Advanced Medical Solutions Group plc
Annual Report and Accounts 2011

A year of progress and delivery

Advanced Medical Solutions Group plc

Advanced Medical Solutions Group is a global medical device business providing innovative products and brands in the areas of Accelerating healing and managing wounds, Minimising adverse surgical outcomes and Sealing and closing tissue.

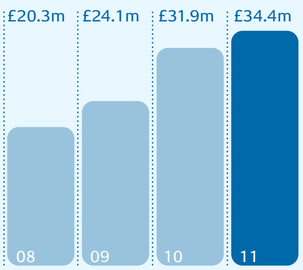




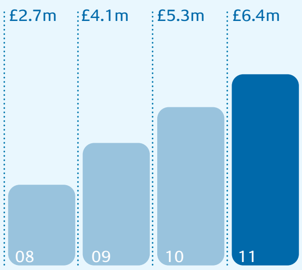

Contents

Financial Highlights

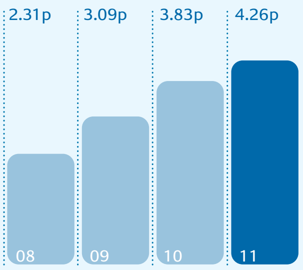
Group revenue
up 8% at £34.4m



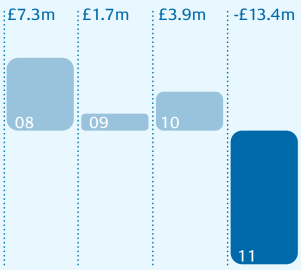
Profit from operations
(pre-exceptional items[2])
up 20% at £6.4m



Basic earnings per share
(pre-exceptional items[2])
up 11% at 4.26p



Net funds[4]/debt[3]



> Revenue up 8% to £34.4 million (2010: £31.9 million) at actual currency and 9% at constant currency[1]

> Operating margin (pre-exceptional items[2]) up 190 basis points to 18.6% (2010: 16.7%)
Operating margin (post-exceptional items[2]) down 20 basis points to 13.4% (2010: 13.6%)

> Operating profit (pre-exceptional items[2]) up 20% to £6.4 million (2010: £5.3 million)
Operating profit (post-exceptional items[2]) up 6% to £4.6 million (2010: £4.3 million)

> Basic earnings per share (pre-exceptional items[2]) up 11% to 4.26p (2010: 3.83p)
Basic earnings per share (post-exceptional items[2]) decreased 2% to 3.10p (2010: 3.17p)

> Cash inflow from operating activities (pre-exceptional items[2]) of £5.5 million (2010: £8.1 million)
Cash inflow from operating activities (post-exceptional items[2]) of £4.9 million (2010: £7.1 million)

> Following the acquisition of RESORBA®, net debt[3] was £13.4 million at 31 December 2011 (2010: net funds[4] £3.9 million)

> Proposed final dividend of 0.305p per share, making a total dividend for the year of 0.45p per share (2010: 0.38p), an increase of 18%

1. Constant currency removes the effect of currency movements by re-translating the current year's performance at the previous year's exchange rates.
2. Exceptional costs of £1.8 million were incurred in relation to the RESORBA® acquisition (2010: exceptional costs of £1.0 million were incurred on the Winsford facility).
3. Net debt is defined as debt less cash, cash equivalents and short-term investments.
4. Net funds is defined as cash and cash equivalents plus short-term investments less debt.

Business Highlights

> Foam revenues up 49%, driven by successful new product developments and including a customer product launch

> ActivHeal® continues to make excellent progress, with sales to the NHS up 73%

> Silver alginate revenues up 5% excluding de-stocking by a major partner (down 2% including de-stocking)

> LiquiBand® revenues in Europe and the UK up 13%, maintaining our significant market positions in these geographies

> End-user sales of LiquiBand® US have increased over threefold in 2011 compared with 2010

> Successful €63.8 million acquisition in December of RESORBA®, a German woundcare and wound closure business, financed by new debt and equity

> New Winsford site delivers efficiency and margin gains in its first year

To find out more visit
www.admedsol.com

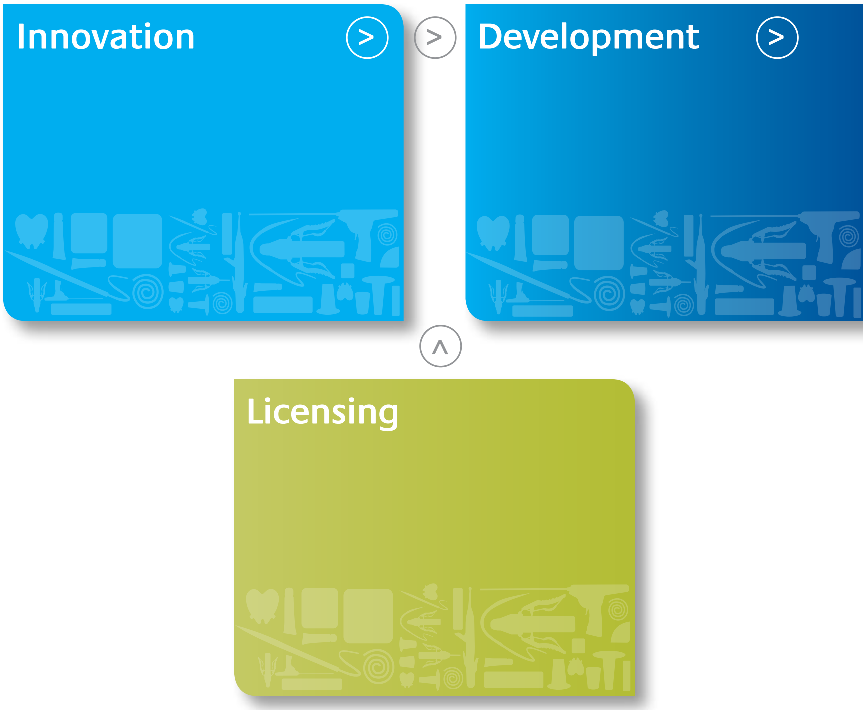
ActivHeal®: www.activheal.com
LiquiBand®: www.liquiband.com
RESORBA®: www.resorba.com

Our value chain

Innovation
Licensing
Development
Manufacturing
Distribution

Advanced Medical Solutions Group is a global business providing innovative products and brands in the areas of accelerating healing and managing wounds, minimising adverse surgical outcomes and sealing and closing tissue.

Building on our strengths, we work with strategic partners and distributors, as well as selling directly with our own sales force and are developing brands to commercialise our products worldwide. We have a broad portfolio of materials technology supported by strong intellectual property and patents and have successfully commercialised our research and development to provide innovative products for the market.



Our customer services team are integral to supporting our partners.

Our new Winsford facility officially opened in January 2011 and provides the capacity to support the growth of the Group.

The acquisition of RESORBA® brings us expertise in sutures and collagen and a sales force that has access to the operating room, emergency room and dental practices in Germany, Czech Republic and Russia.

Brands

Through our innovation and manufacturing capability we are developing our brands to provide a unique position in the market.

ActivHeal® is a full range of advanced woundcare products sold to the NHS in the UK.

The LiquiBand® range of topical wound closure products based on cyanoacrylate technology is sold direct into the NHS and globally through a partnership of distributors.

RESORBA® now provides the Group with a range of high quality brands with a strong reputation in Germany and a sales force that has direct access to the German healthcare market.

activheal

LIQUIBAND®

RESORBA® REPAIR AND REGENERATE

Partnership Solutions

We work with the world's leading woundcare companies to provide them with a fully comprehensive integrated service of design, development and manufacture of innovative and technologically advanced products. Our resources and specialist knowledge enable us to support our partners to gain a competitive edge, through continuous improvements to products, regulatory expertise and clinical support.

We also work with a number of distributors to provide own-label products treating routine wounds. These ranges help to address the needs of healthcare providers facing increasing cost constraints.

Our brands

Traditionally, AMS has worked with partners to supply products globally.

Through its direct sales force in the UK, AMS has been able to develop and offer to the NHS ActivHeal®, its range of woundcare dressings as well as LiquiBand®, its range of medical adhesives. The acquisition of RESORBA® has further broadened the Group's brands with a range of sutures and haemostats.

Our ActivHeal® range provides affordable woundcare for the NHS.

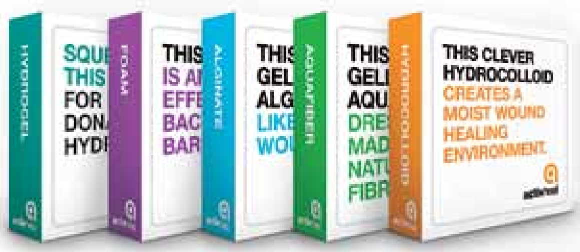
activheal

ActivHeal® was developed to offer the NHS a more affordable woundcare dressing range that delivers cost savings to the NHS without compromise on clinical effectiveness. ActivHeal® is supported across the UK by a dedicated team of healthcare professionals with extensive experience and qualifications in woundcare and tissue viability and by education modules available on the internet providing independent training on a variety of woundcare subjects. Our education book is available as a free woundcare resource and is endorsed by the University of Chester.

We sell into the NHS with our direct sales force in the UK.

Following a successful re-brand in 2010, sales increased 73% compared with prior year.

The ActivHeal® generic range includes Aquafiber, foam, alginate, hydrogel and hydrocolloids.



Historically, the Group's brands have accounted for about 25% of revenues. With the RESORBA® acquisition the Group's brands will be expected to contribute over 50% of revenue in 2012, giving us more direct control over our own sales channels.

LIQUIBAND®

The LiquiBand® range of wound closure and wound sealant products is designed to meet the needs of clinicians for safe, secure and effective wound closure.

Its high strength attributes make it the product of first choice in the majority of accident and emergency units in the UK and Europe. It was launched in the US in December 2009 and now has a market volume share there of 5% in the hospital market and 8% in the alternative site market.

LiquiBand® Flex was launched at the beginning of 2012 to meet the need of using tissue adhesives as liquid bandages, an application that particularly occurs in the US.

As well as continuing to develop our existing LiquiBand® range, work is progressing on developing the next generation of products and approval for an internal fixation device is being progressed.

LiquiBand® is now sold directly in the UK, Germany and Czech Republic with our own sales force. The sales force in Germany is able to access the operating room as well as the accident and emergency room. The rest of Europe and the US is accessed by partnership with a number of strategic distributors.

RESORBA®

REPAIR AND REGENERATE

RESORBA® has a full range of both absorbable and non-absorbable sutures as well as a range of haemostats based on collagen that are sold into the hospital, private practice and to oral surgeons. The brands of PGA RESORBA®, CAPROLON® and GLYCOLON® are part of RESORBA®'s absorbable range of sutures which together with its non-absorbable suture brands such as MOPYLEN® and RESOPREN®, offer surgeons complete confidence of wound closure. RESORBA®'s haemostats include KOLLAGEN-*resorb* and GENTA-COLL® *resorb*. KOLLAGEN-*resorb* is a very pure highly biocompatible collagen. GENTA-COLL® *resorb* is a collagen including the antibiotic gentamicin for use in wounds where there is a high risk of infection.

Building on its suture and collagen technologies, RESORBA® has developed products and brands particularly applicable to the oral surgery market. Parasorb Sombrero® is a dental collagen cone that can be used prior to surgery. RESORBA® also has dental cones containing antibiotics.

RESORBA® sells directly into Germany, the Czech Republic and Moscow, Russia with its direct sales force. It also has over 30 distributors world-wide for its surgical and oral wound-care products.

The opportunity for the Group now is to take these brands and products out into a wider global market, the opportunity in the UK being the most readily available.

Company Overview
Business Review
Corporate Governance
Financial Statements

Partnership solutions

Manufacturing

We believe the most effective way of commercialising new concepts and technologies on a global basis is through strategic partnerships with major branded companies.

We support our partners by using a tailored service from initial development through to completed product. We have invested in our new facility in Cheshire increasing our capacity to support the growth of the Group. With the RESORBA® acquisition we now have six manufacturing sites throughout Europe. All of our sites are ISO 13485 quality compliant.

One of the key strengths of the Group is its ability to gain regulatory approval for its products throughout the world and to support our partners as they extend the territories they sell into.

We also support our partners with clinical papers such as the US pilot study on the effectiveness of LiquiBand® in closing scalp lacerations and studies showing the antimicrobial efficiency of silver alginate in killing chronic and burn wound micro-organisms. These studies were published in the International Wound Journal and the Journal of Woundcare.

With a pipeline of products in development we look forward to the continued success of our partners.

New investments

Foam

As well as investing in our medical foam plant in the Netherlands, we have invested in an upgrade to our converting equipment that will support the launch of our trilaminate dressing range.

Innovation and product pipeline

The Group is committed to research and development and has an exciting pipeline of new products. The acquisition of collagen technology and the suture range from RESORBA® increases future opportunities. In addition to AMS's own specialist team of research scientists, the Group works with several leading universities as well as collaborating with other companies to develop the next generation of products.

Case studies

Anti-biofilm dressing

In August 2011, an option and licensing agreement was agreed with Sinclair IS Pharma. This allows us to access their Delmopinol technology to use in combination with selected antimicrobials to test for the combined effectiveness of breaking down and killing established wound biofilms.

Where wound biofilms are present, wounds can be difficult to treat. If the wound biofilms can be destroyed, infected wounds can be treated more readily.

Successful development should see a first product launched in 2013.

Hernia mesh fixation device

The development agreement signed with Surgical Innovation Group in September 2011 provides the laparoscopic device design expertise needed to move our internal adhesive programme forward.

Our first application for using cyanoacrylate adhesives internally will be the hernia mesh fixation device which will require a method of delivering adhesive accurately to the site of the mesh within the body.

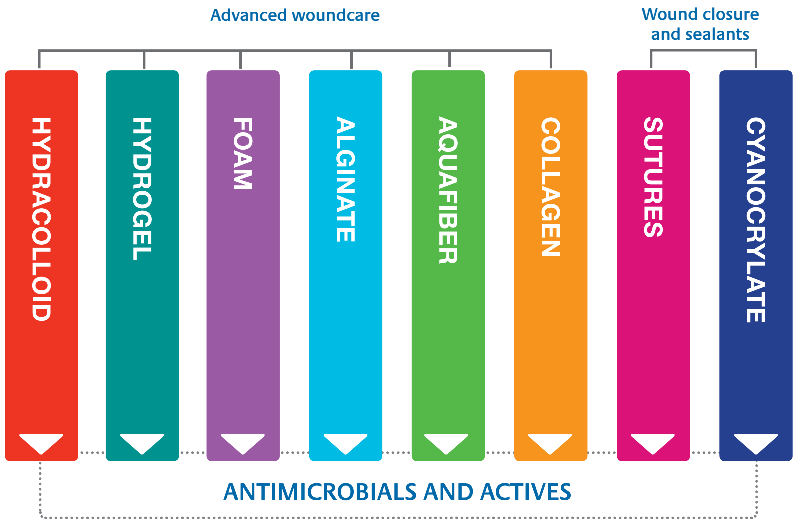
With Surgical Innovation's design of the device and our expertise in medical adhesives, we are expecting to have a product ready for launch in Europe in 2013.

Our technology platforms

Advanced Medical Solutions has a range of technologies for accelerating healing and managing wounds and sealing and closing tissue.

The RESORBA® acquisition provides the additional technologies of collagen and sutures.

Antimicrobials and actives can be added to these technologies to produce products with special features and benefits.



Across all our technology platforms in both advanced woundcare and wound closure and sealants, we continue to make progress by upgrading our base technologies and by the addition of actives and antimicrobials into these core platforms.

We continue to work with third parties to access and evaluate new technologies in both our wound management and wound closure business areas and will license technologies to develop new products.

R&D pipeline

- LiquiBand® Flex
- Tinted LiquiBand®
- Trilaminate foam dressing
- Hernia Mesh fixation device
- Anti-biofilm dressing

Business Review
Chairman's Statement

2011 was another year of strong revenue and profit growth for AMS. Prospects for 2012 look good and we look forward to the future with considerable optimism.

Dr. Don Evans
Chairman

I am pleased to report another year of significant progress. We have again delivered strong revenue and profit growth, and 2011 concluded with the acquisition of RESORBA®, a long established, profitable woundcare and wound closure business headquartered in Germany.

As the acquisition completed on 22 December 2011, RESORBA® had no effect on the 2011 trading results but impacted the 2011 income statement in relation to £1.8 million of exceptional costs incurred in respect of the transaction.

Financial highlights

Group revenue was up 8% to £34.4 million, profit from operations before exceptional items was up 20% to £6.4 million, and pre-tax profit before exceptional items was up 21% to £6.4 million.

We have again produced strong levels of operating cash, with a net cash inflow from operations (pre-exceptional items) of £5.5 million. Following the acquisition of RESORBA® in December 2011, which was financed by a well-received placing and a new term loan, we ended 2011 with net debt of £13.4 million.

Key business achievements

We have seen further gains across all areas of our Advanced Woundcare business, including ActivHeal® where the combined offering of quality products with significant cost savings for the NHS continue to drive strong sales growth. Our foam products are also seeing sustained, significant growth.

In Wound Closure and Sealants, we are very pleased with the continued progress of LiquiBand® in the US. All too often, new product launches see a reduction in second year sales after the initial surge of evaluations and trials settles down. However, we have been able to sustain a level of ex-factory sales that was broadly similar to 2010 and, with end market sales up three-fold year-on-year, we believe we have a platform for strong growth this year.

Our new Winsford facility was officially opened at the beginning of 2011 and we can confirm that our target of achieving a minimum 2% gross margin improvement in Advanced Woundcare by the end of calendar 2013 is well on track.

Dividend

AMS remains strongly cash generative and we remain confident in our ability to continue paying dividends on a progressive basis. Given the Group's strong performance in 2011 and the Board's confidence in the medium to long term prospects for the Group, the proposed final dividend will be 0.305p per share, making a total dividend for the year of 0.45p per share, an 18% increase on 2010. If approved at the Annual General Meeting on 12 June 2012, this will be paid on 15 June 2012 to shareholders on the register at the close of business on 18 May 2012.

Employees

On behalf of the Board and our shareholders, I would like to thank AMS employees for all their hard work last year. I would also like to welcome all RESORBA® employees to the Group.

Outlook

We continue to be confident about the prospects for our existing business, with the outlook for LiquiBand® and ActivHeal® being especially encouraging. 2012 has started well and it is also pleasing to report that the silver alginate partner that had previously been de-stocking has now returned to previous order patterns.

The acquisition of RESORBA® at the end of 2011 provides us with further commercial opportunities and more direct control of our sales channels. Integration is proceeding well and RESORBA® is expected to be earnings per share enhancing in its first full year.

2012 promises to be a pivotal year for us with over half of our revenue now expected to be generated from our own brands. We are very positive about the future prospects of the Group.

Dr. Don Evans
Chairman
27 April 2012

The recent acquisition of RESORBA® represents a significant milestone for the Group. It provides us with further commercial opportunities and more direct control of our sales channels.

Business Review
Chief Executive's Statement

Chris Meredith
Chief Executive Officer

I am delighted to report that, during my first year as Chief Executive Officer, AMS has achieved further strong organic growth. Our broadened range of foam woundcare products has performed strongly, ActivHeal® has had another outstanding year and LiquiBand® has performed well, both in the US and in other markets.

This time last year, I set out my vision for AMS together with an overview of the strategy we have put in place to build a significant, global medical devices business. The key parts of the strategy that I outlined were to build on our brand portfolio, to increase our penetration of the Operating Room, and to supplement organic growth through further licensing and acquisition activities.

