Advanced Medical Solutions Group plc

DELIVERING ON OUR STRATEGY

Interim Report 2014

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.

FINANCIAL HIGHLIGHTS:

- Group revenue up 7.5% to £29.4 million (2013 H1: £27.4 million), or 11% on a constant currency basis[1]
- Adjusted[2] operating margin up 70 bps to 24.5% (2013 H1: 23.8%)
- Adjusted[2] profit before tax up 18% to £7.3 million (2013 H1: £6.2 million)
  - Profit before tax up 18% to £7.1 million (2013 H1: £6.0 million)
- Adjusted[2] diluted earnings per share up 13% to 2.92p (2013 H1: 2.59p)
  - Diluted earnings per share up 13% to 2.82p (2013 H1: 2.49p)
- Net cash[3] increased to £10.2 million (31 December 2013: £5.3 million)
- Interim dividend of 0.22p per share (2013 H1: 0.19p), a 15.8% increase

BUSINESS HIGHLIGHTS:

- Good revenue growth across the major Business Units:
  - Branded Direct up 6% to £11.6 million (2013 H1: £11.0 million) and by 8% at constant currency
  - Branded Distributed up 18% to £4.1 million (2013 H1: £3.5 million) and by 27% at constant currency
  - OEM up 10% to £11.8 million (2013 H1: £10.7 million) and by 13% at constant currency
  - Bulk Materials down 14% to £1.9 million (2013 H1: £2.2 million) and down by 12% at constant currency
- Strong performance in the US with LiquiBand® tissue adhesive range:
  - Revenues up 64% at constant currency
  - As at July 2014, market share by volume increased to 18% (June 2013: 17%) in the alternate site segment and 6% (June 2013: 4%) in the hospital segment
- ActivHeal® continues to perform well in the NHS, with an 11% increase in revenues
- Steady progress with RESORBA® brands in Germany, resulting in 5% growth at constant currency
- Silver alginate revenues increased by 14% at constant currency to £6.8 million (2013 H1: £6.0 million)
- Hernia Mesh Fixation device LiquiBand® Fix8™ approved in the EU at the end of May 2014 and successfully used on patients for the first time

1. Constant currency removes the effect of currency movements by re-translating the current period's performance at the previous period's exchange rates
2. All items are shown before amortisation of acquired intangible assets which, in 2014 H1, were £0.2 million (2013 H1: £0.2 million) as defined in the financial review
3. Net cash is defined as cash and cash equivalents plus short term investments less financial liabilities and bank loans

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Chairman's Statement

I am pleased to report that AMS has performed well in the first half of 2014 and that we are on track to deliver another year of good growth.

Revenue increased by 7.5% to £29.4 million (2013 H1: £27.4 million), representing growth of 11% at constant currency and adjusted profit before tax[1] increased by 18% to £7.3 million (2013 H1: £6.2 million). The Group continued with its strong cash generation and our net cash position has increased significantly to £10.2 million (31 December 2013: £5.3 million) as at 30 June 2014.

The Group's portfolio of brands continued to perform well and the success of our partners is also driving growth in our OEM business unit.

Our Hernia Mesh Fixation device LiquiBand® Fix8™ was approved for use in the EU on 29 May 2014 and is a key development for the Group as it is the first application for our medical adhesives that allows the use of LiquiBand® within the body. This product has now been launched and the early response from users is positive.

The Group continues to develop new products through its Research and Development (R&D) team, building a pipeline which will support growth with our partners, distributors and our sales teams.

Our strong balance sheet also allows us to consider potential acquisitions that are in line with the Group's stated strategy.

Dividend
The Board intends to pay an interim dividend of 0.22p per share (2013 H1: 0.19p), an increase of 15.8%, on 31 October 2014 to shareholders on the register at the close of business on 3 October 2014.

People
On behalf of the Board, I would like to thank all Group employees for their continued hard work in the development of AMS as a global medical technology business, as well as our customers, suppliers, business partners and shareholders for their continued support.

