advanced woundcare

wound closure and sealants

Advanced Medical Solutions Group plc

Technology Platforms for Growth

interim report 2008

Advanced Medical Solutions Group plc

Financial Highlights

Strengthened financial position:

- Group revenues up 24% to £9.8 million (H1 2007: £7.9 million)
- Gross margin further improved to 47% (H1 2007: 43%)
- Pre-tax profit up 80% to £1.2 million (H1 2007: £0.7 million)
- EPS up 60% to 0.91p (H1 2007: 0.57p)
- Net cash inflow from operating activities of £0.5 million (H1 2007: £1.2 million)
- Following acquisition of 49.4% of Corpura, net funds of £5.4 million at 30 June 2008 (30 June 2007: £5.0 million)

Business Highlights

Good progress with future growth drivers:

- Silver alginate market presence strengthened with additional major branded marketing and distribution partners signed for US and Europe
- NHS direct woundcare business continues to build momentum in both Hospital and Primary Care Trusts with full ActivHeal® product range included on new framework agreement
- FDA re-classification of topical tissue adhesives has accelerated the US regulatory approval process for the LiquiBand® range
- Corpura Joint Venture strengthens AMS' position in hydrophilic polyurethane foams — the largest and fastest growing segment of the advanced woundcare dressings market

CHAIRMAN'S STATEMENT

Overview
I am pleased to report that AMS has continued to make excellent progress during the first half-year, further strengthening its technology portfolio and market presence, supported by its strong financial position.

Group revenue grew by 24% to £9.8 million and pre-tax profit increased 80% to £1.2 million during the period.

The business continues to generate cash and, after the acquisition of 49.4% of the Corpura polyurethane foam business, net funds stood at £5.4 million at the half-year end compared with £5.0 million at the previous half-year.

The Corpura joint venture has strengthened AMS's position in the largest, fastest growing segment of the advanced woundcare dressings market and provides an additional material platform for the delivery of new technologies currently under evaluation within R&D.

The reclassification of tissue adhesives by the FDA announced in May 2008 is of enormous significance as it facilitates entry of AMS's LiquiBand® range into the key US market following 510(k) regulatory approval, the application for which is currently under way.

Operating Review

Advanced Woundcare
Advanced woundcare sales of £8.1 million were up 29% on the prior half-year, which is well ahead of the currently estimated market growth rate of around 9%.

Silver alginate continues to be a major growth driver for this business segment. AMS has two silver technologies being sold by a number of major branded woundcare companies into the key global market channels: hospitals, nursing homes, home health and burn clinics. The Group's presence in this dynamic market, which is estimated to have a current value of $300 million and to be growing at 20%, was further strengthened by signing new marketing and distribution partners in the US and Europe and broadening the product range.

Good progress continues to be made in penetrating the UK NHS with AMS's own brand ActivHeal®. ActivHeal® is a range of woundcare dressings offered directly to the NHS as a first line therapy for treating routine wounds and offers substantial savings in woundcare budgets. The ActivHeal® range complements the use of AMS's new technologies, such as silver alginate, for treating infected or more difficult to heal wounds, which are sold through strategic partners.

In June, the full ActivHeal® range was included on the new framework agreement negotiated by NHS Supply Chain, part of DHL Logistics, for the supply of advanced woundcare products to NHS Hospital Trusts.

This is the first procurement project of its type in the medical device arena and involved a robust supplier selection process including clinical user groups to assess economic and clinical aspects of companies' products. The evaluation included cost, quality, clinical data, innovation, manufacturing capability, user education and clinical/technical support.

The ActivHeal® range was rated highly in the assessment reflecting the quality of the comprehensive offering by AMS in this product sector. The product range consists of alginate, foam, hydrocolloid, hydrogel and the recently introduced AquaFiber® high absorbancy, clear gelling dressing.

Inclusion of the full ActivHeal® range on the new framework agreement underpins AMS's NHS direct woundcare business over the next two years. In addition to a strong cost management offering, added value features such as the innovation provided by a UK-based R&D and manufacturing presence and the clinical training and education provided by the UK clinical nurse team were also recognised during the supplier assessment process.

In May, AMS formed a joint venture with Recticel, a Belgian-based global leader in polyurethane foam, under which it acquired 49.4% of the shares in Corpura BV, a fully owned subsidiary of Recticel.