We had expected to progress these aims through several steps over a number of years but the acquisition of RESORBA® in December 2011 has enabled us to address many key elements in a single deal. Amongst other benefits, we now have direct access to the Operating Room segment in Europe's largest surgical market (Germany), additional technologies that we can leverage into other markets using our regulatory and global distribution expertise, and a greatly enhanced own-brand portfolio that significantly increases the Group's direct control over its sales channels.

2011

Advanced Woundcare

Revenues from our Advanced Woundcare range of products increased by 10% in 2011 to £27.7 million (2010: £25.2 million). This compares very favourably with advanced woundcare market growth rates which are generally estimated to have been less than 3% in 2011.

We have continued to provide technical and clinical support to our silver alginate product partners, and the growth in the US that we reported at the interims has continued. However, the de-stocking by one major partner in the UK and Europe that we previously highlighted did continue in the second half of 2011 and has only recently started to unwind. Nevertheless, overall, our partners' global market share continues to close the gap to the market leader.

We are seeing clear benefits from the capital investment in our medical foam plant in the Netherlands, which has not only increased capacity but will also enable us to further develop our foam technology base. A number of new foam product designs were launched in 2011, and these will be supplemented later this year by the launch of a major upgrade to our foam product range, involving trilaminate dressings.

Our strategy of increasingly focusing on higher margin business across the Group means that sales of some lower margin woundcare products were down in 2011, and this trend will continue to some extent in 2012. Partly offsetting these reductions were a number of new customer launch orders for roll stock foam.

The attractions of our ActivHeal® range of products continue to resonate within the NHS with its combined messages of cost-savings without any compromise to clinical outcome or patient care. The rebrand in late 2010 has helped to successfully establish ActivHeal®


as a product of first choice for an increasing number of nurses. All of these factors combined to deliver an impressive performance in 2011.

2011 was the first full year of operations at the Winsford facility and I am particularly pleased by the seamless transition and by the clear efficiency and margin benefits that we are already seeing.

Wound Closure and Sealants

Overall Wound Closure and Sealants revenues were flat at £6.7 million (2010: £6.7 million).

2010 saw the first 12 months of LiquiBand® sales in the US and we were delighted to have achieved a volume market share of 5% by the end of that year. It is, however, fair to say that, notwithstanding the extremely positive response from end-users, we were cautious about 2011 as many new product launches see a dip in their second year when the numbers of evaluations and trials naturally decrease after the initial surge.

We are therefore very pleased to report that LiquiBand® revenues in the US in 2011 were largely unchanged from the year before, reflecting not only the absolute and comparative quality of our products but also their price competitiveness against the market leader. All of these factors have led to a large proportion of evaluation and trial sales being followed up with firm orders, and end-user sales increased over threefold in 2011 compared with 2010. As a result, LiquiBand® now has a full year market volume share of 5% in the US hospital market and 8% in the non-hospital or alternative site market.

In our other markets, 2011 was another good year for LiquiBand®, with non-US revenues up 13%. We have maintained our market-leading positions in the UK and Europe Emergency Room, and our partners in both Canada and Japan are gradually gaining a position in those markets, albeit at small levels.

As we have previously flagged, sales of InteguSeal®, through our marketing partner Kimberly-Clark, have been disappointing but they only account for about 1% of total revenues.

Research & Development

A key focus of our in-house R&D last year was on our new foam technology platform. We launched a number of new sizes and shapes in 2011, which have been well received, and we will shortly be launching a total range upgrade, involving modern, market leading, three-layer (trilaminate) dressings.

Our development work with Sinclair IS Pharma on their Delmopinol® ‘anti-biofilm’ technology is continuing. Results so far confirm its potential efficacy in breaking down biofilms in chronic wounds but there is still more work to do. Nevertheless, we remain optimistic that, subject to no unforeseen or insurmountable issues being identified, a first product could be ready for launch in 2013.

Our development agreement with Surgical Innovations on a laparoscopic device for delivering adhesive internally has moved on apace, and we now have a working prototype device that takes our internal adhesive programme a step nearer to market launch, which we are still targetting for 2013 in Europe.

Outlook

The acquisition of RESORBA® has key strategic benefits on a number of fronts, including:

- substantially increasing our own-brand portfolio, giving us far more direct control over our own sales channels whilst improving our gross margins;
- acquiring a direct sales force focused on the operating room which gives us an in-house distribution channel for our growing portfolio of surgically focused products, including InteguSeal®, a number of LiquiBand® products, our internal adhesive programme (when it launches) and a range of surgical dressings that are in plan to develop;
- adding a number of RESORBA® products (e.g. sutures) and technologies (e.g. collagen) where we expect to be able to use our regulatory expertise to gain relevant approvals in the US and elsewhere, and distribute through our global partner base;
- adding a new opportunity in dental/oral surgery where we have already begun the process of preparing for regulatory approval for LiquiBand®; and
- giving us increasing leverage in targeting customers, both via partners and directly, with our significantly expanded product portfolio.

All of these are in line with our previously stated strategic aims and, although we have much to do to fully integrate RESORBA®, we are excited about the additional opportunities we now have to accelerate the growth of AMS.

Advanced Woundcare

All indications are that ActivHeal® will continue its strong progress in 2012 and, with the launch of a trilaminate range of foam products later this year, we also anticipate further significant sales improvement in this segment. We are confident that this upgrade will move us up the value curve, while bringing the added future benefit of being an excellent delivery system for a number of actives.

In our silver alginate range, prospects in the US continue to be good, the de-stocking we saw last year in Europe and the UK has ended, and we are optimistic about the prospects for a number of product upgrades we expect to launch through our partners.

However, with an increasing emphasis on the higher margin products in our woundcare business, we anticipate further falls in revenue from some lower margin products. We would also not expect the level of foam roll-stock launch orders we received in 2011 to be repeated in 2012.

Business Review
Chief Executive's Statement continued

With the new woundcare products that we now have from RESORBA®, together with the trilaminate range of foam products that we plan to launch later this year, and the continuing efficiency benefits of the Winsford site, we are confident that our overall woundcare profitability will improve.

Wound Closure and Sealants
In the US adhesive market, there have been a number of developments in recent months involving initiatives by both AMS and others which were to be expected. We are confident that our overall competitive position remains unaffected and we continue to be very optimistic about our ability to increase our share of this key market:

- The US market leader launched a new closure product at the end of 2011 which now involves a single application but still has a much longer setting time than LiquiBand®. Whilst somewhat later than anticipated we had always expected this competitive response to the arrival of LiquiBand® in the US market but we remain confident of the continuing technical superiority and price competitiveness of our product for wound closure.
- Given the significant market opportunity and the competition's increasing focus on the liquid bandage application for tissue adhesives, we launched LiquiBand® Flex into the US market at the beginning of 2012. This addition to our range meets the need for a protective, anti-microbial liquid bandage, to 'paint' over wounds that have been closed by sutures or staples, expanding our offering and strengthening our competitive position.
- Two major distributors have recently launched or are about to launch their own liquid bandage products based on existing technology they have licensed in. One of these has been available for a few years in the US market under its original brand and was 're-launched' in 2011 under the distributor's own brand. The other, involving one of our partners, has not yet launched but is expected to do so this year. Notwithstanding these developments, we are as confident of the technical superiority and price competitiveness of LiquiBand® Flex as we are of our other LiquiBand® wound closure products. It is too early for market data to record the level of initial LiquiBand® Flex sales but initial responses from users have been very positive.
- As part of our strategy to increase our penetration of the operating room, and maximise value through retained ownership of the brand, we have expanded on our strategy to target the surgical segment of the US adhesive market by establishing partnerships with a number of smaller, specialised regional distributors whose sales teams have an operating room focus. We have already established four such relationships with distributors for LiquiBand® Flex and we expect to add a few more in the coming months to complete our US geographic access. We believe this approach will not only deliver greater control and higher margins but should also enable us to channel more of our products through this more specialised route in the future as our surgically focused product list increases.

In a similar vein but on a direct basis, we have also established a small UK team of our own surgically focused sales representatives who will take direct responsibility for promoting LiquiBand® surgical products, together with RESORBA®'s range of surgical sutures and collagen-based dressings.

Outside our existing markets, we have started the process of getting regulatory approval for LiquiBand® in China and are in early stage discussions with potential partners. We expect to use RESORBA®'s expertise to initiate the same process in Russia.

In relation to InteguSeal®, we remain confident about its potential and we continue to investigate options for delivering this product more effectively to the market. In this regard, we now have a direct surgically focused sales channel that we can exploit in Germany through RESORBA® and we hope to advise on other initiatives during 2012.

Licensing and Acquisitions
While the acquisition of RESORBA® is a significant transaction that will take time to fully integrate, and we are focused on this, we will continue to examine other acquisition opportunities which would add value to our overall business. We also continue to evaluate complementary technology licensing opportunities, particularly in woundcare, where we can take advantage of our innovation and manufacturing expertise.

Prospects for 2012
AMS has been significantly enhanced by the acquisition of RESORBA® at the end of 2011. Integration is progressing well and we are excited about the potential that RESORBA®'s operating room access brings for a number of our existing products, together with a range of their brands and technologies that we intend to leverage across our global distribution channels. RESORBA® also produces a significant shift in our business mix, where more than half of our revenues will now come from direct sales of our own brands.

2012 has started well across all our existing businesses and we are confident of achieving another year of strong progress.

Chris Meredith
Chief Executive Officer
27 April 2012

Business Review
Financial Review

Mary Tavener
Group Finance Director

The acquisition of RESORBA® was completed on 22 December 2011. With only three days of trading between completion and the end of the year and with no significant one-off events occurring in this period, the results for RESORBA® for this three-day period have not been included in the consolidated results for the Group for 2011. The income statement was, however, impacted by £1.8 million of exceptional expense relating to the costs of the acquisition, and the balance sheet and the cash flow statement are also affected.

Income statement

Revenues

Total Group revenue increased by 8% in 2011 to £34.4 million (2010: £31.9 million) at actual currency, and by 9% at constant currency.

Total advanced woundcare revenues increased by 10% to £27.7 million (2010: £25.2 million).

The main drivers of growth were ActivHeal®, which increased sales by 73%, and our foam products which increased by 49%. The latter benefited from a large launch order from one customer which we do not anticipate will be repeated in 2012.

Sales of our silver alginate range of products increased by 7% in the US compared with last year, although this was countered by a similar decrease in Europe and the UK due to continued de-stocking by one of our partners. Our overall silver alginate sales fell by 2% although this would have been an increase of 5% without the de-stocking effect.

Total wound closure and sealants revenues were flat at £6.7 million (2010: £6.7 million).

As discussed earlier, sales of LiquiBand® in the US were similar to the 2010 level while, outside the US, LiquiBand® continues to perform well in the UK and Europe, where sales increased by 13%.

Sales of InteguSeal® declined by 37% and are now approximately 1% of revenues.

Geographic breakdown of revenues

Europe (excluding the UK) is our largest market and, following the acquisition of RESORBA®, this weighting will increase further. In 2011, European revenues increased by 13%, mainly due to the sales of foam. In the UK, revenues rose by 11% due to the strong performance of ActivHeal® and LiquiBand® while, in the US, sales of LiquiBand® held firm and were at a similar level to last year. Revenues from the Rest of the World remain small and are at a slightly lower level compared to last year.

Profit from operations

Profit from operations (pre-exceptional items) increased by 20% to £6.4 million (2010: £5.3 million) and our operating margin (pre-exceptional items) improved by 190 basis points to 18.6% (2010: 16.7%).

Advanced woundcare contributed £6.2 million (pre-exceptional items of nil) (2010: £4.7 million pre-exceptional items of £1.0 million), with an operating margin of 22.4%, up by 360 basis points (2010: 18.8%). Approximately 180 basis points of this improvement resulted from operational efficiencies at the new Winsford site, with the remainder coming from improvements in sales mix.

Wound closure and sealants contributed £1.4 million (2010: £1.6 million) to profit from operations, with an operating margin that decreased by 310 basis points to 21.1% (2010: 24.2%). This was largely due to the investment made to support the sale of LiquiBand® in the US with clinical studies and marketing papers.

Administration costs for the Group (pre-exceptional items) increased by 5% to £9.7 million (2010: £9.3 million), mainly due to investment in marketing LiquiBand® and in supporting our partners with clinical papers on our silver alginate products.

Research and Development spend as a percentage of sales was unchanged from 2010 at 4%, and is expected to be over 5% in 2012, although some of this spend will be capitalised. This increased level of spend, together with the capitalisation of costs, reflects the timing of projects.

Exceptionals

There were exceptional costs of £1.8 million in 2011 associated with the RESORBA® acquisition, compared to £1.0 million in 2010 associated with the move into the Winsford facility. An additional £0.5 million of exceptional costs are anticipated in 2012 as a result of the integration of RESORBA®.

Profit from operations (post-exceptional items) was £4.6 million, an increase of 6% (2010: £4.3 million).

Other income

£0.2 million of other income was earned in the year (2010: £0.2 million). This was associated with fees earned on development projects.

Profit before tax

The Group's 2011 profit before tax (pre-exceptionals) was £6.4 million, an increase of 21% (2010: £5.3 million). Profit before tax (post-exceptionals) was 7% higher at £4.6 million (2010: £4.3 million).

Business Review
Financial Review continued

Tax
A corporation tax charge of £0.3 million, calculated at the statutory rate of 25.5%, has been recognised in the accounts for the year in respect of the taxable profits of our Dutch company. Profits generated in the Group's UK companies in the year were covered by surplus tax losses brought forward.

The Group holds a deferred tax asset on the balance sheet in respect of tax losses incurred in the UK of £2.8 million (2010: £2.3 million), and has a further £10.5 million (2010: £19.1 million) of tax losses that have not been recognised.

It is currently anticipated that corporation tax in the UK will start to be recognised on one of our UK entities in 2012 but, due to surplus tax losses elsewhere in the Group, corporation tax is not expected to be paid across the whole of our UK operations until 2014.

Our newly acquired business, RESORBA®, pays tax in Germany at 31.5% and this will be reflected in our 2012 accounts.

In 2012 we anticipate that the blended rate of tax for the Group will be approximately 16%.

Profit after tax, earnings per share and dividends
Profit after tax (pre-exceptional items) was £6.7 million (2010: £5.8 million) and, on this basis, fully adjusted basic earnings per share increased by 11% to 4.26p (2010: 3.83p). Fully diluted earnings per share (pre-exceptional items) also increased by 11% to 4.17p (2010: 3.77p).

On 20 December 2011 the Group issued 47.2 million new ordinary shares to finance the acquisition of RESORBA®. Excluding the impact of the new share issue, adjusted basic earnings per share would have increased by 12% to 4.29p (2010: 3.83p) and fully diluted earnings per share (pre-exceptional items) would have increased 11% to 4.20p (2010: 3.77p).

The Group's profit after tax (post-exceptional items) was unchanged at £4.8 million (2010: £4.8 million), resulting in adjusted basic earnings per share of 3.10p (2010: 3.17p) and fully diluted earnings per share of 3.04p (2010: 3.12p).

The Board is proposing a final dividend of 0.305p per share, to be paid on 15 June 2012 to shareholders on the register at the close of business on 18 May 2012. This follows the interim dividend of 0.145p per share that was paid on 4 November 2011, and makes the total dividend for the year 0.45p per share (2010: 0.38p), an 18% increase on 2010, reflecting the confidence of the Board in the Group's prospects.

Cash flow and balance sheet
The Group had a cash inflow from operating activities (pre-exceptional items) of £5.5 million (2010: £8.1 million), and £4.9 million (2010: £7.1 million) post-exceptional items of £0.6 million which had been paid in 2011 (2010: £1.0 million). The cash conversion ratio[1] (pre-exceptional items) was 47% for the year (2010: 79%) reflecting the higher levels of working capital in the business at the end of the year.

Working capital, excluding the effect of assets acquired from RESORBA®, increased in the year by £2.2 million, reflecting the phasing of business in the last quarter of the year. Inventory increased by £0.9 million to £3.4 million (2010: £2.5 million). Trade and other receivables increased by £3.0 million to £9.0 million (2010: £6.0 million), with debtor days increasing to 65 (2010: 52). Trade and other payables increased by £1.7 million with creditor days of 62 (2010: 71). The Group's debtor days have increased as result of the business mix in the US and generally slower payments in the UK. The Group had insignificant bad debts in 2011.

The Group invested £2.2 million in capital equipment and software in 2011 (2010: £3.7 million). Investments have been made in upgrading our woundcare dressings converting capability and on our business information systems, and a similar level of capital expenditure is expected in 2012. £0.3 million of Research and Development was capitalised in 2011 (2010: £0.2 million). With a number of projects well developed, there will be an increased level of capitalisation in 2012.

£2.9 million (2010: £2.9 million) of goodwill has been recognised on the balance sheet in relation to Corpura B.V. which was acquired in 2009. There was no impairment in goodwill upon review as at 31 December 2011.

The balance sheet acquired with the acquisition of RESORBA® has been recognised at fair value in line with IFRS. An exercise has been undertaken to value the intangible assets acquired which has resulted in a value of £11.8 million for brands, intellectual property (IP), know-how and contracts which will be amortised over periods of 1 to 15 years relating to IP acquired. Some of the acquired IP is considered to have an indefinite life, and this will be subject to an annual impairment review.

The provisional goodwill resulting from the acquisition of RESORBA® is £36.5 million which will be subject to annual impairment tests. Formal valuations on the land and properties are to be undertaken which may result in further adjustments to the valuation of goodwill.

1 Cash conversion ratio is defined as cash generated from operating activities before exceptional items including spend on property, plant and equipment, software and capitalised research and development but excluding spend on acquisitions as a ratio of profit from operations before exceptional items.

In December 2011, in connection with the acquisition of RESORBA®, the Group entered into a €25 million amortising term loan facility with HSBC with a final maturity of 31 July 2015. This facility carries an annual interest rate of EURIBOR plus a margin of 1.5 to 2.5% depending on the Group's net debt to EBITDA ratio. All of the €25 million was drawn down as at 31 December 2011.

In December 2011, the Group also entered into an £8 million revolving credit facility with HSBC with a final maturity of 31 July 2015. This facility is for general working capital purposes, and carries an annual interest rate of LIBOR plus a margin of 1.5 to 2.5% depending on the Group's net debt to EBITDA ratio. This facility replaces the Group's previous revolving credit facility with Lloyds TSB Bank. As at 31 December 2011, and at the date of this report, this new facility was undrawn.

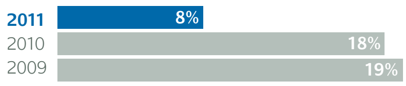
To partly finance the acquisition of RESORBA®, the Group issued 47.2 million new ordinary shares in December 2011 at a price of £0.72 per share, raising £34.0 million before acquisition and placing expenses of £3.2 million. £1.8 million of the latter has been expensed to the income statement as an exceptional item, £0.4 million has been capitalised as a cost of debt and £1.0 million has been debited to share premium. In addition, a combined total of 1.0 million new ordinary shares were subscribed for by a Director of AMS and by senior management of both AMS and RESORBA®, raising an additional £0.7 million.

The Group had net debt of £13.4 million as at 31 December 2011 (2010: net funds of £3.9 million). Within these balances, cash and cash equivalents were £7.1 million (2010: £4.1 million).

Mary Tavener
Group Finance Director
27 April 2012

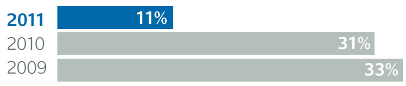
Key Performance Indicators (KPIs)(1)

Revenue Growth



Operating Margin

Earnings per share growth



Customer service (OTIF)(3)

Return on Capital Employed(2)

(1) All KPIs are stated pre-exceptional items.
(2) Excludes equity and debt raised to acquire RESORBA®.
(3) OTIF – 'On time in full'.