Outlook
The Group continues to trade in line with current market expectations for the year ending 31 December 2014.

Peter Allen
Chairman

1. Adjusted profit before tax is adjusted for authorisation of acquired intangible assets

Business Review

Branded Direct
Branded Direct revenue was 6% higher at £11.6 million (2013 H1: £11.0 million) and 8% higher at constant currency.

ActivHeal®
Sales of our ActivHeal® range of wound care dressings into the NHS were 11% ahead at £2.7 million (2013 H1: £2.5 million). The ActivHeal® proposition of delivering significant cost savings without compromising clinical outcomes or patient care continues to appeal to NHS Trusts and hence we expect good growth to continue from this brand.

LiquiBand®
UK sales of LiquiBand® into the Accident and Emergency Room (A&E) grew 12% to £1.3 million (2013 H1: £1.2 million) and sales into the Operating Room (OR) increased 70% to £0.3 million (2013 H1: £0.2 million). We are pleased with the continued success of LiquiBand® in the A&E, where we already have a market leadership position, and with the early success of our surgical sales team who are able to access the OR with our extended range of products that now includes haemostats and sutures from RESORBA®.

Sales of LiquiBand® into Germany grew by 3% to £0.7 million or 6% at constant currency. Steady growth in Germany is expected to continue.

RESORBA®
Sales of RESORBA® branded products into Germany and the Czech Republic grew by 2% to £6.8 million (2013 H1: £6.7 million), and by 5% at constant currency. Within this, sales of haemostats increased by 10% at constant currency to £1.9 million and sales of sutures and collagens into the dental market grew by 5% at constant currency to £2.0 million, whilst sales of sutures into hospitals grew 3%, reversing the decline reported in 2013 and making an encouraging start to the year.

In the UK, sales of RESORBA® sutures and haemostats are increasing but still at a low level. We expect growth to build steadily as the NHS becomes more familiar with the RESORBA® brand.

R&D is focusing on extending the attributes of our collagens to meet the needs of dental practitioners and oral surgeons. We are on track to launch an enhanced collagen cone in 2015, as well as making good progress in including new antibiotics in our haemostats.

Branded Distributed
Branded Distributed revenue was 18% higher at £4.1 million (2013 H1: £3.5 million) and 27% higher at constant currency.

LiquiBand® in the US
Sales of LiquiBand® to the US increased by 51% in the first half to £1.3 million (2013 H1: £0.8 million) and by 64% at constant currency, with the benefits of our increased spread of distribution partners helping us to gain better access, particularly into the hospital sector in the US market.

The latest data for July 2014 has our volume market share in the US hospital sector increasing to 6%, up from 4% at June 2013, while our volume market share in the US non-hospital or alternate site market is now an estimated 18%, up from 17% at June 2013. We are pleased with the progress that our partners are now making and that LiquiBand®'s combination of technical superiority and price competitiveness will enable us to continue to take market share from the leading brand.

The clinical evaluations of our 2-octyl cyanoacrylate formulation which received FDA clearance in 2013 have now been completed and we will be launching this product into the US with at least one of our existing partners in 2014 H2.

LiquiBand® in the EU and ROW
Within the EU and ROW, LiquiBand® sales through our distributors have continued to perform well and sales increased by 8% to £0.6 million (2013 H1: £0.6 million) at reported currency and by 9% at constant currency.

The regulatory approval process for LiquiBand® in China is continuing although, due to changes in the regulatory pathway, approval is now expected in 2015.

Hernia Mesh Fixation device - LiquiBand® Fix8™
Approval for LiquiBand® Fix8™ for the European market was received on 29 May 2014 and the product has now been launched in both the UK and Germany. The response from surgeons has been enthusiastic and, following initial evaluations, we have already received our first orders in the UK. We have also made the product available to a few European distributors who have the sales capability to support the product. We expect to report a small level of sales in 2014 H2.