Established in 2004, Corpura develops and produces hydrophilic polyurethane foams for medical applications from a state-of-the-art, dedicated R&D and manufacturing facility in Etten Leur, Netherlands. Corpura, which is cash generative and employs 13 people, reported sales of 2.2 million in 2007.

Corpura supplies AMS with base polyurethane foam for inclusion into AMS's foam products. The shareholding in Corpura has given the Group a strong technology position in polyurethane foams — the largest ($900 million) and fastest growing (20%) segment of the advanced woundcare dressings market — and provides an ideal platform material for delivery of higher value technologies to prevent infection and help accelerate wound healing.

Wound Closure and Sealants
The wound closure and sealants business grew in line with expectations at 8% to £1.8 million in the period (H1 2007: 28% to £1.7 million), reflecting Kimberly-Clark Health Care's launch of InteguSeal® and related stocking and pipeline fill in the prior period. Reaction from users and institutions remains positive as clinical evidence is being generated demonstrating the benefits of the product as a means of reducing skin flora contamination of the wound site in a wide range of surgical procedures.

Good progress continues to be made in penetrating the European market with the LiquiBand® tissue adhesive range, with a particularly strong presence being built in the Emergency Room (ER) arena. The Group has maintained its market leadership in the UK and its Education Programme for minor wound closure was accredited in January by the Royal College of Nursing Accreditation Unit. Containing both theory and a practical skills session this programme enables UK nursing staff to gain an in-depth knowledge of closing wounds by using tissue adhesives in the emergency room for treating small cuts and trauma wounds, and contributes study hours towards their continuing professional development.

The Group is continuing to review its strategy for penetration of the European Operating Room (OR) market where it currently has limited presence through specialist OR distributors. This review includes expanding its direct sales presence, currently limited to the UK Emergency Room arena, together with the development of a range of OR products with strong clinical support.

Whilst good progress continues to be made in growing the European business, the dominant segment of the global

topical tissue adhesives market, currently estimated to be $200 million and growing at a rate of 15%, is the US. Regulatory approval for entering this market is progressing well.

In May, the FDA completed its review of a petition submitted by AMS for reclassification of tissue adhesives for topical approximation of skin. The FDA concluded that these devices should be reclassified from Class III into Class II. This means that tissue adhesives will now be cleared for commercial distribution via a Pre-market Notification 510(k) submission rather than the more onerous Pre-market Approval application (PMA).

510(k) submissions covering the LiquiBand® tissue adhesive range have been prepared and are currently under review by the FDA with approval anticipated this year allowing AMS entry into the US market in 2009 through marketing partners.

Research & Development

The Group has continued to invest in a strategically aligned and focused R&D programme to deliver future profitable growth.

Short to medium term developments (2008–2009) are focused on fully exploiting silver technologies in advanced woundcare and upgrading the LiquiBand® product range with indication-specific devices.

Longer term research activities (2010–2011) are focused on new technology platforms to access new market opportunities or address unmet clinical needs.

In advanced woundcare, a wide range of new technologies with the potential to accelerate wound healing has been assessed and potential licensing opportunities identified. Of particular interest are technologies that inhibit the formation of bacterial biofilms or that modulate excess protease activity as both factors are associated with delayed wound healing. These technologies would be incorporated into AMS woundcare materials and regulated as medical devices.

In wound closure and sealants, longer term R&D efforts are focused on entering the $600 million internal adhesives and sealants market. A development programme is now under way for an implantable adhesive for fixation of surgical materials and devices utilising the Group's expertise in cyanoacrylate chemistry and applicator design.

New premises

In July, AMS announced that it had agreed a pre-let for the lease of a 138,500 sq. ft. bespoke building in Winsford, Cheshire, for development into a new facility comprising offices, R&D laboratories, manufacturing and warehousing. This facility will be available for fit-out in early 2009 and allow rationalisation of AMS's two existing facilities in Winsford into the new building during 2009 and 2010.

A 15 year lease, with an option to extend for a further 10 years, has been agreed for the new facility, which is sized to accommodate AMS's existing operations and to allow future expansion.