Business Review

Q&A
RESORBA® acquisition

Chris Meredith
Chief Executive Officer

What are the primary reasons for your move to acquire RESORBA®?

Our stated growth strategy has been to maximise the value of existing brands, to continue supporting our partners with innovative wound care products, to enhance our penetration of the operating room segment, and to supplement our organic growth with further licensing and acquisition activity. We had expected to achieve the latter through a number of smaller bolt-on deals but, in RESORBA®, we identified a business that fulfils many of our key aims in a single acquisition.

RESORBA® has a number of established brands in its core areas of surgical sutures and collagen based surgical dressings, the majority of which are sold directly to surgeons in Germany, the largest operating room market in Europe, and also in the Czech Republic and Russia. We will be looking to enhance its offering by using its direct sales team to market our existing brands to surgeons, in particular LiquiBand® but also InteguSeal®. We also intend to develop a range of surgical dressings under our own brand that can also be distributed by the RESORBA® surgical sales team.

One key benefit of the RESORBA® deal is that it significantly increases the percentage of Group sales from our own brands, from about 25% in 2011 to over 50% from 2012 onwards. This substantially increases the level of control over our own sales channels and, as a result, de-risks our business.

Finally, in the last few years, RESORBA® has also established a growing presence in the oral surgery market. While this is not a major part of their business, it presents a number of interesting opportunities including, for example, the use of LiquiBand® in oral surgery where we have already begun the process of applying for regulatory approval.

What are the key benefits that RESORBA® brings to AMS outside its core markets of Germany, the Czech Republic and Russia?

RESORBA®'s surgical suture and collagen based technologies present us with opportunities to significantly broaden the Group's portfolio of products that can be sold into a range of global markets via our distribution channels. For example, we will be looking to use RESORBA®'s expertise to develop private label suture products in new markets, something that our partners have already indicated they would welcome. Equally, we see opportunities in developing RESORBA®'s surgical collagen technology, as we have done with our foam technology, for sale through our global partner base.

A number of these products will require regulatory approvals, particularly in the US, but our experience of the 510(k) process gives us confidence that we would be able to achieve approval in a timely fashion.

More broadly, RESORBA® gives the Group a suite of products that is now broad enough for us to look to penetrate a number of important markets directly rather than via distribution partners. In this regard, we are reviewing options but, for example, we have already established our own small surgically focused sales team in the UK.

Does this acquisition change in any way your overall focus and growth strategy?

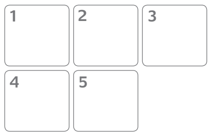
No – the organic growth opportunities that we have previously identified remain as exciting and as significant as before. The acquisition of RESORBA®'s fully complementary business enabled us to address a number of our strategic aims in one deal and gives us opportunities to accelerate our growth in a number of key areas and markets. For example, RESORBA® gives us a direct route to the surgical market and hence better control for a number of the exciting new products that are coming out of our R&D pipeline, including LiquiBand® for internal use.

Do you foresee any particular challenges in integrating RESORBA® and maximising its potential benefit to AMS?

There are always challenges in integrating any new business but we believe we have a strong track record in doing this successfully, including most recently Corpura in the Netherlands. There are some challenges with RESORBA® which will take time to resolve, including for example securing US regulatory approvals for some of their products (e.g. surgical sutures) but, again, we have significant experience in working with the FDA. A key point to remember is that the immediate, primary benefits from the RESORBA® acquisition are all centred on their existing business and their direct surgical sales force in Europe's largest surgical market.

Directors




1. Dr. Don W Evans
BChemEng, MASc, PhD
Non-Executive Chairman

Dr Evans was appointed Non-Executive Chairman of the Group in January 2011, having previously been Group Chief Executive Officer since January 2000. He joined AMS in 1997 as Operations Director and was appointed Managing Director of Advanced Woundcare in January 1999. 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 Vice-President of European Operations for Johnson & Johnson Professional.

2. Chris Meredith
BSc (Hons)
Chief Executive Officer

Mr Meredith was appointed Group Chief Executive Officer in January 2011. He joined AMS as Group Commercial Director in July 2005 following a successful 18-year career in international healthcare sales, marketing and business development. His experience prior to joining AMS covered business to business contract manufacturing, product development and clinical research, as well as branded product sales, all within the medical device, pharmaceutical or consumer healthcare markets. He was appointed Managing Director of Advanced Woundcare in February 2008 and in January 2010 he became Chief Operating Officer for the Group. Mr Meredith has previously held senior positions at Smiths Industries, Cardinal Health, Banner Pharmacaps, and Aster Cephac.

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. Penelope A Freer
Senior Independent Non-Executive Director

Ms Freer was appointed as Senior Independent Non-Executive Director of AMS on 1 March 2010. She is a partner of London Bridge Capital, an FSA authorised corporate advisory business and a non-executive director of Empresaria Group plc. With 25 years' experience in investment banking she was formerly Head of Equities for Robert W Baird in London and prior to this held senior positions at Credit Lyonnais and NatWest Markets.

5. Stephen G Bellamy
BCom & CA (NZ)
Non-Executive Director

Mr Bellamy was appointed as Non-Executive Director of AMS on 20 February 2007. He is currently CEO and a founding partner of Accretion Capital LLP (provider of strategic capital and advice to European emerging technology companies) and non-executive director of Becrypt Ltd (data security and protection technology). Formerly an executive director of Sherwood International plc and Brierley Investments' London operations, he has also held a number of other non-executive directorships and advisory roles. He is a New Zealand qualified chartered accountant.

Management Team

Jeffrey Willis BSc (Hons), EMSMOT

Vice President Group Marketing

Jeff joined AMS in October 2005 as Vice President Business Development, Americas, where he managed the US business.

Jeff graduated with a degree in Biomedical Engineering from the University of Florida in 1996 and completed a Masters programme in Management of Technology at Georgia Institute of Technology in 2001. He spent 10 years with Kimberly-Clark Health Care in R & D, Product Development, and New Business Development, and was a key member of the medical device M & A strategy team in Atlanta. In 2004, Jeff joined Abbott Laboratories in Columbus, Ohio as Manager of Licensing and Business Development supporting the medical nutritional and consumer products division.

In October 2009, Jeff and his family relocated to the UK when he assumed the role of Vice President of Group Marketing. In December 2011, Jeff also assumed responsibility for the Integration of RESORBA®.

Richard Smith, ACA

Group Financial Controller
VP Sales and Business Development

Richard joined AMS in January 2009 having qualified as a chartered accountant in 1996.

After periods in banking and private practice, Richard joined Astra Zeneca in 2000 where he worked in a number of finance roles culminating in the position of Finance Director, M & A and Strategic Planning as part of a deal team covering commercial, manufacturing, R & D and legal.

Since March 2011 Richard has taken over the role of VP Sales and Business Development.

Richard Stenton

Vice President of Group Operations

Richard was Managing Director of MedLogic Global Ltd now Advanced Medical Solutions (Plymouth) Limited, when it was acquired by Advanced Medical Solutions in May 2002. Richard was subsequently appointed General Manager with responsibility for R & D and Operations for the Wound Closure and Sealants business.

Richard spent 14 years in engineering and manufacturing with CR Bard Ltd, three years as a Project Director installing medical device manufacturing processes in Europe, South Africa and the Far East before joining HG Wallace – Smiths Industries Medical Systems in 1989 as Manufacturing Manager covering six medical device manufacturing sites in the UK. He joined Medlogic Global Ltd in 1997 and was responsible for setting up and managing the UK operation for their tissue adhesives business. Richard was appointed Vice President of Group Operations in July 2010.

Steve Platt

General Manager, Winsford and Plymouth

Steve was appointed as General Manager of Winsford in June 2010. Steve brings 18 years of experience from major multinational manufacturing companies. Prior to AMS he held senior positions at Toyota Manufacturing (UK), JCB Excavators, RWD Technologies and, most recently, Nilfisk- Advance A/S where he was General Manager for green field operations in Central Europe. He also had responsibility for European restructuring and consolidation projects including Group M&A support. Steve has a track record for maximising business performance through the implementation of lean management techniques.

In November 2011, he took over responsibility for the Plymouth site.

Pieter Van-Hoof, MEng

General Manager, Etten-Leur

Pieter joined Advanced Medical Solutions B.V. in November 2009. Having completed a Master's degree in Engineering in Chemistry and Biochemistry at the Katholieke Universiteit Leuven (Belgium), Pieter joined Janssen Pharmaceutica working as a production supervisor in the manufacturing unit for sterile injectable products before joining the DuPont Engineering Polymers business in September 1999. At DuPont Engineering Polymers Pieter worked in a number of business process improvement roles in Supply Chain certifying as a 6 Sigma Master Black Belt before moving into Sales & Marketing gathering experience in account management and business development. Before joining Advanced Medical Solutions B.V. Pieter held the position of European Customer Services Manager for DuPont Engineering Polymers.

Ian Vickery BA (Hons), MCIPD

Group HR Manager

Ian was appointed Group HR Manager in April 2009. After graduating in Geography from Leeds University, Ian completed a Postgraduate Diploma in Personnel Management in 1989, and a Diploma in Safety Management in 1995. An HR specialist with 20 years' experience within automotive, engineering, manufacturing and pharmaceuticals, Ian has operated at a senior level globally, supporting businesses and their management teams in the delivery of their strategic goals and objectives.

Clare Holden BSc (Hons)

Vice President of Group Research and Development

Clare was appointed in July 2010. She has over 20 years of process and new product development experience with global organisations such as Smith & Nephew, where her last position was Vice President of New Product Development for their Hull-based Wound Management Division. While at Smith & Nephew she gained an extensive understanding of the processes and compliance requirements of the Medical Device Industry and was responsible for the delivery of a range of new products most notably Allevyn Adhesive. Most recently, Clare was Director of Projects at Siemens' Automation & Drives Division in Manchester.

Advisors

Nominated Advisor and Broker
Investec
2 Gresham Street
London EC2V 7QP

Auditor
Deloitte LLP
Chartered Accountants & Statutory Auditor
P.O. Box 500
2 Hardman Street
Manchester M60 2AT

Solicitors
Wragge & Co
55 Colmore Row
Birmingham B3 2AS

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

Bankers
HSBC
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Liverpool L2 6PG

Patent Attorneys
Marks & Clerk
Manchester Office
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Manchester M2 3LG

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Palo Alto CA 94306

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London EC2V 7QP

Debt Advisor
Investec Bank plc
2 Gresham Street
London EC2V 7QP

Financial, Commercial & Tax
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Manchester M2 6DS

Legal
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148 Edmund Street
Birmingham B3 2JR

Regulatory & Quality
Emergo Group
Emergo Consulting (UK) Limited
Unit B9
Taylors Court
Parkgate
Rotherham S62 6NU

Corporate Governance Standing Committees

Audit Committee
S.G. Bellamy (Chairman)
P.A. Freer
D.W. Evans

Remuneration Committee
P.A. Freer (Chairman)
S.G. Bellamy
D.W. Evans

Nominations Committee
D.W. Evans (Chairman)
P.A. Freer
S.G. Bellamy
C. Meredith

Company Secretary
M.G. Tavener

Registered Office
Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT

Registered Number
2867684

Directors' Report
For the year ended 31 December 2011

The directors present their report and the audited financial statements for the year ended 31 December 2011.

Principal activities, trading review and future developments
The Group is primarily involved in the design, development, manufacture and distribution of novel high performance polymers, both natural and synthetic, for use in advanced woundcare dressings and the design and distribution of medical adhesives for closing and sealing tissue. With the recent acquisition of the RESORBA® business in Germany the Group has gained further technical capabilities in collagen and in sutures. The Group distributes its products to the global medical device market by selling to healthcare companies, distributors and directly into the hospital and dental market in Germany, the Czech Republic and Russia and to the NHS in the UK.

In addition to the risk factors discussed below, further information about the business, its strategy, products and markets and its financial risks is contained in the Business Review on pages 10 to 17.

Principal risks and uncertainties
Advanced Medical Solutions Group plc is a business that depends on revenues through its sales to business partners and distributors and its direct sales to healthcare providers in the UK, Germany, the Czech Republic and Russia, together with a successful pipeline of new products through its research and development programme to build future revenues and a manufacturing capability to produce the products it sells.

Risk associated with global economic conditions
The Group 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 which are treated with advanced woundcare dressings is increasing and the demographics are beneficial for the Group. That said, the general economic climate is one where a number of governments particularly in Europe are looking to reduce spend on public services. Whilst healthcare may not be first target of such spending cuts, it is unlikely to be unscathed by austerity measures being undertaken, and some elective surgery procedures may be delayed. This could adversely affect revenues from products associated with the operating room.

Risk associated with revenue streams
The Group's revenues are mainly from the sale of its products. The Group enters contractual relationships with its business partners wherever possible; however, there can be no guarantee that sales will be maintained or increased in future years. There has been consolidation in the healthcare sector 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 Group.

Risk associated with reliance on key customers
The Group maintains close partnerships with a number of companies but aims not to have more than 20% of its revenues from any one partner. However, the loss of a key partner would impact the business significantly in the short term. With the acquisition of RESORBA®, the Group's reliance on any one partner has decreased. The Group supports its partners and distributors with marketing assistance and with clinical trial programmes where possible to drive awareness of its products. There is a risk that if partners and distributors do not support the products or decide to change the focus of their priorities that opportunities are lost, resulting in revenue shortfall.

Risk associated with pricing pressures and commoditisation of products
There are also risks from pricing pressure and from competition from other products, particularly when the economic climate is difficult. The Group seeks to provide differentiated products that are patented wherever possible to reduce the effects of competition.

Risk associated with recent acquisitions
The Group recently acquired the RESORBA® wound care and wound closure business based in Germany. In making any acquisition there is some risk that the business bought does not deliver the opportunities anticipated or that unanticipated problems arise. To mitigate this risk, detailed due diligence was undertaken to understand the business prior to it being acquired, and a detailed integration programme has been implemented to deliver the opportunities anticipated. Full use of advisors has been made throughout the process.

Risk associated with new products
The Group continues to invest in research and development to develop its next generation of products. By its nature, not all research leads to successful new products, although the Group believes that by monitoring progress against key milestones, it avoids excessive expenditure on projects that will not deliver a viable product. There is also the risk that the Group will not identify a new technology or opportunity before its competition and therefore miss an opportunity to gain competitive advantage.

Risk associated with manufacture and cost pressures
The Group is exposed to the risk that margins would be eroded if price increases occur in raw materials, and the price increases could not be passed on to the business partner or customer. Wherever possible the Group tries to maintain more than one source of the supply of key materials. Where materials can only be sourced from a sole supplier or are linked to commodity prices the Group includes pricing mechanism clauses in its contracts wherever possible. If a sole supplier stopped supplying a key material at short notice, it could result in an interruption of supply of goods until a suitable solution could be found.

Risk associated with product liability claims
As a manufacturer, the Group is exposed to potential product liability claims but has in place insurance cover to mitigate this risk. The Group's products are subject to medical device regulatory approval and certification before launch. The Group's manufacturing facilities are in compliance with ISO 13485, the latest international quality assurance standard to medical devices and receives regular inspection by regulatory authorities.

Risk associated with organisational structure and employee retention
The Group recognises that succession planning is key to the future of the business and that if this is not addressed, presents a risk to the Group. With the size of the Group increasing due to the recent acquisition, the organisation of the Group and the quality of its management becomes more important. As a consequence, the Board is reviewing the organisation of the Group to ensure that it is structured to deliver future growth.

Risk associated with business information systems
As the Group continues to grow, there is a risk that the Group outgrows its information systems. The Group has reviewed its information systems and is implementing new systems across the business. The Group recognises that there are risks in implementing new information systems which need to be managed but to not upgrade systems presents a greater risk.

Directors' Report continued

For the year ended 31 December 2011

Financial risk

The Group is subject to various financial risks including the following:

- **Currency.** The Group's main currency exposure has been to the US dollar with around 20% of the Group's sales denominated in US dollars. The acquisition of the RESORBA® business now means that the Group also has an exposure to the Euro as the majority of RESORBA®'s revenues are denominated in Euros. The Group's policy is to hedge significant transaction exposure by using forward contracts and options. In 2011, if the average US dollar had depreciated against sterling by 10% more, the average rate would have had a £0.7 million (2010: £0.8 million) impact on revenue and the gross margin and profit would have been reduced by 1.1 percentage points (2010: 1.5).
- **Credit.** The Group 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. However, if a key partner was significantly affected by a difficult trading environment, this would have a short-term impact on the Group.
- **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. The Group estimates that if material prices had increased by a further 5% in 2011 and the Group was unable to pass the increases on there would have been a negative impact of £0.4 million (2010: £0.4 million) to the cost and the gross margin would have been reduced by 1 percentage point (2010: 1).
- **Interest rate risk.** The Group is subject to interest rate risk on its term loan and its Revolving Credit Facility if drawn. The Group's policy is to review terms on a regular basis and where appropriate, convert a portion of its floating rate debt into fixed rate using interest rate swaps. At the end of the financial year, all of the Group's debt was at a floating rate of interest.

Going concern

After making enquiries and based on the assumptions outlined in the Corporate Governance Report on page 31 the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the accounts.

Dividends

The Group made a profit for the year to 31 December 2011 of £4.9 million (2010: £4.8 million). The directors are recommending a payment of a final dividend of 0.305p per share. The final dividend will be subject to shareholders' approval to be paid on 15 June 2012 to shareholders on the register at the close of business on 18 May 2012. This will make a total dividend of 0.45p for the full year (2010: 0.38p).

Research and Development

The Group has expensed to the income statement in the year ended 31 December 2011 £1,255,000 (2010: £1,289,000) on research and development. In accordance with International Accounting Standards a further £266,000 (2010: £167,000) has been capitalised. Further details on the Group's research and development activities are included in the Business Review on pages 10 to 17.

Creditors' payment policy

The Group's policy, 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 2011 represented approximately 62 days of purchases (2010: 71 days).

Charitable and political contributions

The Group did not make any charitable or political contributions during the year (2010: £nil).

Share capital and issue of ordinary shares

The authorised and issued share capital of the Company is set out in Note 30 to the accounts on page 58.

Substantial shareholdings

The Company's major shareholders at 8 April 2012 are:

	No. of Ordinary Shares	Per cent
Blackrock	14,734,821	7.24
Axa Investment Management	13,557,219	6.66
Standard Life Investments	12,570,000	6.17
Legal and General Investment Management	7,873,871	3.87
Octopus Investments	7,419,916	3.64
Ignis Asset Management	7,112,730	3.49
Axa Framlington Investment Management	6,565,649	3.22
Schoder Investment Management	6,523,214	3.20
Directors	6,483,002	3.19
Hargreave Hale	6,298,090	3.09

Employees

The Group is an equal opportunities employer. It is committed to giving fair and equal treatment to all employees and job applicants in terms of recruitment, pay conditions, promotions, training and all employment matters regardless of their race, sex, ethnic background or religious beliefs, sexual orientation or disabilities. An equal opportunities policy is in force which aims to ensure that all employees are selected, trained, compensated, promoted and transferred solely on the strength of their ability, skills, qualifications and merit. The Group also believes that all employees have a right to work in an environment free from discrimination and bullying.

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.

The Group's aim is to recruit and retain sufficient skilled and motivated employees to meet the needs of the business. The Group operates to the internationally recognised medical device standard ISO 13485. Staff work within a defined quality system and are trained in Lean Manufacturing Practices. Each line manager is responsible for implementing this approach. Employees are incentivised directly through the Company's bonus scheme, deferred share bonus schemes, performance reviews, and training and development opportunities.

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.

Employees' share schemes

Employees, except for participants in the Long-Term Incentive Plan (LTIP), may be eligible after a period of service to be granted options over shares in the Company under the Company's Executive Share Option Schemes. Options granted under these schemes are not offered at a discount. Further details are included in the Remuneration Report on pages 27 to 29.

