes model assuming the inputs below:

Grant date	12/10/05
Share price at grant date	8.75p
Exercise price	0p
Expected life	3.5 yrs
Contractual life	10 yrs
Risk-free rate	4.5%
Expected volatility	30%
Expected dividend yield	0%
Probability of performance conditions	40.4%
Fair value of option	2p

24. Share premium account and reserves

	Share based payments reserve £'000	Share premium account £'000	Other reserve £'000	Profit and loss account £'000
Group				
As at 1 January 2006	—	37,978	1,531	(39,444)
Profit for the financial year	—	—	—	736
Share based payments	60	—	—	—
Currency translation differences on foreign currency net investments	—	—	—	17
As at 31 December 2006	**60**	**37,978**	**1,531**	**(38,691)**
Company				
As at 1 January 2006	—	37,978	—	(37,110)
Share based payments	60	—	—	—
Profit for the financial year	—	—	—	361
As at 31 December 2006	**60**	**37,978**	**—**	**(36,749)**

The other reserve arose from merger accounting for Advanced Medical Solutions Limited (see note 1).

The cumulative goodwill written off to reserves is £5,586k (2005: £5,586k).

25. Commitments under operating leases

As at 31 December 2006, the Group had annual commitments under non-cancellable operating leases as set out below:

	2006 Land and buildings £'000	**2006 Other £'000**	2005 Land and buildings £'000	2005 Other £'000
Operating leases which expire:				
Within one year	**—**	**8**	—	4
In two to five years	**290**	**72**	290	45
	290	**80**	290	49

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

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

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Operating profit/(loss)	**394**	(42)
Depreciation	**816**	877
Amortisation of intangible fixed assets	**168**	168
Loss on sale of fixed assets	**11**	1
Increase in stocks	**(117)**	(163)
Increase in debtors	**(472)**	(567)
Increase in creditors	**483**	260
Share based payments	**60**	—
Net cash inflow from operating activities	**1,343**	534

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

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Increase/(decrease) in cash in the year	**183**	(111)
Cash outflow from reductions in debt and finance leases	**18**	16
Cash outflow from increase in liquid resources	**964**	342
Change in net funds resulting from cash flows	**1,165**	247
Translation difference	**17**	(3)
Movement in net funds in year	**1,182**	244
Net funds at 1 January 2006	**3,054**	2,810
Net funds at 31 December 2006	**4,236**	3,054

28. Analysis of net funds

	1 January 2006 £'000	**Cash flows £'000**	**Exchange movements £'000**	**31 December 2006 £'000**
Cash	402	**183**	**17**	**602**
Term deposits	2,986	**964**	**—**	**3,950**
Cash at bank and in hand	3,388	**1,147**	**17**	**4,552**
Debt due within one year	(13)	**(1)**	**—**	**(14)**
Debt due after one year	(309)	**14**	**—**	**(295)**
Finance leases	(12)	**5**	**—**	**(7)**
Total	3,054	**1,165**	**17**	**4,236**

FIVE YEAR SUMMARY

	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Consolidated profit and loss account					
Turnover	**14.3**	12.9	11.0	9.0	8.4
Operating profit/(loss) (before exceptional items)	**0.4**	0.0	(1.1)	(2.4)	(1.7)
Net interest receivable	**0.2**	0.1	0.1	0.1	0.2
Retained profit/(loss)	**0.7**	0.3	(0.4)	(2.1)	(1.4)
Basic earnings/(loss) per share	**0.5p**	0.2p	(0.3)p	(1.5)p	(1.1)p
Weighted average number on shares in issue after adjusting for rights issue	**142.1m**	142.1m	142.1m	142.1m	126.1m
Consolidated balance sheet					
Net assets employed					
Fixed assets	**4.6**	5.3	5.8	6.6	7.3
Cash and other net current assets	**8.4**	6.8	6.2	5.7	7.3
Creditors due after one year	**(0.3)**	(0.3)	(0.4)	(0.3)	(0.5)
Net assets	**12.7**	11.8	11.6	12.0	14.1
Capital and reserves					
Called up share capital	**11.8**	11.8	11.8	11.8	11.8
Share premium account	**38.0**	38.0	38.0	38.0	38.0
Other reserve	**1.5**	1.5	1.5	1.5	1.5
Share based payments reserve	**0.1**	—	—	—	—
Profit and loss account	**(38.7)**	(39.5)	(39.7)	(39.3)	(37.2)
Equity shareholders' funds	**12.7**	11.8	11.6	12.0	14.1

SHAREHOLDER NOTES

NOTICE OF MEETING

Notice is hereby given that the thirteenth Annual General Meeting of the Company will be held at 11.00 a.m. on 6 June 2007 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 2006 (together with the report of the auditors thereon).
2. To reappoint Baker Tilly UK Audit LLP as auditors and to authorise the directors to fix their remuneration.
3. To re-elect Don Evans, (who retires by rotation in accordance with the Articles of Association) as a director of the Company.
4. To re-elect Mary Tavener, (who retires by rotation in accordance with the Articles of Association) as a director of the Company.
5. To re-elect Stephen Bellamy as a director of the Company.

As special business:
To consider and, if thought fit, to pass Resolutions 6 and 7, which will be proposed as Special Resolutions.

6. That
   i) the share capital of the Company be reduced by cancelling and extinguishing all of the issued 93,553,394 Deferred Shares of 5p each in the capital of the Company; and
   ii) the share premium account of the Company be cancelled.
7. 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 31 May 2006 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
13 April 2007

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

NOTICE OF MEETING CONTINUED

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 arrive not later than 48 hours before the time fixed for the Meeting at the Proxy Processing Centre, Telford Road, Bicester, OX26 4LD. You may also deliver by hand to The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU during usual business hours.
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 4 June 2007 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 4 June 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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Advanced Medical Solutions Group plc
Registered Office: Road Three, Winsford Industrial Estate
Winsford, Cheshire, CW7 3PD, UK
Company Number: 2867684

Tel: +44 (0)1606 863500 **Fax:** +44 (0)1606 863600
E-mail: info@admedsol.com **Web:** www.admedsol.com

//// Advanced Woundcare
//// Wound Closure and Sealants