Financial Review

Summary

After a further six months of strong operational performance, the operating margin for the Group improved to 10.5% compared with 7.2% for the prior half year and profit before taxation increased 80% to £1.2 million (2007: £0.7 million).

Fully diluted earnings per share increased to 0.85p (2007: 0.54p).

In May the Group announced that it had entered a joint venture with Recticel Noord BV to acquire 49.4% of its subsidiary Corpura BV for £1.3 million and to provide funding of £0.7 million.

At the end of the period the Group had net funds of £5.4 million (2007: £5.0 million).

Revenue

Revenue increased 24% to £9.8 million for the first six months ended 30 June 2008. Advanced woundcare sales increased 29% to £8.1 million with silver alginate and alginate sales performing well and with sales of the Activheal® range into the NHS increasing by more than 50%. Wound closure and sealant sales grew 8% to £1.8 million with sales of the surgical skin sealant showing good traction following the previous year's launch.

Revenue growth continues in all key geographical regions. Sales into the UK increased 30% with both partner business and sales to the NHS doing well. Sales into the US grew 52% despite the continuing weak dollar. Approximately 70% of these sales are denominated in dollars. However, as the dollar has been at a comparable rate in H1 2008 compared with H1 2007 there was not a significant impact on sales. Sales into Europe grew 6%, reflecting the ordering patterns of the Group's partners. More than 90% of the Group's sales into Europe are denominated in sterling so the Group did not see a significant benefit from the strong euro.

Gross margin and profit from operations

Gross margin increased to 47% (H1 2007: 43%) across the Group with both business segments contributing to the improvement.

Profit from operations increased to £1.0 million or 10.5% of sales, a 79% improvement compared with the first half last year. Administration costs have increased as investment has been made in sales, R&D and administration to support the growth of the business. The segment result for the advanced woundcare business improved to £1.3 million or 16% of sales (H1 2007: 9%). The segment result for the wound closure and sealants business included around £0.3 million of R&D costs relating to obtaining approval to sell LiquiBand® in the USA. Adjusting for these costs, the segment result would have been 13% of sales compared with 9% in the previous year.

Other income resulted from fees paid by partners for the development of new products.

Interest and taxation

Net interest was £0.2 million earned on the cash and investment balances in the period.

The Group recognised a tax income of £0.1 million, mainly resulting from an increase in the deferred tax asset.

Earnings per share
The profit after tax for the period was £1.3 million. Basic earnings per share increased 60% to 0.91p and on a fully diluted basis earnings per share increased 57% to 0.85p.

Cash flow and net investments
Cash inflow from operating activities in the first six months was £0.5 million. There was an increase in working capital in the period of £1.1 million with trade receivables increasing by £0.7 million. As reported in the 2007 results, trade receivables were better than expected at the end of the year as some customers paid earlier than expected. Adjusting for this, the increase in trade receivables is in line with the increased revenue of the Group and with the increased volume of business to the USA. Debtor days at the end of June were 55 compared with 52 at the year end.

Working capital as a percentage of sales was 16% compared with 12% at the end of the year.

The Group invested £0.4 million in plant and equipment and capitalised £0.1 million of its R&D spend. Around £4 million of capital expenditure has been identified for the fit-out of the new facility, which will start in 2009. Both cash and financing will be used to fund this fit-out.

On 30 May 2008 AMS acquired 49.4% of Corpura BV, a company based in Etten Leur, Netherlands, from Recticel Holding Noord BV for a cash consideration of £1.3 million and has provided £0.7 million of funding towards the joint venture. Corpura BV develops and produces hydrophilic, polyurethane foams that have medical applications.

Details on the joint venture are included in note 6.

The joint venture has been accounted for under the equity method.

At the half year the Group's balance sheet remains strong with net funds of £5.4 million.

Principal risks
The principal financial risks affecting the business activities of the Group are detailed on page 20 of the Annual Report and Accounts for the year ended 31 December 2007. The management considers the rationalisation of its advanced woundcare operations to be a key focus over the next eighteen months to ensure minimal disruption to the business.

Outlook
AMS operates in a market whose demographics are extremely favourable, underpinned by an increasing need for products to treat chronic and acute wounds.

The Group remains well placed to continue to deliver organic growth, driven by silver alginate sales through multiple partners, increased penetration into the NHS, access to polyurethane foam technology and a strong R&D pipeline. Entry into the US market with LiquiBand®, expected in 2009, offers a near-term step change opportunity for the business.