The Company also operates a Deferred Share Bonus Scheme (DSB) in which all employees are invited to participate. The DSB encourages employee share ownership and aligns the employees' interests with those of the shareholders. The details on the DSB Scheme are provided in the Remuneration Report on page 27.

The Company no longer satisfies the requirements for granting tax-efficient options under its EMI scheme. Options already granted under this scheme will be allowed to vest in accordance with the rules of the scheme.

The Group received HMRC approval in 2009 to adopt a Company Share Option Plan (CSOP). Under the CSOP, employees are allowed to receive up to £30,000 of options in a tax-efficient manner.

Health and Safety

The Group is committed to high standards in health, safety and environmental performance. It is the Group's policy to abide by all laws, directives and regulations pertinent to its field of operations and to act in a manner so as to minimise the effects of its operations on the environment. The Group provides safe places and systems of work, safe plant and machinery, safe handling of materials and that appropriate information, instruction and training is given. Employees are encouraged to identify 'near misses' to ensure preventative actions are taken to avoid any unsafe work practices. Emphasis is placed on all employees having a responsibility to maintain a safe working environment. Health & Safety Committees at all sites assist with advice on safe working practices and ensure any corrective action is taken where necessary. Regular audits are undertaken to evaluate compliance with Group policy.

Environment

Where possible, the Group aims to reduce its impact on the environment. The Group facility at Winsford has been built with a high level of thermal insulation to reduce the Group's carbon footprint. It is also one of the first in the country to utilise a solar wall: a renewable energy source that captures the sun's warmth and supplements the building's heating system. Lighting is controlled by movement sensors to avoid wastage and the heating system is fully programmable.

Directors and their interests

The directors of the Company at 31 December 2011 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary shares of 5p each 31 December 2011			Ordinary shares of 5p each 31 December 2010		
	Shares	**DSBs**	**LTIP**	Shares	DSBs	LTIP
D Evans	**3,162,587**	**128,587**	**293,843**	3,162,587	128,587	293,843
M Tavener	**2,074,151**	**135,488**	**352,534**	2,055,511	126,553	193,408
C Meredith	**1,132,376**	**97,302**	**896,052**	1,125,735	85,827	589,234
S Bellamy	**100,000**	**–**	**–**	100,000	–	–
P Freer	**13,888**	**–**	**–**	–	–	–
G Vernon	**–**	**–**	**–**	1,000,000	–	–

Further details of the directors' remuneration and benefits are included in the Remuneration Report on pages 27 to 29.

The Board has agreed procedures for considering, and where appropriate, authorising directors' situational conflicts. None of the directors had any interest during or at the end of the year in any contract in any relation to the business of the Company or its subsidiary undertakings.

Directors' and officers' liability insurance

Insurance cover is in force in respect of the personal liabilities which may be incurred by directors and officers of the Company in the course of their service with the Group.

Reappointment

At the forthcoming Annual General Meeting, Don Evans who was elected to Non-Executive Chairman on 1 January 2011 retires and formally offers himself for reappointment. As Don was not independent upon appointment he will be proposed for re-election annually. Chris Meredith will retire by rotation and, being eligible, will be proposed for reappointment. Details of the current directors of the Company are as shown on page 19.

Directors' Report continued

For the year ended 31 December 2011

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Auditor

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.
- This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Special business

The effect of Resolution 8, to be proposed at the meeting would be to disapply the statutory pre-emption rights conferred by S570 of the Companies Act 2006.

The effect of Resolution 9 to be proposed at the meeting would be to allow the Company to purchase its own shares conferred by S701 of the Companies Act 2006.

Annual General Meeting

The Annual General Meeting will be held at 11.00 am, on 12 June 2012 at the Macdonald Portal Hotel, Cobblers Cross Lane, Tarporley, Cheshire CW6 0DJ. Details of the notice of the Annual General Meeting are given on pages 70 to 72. The Annual General Meeting provides an opportunity for private shareholders to question your Board and to meet informally with the executive management after the meeting.

On behalf of the Board

Mary Tavener
Company Secretary
27 April 2012

Remuneration Report

As an AIM quoted company, Advanced Medical Solutions Group plc is not required to comply with the Directors' Remuneration Report Regulations 2002. The following disclosures are made voluntarily.

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 Committee met two times during the year.

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

The Remuneration Committee, on behalf of the Board and in consultation with the Chief Executive, determines the Group's policy on executive remuneration, employment conditions and the individual remuneration packages of executive directors and management earning in excess of £100,000 per annum and administers the Share Option Schemes. It also determines the design of performance-related pay schemes, sets the targets for such schemes and approves payment under such schemes. The Terms of Reference of the Remuneration Committee were updated at the beginning of the year and are available for review on the Company's web-site 'www.admedsol.com'.

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. Kepler Associates were engaged in February 2012 to advise the Remuneration Committee with regard to the remuneration of the executives and senior management and the Remuneration Committee is reviewing the advice received.

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 60% of his or her salary dependent upon performance measured against targets resulting from the completion of the Group's business plan, the performance of the Group and other personal targets. Half of any bonus earned over the first 20% is deferred as part of the Deferred Bonus Scheme. Shares are acquired and placed in Trust.

Share options

Employees, except for participants in the Long-Term Incentive Plan (LTIP), may be granted options over shares in the Company under the Company's Executive Share Option Schemes, under which both approved 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. Options are exercisable normally only after the third anniversary of the date of grant (or such later time as may be determined at the time of grant) and cannot in any event be exercised later than the tenth anniversary of the date of grant. Awards will not vest if the Group is not profitable at the end of the performance period. Full details are included in note 33 on pages 59 to 63.

Company Share Option Scheme (CSOP)

The Company received approval for a Company Share Option Scheme (CSOP) on 2 June 2010. This was adopted after HMRC approval on 13 August 2010. This Scheme will allow relevant employees to benefit in the growth of the value of AMS shares subject to a £30,000 limit by reference to the market value of these shares on the grant date.

2009 Executive Share Option Scheme

Options granted under this scheme are not offered at a discount. Up until 2010, the Company was able to offer options under an Enterprise Management Incentive (EMI) Scheme. The Company no longer satisfies the requirements for operating this scheme, however, options already granted will be allowed to vest in accordance with the scheme rules.

Long-term incentives

The Company's Long-Term Incentive Plan (LTIP) was introduced in 2005. Individuals who are entitled to awards under the LTIP are not eligible to receive options under the Company's Executive Share Option Schemes. 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. 50% of the Award is determined based on the performance of the Company compared with the AIM Healthcare Share Index over the vesting period and 50% of the Award is determined by the growth in the average earnings per share per year of the Company over the three year vesting period.

Of the 50% of the Award that is determined by reference to the AIM Healthcare Share Index, no shares will be awarded if the Company is ranked below the 50% level. If the Company is ranked in the upper quartile of the index ie. at 75% or above, the full 50% of the Award shall become vested. If the Company is ranked between 50% and 75%, the provision of an Award which shall become vested shall be determined on a straight-line basis between 0% and 50%.

The other 50% of the Award will be vested if the Company achieves an average of 30% or more earnings per share (pre-exceptional items) growth per year. No Award will be vested if the Company achieves less than 10% earnings per share (pre-exceptional items) growth in any one year.

The proportion of the Award that shall become vested if the Company achieves an average earnings per share growth per year between 10% and 30% shall be on a straight-line basis between 0% and 50%.

Deferred Share Bonus Plan

The Company also has 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 retain those shares to receive additional free shares from the Company. It acts as a valuable retention tool and aligns the employees' interests with those of shareholders. The first year that the DSB operated was in 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% of salary by the employee and 6% by the Group. Executive directors may contribute up to 10% of salary, and the Group contributes 10%. The Pension Plan is a money purchase scheme. In 2011, the Group has set up a salary sacrifice arrangement for all employees. Individuals have the opportunity to sacrifice their salary and allow the Company to make payments into the pension scheme directly on their behalf.

Remuneration Report continued

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

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

Non-executive directors
The fees of the non-executive directors are determined by the executive directors. Non-executive directors receive travel expenses but do not participate in any incentive arrangements. The non-executive directors have entered into terms of appointment. The non-executive directors' appointments are terminable by either party upon six months' notice in writing. Upon becoming Non-Executive Chairman in January 2011, new terms of appointment were agreed with Don Evans. His appointment as Non-Executive Chairman was agreed for an initial term of one year. Thereafter, his appointment is terminable by either party upon six months' notice in writing.

As a result of his previous position as Chief Executive Officer, Don Evans has LTIPs issued with a vesting date of 23 April 2012. The Remuneration Committee has recommended and the Board has agreed that these LTIPs be allowed to vest in the normal way, subject to the usual performance conditions. As the Non-Executive Chairman, Don Evans will no longer be eligible to receive future LTIPs.

Don Evans also has bonuses earned in earlier years deferred as part of the Deferred Bonus Scheme. The Remuneration Committee has recommended that Don Evans should be allowed to leave his shares in the scheme for the normal retention time and not be required to withdraw them early from the scheme.

Directors' emoluments

	Salary & fees £'000	Annual bonus £'000	LTIPs exercised during the year £'000	Benefits £'000	Pension £'000	**Total year ending 2011 £'000**	Total year ending 2010 £'000
Executive							
Chris Meredith	180	49	–	1	24	**254**	191
Mary Tavener	131	42	–	1	24	**198**	169
Non-Executive							
Don Evans(i)	50	66	–	–	–	**116**	246
Steve Bellamy	33	–	–	–	–	**33**	31
Penny Freer	34	–	–	–	–	**34**	28
Geoffrey Vernon(iii)	–	–	–	–	–	**–**	75
Steve Harris(ii)	–	–	–	–	–	**–**	15
	428	157	–	2	48	**635**	755

(i) Don Evans was an executive in 2010.
(ii) Steve Harris retired from the Board in June 2010.
(iii) Geoffrey Vernon retired from the Board in December 2010.

The table above summarises the payments made to the directors for the 2011 financial year.

The annual bonus paid to the executive directors is in respect of 2010 financial year. Bonuses to the directors are not determined until the financial results have been audited and approved by the Board.

In 2010, the directors exercised options and received LTIPs. The market price of the shares at this time was 35p. Don Evans received 3,001,173 shares under the LTIP valued at £1,050,410 and made a gain of £160,333 on his 616,666 options. Mary Tavener received 2,214,571 shares under the LTIP valued at £775,100 and made a gain of £78,000 on her 300,000 options. Chris Meredith received 1,208,000 shares under the LTIP valued at £422,800. This remuneration is not included in the 2010 comparator in the table above.

The opening share price for 2011 was 73p and the closing price on the last trading day of the year, was 92p. The range during the year was 94.25p (high) and 66p (low). (Source: daily official list of the London Stock Exchange.)

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:

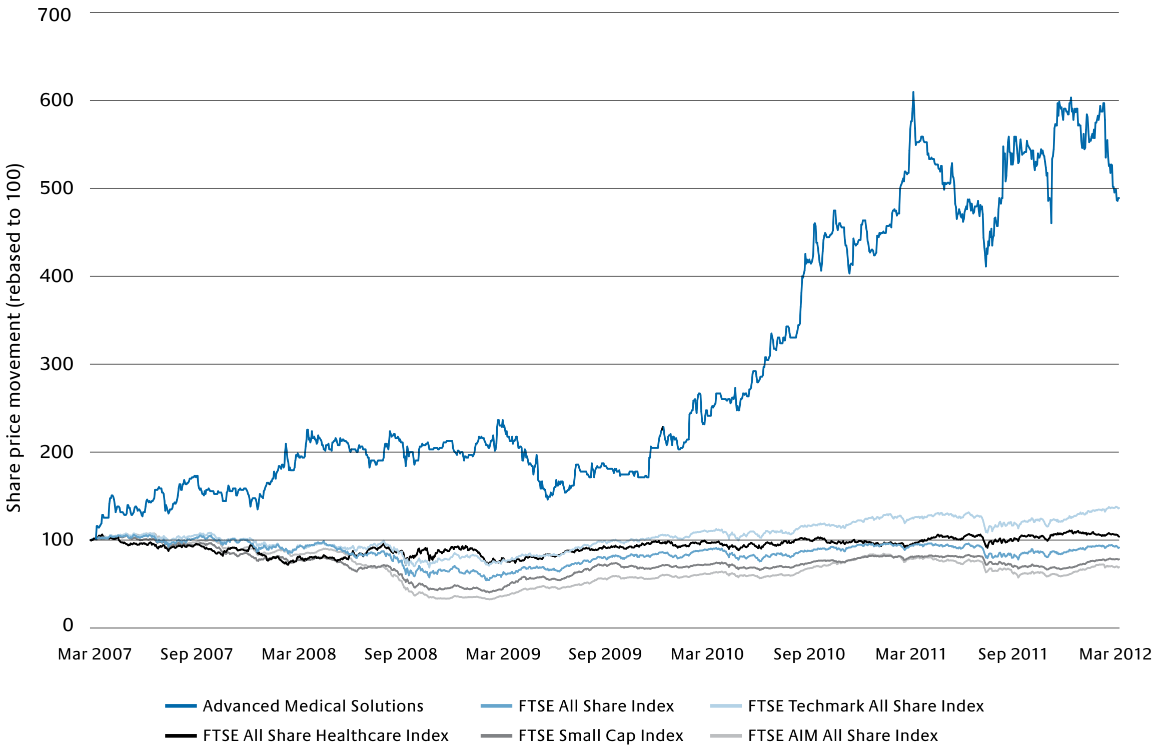
	As at 31 December 2010	Exercised in the year	Issued in the year	**As at 31 December 2011**	Market price at date of grant (p)	First vesting date
Don Evans	293,843	–	–	**293,843**	33.30	23 April 2012
Mary Tavener	193,408	–	–	**193,408**	33.30	23 April 2012
	–	–	159,126	**159,126**	88.00	15 April 2014
Chris Meredith	589,234	–	–	**589,234**	33.30	23 April 2012
	–	–	306,818	**306,818**	88.00	15 April 2014

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 27. 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 re-testing facility.

Five-year share performance

For the five-year period ending 30 March 2012 Advanced Medical Solutions Group plc share price has outperformed the FTSE All Share Index by 435%, FTSE Techmark All-Share Index by 258%, FTSE All-Share Health Care Index by 371% the FTSE Small Cap Index by 525% and FTSE AIM All-Share Index by 605%.



Mary Tavener
Company Secretary
27 April 2012

Corporate Governance Report

UK Corporate Governance Code
The Board is committed to the principles of corporate governance and, although as an AIM quoted company, the Company is not bound by the UK Corporate Governance Code 2010 ("the Code"), the directors have applied the Code in a manner which they consider appropriate for the size of the Group. The departures considered more significant by the directors are mentioned below.

Board composition
The Board comprises the non-executive Chairman, the Chief Executive, the Group Finance Director and two non-executive directors. The non-executive directors, both of whom are considered by the Board to be independent, bring significant experience of senior roles to their stewardship of the Group's business. The Chairman fosters a climate of relaxed debate and challenge in the boardroom. This is built on his challenging but supportive relationship with the Chief Executive which sets the tone for Board interaction and discussions.

The Chairman, Don Evans, who was previously the Chief Executive Officer of the Group, is not considered to be an independent non-executive director.

The Board is aware that appointing the Chief Executive Officer to the role of Chairman does not comply with the independence criteria specified in A.3.1 of the Code. The remainder of the Board believes that Don Evans's considerable experience in the sector and with the Group significantly outweighs any disadvantages that his lack of independence could potentially bring. The opinions of major shareholders and advisors were sought in advance of this decision being taken. Don Evans was not involved in the Board decision surrounding his appointment.

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. Don Evans will be standing for re-election at the next AGM and, because he is deemed non-independent, every year thereafter.

Senior Independent Director
In 2010 Penny Freer was appointed as Senior Independent Director.

Board committees
The Board has delegated specific authority to the Remuneration Committee, Nomination Committee and the Audit Committee.

Don Evans, Penny Freer and Steve Bellamy are the members of the Remuneration and Audit Committee.

Most Board Committee meetings are scheduled around Board meetings. The Terms of Reference of all three Board Committees are given on our corporate website 'www.admedsol.com'.

Role of the Board
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 formally 14 times in 2011. All of the directors attended all of the meetings. The Board's practice is to hold at least one meeting per year at each of the Group's offices. The Board is responsible for formulating the Group's corporate strategy, approval of budgets, monitoring financial performance, approval and review of major capital expenditure, corporate governance and risk management. Operational control is delegated to the executive directors and the Senior Management Team (SMT). The SMT meets monthly.

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.

Board evaluation
The Board and its Committees formally evaluate their performance annually. Each director completes a comprehensive questionnaire. The results are collated, discussed and acted upon by the Board.

Professional advice, indemnities and insurance
There is provision for directors to take independent professional advice relating to the discharge of their responsibilities should they feel they need it. The Company has arranged directors' and officers' liability insurance against certain liabilities and defence costs. However, the directors' insurance does not provide protection in the event of a director being found to have acted fraudulently or dishonestly.

Investor relations
The Board maintains a regular dialogue with its shareholders, mainly in the periods following the announcement of the interim and final results, but also at other times during the year. The views of shareholders are sought through direct contact and via feedback from advisors and are communicated to the Board as a whole. 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 technology.

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

Annual General Meeting
This year's AGM will, as last year, include a detailed presentation by the Chief Executive on the current progress of the business and the opportunity for follow up questions on this or any of the resolutions before the meeting. After the meeting, shareholders will have the opportunity to talk informally to the Board and Company staff and raise any further questions or issues they may have. The outcome of the AGM and a copy of the AGM presentation will be posted on the Company's website after the meeting.

Internal control and risk management
The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, taking guidance from the Audit Committee. 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.

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 members of the Board are available to hear, in confidence, any individuals concerns about improprieties.
- The Board has a schedule of matters expressly reserved for its consideration. This schedule includes potential acquisitions, major capital projects, treasury, risk management policies, approval of budgets and health & safety.

- An ongoing risk management process has been implemented which identifies the key business risks facing the Group including both financial and operational risks. This process, the key business risks identified and the controls to mitigate the risks are reviewed by the Audit Committee and then by the Board at least twice a year.
- The controls in place to minimise the possibility of 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, monthly forecasts and other reports on current activities and plans. The Senior Management Team regularly monitors financial and operational performance in detail and takes any necessary corrective action.
- The Group operates a 'whistle-blowing' policy enabling any individual with a concern to approach the non-executives in confidence.

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

Audit Committee

The Audit Committee currently comprises Don Evans, Penny Freer and Steve Bellamy and has Terms of Reference that are reviewed at least annually. The Chair is Steve Bellamy, a qualified Chartered Accountant. The Assistant Company Secretary acts as Secretary to the Committee.

The Committee met three times during the year. The Chief Executive Officer, Group Finance Director and Group Financial Controller and the external audit partner also attended these meetings. The Audit Committee also met with the external audit partner without the executives and senior managers present. The role of the Committee is to:
- consider the appointment, fees and independence of the auditors and discuss the scope of the audit and its findings
- monitor the Group's accounting policies
- review and challenge the Group's assessment of business risks and internal controls to mitigate these risks as well as reviewing the annual and interim statements prior to their submission for approval by the Board
- review and challenge the Going Concern assumptions for the Group
- review the Group's Whistle-blowing and Fraud policy; and
- review the Group's need for an internal audit function

It is the task of the Audit Committee to ensure that auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor. To ensure auditor objectivity and independence there is a process in place to approve any non-audit work.