RESORBA®
Sales of RESORBA® products to all export markets other than Russia grew by 11% at reported currency to £1.5 million (2013 H1: £1.3 million), and by 14% at constant currency. Growth was seen across several territories, with our French and Spanish distributors performing strongly. Sales into the Russian market, however, decreased 12% to £0.6 million (2013 H1: £0.7 million) at reported currency but increased by 7% at constant currency, reflecting the weakness of the Rouble.

Work is ongoing to gain approval to supply RESORBA® sutures and haemostats into the US market. We have received our first approval for the sale of one type of suture for the US market and we are hopeful that the remainder of the suture range will be approved by 2015 H1, with products being launched in 2015 H2.

R&D is currently focusing on improving the formulations of the base monomers that go into our adhesives as well as extending the applications of tissue adhesives for internal use.

OEM

OEM revenue increased by 10% at reported currency to £11.8 million (2013 H1: £10.7 million) and by 13% at constant currency.

Our silver alginate ranges of dressings continue to perform well with sales increasing by 14% at reported currency and by 15% at constant currency to £6.8 million (2013 H1: £5.8 million). We continue to support our partners with regulatory matters and marketing data.

Sales of our foam-based dressings continued to perform well and increased 8% to £0.7 million (2013 H1: £0.6 million) while our other woundcare products also grew 23% to £3.8 million (2013 H1: £3.1 million).

This business unit's R&D is further developing our foam range to include both an antimicrobial and an atraumatic foam. Product launches are expected to be in early 2015 as regulatory approval is not expected until the end of 2014.

Bulk Materials

Bulk Materials revenue decreased by 14% at reported currency to £1.9 million (2013 H1: £2.2 million) and by 12% at constant currency.

The foam rollstock business is now starting to see repeat orders following the pipeline filling that occurred in 2011, but the level of re-ordering is lower than expected. The new contracts that we signed in 2013 have been slow to grow and our bulk alginate business has been lower than expected in H1. We expect in time that our new customers for foam will develop but we expect that sales in this business unit will be flat overall in 2014.

In terms of R&D, this business unit continues to focus on developing new foam formulations with antimicrobials, working in conjunction with the OEM business unit.

Operations

Operational improvements are ongoing with a continuous improvement cycle of reducing set up times, eliminating non-value added activities and increasing outputs. These incremental changes are helping to improve gross margins across the Group. We have also identified some areas where additional capital is needed to provide equipment for extra operational flexibility or to improve efficiency. This equipment, with an associated spend of approximately £1.0 million, is scheduled to be commissioned in 2014 H2. We have also been investing in improving our ERP (Enterprise Resource Planning) management and reporting systems. Following a successful launch at our Plymouth site, our new ERP system was launched in Winsford in February 2014 and is scheduled to launch in Etten Leur in the Netherlands in 2014 Q3.

Financial Review

Summary

Revenue increased by 7.5% to £29.4 million (2013 H1: £27.4 million). At constant currency, revenue growth would have been 11%.

Amortisation of acquired intangible assets was £0.2 million in the period (2013 H1: £0.2 million).

Comparisons with 2013 are made on a pre-amortisation of acquired intangible asset cost basis, as we believe that this provides a more relevant representation of the Group's trading performance. To aid comparison, the Group's adjusted income statement is summarised in Table 1 below.

Table 1

Adjusted Income Statement	**Six months ended 30 June 2014 £'000**	Six months ended 30 June 2013 £'000	Change
Revenue	**29,440**	27,392	7.5%
Gross profit	**16,840**	15,644	7.7%
Distribution costs	**(381)**	(324)	
Administrative expenses[2]	**(9,377)**	(8,882)	
Other income	**142**	90	
Adjusted operating profit	**7,224**	6,528	10.7%
Net finance income/(costs)	**27**	(361)	
Adjusted profit before tax	**7,251**	6,167	17.6%
Amortisation of acquired intangibles	**(197)**	(200)	
Profit before tax	**7,054**	5,967	18.2%
Tax	**(1,090)**	(778)	
Profit for the period	**5,964**	5,189	14.9%
Adjusted earnings per share - basic[3]	**2.97p**	2.63p	13.0%
Earnings per share - basic[3]	**2.88p**	2.53p	13.6%
Adjusted earnings per share - diluted[3]	**2.92p**	2.59p	12.6%
Earnings per share - diluted[3]	**2.82p**	2.49p	13.2%