With trading continuing to be strong at the start of the second half of the year, the outlook for the business remains very positive.

Dr Geoffrey N Vernon
Chairman
8 September 2008

INDEPENDENT REVIEW REPORT TO ADVANCED MEDICAL SOLUTIONS GROUP plc

Introduction
We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2008 which comprises Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report, including the conclusion, has been prepared for and only for the company for the purpose of meeting the requirements of the AIM Rules for Companies and for no other purpose. We do not, therefore, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Directors' Responsibilities
The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing and presenting the interim financial report in accordance with the AIM Rules for Companies.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee ("IFRIC") pronouncements as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with the measurement and recognition criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee ("IFRIC") pronouncements, as adopted by the European Union.

Our Responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with the measurement and recognition criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee ("IFRIC") pronouncements as adopted by the European Union, and the AIM Rules for Companies.

Baker Tilly UK Audit LLP
Chartered Accountants
Number One Old Hall Street
Liverpool
L3 9SX

8 September 2008

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Note	**Six months ended 30 June 2008 £'000**	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Revenue	5	**9,844**	7,932	16,856
Cost of sales		**(5,239)**	(4,536)	(9,431)
Gross profit		**4,605**	3,396	7,425
Distribution costs		**(75)**	(44)	(130)
Administration costs		**(3,849)**	(2,913)	(6,158)
Profit/(loss) on disposal of property, plant & equipment		**10**	—	3
Other income		**339**	138	512
Share of result of joint venture		**—**	—	—
Profit from operations		**1,030**	577	1,652
Finance income		**181**	100	282
Finance costs		**(16)**	(13)	(29)
Profit before taxation		**1,195**	664	1,905
Income tax		**111**	144	331
Profit for the period attributable to equity holders of the parent		**1,306**	808	2,236
Earnings per share				
Basic	4	**0.91p**	0.57p	1.57p
Diluted		**0.85p**	0.54p	1.48p

CONSOLIDATED BALANCE SHEET

At 30 June 2008

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Assets			
Non-current assets			
Acquired intellectual property rights	**1,482**	1,650	1,566
Software intangibles	**49**	25	45
Development costs	**369**	269	342
Property, plant and equipment	**2,914**	3,014	2,910
Deferred tax assets	**1,849**	1,065	1,421
Trade and other receivables	**200**	200	200
Investment in joint venture	**2,020**	—	—
	8,883	6,223	6,484
Current assets			
Inventories	**1,934**	1,940	1,726
Trade and other receivables	**4,650**	3,617	3,504
Tax receivable	**—**	17	—
Investments	**4,817**	3,864	6,654
Cash and cash equivalents	**846**	1,460	876
	12,247	10,898	12,760
Total assets	**21,130**	17,121	19,244
Liabilities			
Current liabilities			
Trade and other payables	**3,124**	2,634	2,909
Other taxes payable	**226**	100	276
Financial liabilities	**16**	15	15
Obligations under finance leases	**12**	6	5
	3,378	2,755	3,205
Non-current liabilities			
Financial liabilities	**271**	286	279
Obligations under finance leases	**63**	16	14
	334	302	293
Total liabilities	**3,712**	3,057	3,498
Net assets	**17,418**	14,064	15,746
Equity			
Share capital	**7,166**	11,823	7,157
Share-based payments reserve	**224**	116	154
Investment in own shares	**(18)**	—	(13)
Share-based payments deferred tax reserve	**609**	160	320
Share premium	**20**	37,984	17
Merger reserve	**1,531**	1,531	1,531
Retained earnings	**7,886**	(37,550)	6,580
Total equity	**17,418**	14,064	15,746