Internal Audit

The Audit Committee has considered the need for an internal audit resource. In 2011, the Audit Committee was of the opinion that, given the size and nature of the Group's operations and the other controls in place, it was not appropriate at that time. The matter is formally reviewed at least annually. As a result of this review, the external auditor was engaged to review the Group's risk management process and the controls in place to mitigate the risk. The Audit Committee has reviewed and acted on the recommendations made. Since the acquisition of RESORBA®, the size and complexitiy of the Group has increased. The Audit Committee is currently reconsidering the need for an Internal Audit function and how this may be best achieved.

The Group also calls 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 Institution (BSI), TUV Product Service and Lloyd's Quality Register Assurance on a regular basis.

Nomination Committee

The Nomination Committee nominates and recommends the appointment of new directors to the Board, considers succession planning for directors and other senior management, and membership of the Audit and Remuneration Committees in consultation with the Chairman of the Committee. In making recommendations, the Committee takes into account the balance of skill, knowledge and experience of the Board and gives due regard to the benefits of diversity of the Board, including gender. The Committee is chaired by the Chairman of the Group and comprises the non-executive directors and the Chief Executive Officer. The Nomination Committee has Terms of Reference that are reviewed at least annually. Management development and succession discussions are supported and attended by the Group HR Manager. The Assistant Company Secretary acts as Secretary to the Committee.

The Committee met formally once during the year.

Remuneration Committee

The Remuneration Committee currently comprises Don Evans, Penny Freer and Steve Bellamy and has Terms of Reference that are reviewed at least annually. The Committee is chaired by Penny Freer and, in consultation with the Chief Executive, determines the Group's policy on executive remuneration, employment conditions, and the individual remuneration packages of executive directors and senior management earning in excess of £100,000 per annum. It also 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 Assistant Company Secretary acts as Secretary to the Committee. The Remuneration Committee met two times in 2011 and its report is included on pages 27 to 29.

Going concern

In carrying out their duties in respect of going concern, the Directors have carried out a review of the Group's financial position and cash flow forecasts for the next 12 months. These have been based on a comprehensive review of revenue, expenditure and cash flows, taking into account specific business risks and the current economic environment.

With regard to the Group's financial position, it had cash and cash equivalents at the year-end of £7.1 million. The Group also has in place a revolving credit facility of €25 million which expires on 31 July 2015.

While the current economic environment is uncertain, AMS operates in a market whose demographics are favourable, underpinned by an increasing need for products to treat chronic and acute wounds. Consequently, market growth is predicted. The Group has a number of long-term contracts with customers across different geographic regions and also with substantial financial resources, ranging from government agencies through to global healthcare companies.

Having taken the above into consideration the Directors have reached the conclusion that the Group is well placed to manage its business risks in the current economic environment. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Mary Tavener
Company Secretary
27 April 2012

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

We have audited the financial statements of Advanced Medical Solutions Group plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet, the related consolidated notes 1 to 35, and the related Company notes 1 to 9. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

William Smith (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
27 April 2012

Consolidated Income Statement

For the year ended 31 December 2011

		Year ended 31 December 2011			Year ended 31 December 2010		
	Note	Before exceptional items £'000	Exceptional items (note 6) £'000	Total £'000	Before exceptional items £'000	Exceptional items (note 6) £'000	Total £'000
Revenue from continuing operations	4	**34,353**	**–**	**34,353**	31,881	–	31,881
Cost of sales		**(18,153)**	**–**	**(18,153)**	(17,144)	–	(17,144)
Gross profit		**16,200**	**–**	**16,200**	14,737	–	14,737
Distribution costs		**(314)**	**–**	**(314)**	(307)	–	(307)
Administration costs		**(9,714)**	**(1,807)**	**(11,521)**	(9,263)	(1,001)	(10,264)
Other income		**226**	**–**	**226**	173	–	173
Profit from operations	4, 5	**6,398**	**(1,807)**	**4,591**	5,340	(1,001)	4,339
Finance income	11	**75**	**–**	**75**	12	–	12
Finance costs	12	**(79)**	**–**	**(79)**	(60)	–	(60)
Profit before taxation		**6,394**	**(1,807)**	**4,587**	5,292	(1,001)	4,291
Income tax	13	**263**	**–**	**263**	542	–	542
Profit for the year attributable to equity holders of the parent		**6,657**	**(1,807)**	**4,850**	5,834	(1,001)	4,833
Earnings per share							
Basic	15	**4.26p**	**(1.16p)**	**3.10p**	3.83p	(0.66p)	3.17p
Diluted	15	**4.17p**	**(1.13p)**	**3.04p**	3.77p	(0.65p)	3.12p

The above results relate to continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit for the year	**4,850**	4,833
Exchange differences on translation of foreign operations	**(158)**	(257)
Gain/(loss) arising on cash flow hedges	**134**	(76)
Other comprehensive income for the year	**(24)**	(333)
Total comprehensive income for the year attributable to equity holders of the parent	**4,826**	4,500

Consolidated Statement of Financial Position

At 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Non-current assets			
Acquired intellectual property rights	16	**12,658**	1,062
Software intangibles	16	**816**	16
Development costs	16	**951**	771
Goodwill	19	**39,259**	2,878
Property, plant and equipment	17	**16,954**	12,828
Deferred tax assets	18	**3,524**	2,756
Trade and other receivables		**21**	19
		74,183	20,330
Current assets			
Inventories	20	**6,714**	2,498
Trade and other receivables	21	**11,098**	6,035
Current tax assets		**408**	–
Cash and cash equivalents	22	**7,122**	4,122
		25,342	12,655
Total assets		**99,525**	32,985
Liabilities			
Current liabilities			
Trade and other payables	23	**8,300**	3,798
Current tax liabilities		**264**	–
Other taxes payable		**272**	424
Other loans	24	**1,965**	18
Obligations under finance leases	24	**21**	19
		10,822	4,259
Non-current liabilities			
Trade and other payables	23	**625**	677
Other loans	25	**18,507**	226
Deferred tax liabilities	18	**3,353**	–
Obligations under finance leases	25	**6**	23
		22,491	926
Total liabilities		**33,313**	5,185
Net assets		**66,212**	27,800
Equity			
Share capital	30	**10,176**	7,740
Share premium		**31,704**	306
Share-based payments reserve		**779**	442
Investment in own shares	31	**(40)**	(37)
Share-based payments deferred tax reserve		**631**	397
Other reserve	31	**1,531**	1,531
Hedging reserve		**32**	(102)
Translation reserve		**(141)**	17
Retained earnings		**21,540**	17,506
Equity attributable to equity holders of the parent		**66,212**	27,800

For 2010, the translation reserve has been restated to show the impact of hedging as a separate reserve.

The financial statements on pages 33 to 64 were approved by the Board of Directors and authorised for issue on 27 April 2012 and were signed on its behalf by:

Chris Meredith
Chief Executive Officer
27 April 2012

Consolidated Statement of Changes in Equity

Attributable to equity holders of the Group

	Share capital £'000	Share premium £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Other reserve £'000	Restated hedging reserve £'000	Restated translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2010	7,248	99	502	(27)	576	1,531	(26)	274	12,673	22,850
Consolidated profit for the year to 31 Dec 2010	–	–	–	–	–	–	–	–	4,833	4,833
Other comprehensive income	–	–	–	–	–	–	(76)	(257)	–	(333)
Total comprehensive income	–	–	–	–	–	–	(76)	(257)	4,833	4,500
Share-based payments	–	–	282	–	–	–	–	–	–	282
Issue of share capital	5	–	–	–	–	–	–	–	–	5
Share options exercised	487	207	(342)	–	(179)	–	–	–	–	173
Shares purchased by EBT(1)	–	–	–	(191)	–	–	–	–	–	(191)
Shares sold by EBT(1)	–	–	–	181	–	–	–	–	–	181
At 31 December 2010	**7,740**	**306**	**442**	**(37)**	**397**	**1,531**	**(102)**	**17**	**17,506**	**27,800**
Consolidated profit for the year to 31 Dec 2011	–	–	–	–	–	–	–	–	4,850	4,850
Other comprehensive income	–	–	–	–	–	–	134	(158)	–	(24)
Total comprehensive income	–	–	–	–	–	–	134	(158)	4,850	4,826
Share-based payments	–	–	337	–	234	–	–	–	–	571
Issue of share capital (net of expenses of £988,000)	2,411	31,316	–	–	–	–	–	–	–	33,727
Share options exercised	25	82	–	–	–	–	–	–	–	107
Shares purchased by EBT(1)	–	–	–	(75)	–	–	–	–	–	(75)
Shares sold by EBT(1)	–	–	–	72	–	–	–	–	–	72
Dividends paid	–	–	–	–	–	–	–	–	(816)	(816)
At 31 December 2011	**10,176**	**31,704**	**779**	**(40)**	**631**	**1,531**	**32**	**(141)**	**21,540**	**66,212**

For 2010, the translation reserve has been restated to show the impact of hedging as a separate reserve.

(1) EBT – Employee Benefit Trust.

Company Overview
Business Review
Corporate Governance
Financial Statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Cash flows from operating activities			
Profit from operations		**4,591**	4,339
Adjustments for:			
Depreciation		**1,115**	1,077
Amortisation – intellectual property rights		**168**	168
– development costs		**85**	121
– software intangibles		**12**	23
(Increase)/decrease in inventories		**(936)**	676
(Increase)/decrease in trade and other receivables		**(3,029)**	880
Increase/(decrease) in trade and other payables		**2,574**	(502)
Share-based payments expense		**337**	282
Net cash inflow from operating activities		**4,917**	7,064
Cash flows from investing activities			
Purchase of software		**(812)**	(5)
Capitalised research and development		**(266)**	(167)
Purchases of property, plant and equipment		**(1,461)**	(3,685)
Interest received		**75**	12
Acquisition of subsidiary	32	**(53,130)**	(1,255)
Net cash used in investing activities		**(55,594)**	(5,100)
Cash flows from financing activities			
Dividends paid		**(816)**	–
Finance lease		**(20)**	(19)
Repayment of secured loan		**(251)**	(18)
New bank loan raised		**20,921**	–
Debt issue costs		**(56)**	–
Issue of equity shares		**33,902**	359
Shares purchased by EBT(1)		**(75)**	(191)
Shares sold by EBT(1)		**72**	181
Interest paid		**(68)**	(54)
Net cash from financing activities		**53,609**	258
Net increase in cash and cash equivalents		**2,932**	2,222
Cash and cash equivalents at the beginning of the year		**4,122**	1,992
Effect of foreign exchange rate changes		**68**	(92)
Cash and cash equivalents at the end of the year		**7,122**	4,122

(1) EBT – Employee Benefit Trust.

Notes Forming Part of the Consolidated Financial Statements

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 Premier Park, 33 Road One, Winsford Industrial Estate, Cheshire, CW7 3RT.

The Company's ordinary shares are traded on the AIM market of the London Stock Exchange plc. The consolidated financial statements of the Company for the 12 months ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in the design, development, licensing, manufacture and distribution of novel high performance polymers (both natural and synthetic) for use in advanced woundcare dressings and materials, and medical adhesives, for closing and sealing tissue. With the recent acquisition of the RESORBA® business in Germany, the Group has gained further technical capabilities in collagen and in sutures. The Group distributes its products to the global device market by selling to healthcare companies, distributors and directly into the hospital and dental market in Germany, the Czech Republic and Russia and to the NHS in the UK.

2. Basis of preparation

The Group accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU. For 2010 the translation reserve has been restated to show the impact of hedging as a separate reserve.

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.

In carrying out their duties in respect of going concern, the directors have carried out a review of the Group's financial position and cash flow forecasts for the next 12 months. These have been based on a comprehensive review of revenue, expenditure and cash flows, taking into account specific business risks and the current economic environment.

With regard to the Group's financial position, it had cash and cash equivalents at the year-end of £7.1 million, and a €25 million term loan repayable by 31 July 2015 which was fully drawn down. The Group also has in place a revolving credit facility of £8 million, which has not been drawn down and expires on 31 July 2015.

While the current economic environment is uncertain, AMS operates in markets whose demographics are favourable, underpinned by an increasing need for products to treat chronic and acute wounds. Consequently, market growth is predicted. The Group has a number of long-term contracts with customers across different geographic regions and also with substantial financial resources, ranging from government agencies through to global healthcare companies.

Having taken the above into consideration the directors have reached a conclusion that the Group is well-placed to manage its business risks in the current economic environment. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

The Group has applied IAS 24 (revisions 2010), IFRIC 14 (amendments 2010) and improvements to IFRS (2010). These have had no significant impact on this set of financial statements.

3. Accounting policies

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate to calculate present value.

Capitalisation of development costs

In determining the development expenses to be capitalised, estimates and assumptions are required based on expected future economic benefits generated by products that are the result of these development costs. Other important estimates and assumptions in this assessment process are the required internal rate of return, the distinction between research and development and the estimated useful life.

Share-based payment

The charge to the income statement in relation to options and incentive plans is based on the Black-Scholes Merton or the Binomial Theorem valuation technique. This technique requires a number of assumptions to be made such as those in relation to share price volatility, movement in interest rates, dividend yields and staff behavioural patterns.

Notes Forming Part of the Consolidated Financial Statements continued

3. Accounting policies continued

Inventory impairment provisions

The Group makes provisions for inventory deemed to be obsolete or slow-moving. This provision is established on each individual stock keeping unit (SKU) based on the age of the stock, the forward order book, management's experience and its assessment of the present value of estimated future cash flows.

Receivables impairment provisions

The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the present value of estimated future cash flows.

Deferred tax

A deferred tax asset is recognised when it is judged probable that the Group will generate taxable profits in the foreseeable future which can be offset against tax losses.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to retain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements on the basis of acquisition accounting, from the date that control commences until the date that control ceases.

Intercompany transactions and balances between Group entities are eliminated upon consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, the equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the issue of debt or equity. Acquisition-related expenses are accounted for as expenses in the period in which the costs are incurred and the services rendered with the exception of directly attributable costs incurred as a result of raising equity, which are off-set against share premium, and raising debt, which are capitalised and amortised over the term of the debt. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Revenue recognition

Revenue represents the fair value of sales of the Group's products to external customers at amounts excluding value added tax, and is recognised when the products have been delivered and title has passed. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue from royalty income receivable under licence agreements from external customers at amounts excluding value added tax is recognised as the products under licence are sold and the revenue can be reliably measured.

Other income

This represents non-refundable up-front licence payments received for the grant of rights for the development and marketing of products, and other sundry income. The income is recognised in the income statement, over the life of each development project, in proportion to the stage of completion of each project.

Operating profit

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

Finance income

Finance income relates to interest earned on cash, cash equivalents and investments. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

3. Accounting policies continued

Finance costs

Finance costs relate to finance payments associated with financial liabilities. They are recognised in the income statement as they accrue using the effective interest method.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated at an average monthly rate where this rate approximates to the foreign exchange rates at the dates of the transactions. Exchange differences arising on consolidation are recognised in equity.

Hedging

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item. Note 26 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in note 26.

Taxation

Taxation expense includes the amount of current income tax payable and the charge for the year in respect of deferred taxation.

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the income statement because it excludes items of income or expenditure which are not taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another period. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for on the basis of temporary differences, except to the extent where it arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case it is dealt with within equity. It is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax laws enacted or substantively enacted by the balance sheet date.

Intangible assets

Acquired intellectual property rights

Intellectual property rights that are acquired in a business combination are initially recognised at their fair value. Intellectual property rights purchased outright are initially recognised at cost. Intellectual property rights 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.

Notes Forming Part of the Consolidated Financial Statements continued

3. Accounting policies continued

Development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is recognised in the income statement as an expense in the period in which it is incurred.

Expenditure on development activities, where research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised once it can be demonstrated that the product or process is clearly identifiable, technically and commercially feasible, will generate future economic benefits, that the development costs of the asset can be measured reliably and the Group has sufficient resources to complete development. Expenditure capitalised is stated as the cost of materials and direct labour less accumulated amortisation.

Where development expenditure results in new or substantially improved products or processes and it is probable that recovery will take place, it is capitalised and amortised on a straight-line basis over the product's useful life starting from the date on which serial production commences, which is between one and ten years.

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, which is between three and twenty years.

Software intangibles

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised and categorised as intangible assets. Amortisation is provided on a straight-line basis over its economic useful life, which is between three and ten years.

Property, plant and equipment

Land and buildings and plant and equipment held for use in the production of goods and services or for administrative purposes are carried in the balance sheet at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Group elected to use the fair value as the deemed cost in respect of land and buildings at the date of transition to IFRS. Fair value was calculated by reference to their existing use at the date of transition.

Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment, over the expected useful life of the asset from the date that the asset is brought into use. It is calculated at the following rates:

- Freehold property and improvements - 4% per annum on cost
- Leasehold improvements - over the length of the lease
- Plant and machinery - 6.7% to 33.3% per annum on cost
- Fixtures and fittings - 33.3% per annum on cost
- Motor vehicles - 25% per annum on cost

Property, plant and equipment in the course of construction for production are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property, plant and equipment assets, commences when the assets are ready for their intended use.
No depreciation is provided on freehold land.

Impairment of tangible and intangible assets excluding goodwill

The carrying amounts of the Group's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows. As the Group's receivables are of short duration they are not discounted.

Reversal of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

3. Accounting policies continued

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventory

Inventory is valued at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable direct labour costs, that have been incurred in bringing the inventories to their present location and condition and an attributable proportion of manufacturing overheads based on normal levels of activity using the weighted average method.

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

The Group makes provision for inventory deemed to be irrecoverable or where the net realisable value is lower than cost. This provision is established on a stock keeping unit (SKU) basis by reference to the age of the stock, the forward order book, management's experience and its assessment of the present value of estimated future cash flow.

Financial Instruments

Classification of financial instruments

Financial instruments are classified as financial assets, financial liabilities or equity instruments.

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Recognition and valuation of financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and cash deposits and amounts under short-term guarantees, usually 90 days or less, that are held for the purpose of meeting short-term cash commitments, are subject to insignificant risk in change in value and which are readily convertible to a known amount of cash. Cash held in accounts with more than 90 days' notice that are not required to meet short-term cash commitments are shown as an investment.

Investments

Cash held in accounts with more than 90 days' notice that are not required to meet short-term cash commitments are shown as an investment. 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.

Under IAS 39 "Financial instruments: recognition and measurement", such investments are classified as loans and receivables and are recognised at fair value on initial recognition and subsequently measured at amortised cost using the effective interest method.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. An impairment is made when it is likely that the balance will not be recovered in full. The recoverable amount is calculated as the present value of estimated future cash flows. Estimated future cash flows are not discounted due to the relatively short period of time between recognition of trade receivables and receipt of cash.

Recognition and valuation of equity instruments

Equity instruments are stated at par value. Any premium on issue is taken to the share premium account.

Recognition and valuation of financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Trade payables

Trade payables are initially recognised at fair value and are subsequently recognised at amortised cost using the effective interest method.

Other loans

Other loans are initially recognised at fair value and are subsequently recognised at amortised cost.

Financial liabilities at Fair Value Through Profit or Loss ("FVTPL")

A derivative that is not designated and effective as a hedging instrument is classified as held for trading. Financial liabilities are classified as at FVTPL where the financial liabilities are held for trading.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. Fair value is determined in the manner described in note 26.

Notes Forming Part of the Consolidated Financial Statements continued

3. Accounting policies continued

Derivative financial instruments

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in note 26 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss (administrative costs) immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group currently designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges). A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Derivatives with a remaining maturity of less than 12 months are presented as current assets or current liabilities.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held as finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments during the lease term at the inception of the lease. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement. Lease incentives, primarily up-front cash payments or rent-free periods, are capitalised and spread over the period of the lease term on a straight line basis unless another systematic basis is more representative of the time pattern of the users' benefit. Payments made to acquire operating leases are treated as prepaid lease expenses and amortised over the life 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 income statement represents the contributions payable to the scheme in respect of the accounting period.

Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based payments'. IFRS has been applied to all options granted after 7 November 2002 that were unvested as of 1 January 2006.

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, and expensed on a straight-line basis over the vesting period, based on the Group's estimate of options that will eventually vest.

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

Capital management

For the year ended 31 December 2010, the Group had net funds with minimal borrowings. For the year ended 31 December 2011, the Group had net debt. Capital is managed by maximising retained profits. Working capital is managed in order to generate maximum conversion of these profits into cash and cash equivalents thereby maintaining capital.

Capital includes share capital, share premium, investment in own shares, share-based payments reserve, share-based payments deferred tax reserve, other reserve, translation reserve and retained earnings reserve. There are no externally imposed capital requirements on the Group.

Exceptional items

Exceptional items are those items that are unusual because of their size, nature or incidence, or that the directors consider should be disclosed separately to enable a full understanding of the Group's results. This includes non-recurring site relocation costs and costs associated with the acquisition of RESORBA® (see note 6). Exceptional items have been presented separately on the face of the income statement. The directors consider that this presentation gives a fairer presentation of the results of the Group.

Employee Benefit Trust

The Group operates an Employee Benefit Trust (EBT): 'Advanced Medical Solutions Group plc UK Employee Benefit Trust'.

The Group has de facto control of the assets, liabilities and shares held by the EBT and bears its benefits and risks. The Group records assets and liabilities of the EBT as its own.

3. Accounting policies continued

In compliance with IAS 32 'Financial Instruments: Presentation Group', shares held by the EBT are included in the consolidated balance sheet as a reduction in equity. Gains and losses on Group shares are recognised directly in reserves.

IFRS not yet effective and not adopted early

The following IFRSs have been issued but have not been adopted by the Group in these financial statements, as they are not yet effective; none of which are likely to have a material effect on the Group's results, operations or financial position:

- Amendments to IAS 12 Deferred Tax: Recovery of underlying assets; effective date 1 January 2012
- Amendments to IAS 1 Presentation of items of other comprehensive income; effective date 1 July 2012
- Amendments to IAS 19 Employee benefits; effective date 1 July 2012
- IFRS 9 Financial Instruments; effective date 1 January 2013
- IFRS 10 Consolidated financial statements; effective date 1 January 2013
- IFRS 11 Joint arrangements; effective date 1 January 2013
- IFRS 12 Disclosure of interests in other entities; effective date 1 January 2013
- IAS 27 Separate financial statements (2011); effective date 1 January 2013
- IAS 28 Investments in associates and joint ventures (2011); effective date 1 January 2013
- IFRS 13 Fair value measurement; effective date 1 January 2013
- Improvements to IFRSs 2011; effective date 1 January 2013

No other standard, amendment or interpretation is likely to have a material effect on the Group's results, operations or financial position.

4. 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.

The assets and liabilities of RESORBA® are shown as unallocated in the 2011 accounts, whilst the directors are in the process of reviewing the ongoing business segments.

There are no inter-segment sales.

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, income tax assets and the assets and liabilities of RESORBA®. These are the measures reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance.

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 are the research, development, manufacture and distribution of medical adhesives and products for closing and sealing tissue.

Segment information about these businesses is presented below.

Year ended 31 December 2011	Advanced woundcare £'000	Wound closure & sealants £'000	Consolidated £'000
Revenue			
External sales	**27,688**	**6,665**	**34,353**
Total revenue	**27,688**	**6,665**	**34,353**

There are no inter-segment sales.

Result			
Segment result	**6,213**	**1,406**	**7,619**
Unallocated expenses			**(3,028)**
Profit from operations			**4,591**
Finance income			**75**
Finance costs			**(79)**
Profit before tax			**4,587**
Tax			**263**
Profit for the year			**4,850**

Unallocated expenses included £1,807,000 of exceptional costs incurred in respect of the acquisition of RESORBA®.

Notes Forming Part of the Consolidated Financial Statements continued

4. Segment information continued

At 31 December 2011 Other Information	**Advanced woundcare £'000**	**Wound closure & sealants £'000**	**Consolidated £'000**
Capital additions:			
Software intangibles	**808**	**4**	**812**
Research & development	**245**	**21**	**266**
Property, plant and equipment	**1,296**	**98**	**1,394**
Depreciation and amortisation	**1,022**	**358**	**1,380**
Balance sheet			
Assets			
Segment assets	**32,812**	**5,370**	**38,182**
Unallocated assets			**61,343**
Consolidated total assets			**99,525**
Liabilities			
Segment liabilities	**5,373**	**664**	**6,037**
Unallocated liabilities			**27,276**
Consolidated total liabilities			**33,313**

The assets and liabilities of RESORBA® are shown as unallocated, whilst the directors are in the process of reviewing the ongoing business segments.

Year ended 31 December 2010	Advanced woundcare £'000	Wound closure & sealants £'000	Consolidated £'000
Revenue			
External sales	25,197	6,684	31,881
Total revenue	25,197	6,684	31,881

There are no inter-segment sales.

Result			
Segment result	3,735	1,620	5,355
Unallocated expenses			(1,016)
Profit from operations			4,339
Finance income			12
Finance costs			(60)
Profit before tax			4,291
Tax			542
Profit for the year			4,833

4. Segment information continued

At 31 December 2010 Other Information	Advanced woundcare £'000	Wound closure & sealants £'000	Consolidated £'000
Capital additions:			
Software intangibles	5	1	6
Research & development	162	5	167
Property, plant and equipment	3,514	144	3,658
Depreciation and amortisation	1,021	369	1,390
Balance sheet			
Assets			
Segment assets	25,856	6,053	31,909
Unallocated assets			1,076
Consolidated total assets			32,985
Liabilities			
Segment liabilities	3,946	944	4,890
Unallocated liabilities			295
Consolidated total liabilities			5,185

The advanced woundcare segment's results included £1,001,000 of exceptional expenditure in respect of the site move.

Geographical segments

The advanced woundcare and wound closure and sealants segments operate mainly in the UK and the Netherlands with a sales office located in the US. 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:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
United Kingdom	**9,225**	8,323
Europe excluding United Kingdom	**15,660**	13,819
United States of America	**9,005**	9,154
Rest of World	**463**	585
	34,353	31,881

The following table provides an analysis of the Group's total assets by geographical location.

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
United Kingdom	**36,352**	30,400
Europe excluding United Kingdom	**63,135**	2,555
United States of America	**38**	30
Rest of World	**–**	–
	99,525	32,985

Notes Forming Part of the Consolidated Financial Statements continued

5. Profit from operations

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit from operations is arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	**1,115**	1,077
Amortisation of:		
– acquired intellectual property rights	**167**	168
– software intangibles	**12**	23
– development costs	**86**	121
Operating lease rentals – plant and machinery	**211**	184
– land and buildings	**840**	1,023
Research and development costs expensed to the income statement	**1,255**	1,289
Cost of inventories recognised as expense	**17,775**	16,427
Staff costs	**10,211**	10,223
Net foreign exchange loss/(gain)	**13**	(63)

6. Exceptional items

During 2011 the Group acquired the entire share capital of RESORBA® (see note 32); exceptional expenditure of £1,807,000 was incurred in respect of the acquisition of RESORBA®.

During 2010 the Group completed the rationalising of its two existing sites in Winsford into a new facility, incurring exceptional costs of £1,001,000 in respect of the site move.

7. Auditor's remuneration

Amounts payable to Deloitte LLP and their associates in respect of both audit and non-audit services:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**10**	10
Fees payable to the Company's auditor and their associates for the other services to the Group		
– the audit of the Company's subsidiaries	**38**	35
Total audit fees	**48**	45
Audit related assurance services	**10**	10
Taxation compliance services	**12**	10
Other services		
– Recruitment and remuneration services	**–**	8
– Other assurance services	**20**	–
– Other	**–**	1
Total non audit fees	**42**	29
Total fees	**90**	74

Fees payable to the Company's auditor, Deloitte LLP and its associates, for non-audit services to the Company are not required to be disclosed in subsidiaries' accounts because the consolidated financial statements are required to disclose such fees on a consolidated basis.

A description of the work of the Audit Committee is set out in the Corporate Governance Report which includes explanations of how the auditor's objectivity and independence is safeguarded when non-audit service are provided by the auditor.

8. Employees

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

	Year ended 31 December 2011 Number	Year ended 31 December 2010 Number
Production	**174**	175
Research and development	**16**	19
Sales and marketing	**40**	37
Administration	**30**	27
	260	258

Sales and marketing includes 4 people (2010: 3) employed in the United States.

8. Employees continued

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	**8,589**	8,358
Social Security costs	**940**	1,251
Pension costs	**345**	332
Share-based payments (see note 33).	**337**	282
	10,211	10,223

9. Directors' emoluments

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Remuneration for management services	**563**	559
Pension	**48**	47
Amounts paid to third parties	**24**	149
Share-based payments	**143**	111
	778	866

Executive directors

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Salaries and short-term employee benefits	**404**	559
Pension	**48**	47
Share-based payments	**143**	111
	595	717

Highest paid director

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Salaries and short-term employee benefits	**230**	226
Pension	**24**	20
Share-based payments	**78**	37
	332	283

Retirement benefits are accruing to the following number of directors under money purchase schemes	**2**	3

10. Key management

The key management of the Group comprises the directors of the Group together with senior members of the management team. Their aggregate compensation is shown below:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Salaries and short-term employee benefits	**1,307**	1,237
Pension	**117**	92
Termination payments	**–**	37
Share-based payments	**189**	142
	1,613	1,508

Notes Forming Part of the Consolidated Financial Statements continued

11. Finance Income

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Bank interest	**70**	1
Rent deposit interest	**5**	11
	75	12

12. Finance costs

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Finance leases	**5**	6
Other loan interest	**6**	24
Bank interest	**68**	105
Facility costs	**–**	263
Total interest expense	**79**	398
Less: amounts included in the cost of qualifying assets	**–**	(338)
	79	60

13. Taxation

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
a) Analysis of credit for the year		
Current tax:		
Corporation tax	**(272)**	29
Deferred tax	**535**	513
Taxation	**263**	542

b) Factors affecting tax credit for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (26.5%) as explained below:

Profit before taxation	**4,587**	4,291
Profit multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28.0%)	**1,216**	1,201
Effects of:		
Overseas tax rate versus UK corporate tax rate	**(5)**	–
Expenses not deductible for tax purposes	**614**	112
Depreciation for period more/(less) than capital allowances	**114**	(288)
Utilisation and recognition of trading losses	**(1,801)**	(755)
Research and development relief	**(220)**	(235)
Share-based payments	**(181)**	(577)
Taxation	**(263)**	(542)

The Finance Act 2011, which was substantively enacted in July 2011, included provisions to reduce the rate of corporation tax to 26% with effect from 1 April 2011 and 24% with effect from 1 April 2012. Deferred tax balances have been revalued to the rate of 25% in these accounts.

The government has announced that it intends to further reduce the rate of corporation tax to 23% with effect from 1 April 2013, 22% from 1 April 2014. As this legislation was not substantively enacted by 31 December 2011, the impact of the anticipated rate change is not reflected in the tax provisions reported in these accounts.

In addition to the amount charged to the income statement and other comprehensive income, the Group has recognised directly in equity:

- excess tax deductions related to share-based payments on exercised options; and
- changes in excess deferred tax deductions related to share-based payments, totalling £234,000 deficit: (2010: surplus £179,000).

14. Dividends on equity shares

Amounts recognised as distributions to equity holders in the period:

	2011 £'000	2010 £'000
Final dividend for the year ended 31 December 2010 of 0.38p per ordinary share	**590**	–
Interim dividend for the year ended 31 December 2011 of 0.145p (2010: nil) per ordinary share	**226**	–
	816	–
Proposed final dividend for the year ended 31 December 2011 of 0.305p (2010: 0.38p) per ordinary share	**625**	590
	625	590

The proposed final dividend is subject to approval by the shareholders and has not been included as a liability in these financial statements.

15. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent:		
– pre-exceptional items	**6,657**	5,834
– post-exceptional items	**4,850**	4,833

Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**156,398**	152,366
Effect of dilutive potential ordinary shares:		
– share options, deferred share bonus, LTIPs	**3,165**	2,538
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**159,563**	154,904

Earnings per share	Pence	Pence
Basic – pre-exceptional items	**4.26p**	3.83p
Basic – post-exceptional items	**3.10p**	3.17p
Diluted – pre-exceptional items	**4.17p**	3.77p
Diluted – post-exceptional items	**3.04p**	3.12p

16. Acquired intellectual property rights, software intangibles and development costs

	Acquired intellectual property rights £'000	Software intangibles £'000	Development costs £'000
2011			
Cost			
At beginning of year	2,518	200	1,169
On acquisition of subsidiary	11,763	–	–
Additions	–	812	266
Disposals	–	(4)	–
At end of year	14,281	1,008	1,435
Amortisation			
At beginning of year	1,456	184	398
Charged in the year	167	12	86
Disposals	–	(4)	–
At end of year	1,623	192	484
Net book value			
At 31 December 2011	**12,658**	**816**	**951**
At 31 December 2010	1,062	16	771

Intangible assets are amortised on a straight-line basis and the amortisation is recognised within administration costs.

Notes Forming Part of the Consolidated Financial Statements continued

16. Acquired intellectual property rights, software intangibles and development costs continued

Acquired intellectual property rights were initially recognised on the acquisition of MedLogic Global Limited representing patents and trade marks and on the acquisition of RESORBA® representing brand names, know how and customer listings and contracts.

	Acquired intellectual property rights £'000	Software intangibles £'000	Development costs £'000
2010			
Cost			
At beginning of year	2,518	195	1,002
Additions	–	5	167
Disposals	–	–	–
At end of year	2,518	200	1,169
Amortisation			
At beginning of year	1,288	161	277
Charged in the year	168	23	121
At end of year	1,456	184	398
Net book value			
At 31 December 2010	1,062	16	771
At 31 December 2009	1,230	34	725

17. Property, plant and equipment

	Freehold land, property and improvements £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
2011							
Cost							
At beginning of year	1,063	374	15,782	626	44	3,210	21,099
On acquisition of subsidiary	2,955	–	269	647	–	–	3,871
Additions	3	–	182	17	–	1,192	1,394
Transfer of assets into use	–	–	3,394	1	–	(3,395)	–
Disposals	–	(362)	(1,511)	(91)	–	–	(1,964)
Exchange adjustment	–	–	(42)	–	–	–	(42)
At end of year	4,021	12	18,074	1,200	44	1,007	24,358
Depreciation							
At beginning of year	24	372	7,639	192	44	–	8,271
Provided for the year	4	–	1,072	39	–	–	1,115
Disposals	–	(362)	(1,511)	(91)	–	–	(1,964)
Exchange adjustment	–	–	(18)	–	–	–	(18)
At end of year	28	10	7,182	140	44	–	7,404
Net book value							
At 31 December 2011	**3,993**	**2**	**10,892**	**1,060**	**–**	**1,007**	**16,954**
At 31 December 2010	1,039	2	8,143	434	–	3,210	12,828

At 31 December 2011, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £419,000 (2010: £1,510,000).

The net book value of plant and equipment includes £28,000 of plant and machinery (2010: £43,000) held under finance leases. The related depreciation charge for the year was £18,000 (2010: £17,000).

17. Property, plant and equipment continued

	Freehold land, property and improvements £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
2010							
Cost							
At beginning of year	1,063	450	11,671	192	44	5,939	19,359
Additions	–	–	486	38	–	3,133	3,657
Transfer of assets into use	–	–	5,466	396	–	(5,862)	–
Disposals	–	(76)	(1,781)	–	–	–	(1,857)
Exchange adjustments	–	–	(60)	–	–	–	(60)
At end of year	1,063	374	15,782	626	44	3,210	21,099
Depreciation							
At beginning of year	20	446	8,407	158	44	–	9,075
Provided for the year	4	2	1,037	34	–	–	1,077
Disposals	–	(76)	(1,781)	–	–	–	(1,857)
Exchange adjustments	–	–	(24)	–	–	–	(24)
At end of year	24	372	7,639	192	44	–	8,271
Net book value							
At 31 December 2010	1,039	2	8,143	434	–	3,210	12,828
At 31 December 2009	1,043	4	3,264	34	–	5,939	10,284

18. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Revaluation of building £'000	Share-based payment £'000	Tax losses £'000	Intangible assets £'000	Total £'000
At 1 January 2010	(74)	716	1,780	–	2,422
Charge to income	–	(16)	529	–	513
Charge to equity	–	(179)	–	–	(179)
At 31 December 2010	(74)	521	2,309	–	2,756
Charge to income	–	69	465	–	534
Charge to equity	–	234	–	–	234
Acquisition of subsidiary	–	–	–	(3,353)	(3,353)
At 31 December 2011	**(74)**	**824**	**2,774**	**(3,353)**	**171**

Maturity of the deferred tax asset is as follows:

	2011 £'000	2010 £'000
Less than one year	**2,250**	1,080
Greater than one year	**1,274**	1,676
	3,524	2,756

Maturity of the deferred tax liability is as follows:

	2011 £'000	2010 £'000
Less than one year	**(111)**	–
Greater than one year	**(3,242)**	–
	(3,353)	–

Notes Forming Part of the Consolidated Financial Statements continued

18. Deferred tax continued

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2011 £'000	2010 £'000
Deferred tax liabilities	**(74)**	(74)
Deferred tax assets	**3,598**	2,830
	3,524	2,756

At the balance sheet date, the Group has unused tax losses of £21.6 million (2010: £27.4 million) available for offset against future profits. A deferred tax asset of £2.8 million (2010: 2.3 million) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining £10.5 million (2010: £19.1 million) of such losses due to the unpredictability of future profit streams.

19. Goodwill

	2011 £'000	2010 £'000
Cost		
At 1 January	**2,878**	2,978
Recognised on acquisition of a subsidiary	**36,450**	–
Exchange differences	**(69)**	(100)
At 31 December	**39,259**	2,878

Goodwill arose on the acquisition of Advanced Medical Solutions B.V. on 30 September 2009 and the acquisition of RESORBA® Wundversorgung GmbH & Co. KG on 22 December 2011. Goodwill acquired in a business combination is allocated, at acquisition, to the cost generating units (CGUs), that are expected to benefit from that business combination.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount in respect of Advanced Medical Solutions B.V. has been determined based on a value-in-use calculation, which uses cash flow projections based on financial budgets approved by the directors covering a three-year period. These budgets have been adjusted to reflect the existing state of the business and, consequently, omit investment plans. Cash flows beyond that three-year period have been extrapolated using a steady 2% (2010: 2%) per annum growth rate, being the medium-term expected growth; the growth rate would have to fall from +2% to -4% in order for an impairment to be required. This growth rate does not exceed the long-term average growth rate for the market in which Advanced Medical Solutions B.V. operates. A discount rate of 8% per annum (2010: 8%), being the Group's current pre-tax weighted average cost of capital, has been applied to these cash flows, being an estimation of current market risks and the time value of money. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause Advanced Medical Solutions B.V.'s carrying amount to exceed its recoverable amount.

20. Inventories

	2011 £'000	2010 £'000
Raw materials	**3,321**	1,392
Work in progress	**1,163**	596
Finished goods	**2,230**	510
	6,714	2,498

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

Included above are finished goods of £nil (2010: £12,000) carried at net realisable value.