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Group

	Share capital £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2008	**7,157**	**154**	**(13)**	**320**	**17**	**1,531**	**6,580**	**15,746**
Share-based payments	**—**	**70**	**—**	**—**	**—**	**—**	**—**	**70**
Share-based payments — deferred tax	**—**	**—**	**—**	**289**	**—**	**—**	**—**	**289**
Issue of share capital	**5**	**—**	**—**	**—**	**—**	**—**	**—**	**5**
Share options exercised	**4**	**—**	**—**	**—**	**3**	**—**	**—**	**7**
Shares purchased by EBT	**—**	**—**	**(89)**	**—**	**—**	**—**	**—**	**(89)**
Shares sold by EBT	**—**	**—**	**84**	**—**	**—**	**—**	**—**	**84**
Consolidated profit for the period to 30 June 2008	**—**	**—**	**—**	**—**	**—**	**—**	**1,306**	**1,306**
At 30 June 2008	**7,166**	**224**	**(18)**	**609**	**20**	**1,531**	**7,886**	**17,418**

	Share capital £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2007	11,782	60	—	67	37,978	1,531	(38,369)	13,049
Share-based payments	—	94	—	—	—	—	—	94
Share-based payments — deferred tax	—	—	—	253	—	—	—	253
Issue of share capital	34	—	—	—	—	—	—	34
Share options exercised	19	—	—	—	17	—	—	36
Cancellation of deferred shares	(4,678)	—	—	—	—	—	4,678	—
Cancellation of share premium account	—	—	—	—	(37,978)	—	37,978	—
Shares purchased by EBT	—	—	(34)	—	—	—	—	(34)
Shares sold by EBT	—	—	21	—	—	—	—	21
Surplus on EBT	—	—	—	—	—	—	57	57
Consolidated profit for the year to 31 December 2007	—	—	—	—	—	—	2,236	2,236
At 31 December 2007	7,157	154	(13)	320	17	1,531	6,580	15,746

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Cash flows from operating activities			
Profit from operations	**1,030**	577	1,652
Adjustments for:			
Depreciation	**343**	383	686
Amortisation — intellectual property rights	**84**	84	168
— development costs	**92**	13	16
— software intangibles	**11**	8	19
Profit on sale of non-current assets	**(10)**	—	(3)
Decrease/(increase) in inventories	**(208)**	(154)	60
Decrease/(increase) in trade and other receivables	**(1,073)**	124	396
Increase in trade and other payables	**137**	86	603
Share based payments expense	**70**	56	94
Net cash inflow from operating activities	**476**	1,177	3,691
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	**25**	—	3
Purchase of software	**(15)**	(5)	(35)
Research and development	**(119)**	(303)	(294)
Purchases of property, plant and equipment	**(362)**	(228)	(502)
Taxation	**—**	—	9
Investment in money market deposits	**1,837**	86	(2,704)
Interest received	**108**	78	101
Investment in joint venture	**(2,020)**	—	—
Net cash used in investing activities	**(546)**	(372)	(3,422)
Cash flows from financing activities			
Finance lease	**50**	15	(8)
Repayment of secured loan	**(1)**	(7)	(15)
Issue of equity shares	**12**	47	70
Shares purchased by EBT	**(89)**	—	(34)
Shares sold by EBT	**84**	—	21
Interest paid	**(16)**	(13)	(29)
Net cash from financing activities	**40**	42	5
Net (decrease)/increase in cash and cash equivalents	**(30)**	847	274
Cash and cash equivalents at the beginning of the period	**876**	602	602
Foreign exchange rate adjustments	**—**	11	—
Cash and cash equivalents at the end of the period	**846**	1,460	876

1. Reporting Entity

Advanced Medical Solutions Group plc ("the company") is a public limited company incorporated and domiciled in England and Wales (registration number 2867684). The company's registered address is Road Three, Winsford Industrial Estate, Winsford, Cheshire, CW7 3PD.

The company's ordinary shares are traded on the AIM market of the London Stock Exchange plc. The financial statements of the company for the twelve months ended 31 December 2007 comprise the company and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in the design, development and manufacture of novel high performance polymers (both natural and synthetic) for use in advanced woundcare dressings and medical adhesives for closing and sealing tissue, for sale into the global medical device market.

2. Basis of Preparation

The interim statements have been prepared in accordance with the accounting policies set out in the annual report for the year ended 31 December 2007 and those to be adopted at 31 December 2008. The results for the six months ended 30 June 2007 and 30 June 2008 have not been audited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

The results for the year ended 31 December 2007 are extracted from the audited annual financial statements on which the auditor reported without qualification. Full financial statements for that year have been filed with the Registrar of Companies.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

The financial statements have been prepared on the historical cost basis of accounting except as disclosed in the accounting policies set out below.

The individual financial statements for each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

3. Accounting policies

Basis of consolidation

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control; that is, when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

The Group reports its interests in jointly controlled entities using the equity method of accounting where it is considered that the Group is able to exercise joint control over the operating and financial decisions of the investee.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is recognised as part of the investment and reviewed for impairment when there is objective evidence of impairment.

4. Earnings per share

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**1,306**	808	2,236
Number of shares	**'000**	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**143,198**	142,430	142,535
Effect of dilutive potential ordinary shares: share options, deferred share bonus, LTIPs	**10,054**	6,668	8,684
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**153,252**	149,098	151,219

5. Segment information

For management purposes, the Group is organised into two business units, advanced woundcare and wound closure and sealants. These divisions are the basis on which the Group reports its segment information.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments, and related revenue, corporate assets, head office expenses and income tax assets.

Business segments

The principal activities of the advanced woundcare business unit are the research, development, manufacture and distribution of novel, high performance polymers for use as wound dressings.

The principal activities of the wound closure and sealants business unit is the research, development, manufacture and distribution of medical adhesives and products for closing and sealing tissue.

Segment information about these businesses is presented below.

2008	Advanced woundcare six months ended 30 June 2008 £'000	Wound closure & sealants six months ended 30 June 2008 £'000	Eliminations six months ended 30 June 2008 £'000	Consolidated six months ended 30 June 2008 £'000
Revenue				
External sales	**8,037**	**1,807**	**—**	**9,844**
Inter-segment sales	**20**	**—**	**(20)**	**—**
Total revenue	**8,057**	**1,807**	**(20)**	**9,844**

Inter-segment sales are charged at prevailing market prices.

Result				
Segment result	**1,296**	**(53)**	**—**	**1,243**
Unallocated expenses	**—**	**—**	**—**	**(213)**
Profit from operations	**—**	**—**	**—**	**1,030**
Finance income	**—**	**—**	**—**	**181**
Finance costs	**—**	**—**	**—**	**(16)**
Profit before tax	**—**	**—**	**—**	**1,195**
Tax	**—**	**—**	**—**	**111**
Profit for the year				**1,306**

Note: Included within the advanced woundcare segment result is £Nil in respect of the results of Corpura BV.

5. Segment information continued

Other information	Advanced woundcare six months ended 30 June 2008 £'000	Wound closure & sealants six months ended 30 June 2008 £'000	Eliminations six months ended 30 June 2008 £'000	Consolidated six months ended 30 June 2008 £'000
Capital additions:				
Software intangibles	**11**	**4**	**—**	**15**
Research & development	**97**	**22**	**—**	**119**
Property, plant and equipment	**232**	**130**	**—**	**362**
Depreciation and amortisation	**381**	**149**	**—**	**530**

Balance sheet

Assets				
Segment assets	**12,582**	**4,344**	**—**	**16,926**
Unallocated assets				**4,204**
Consolidated total assets				**21,130**
Liabilities				
Segment liabilities	**2,488**	**1,003**	**—**	**3,491**
Unallocated liabilities				**221**
Consolidated total liabilities				**3,712**

Note: Included in advanced woundcare segment assets is £2,020K in respect of Corpura BV.

2007	Advanced woundcare six months ended 30 June 2007 £'000	Wound closure & sealants six months ended 30 June 2007 £'000	Eliminations six months ended 30 June 2007 £'000	Consolidated six months ended 30 June 2007 £'000
Revenue				
External sales	6,262	1,670	—	7,932
Inter-segment sales	3	—	(3)	—
Total revenue	6,265	1,670	(3)	7,932

Inter-segment sales are charged at prevailing market prices.