	2011 £'000	2010 £'000
Total gross inventories	**6,982**	2,827
Inventory impairment	**(268)**	(329)
Net inventory	**6,714**	2,498

Inventory impairment provision	2011 £'000	2010 £'000
At beginning of year	**(329)**	(434)
Income statement charge	**(272)**	(281)
Provision released	**67**	76
Provision utilised	**266**	310
At end of year	**(268)**	(329)

21. Trade and other receivables

Due within one year	2011 £'000	2010 £'000
Trade receivables	**9,611**	5,282
Other receivables	**679**	294
Prepayments and accrued income	**808**	459
	11,098	6,035

Trade receivables	2011 £'000	2010 £'000
Amount receivable for the sale of goods	**9,734**	5,436
Provision for impairment	**(123)**	(154)
	9,611	5,282

The Group's principal financial assets are cash and trade receivables. The Group's credit risk is primarily attributable to its trade receivables.

The average credit period taken on sales of goods is 65 days (2010: 52 days). No interest is charged on the receivables within the contracted credit period. Thereafter, interest may be charged at 2% per month on the outstanding balance. In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the Group's large and distinct customer base. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for impairments.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits are reviewed on an ongoing basis and reflect recent payment history.

Included in the Group's trade receivable balance are debtors which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances. The carrying amount and ageing of these debtors are summarised below:

Ageing of overdue but not impaired receivables

	2011 £'000	2010 £'000
31 to 60 days overdue	**318**	264
61 to 90 days overdue	**77**	374
Total	**395**	638

Movement in provision for impairment

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Balance at the beginning of the year	**154**	90
Impairment losses recognised	**32**	76
Amounts written off as uncollectible	**(7)**	(12)
Amounts recovered during the year	**(56)**	–
Balance at the end of the year	**123**	154

Ageing of provision for impairment

	2011 £'000	2010 £'000
31 to 60 days overdue	**–**	2
61 to 90 days overdue	**14**	–
Over 90 days overdue	**109**	152
Total	**123**	154

Notes Forming Part of the Consolidated Financial Statements continued

21. Trade and other receivables continued

Analysis of customers

Year ended 31 December 2011	**Revenue £'000**	% of total revenue
Customers accounting for more than 10% of revenue		
– Customer 1	**3,630**	10.6

This customer is allocated to the advanced woundcare segment.

Year ended 31 December 2010	Revenue £'000	% of total revenue
Customers accounting for more than 10% of revenue		
– Customer 1	3,366	10.5

This customer is allocated to the advanced woundcare segment.

22. Investments, cash and cash equivalents

	2011 £'000	2010 £'000
Cash and cash equivalents	**7,122**	4,122

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of 90 days or less. The carrying amount of these assets approximates to their fair value.

23. Trade and other payables

	2011 £'000	2010 £'000
Current liabilities		
Trade payables	**3,493**	1,642
Other payables	**1,309**	466
Derivative financial instruments	**–**	102
Accruals and deferred income	**3,498**	1,588
	8,300	3,798
Non-current liabilities		
Other payables	**625**	677

Trade payables, other payables and accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs.

At 31 December 2011, accruals and deferred income included £1,646,000 of accrued fees (31 December 2010: nil) relating to the acquisition of RESORBA® (see note 32).

The average credit period taken for trade purchases is 62 days (2010: 71 days). No interest is charged on trade payables that are within pre-agreed credit terms. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value.

24. Current financial liabilities

	2011 £'000	2010 £'000
Obligations under finance leases (see note 27)	**21**	19
Other loans	**1,965**	18
	1,986	37

25. Non-current financial liabilities

	2011 £'000	2010 £'000
Obligations under finance leases (see note 27)	**6**	23
Other loans	**18,507**	226
	18,513	249

The loan is denominated in Euros and was taken out in December 2011. It is secured by fixed and floating charges and is repayable in instalments twice per year starting in December 2012, with the remaining balance to be paid off in July 2015, when the facility expires. The interest rate payable is variable based on the Company's leverage and the Euribor rate. The maturity by currency of finance leases and other loans is given in note 26.

26. Financial instruments

Categories of financial instruments.

All financial instruments held by the Group, as detailed in this note, are classified as 'Loans and Receivables' (trade and other receivables, cash and cash equivalents), 'Held to maturity investments' (short-term investments), 'Financial Liabilities Measured at Amortised Cost' (trade and other payables, financial liabilities and obligations under finance leases and loans), 'Derivative instruments in designated hedge accounting relationships (cash flow hedges)' and 'Fair value through profit and loss (FVTPL)' (derivative financial instruments) under IAS 39 'Financial Instruments: Recognition and Measurement' and finance leases under IAS 17 'Leases'.

	Carrying value 2011 £'000	Carrying value 2010 £'000
Financial assets		
Derivative instruments in designated hedge accounting relationships	**32**	–
Loans and receivables (including cash and cash equivalents)	**18,209**	10,176
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	**–**	102
Amortised cost	**29,424**	4,659

Page 24 of the Report of Directors 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.

(a) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, of which other loans and finance lease obligations are at fixed rates and denominated in sterling and derivative financial instruments are non-interest bearing, 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 financial liabilities £'000	Interest rate %
2011						
Trade and other payables	8,300	52	158	415	8,925	–
Other loans	1,965	2,948	15,559	–	20,472	variable
Finance lease creditors	21	2	4	–	27	14.7
At 31 December 2011	**10,286**	**3,002**	**15,721**	**415**	**29,424**	**–**

Notes Forming Part of the Consolidated Financial Statements continued

26. Financial instruments continued

	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 financial liabilities £'000	Interest rate %
2010						
Trade and other payables	3,696	53	158	466	4,373	–
Other loans	18	20	70	136	244	8.5
Finance lease creditors	19	17	6	–	42	11.6
Derivative financial instruments	102	–	–	–	102	–
At 31 December 2010	3,835	90	234	602	4,761	–

	Fixed rate financial liabilities Weighted average period for which rate is fixed		Financial liabilities on which no interest is paid Weighted average period until maturity	
	2011 Years	2010 Years	**2011 Years**	2010 Years
Other loans	**2**	9	**–**	–
Finance lease creditors	**4**	4	**–**	–

(b) Interest rate and currency of financial assets

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

Investments and cash and cash equivalents

	Total £'000	Floating £'000	Fixed £'000	Non-interest bearing £'000	Fixed rate weighted average interest rate %
Currency					
Sterling	4,289	4,289	–	–	1.7
US dollar	718	401	–	317	–
Euro	2,115	78	–	2,037	–
At 31 December 2011	**7,122**	**4,768**	**–**	**2,354**	**–**

	Total £'000	Floating £'000	Fixed £'000	Non-interest bearing £'000	Fixed rate weighted average interest rate %
Currency					
Sterling	2,027	2,027	–	–	–
US dollar	1,743	352	–	1,391	–
Euro	352	–	–	352	–
At 31 December 2010	4,122	2,379	–	1,743	–

Trade and other receivables

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

	2011 £'000	2010 £'000
Sterling	**7,368**	4,106
Euro	**1,727**	721
US dollar	**2,003**	1,208
	11,098	6,035

(c) Currency exposures

At 31 December 2011, the Group had unhedged US dollar currency exposures of £1,270,000 (2010: £2,289,000) and unhedged Euro currency exposures of £3,220,000 (2010: £544,000).

26. Financial instruments continued

Risk sensitivity

See Directors' Report (page 24) for risk sensitivities in respect of US dollar denominated revenue, material prices and interest rate risk. The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. As the loan was taken out late in December 2011, the impact of interest rate changes in the year were not material, therefore, no sensitivity analysis was required.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts.

The following table details the forward foreign currency contracts outstanding as at the year-end:

	Average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding Contracts	**2011 USD**	2010 USD:£1	**2011 USD '000**	2010 USD '000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
Cash flow hedges								
Sell US dollars								
Less than 3 months	**1.553**	1.592	**1,700**	1,000	**1,095**	629	**(4)**	14
3 to 6 months	**–**	1.585	**–**	1,600	**–**	1,011	**–**	18
7 to 12 months	**–**	1.599	**–**	3,100	**–**	1,940	**–**	55
	–	–	**1,700**	5,700	**1,095**	3,580	**(4)**	87

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2011 EUR	2010 EUR:£1	**2011 EUR '000**	2010 EUR '000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
Sell Euros								
Less than 3 months	**1.141**	1.18	**200**	150	**175**	127	**8**	2
3 to 6 months	**1.143**	1.18	**300**	150	**263**	127	**10**	2
7 to 12 months	**1.145**	1.179	**600**	790	**524**	670	**18**	11
	–	–	**1,100**	1,090	**962**	924	**36**	15

The fair value amounts presented above are the difference between the market value of equivalent instruments at the balance sheet date and the contract value of the instruments. No profits or losses are included in operating profit in the year (2010: £nil) in respect of FVTPL contracts. The profit of £32,000 (2010: £102,000 loss) in respect of cash flow hedges has been taken to reserves.

All forward exchange contracts are considered level 2 in both the current and prior year.

27. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Amounts payable under finance leases:				
Within one year	**22**	19	**21**	19
In the second to fifth years inclusive	**8**	31	**6**	23
Less: future finance charges	**(3)**	(8)	**–**	–
Present value of lease obligations	**27**	42	**27**	42
Less: amount due for settlement within 12 months (shown under current financial liabilities)			**(21)**	(19)
Amount due for settlement after 12 months			**6**	23

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 4 years (2010: 4 years). For the year ended 31 December 2011, the average effective borrowing rate was 14.7% (2010: 11.6%). Interest rates are fixed at the contract date.

All lease obligations are denominated in sterling.

The directors consider that the fair value of the Group's lease obligations approximates to their carrying amount.

28. Fair value of financial assets and liabilities

The directors consider that the fair value of the Group's financial instruments do not differ significantly from their book values.

Notes Forming Part of the Consolidated Financial Statements continued

29. Foreign exchange rates

	Average rate		Closing rate		Percentage change average	Percentage change closing
	2011	2010	**2011**	2010	%	%
Currency						
US dollar	**1.6057**	1.547	**1.5461**	1.566	4	(1)
Euro	**1.1518**	1.164	**1.195**	1.167	(1)	2

30. Share capital

Number of ordinary shares of 5p each	Authorised '000	Allotted, called up and fully paid '000
At 1 January 2010	206,447	144,965
New issues in the year	–	100
Share options exercised	–	9,740
At 31 December 2010	206,447	154,805
New issues in the year	–	48,214
Share options exercised	–	497
At 31 December 2011	**206,447**	**203,516**

During the year, employees exercised share options for 383,924 shares at a range of option prices from 9p to 42p.

During the year, 112,576 shares were issued under the Deferred Share Bonus Scheme at the nominal value of 5p per share. At the balance sheet date, 517,000 of shares are retained by the EBT to meet the matching requirements of the scheme.

On 20 December 2011, the Company issued 48,214,415 shares in relation to the acquisition of RESORBA®, being 47,236,112 of placing shares and 978,303 of subscription shares.

Nominal value of ordinary shares of 5p each	Authorised £'000	Allotted, called up and fully paid £'000
At 1 January 2010	10,332	7,248
At 31 December 2010	10,332	7,740
New issues in the year	–	2,411
Share options exercised	–	25
At 31 December 2011	**10,332**	**10,176**

31. Reserves

Investment in own shares

This is the nominal value of the shares held in trust on behalf of employees in respect of the DSB scheme.

Other reserve

This represents Advanced Medical Solutions Limited's share premium account arising from merger accounting.

Hedging reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Translation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being Sterling, are recognised directly in the translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations are included in the translation reserve.

Therefore £158,000 has been recorded in the translation reserve during the period, which would otherwise have been recognised in administration costs (2010: £257,000), if hedge accounting had not been adopted.

The hedging and translation reserves have been presented as separate reserves in the current and prior year.

32. Acquisition of subsidiary

On 22 December 2011 the Group acquired the entire issued share capital of RESORBA®, a manufacturer of sutures and collagen products with direct sales capabilities in Germany, the Czech Republic and Russia. The primary reason for the acquisition is to provide the Group with further commercial opportunities and more direct control of our sales channels.

	Book value £'000	Fair value £'000
Identifiable net assets acquired		
Intellectual property	5,544	11,763
Property, plant and equipment	3,870	3,870
Inventories	3,280	3,280
Trade and other receivables	2,064	2,064
Cash and cash equivalents	1,263	1,263
Trade and other payables	(1,412)	(1,412)
Deferred tax liabilities	(1,571)	(3,354)
	13,038	17,474
Goodwill	16,212	36,450
Total consideration		53,924

Goodwill is denominated in Euros in line with RESORBA®'s functional currency. The goodwill is recorded at the closing Euro rate on 31 December 2011.

Satisfied by:	£'000
Cash: Paid on 20 December 2011	52,869
Post closing adjustment: cash to be paid from Escrow in 2012	368
Equity instruments (954,000 ordinary shares in AMS Group plc)	687
	53,924

Net cash flow arising on acquisition	£'000
Cash consideration	53,924
Post closing adjustment: cash to be received from Escrow in 2012	469
Cash acquired	(1,263)
	53,130

The goodwill arising on the acquisition of RESORBA® is attributable to the assembled workforce and the implied workforce.

None of the goodwill is expected to be deductible for income tax.

The fair value of financial assets includes receivables (predominately trade receivables) with a fair value of £2.1 million and a gross contractual value of £2.1 million. The best estimate at acquisition date of the contractual cash flows not to be collected are £nil.

Total costs for the transaction amounted to £3,244,000, of which, £1,807,000 was included in administration expenses (exceptional items), £449,000 was capitalised as the cost of debt, and £988,000 was off-set against share premium as the cost of raising equity.

RESORBA® contributed £nil to revenue and £nil to profit before tax for the period between the date of acquisition and 31 December 2011.

If the acquisition of RESORBA® had been completed on the first day of the financial year ended 31 December 2011, Group revenues for the period would have been £52,537,000 and the Group profit attributable to equity holders of the parent would have been £6,222,000.

33. Share-based payments

The charge for share-based payments under IFRS 2 arises across the following schemes:

	2011 £'000	2010 £'000
Unapproved Executive Share Option Scheme, Enterprise Management Incentive Scheme and Company Share Option Scheme	**64**	62
Long-Term Incentive Plan	**141**	101
Deferred Share Bonus Scheme	**132**	119
	337	282

Notes Forming Part of the Consolidated Financial Statements continued

33. Share-based payments continued

Unapproved Executive Share Option Scheme and Enterprise Management Incentive Scheme and Company Share Option Plan

The fair value of the schemes and plans is calculated based on a Black-Scholes Merton model assuming the inputs below:

Grant Date	15/07/2004	16/07/2004
Share price at grant date	9p	9p
Exercise price	9p	9p
Expected life	3.5 yrs	3.5 yrs
Contractual life	10 yrs	10 yrs
Risk free rate	4.50%	4.50%
Expected volatility	30%	30%
Expected dividend yield	0%	0%
Fair value of options	2p	1p

Grant Date	21/03/2005	12/09/2005	15/03/2006	06/04/2006	21/09/2006	12/04/2007	26/09/2007	16/04/2008	15/10/2008
Share price at grant date	10.2p	9.25p	10.75p	10.75p	11.25p	16.75p	26.75p	32.25p	31.75p
Exercise price	10.2p	9.25p	10.75p	10.75p	11.25p	16.75p	26.75p	32.25p	31.75p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	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	10 yrs	10 yrs	10 yrs
Risk free rate	4.50%	4.50%	4.50%	4.50%	4.50%	5.00%	5.00%	5.00%	5.00%
Expected volatility	30%	30%	30%	30%	30%	27%	27%	38%	38%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
Fair value of options	1p	1p	2p	1p	1p	2p	4p	8p	8p

Grant Date	20/04/2009	05/10/2009	16/04/2010	20/10/10	15/04/11	08/09/11
Share price at grant date	33.75p	28.75p	42.0p	64.0p	88.0p	86.25p
Exercise price	33.75p	28.75p	42.0p	64.0p	88.0p	86.25p
Expected life	3 yrs	3 yrs	3 .5yrs	3 yrs	3 yrs	3 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk free rate	2.40%	2.40%	2.40%	2.40%	1.92%	1.92%
Expected volatility	34%	34%	34%	34%	18%	18%
Expected dividend yield	0%	0%	0%	0%	0.7%	0.7%
Fair value of options	6p	5p	9p	8p	9p	9p

Under the terms of the Company's Share Option 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 10 years from the date of grant.

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

33. Share-based payments continued

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 2011:

Grant date	Option price (p)	Weighted average price at exercise (p)	**No. of options as at 01 Jan 2011**	**Remaining life 01 Jan 2011**	Issued	Lapsed	Exercised	**No. of options as at 31 Dec 2011**	**Remaining life 31 Dec 2011**
Unapproved Executive Share Option Scheme									
20.04.09	33.75	–	**70,000**	**8.3**	–	–	–	**70,000**	**7.3**
16.04.10	42.00	–	**389,000**	**9.3**	–	(1,000)	–	**388,000**	**8.3**
20.10.10	64.00	–	**306,250**	**9.8**	–	–	–	**306,250**	**8.8**
Enterprise Management Incentive Scheme									
15.07.04	9.00	78.88	**15,808**	**3.5**	–	–	(5,000)	**10,808**	**2.5**
16.07.04	9.00	–	**4,824**	**3.5**	–	–	–	**4,824**	**2.5**
21.03.05	10.20	–	**–**	**4.2**	–	–	–	**–**	**3.2**
12.09.05	9.25	–	**–**	**4.7**	–	–	–	**–**	**3.7**
15.03.06	10.75	–	**1,000**	**5.2**	–	–	–	**1,000**	**4.2**
06.04.06	10.75	–	**–**	**5.3**	–	–	–	**–**	**4.3**
21.09.06	11.25	–	**12,000**	**5.7**	–	–	–	**12,000**	**4.7**
12.04.07	16.75	82.76	**335,414**	**6.3**	–	–	(140,267)	**195,147**	**5.3**
26.09.07	26.75	83.00	**13,000**	**6.7**	–	–	(9,000)	**4,000**	**5.7**
16.04.08	32.25	83.00	**197,500**	**7.3**	–	–	(140,000)	**57,500**	**6.3**
15.10.08	31.75	85.00	**45,000**	**7.8**	–	–	(45,000)	**–**	**6.8**
20.04.09	33.75	–	**536,500**	**8.3**	–	(140,000)	–	**396,500**	**7.3**
05.10.09	28.75	80.55	**357,500**	**8.8**	–	(98,056)	(31,944)	**227,500**	**7.8**
16.04.10	42.00	80.38	**1,048,630**	**9.3**	–	(164,987)	(12,713)	**870,930**	**8.3**
Company Share Option Plan									
20.10.10	64.00	–	**118,750**	**9.8**	–	–	–	**118,750**	**8.8**
15.04.11	88.00	–	**–**	**–**	30,000	–	–	**30,000**	**9.3**
08.09.11	86.25	–	**–**	**–**	54,000	–	–	**54,000**	**9.7**
	–	**–**	**3,451,176**	**–**	**84,000**	**(404,043)**	**(383,924)**	**2,747,209**	**–**

The weighted average remaining contractual life of the options outstanding at 31 December 2011 is 7.3 years (2010: 8.7 years).