Result				
Segment result	556	153	—	709
Unallocated expenses				(132)
Profit from operations				577
Finance income				100
Finance costs				(13)
Profit before tax				664
Tax				144
Profit for the year				808

5. Segment information continued

Other information	Advanced woundcare six months ended 30 June 2007 £'000	Wound closure & sealants six months ended 30 June 2007 £'000	Eliminations six months ended 30 June 2007 2007 £'000	Consolidated six months ended 30 June 2007 £'000
Capital additions;				
Software intangibles	5	—		5
Research & development	226	77		303
Property, plant and equipment	105	123		228
Depreciation and amortisation	364	116		480

Balance sheet

Assets				
Segment assets	8,550	4,132		12,682
Unallocated assets				4,439
Consolidated total assets				17,121
Liabilities				
Segment liabilities	1,722	1,109		2,831
Unallocated liabilities				226
Consolidated total liabilities				3,057

2007	Advanced woundcare year ended 31 December 2007 £'000	Wound closure & sealants year ended 31 December 2007 £'000	Eliminations year ended 31 December 2007 £'000	Consolidated year ended 31 December 2007 £'000
Revenue				
External sales	12,799	4,057	—	16,856
Inter-segment sales	28	—	(28)	—
Total revenue	12,827	4,057	(28)	16,856

Inter-segment sales are charged at prevailing market prices.

Result				
Segment result	1,363	715	—	2,078
Unallocated expenses				(426)
Profit from operations				1,652
Finance income				282
Finance costs				(29)
Profit before tax				1,905
Tax				331
Profit for the year				2,236

5. Segment information continued

Other information	Advanced woundcare year ended 31 December 2007 £'000	Wound closure & sealants year ended 31 December 2007 £'000	Eliminations year ended 31 December 2007 £'000	Consolidated year ended 31 December 2007 £'000
Capital additions;				
Software intangibles	33	2	—	35
Research & development	187	107	—	294
Property, plant and equipment	335	167	—	502
Depreciation and amortisation	645	244	—	889

Balance sheet

Assets				
Segment assets	7,084	4,377		11,461
Unallocated assets				7,783
Consolidated total assets				19,244
Liabilities				
Segment liabilities	2,213	1,061	—	3,274
Unallocated liabilities				224
Consolidated total liabilities				3,498

Geographical segments

The advanced woundcare and wound closure and sealants segments operate mainly in the UK, with a sales office located in the USA. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services, based upon location of the Group's customers:

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
United Kingdom	**3,568**	2,738	5,731
Europe excluding United Kingdom	**3,678**	3,469	6,686
United States of America	**2,467**	1,620	4,217
Rest of World	**131**	105	222
	9,844	7,932	16,856

All assets are classified as under the United Kingdom due to the immateriality of the carrying value of all assets held in the United States of America.

6. Investment in joint venture

On 30 May 2008 the Group and Recticel formed a joint venture relating to Corpura BV, Recticel's fully owned subsidiary. The Group acquired 49.4% of the issued share capital of Corpura BV for £1.3 million and has provided funding of £0.7 million for the joint venture. Corpura BV develops and produces hydrophilic polyurethane foams in Etten Leur, the Netherlands.

	£'000
Fair value of net assets acquired	270
Goodwill	1,006
Consideration	1,276

The joint venture has been accounted for under the equity method.

Advanced Medical Solutions is a leading company in the development and manufacture of products for the $15 billion global woundcare market.

Founded in 1991 and quoted on AIM, Advanced Medical Solutions is focused on the design, development and manufacture of innovative and technologically advanced woundcare products.

In-house natural and synthetic polymer technology is used to provide advanced wound dressings based on the moist healing principle. AMS's resources ensure a unique position as a vertically integrated "one stop shop" to provide all categories of moist wound healing produts. The company has the capability to move a product from design and development through to production and delivery ready for distribution and sale into customer markets.

The acquisition of MedLogic in 2002 brought AMS products and technology in cyanoacrylate-based tissue adhesives that offer benefits over sutures and staples for closing topical wounds sold direct to hospitals or through distributors.

Advanced woundcare
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.

Silver alginate
Due to concerns over wound infection by "super-bugs" such as MRSA, there is a strong trend towards the use of anti-microbial dressings, currently utilised in advanced woundcare with silver the dominant anti-microbial technology and alginate the major dressing. AMS has exploited this trend and has developed a strong competitive position by developing various silver technologies to combine with its alginate.

AMS's 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 the time and overall cost of treatment and provide a better opportunity for healing to progress undisturbed.

ActivHeal®
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 2006 Woundcare Conference held on 13–15 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's products. The study data was collated from more than 150 applications from 9 NHS Trusts, including 5 Hospitals and 4 Primary Care Trusts.

A full range of support services are provided by the 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.

Wound closure and sealants
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.

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.

Marketing strategy
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.

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