	2011 Number of Options	**Weighted average exercise price (p)**	2010 Number of Options	Weighted average exercise price (p)
Outstanding at beginning of the period	**3,451,176**	**38.37**	4,523,557	18.34
Granted	**84,000**	**86.88**	1,956,130	46.78
Exercised	**(383,924)**	**24.75**	(2,830,261)	38.69
Forfeited	**(404,043)**	**18.84**	(198,250)	37.25
Expired	**–**	**–**	–	–
Outstanding at end of the period	**2,747,209**	**41.57**	3,451,176	38.37
Exercisable at end of period	**285,279**	**22.56**	382,046	16.48

Notes Forming Part of the Consolidated Financial Statements continued

33. Share-based payments continued

Long-Term Incentive Plan (LTIP)

The fair value of the LTIP is calculated based on a binomial tree model assuming the inputs below:

Grant date	12/10/2005	12/04/2007	15/10/2008	23/04/2009	15/04/2011
Share price of grant date	8.75p	16.75p	31.75p	33.3p	88.00p
Exercise price	0p	0p	0p	0p	0p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3 yrs	3 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk free rate	4.50%	5.00%	4.20%	2.40%	1.92%
Expected volatility	30%	27%	32.50%	34.43%	33.01%
Expected dividend yield	0%	0%	0%	0%	0.7%
Probability of performance conditions	40.40%	42.50%	100.00%	43%	52%
Fair value of option	2p	4p	31.7p	14.5p	76.5p

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 27. The numbers shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved.

Grant date	Market price at date of grant (p)	**Number of LTIPs at 01 Jan 2011**	**Remaining life 01 Jan 2011**	Issued	Lapsed	Exercised	**Number of LTIPs 31 Dec 2011**	**Remaining life 31 Dec 2011**
Long-Term Incentive Plan								
15.10.08	31.75	**300,000**	**7.8**	–	–	–	**300,000**	**6.8**
23.4.09	33.30	**1,076,485**	**8.3**	–	–	–	**1,076,485**	**7.3**
16.04.10	42.00	**110,000**	**9.3**	–	–	–	**110,000**	**8.3**
15.04.11	88.00	**–**	**–**	465,944	–	–	**465,944**	**9.3**
	–	**1,486,485**	**–**	465,944	–	–	**1,952,429**	**–**

The weighted average remaining contractual life of the LTIPs outstanding at 31 December 2011 is 7.8 years (2010: 8.3 years).

	2011 Number of Options	2010 Number of options
Outstanding at beginning of the period	**1,486,485**	8,000,229
Granted	**465,944**	140,000
Exercised	**–**	(6,423,744)
Forfeited	**–**	(230,000)
Expired	**–**	–
Outstanding at end of the period	**1,952,429**	1,486,485
Exercisable at end of period	**300,000**	–

The exercise price of these options is £1 for each issue of LTIPs.

Deferred Share Bonus Scheme (DSB)

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

Grant date	12/04/2007	12/04/2007	02/05/2008	04/06/2008	23/04/2009
Share price at grant date	18.25p	18.25p	35.50p	35.50p	34.00p
Exercise price	0p	0p	0p	0p	0p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.0 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	5.00%	5.00%	5.00%	5.00%	2.40%
Expected volatility	27%	27%	38%	38%	30%
Expected dividend yield	0%	0%	0%	0%	0%
Probability of performance conditions	100%	66.70%	100%	100%	100%
Fair value of option	14p	9p	30p	28p	29p

33. Share-based payments continued

Grant date	05/05/2010	05/05/2010	11/05/2011	11/05/2011
Share price at grant date	40.32p	40.32p	83.00p	83.00p
Exercise price	0p	0p	0p	0p
Expected life	5 yrs	3 yrs	5 yrs	3 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	2.40%	2.40%	1.92%	1.92%
Expected volatility	34%	34%	18%	18%
Expected dividend yield	0%	0%	0.7%	0.7%
Probability of performance conditions	100%	100%	100%	100%
Fair value of option	34p	34p	72p	72p

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

The weighted average remaining contractual life of the DSB outstanding at 31 December 2011 is 7.3 years (2010: 8.4 years). The entitlement to shares under the DSB is subject to a 3 year holding period. Additionally, for certain levels of share matching, additional performance conditions also need to be achieved. The actual number of shares that will be matched will depend on these performance conditions. Details on the DSB are given on page 27.

Grant date	Market price at date of grant (p)	**Number of DSB matching shares at 01 Jan 2011**	**Remaining life 01 Jan 2011**	Issued	Lapsed	Exercised	**Number of DSB matching shares at 31 Dec 2011**	**Remaining life 31 Dec 2011**
Deferred Share Bonus Plan								
12.04.07	18.25	**211,380**	**6.3**	–	–	(18,081)	**193,299**	**5.3**
02.05.08	35.50	**121,497**	**7.3**	–	(281)	(35,108)	**86,108**	**6.3**
04.06.08	35.50	**141,787**	**7.4**	–	–	–	**141,787**	**6.4**
23.04.09	34.00	**427,620**	**8.3**	–	(20,193)	(14,214)	**393,213**	**7.3**
05.05.10	40.32	**801,081**	**9.3**	–	(868)	–	**800,213**	**8.3**
11.05.11	83.00	**–**	**–**	121,576	(7,756)	(743)	**113,077**	**9.3**
	–	**1,703,365**	**–**	121,576	(29,098)	(68,146)	**1,727,697**	**–**

Deferred Share Bonus Scheme (DSB)

	2011 Number of Options	2010 Number of options
Outstanding at beginning of the period	**1,703,365**	1,490,300
Granted	**121,576**	819,681
Exercised	**(29,098)**	(503,578)
Forfeited	**(68,146)**	(103,038)
Expired	**–**	–
Outstanding at end of the period	**1,727,697**	1,703,365
Exercisable at end of period	**421,194**	211,380

The exercise price of the matching shares is £Nil.

34. Commitments under operating leases

As at 31 December 2011, the Group had outstanding commitments under operating leases, which fall due as follows:

	2011 Land and buildings £'000	**2011 Other £'000**	2010 Land and buildings £'000	2010 Other £'000
Amounts payable under operating leases:				
Within one year	**872**	**110**	847	31
In two to five years	**2,887**	**180**	3,171	151
After five years	**6,419**	**–**	6,929	–
	10,178	**290**	10,947	182

Notes Forming Part of the Consolidated Financial Statements continued

35. Related party transaction

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Company Balance Sheet
At 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Investments	3	**62,236**	10,280
Current assets			
Debtors – due within one year	4	**888**	390
Cash at bank and in hand		**1,822**	–
		2,710	390
Creditors: amounts falling due within one year	5	**(3,796)**	(415)
Net current liabilities		**(1,086)**	(25)
Creditors: amounts falling due after more than one year	6	**(18,507)**	–
Net assets		**42,643**	10,255
Capital and reserves			
Called-up share capital		**10,176**	7,740
Share-based payments reserve	8	**779**	442
Investment in own shares	8	**(40)**	(37)
Share premium account	8	**31,704**	306
Profit and loss account	8	**24**	1,804
Equity shareholders' funds		**42,643**	10,255

The financial statements of Advanced Medical Solutions Group plc (registration number 2867684) on pages 65 to 68 were approved by the Board of Directors and authorised for issue on 27 April 2012 and were signed on its behalf by:

Chris Meredith
Chief Executive Officer
27 April 2012

Notes Forming Part of the Company Financial Statements

1. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

The Company has taken advantage of the exemption of FRS8 from disclosing transactions with wholly-owned members of the Group and the exemption in FRS29 for making disclosures relation to financial instruments.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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 at 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 Merton model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

2. Loss for the year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. AMS Group plc reported a loss for the financial year ended 31 December 2011 of £964,000 (2010 : £1,062,000).

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

The average number of employees in the year was 6 (2010: 6). The directors' remuneration is detailed in note 9 to the consolidated financial statements.

3. Fixed asset investments

Cost	Investments in subsidiaries £'000	Loans £'000	Total £'000
At 1 January 2011	5,317	42,208	47,525
Additions	1,828	53,903	55,731
Movement	337	(4,112)	(3,775)
At 31 December 2011	7,482	91,999	99,481
Provisions for impairment			
1 January 2011 and 31 December 2011	**1,670**	**35,575**	**37,245**
Net book value			
At 31 December 2011	**5,812**	**56,424**	**62,236**
At 31 December 2010	3,647	6,633	10,280

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
Advanced Medical Solutions (Plymouth) 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 (US) Inc	USA	100%§	Marketing support of medical products
MedLogic Global Holdings Limited	England	100%¶	Holding Company
Innovative Technologies Limited	England	100%‡	Dormant
Advanced Medical Solutions BV	Netherlands	100%	Development and manufacture of medical products
Aptus 694 GmbH	Germany	100%	Holding Company
RESORBA® Wundversorgung GmbH & Co. KG	Germany	100%#	Development and manufacture of medical products
RESORBA® Spol s.r.o.	Czech Republic	100%#	Manufacture and sales office of medical products
RESORBA® ooo	Russia	100%#	Sales office of medical products
Biopharm GmbH	Germany	100%@	Holding Company
Hiltner GmbH	Germany	100%#	Partner Company
MPN Medizin Produkte Neustadt GmbH	Germany	100%#	Manufacturer of medical products

* Held indirectly through Advanced Medical Solutions Limited.
‡ Held indirectly through MedLogic Global Holdings Limited.
† Held indirectly through Advanced Medical Solutions (UK) Limited.
§ Held indirectly through Advanced Medical Solutions Group Inc.
¶ Held indirectly through Advanced Medical Solutions (Plymouth) Limited.
# Held indirectly through Aptus 694 GmbH.
@ Held directly through Aptus 694 GmbH.

The above table reflects the situation at the year-end.

4. Debtors

	2011 £'000	2010 £'000
Due within one year		
Prepayments and accrued income	**12**	21
Other debtors	**536**	30
Amounts due from subsidiary undertakings	**340**	339
	888	390

Notes Forming Part of the Company Financial Statements continued

5. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Bank overdraft	**–**	141
Trade creditors	**90**	154
Other creditors	**15**	–
Loan	**1,965**	–
Accruals and deferred income	**1,726**	120
	3,796	415

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

	2011 £'000	2010 £'000
Loan	**18,507**	–

7. Share capital

Details on the share capital of the Company are provided in note 30 to the Group's accounts.

8. Reserves

	Share-based payments £'000	Investment in own shares £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2011	442	(37)	306	1,804	2,515
Share-based payments	337	–	–	–	337
Issue of share capital	–	–	31,316	–	31,316
Share options exercised	–	–	82	–	82
Shares purchased by EBT	–	(75)	–	–	(75)
Shares sold by EBT	–	72	–	–	72
Company loss for the year	–	–	–	(964)	(964)
Dividends paid	–	–	–	(816)	(816)
At 31 December 2011	**779**	**(40)**	**31,704**	**24**	**32,467**

Dividends will be paid up from subsidiaries to meet dividend payments proposed by the Company.

9. Share-based payments

The charge for share-based payments under FRS20 arises across the following schemes:

	2011 £'000	2010 £'000
Unapproved Executive Share Option Scheme, Enterprise Management Incentive Scheme and Company Share Option Scheme	**64**	62
Long-Term Incentive Plan	**141**	101
Deferred Share Bonus Scheme	**132**	119
	337	282

Details on the share-based payments of the Company are provided in note 33 on pages 59 to 63 in the notes to the Group's accounts.

Five Year Summary

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Consolidated income statement (Pre-exceptional)					
Revenue	**34.4**	31.9	24.1	20.3	16.9
Profit from operations	**6.4**	5.3	4.1	2.7	1.7
Finance income	**–**	–	–	0.3	0.3
Profit attributable to equity holders of the parent	**6.7**	5.8	4.5	3.3	2.2
Basic earnings per share	**4.3p**	3.8p	3.1p	2.3p	1.6p
Consolidated statement of financial position					
Net assets employed					
Non-current assets	**74.2**	20.3	17.7	9.8	6.5
Current assets	**25.3**	12.7	12.1	14.7	12.7
Total liabilities	**(33.3)**	(5.2)	(6.9)	(4.6)	(3.5)
Net assets	**66.2**	27.8	22.9	19.9	15.7
Shareholders' equity					
Share capital & investment in own shares	**10.2**	7.7	7.2	7.2	7.1
Share-based payments reserve	**0.8**	0.5	0.5	0.3	0.2
Share-based payments deferred tax reserve	**0.6**	0.4	0.6	0.6	0.3
Share premium account	**31.7**	0.3	0.1	–	–
Other reserve	**1.5**	1.5	1.5	1.5	1.5
Hedging reserve	**–**	(0.1)	–	–	–
Translation reserve	**(0.1)**	–	0.3	0.4	–
Retained equity	**21.5**	17.5	12.7	9.9	6.6
Equity attributable to equity holders of the parent	**66.2**	27.8	22.9	19.9	15.7

Notice of Meeting

Notice is hereby given that the eighteenth Annual General Meeting of the Company will be held at 11.00 am on 12 June 2012 at Macdonald Portal Hotel, Cobblers Cross Lane, Tarporley, Cheshire, CW6 0DJ for the following purposes:

As ordinary business:

1. To receive the Report of the Directors and the Financial Statements of the Company for the year ended 31 December 2011 (together with the report of the auditor thereon).
2. To approve the Directors' Remuneration Report for the year ended 31 December 2011.
3. To reappoint Deloitte LLP as auditor and to authorise the directors to fix their remuneration.
4. To re-elect Chris Meredith, (who retires by rotation in accordance with the Articles of Association) as a director of the Company.
5. To re-elect Dr. Don Evans, (who having been a director of the Company for more than ten years and is now Non-Executive Chairman, retires and is proposed for re-election each year) as a director of the Company.
6. To declare a final dividend of 0.305p per ordinary share, payable on 15 June 2012 to shareholders on the register at close of business on 18 May 2012.

As special business:

To consider and, if thought fit, to pass Resolution 7, which will be proposed as an Ordinary Resolution, and Resolutions 8 and 9, which will be proposed as Special Resolutions.

7. To authorise the directors generally and unconditionally for the purposes of section 551 of the Companies Act 2006 (the '2006 Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company (each an allotment of 'relevant securities') up to an aggregate nominal amount of £3,393,672 provided that this authority is for a period expriring upon the earlier of the date of the Company's next Annual General Meeting and fifteen months after the date of the passing of this Resolution but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all subsisting authorities, to the extent unused.
8. Subject to the passing of resolution 7 above, to authorise the directors pursuant to section 570 of the 2006 Act to allot equity securities (within the meaning of section 560 of the 2006 Act) wholly for cash pursuant to the authority conferred by resolution 7 above as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
   (a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange;
   (b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £1,018,101; and
   (c) which shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and fifteen months after the date of the passing of this Resolution, save that the Company may before such expiry make an 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 any such offer or agreement notwithstanding that the power conferred by this resolution has expired.
9. That the Company is hereby generally and unconditionally authorised for the purposes of Section 701 of the 2006 Act to make market purchases (within the meaning of Section 693(4) of the 2006 Act) of any of its ordinary shares of 5p each in the capital of the Company on such terms and in such manner as the directors may from time to time determine provided that:
   (a) the maximum number of ordinary shares which may be purchased is 10,181,010;
   (b) the minimum price which may be paid for each ordinary share is 5p which amount shall be exclusive of expenses, if any;
   (c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than 5% above the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased;
   (d) unless previously renewed, revoked or varied, this authority shall expire upon the earlier of the date of the Company's next Annual General Meeting and fifteen months after the date of the passing of this Resolution; and
   (e) under this authority the Company may make a contract to purchase ordinary shares which would or might be executed wholly or partly after the expiry of this authority, and may make purchases of ordinary shares pursuant to it as if this authority had not expired.

By order of the Board

Mary Tavener
Company Secretary
27 April 2012

Registered office:

Premier Park, 33 Road One, Winsford Industrial Estate,
Winsford, Cheshire, CW7 3RT.

Notes

1. A member entitled to attend and vote at the meeting convened by the notice set out above may appoint a proxy to attend, speak and, on a poll to vote in his place. A holder of more than one ordinary share may appoint different proxies in relation to each or any of those ordinary shares.

2. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy notice must be given to the Company's Registrars not later than 48 hours before the time appointed for the holding of the meeting.

3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out at note 1 of the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

4. On a vote on a resolution on a show of hands at the meeting, a proxy has one vote for and one vote against if the proxy has been appointed by more than one member and the proxy has been instructed by one or more of the members to vote for the resolution and by one or more other member to vote against it.

5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

6. 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 Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. You may also deliver by hand to The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU during usual business hours.

7. 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.

8. 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 10 June 2012 shall be entitled to attend or vote at the aforesaid Annual 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 10 June 2012 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Notes on special business

Resolution 7: Authority to Allot Shares and other relevant securities

This resolution would give the directors the authority to allot ordinary shares up to an aggregate nominal amount equal to £3,393,672 (representing 67,873,440 ordinary shares of 5p each). This amount represents approximately one-third of the issued ordinary share capital of the Company as at 27 April 2012, the latest practicable date prior to publication of this Notice.

The authority sought under this resolution will expire at the conclusion of the Annual General Meeting of the Company held in 2013 or, if earlier, 15 months after the passing of the resolution.

While the Directors have no present intention of issuing any of the authorised but unissued share capital, it is considered prudent and appropriate to maintain the flexibility that this authority provides.

Resolution 8: Disapplication of Pre-emption Rights

Your directors also require additional authority from shareholders to allot shares or grant rights over shares or sell treasury shares where they propose to do so for cash and otherwise than to existing shareholders in proportion to their existing holdings. Accordingly, Resolution 8 will be proposed as a special resolution to grant such authority. Apart from rights issues, open offers or any other pre-emptive offer as mentioned the authority will be limited to the issue of shares and sales of treasury shares for cash up to an aggregate nominal value of £1,018,101 (being 10% of the Company's issued ordinary share capital at 27 April 2012, the latest practicable date prior to publication of this Notice). This is in keeping with the extent for which such authority has been sought and given at each previous Annual General Meeting of the Company since 2006.

Allotments made under the authorisation in paragraph (a) of Resolution 8 would be limited to allotments by way of a rights issue only (subject to the right of the directors to impose necessary or appropriate limitations to deal with, for example, fractional entitlements and regulatory matters).

If given, this authority will expire at the conclusion of the Annual General Meeting of the Company held in 2013 or, if earlier, 15 months after the passing of the resolution.

Notice of Meeting continued

Notes on special business continued

Resolutions 9: Purchase by the Company of its own Shares

In certain circumstances, it may be advantageous for the Company to purchase its own shares. Under Section 701 of the 2006 Act, the directors of a company may make market purchases of that company's shares if authorised to do so. Your directors believe that granting such approval would be in the best interests of shareholders in allowing directors the flexibility to react promptly to circumstances requiring market purchases.

Accordingly, Resolution 9, which will be proposed as a special resolution, will give the directors the authority to purchase issued shares of the Company under Section 701 of the 2006 Act.

The authority contained in this resolution will be limited to an aggregate nominal value of £509,050 (representing 5% of the issued ordinary share capital of the Company as at 27 April 2012 the latest practicable date prior to publication of this Notice; representing 10,181,010 ordinary shares of 5p each). The price which may be paid for those shares is also restricted as set out in the resolution.

This authority will expire at the conclusion of the Annual General Meeting of the Company held in 2013 or, if earlier, 15 months after the passing of the resolution.

The Board has no present intention of exercising this authority. However, this will be kept under review, and the Board will use this power only if and when, taking account of market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Group, they believe that the effect of such purchases will be in the best interests of shareholders generally and that they will result in an increase in earnings per share.

Shares purchased under this authority may be held as treasury shares. Shares held in treasury do not carry voting rights and no dividends will be paid on any such shares. Shares held in treasury in this way can be sold for cash or cancelled. This would allow the Company to manage its capital base more effectively and to replenish its distributable reserves.

If and when the Board resolves to exercise its authority to make market purchases, it will at that time decide whether shares purchased are to be cancelled or held in treasury.

As at 27 April 2012, the latest practicable date prior to publication of this Notice, there were share options outstanding over ordinary shares, representing 3.2% of the Company's issued ordinary share capital. The Company has no warrants in issue in relation to its shares. If the buyback authority was to be exercised in full, these options would represent 3.3% of the Company's ordinary issued share capital.

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