2. Administration expenses exclude amortisation of acquired intangible assets
3. See Note 4 Earnings per share for details of calculation

Across the Group gross margins improved by 10 bps to 57.2% (2013 H1: 57.1%).

Adjusted operating profit increased by 10.7% to £7.2 million (2013 H1: £6.5 million) and the adjusted operating margin increased by 70 bps to 24.5% (2013 H1: 23.8%).

Adjusted diluted earnings per share increased by 12.6% to 2.92p (2013 H1: 2.59p) and diluted earnings per share increased by 13.2% to 2.82p (2013 H1: 2.49p).

The Group generated a profit from operating activities of £7.0 million (2013 H1: £6.3 million) and had net cash of £10.2 million at the half year end (2013 H1: net debt of £2.6 million).

The Group has a strong balance sheet, enabling financing of further organic growth and appropriate acquisitions.

Business Review continued

Income Statement

The operational performance of the business units is shown in Table 2 below. The adjusted profit from operations and the adjusted operating margin are shown after excluding amortisation of acquired intangibles.

Table 2

Operating result by business segment Six months ended 30 June 2014	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000
Revenue	**11,648**	**4,089**	**11,831**	**2,269[4]**
Profit from operations	**3,317**	**702**	**3,194**	**223**
Amortisation of acquired intangibles	**126**	**61**	**10**	**–**
Adjusted profit from operations[5]	**3,443**	**763**	**3,204**	**223**
Adjusted operating margin[5]	**29.6%**	**18.7%**	**27.1%**	**9.8%**
Six months ended 30 June 2013				
Revenue	11,001	3,465	10,743	2,571
Profit from operations	2,906	574	2,541	518
Amortisation of acquired intangibles	125	56	19	–
Adjusted profit from operations[5]	3,031	630	2,560	518
Adjusted operating margin[5]	27.6%	18.2%	23.8%	20.1%

4. Revenue includes intersegment sales
5. Excludes amortisation of acquired intangible assets

Note: Expenses relating to Non-Executive Directors are not allocated to business units and are included within unallocated expenses

Branded Direct

Branded Direct revenues increased by 5.9% to £11.6 million (2013 H1: £11.0 million) and by 8.0% at constant currency, with sales of ActivHeal® and LiquiBand® driving growth in the UK, and RESORBA® brands supporting growth in Germany and Czech Republic. Fee income of £0.1 million was received from the licensing of Intellectual Property to third parties (2013 H1: £0.1 million).

Adjusted operating margin increased by 200 bps to 29.6%, due partly to a change in sales mix but mainly as a result of overhead costs remaining at a similar level compared with the prior year. R&D expense in this segment was 2.9% of revenue (2013 H1: 3.4%) on projects to develop improved collagens.

Branded Distributed

Branded Distributed revenues increased by 18.0% to £4.1 million (2013 H1: £3.5 million) and by 26.8% at constant currency, with sales of LiquiBand® into the US being the main driver of growth.

Adjusted operating margin increased by 50 bps to 18.7% from the increase in sales, while investment in our US sales and marketing team to support our partners has continued. R&D expense was 8.0% of revenues (2013 H1: 5.9%) with expenditure in this segment being incurred on our Hernia Mesh Fixation device prior to launch, as well as work on a new project to improve our base monomer formulation for our tissue adhesives.

OEM

OEM revenues increased by 10.1% to £11.8 million (2013 H1: £10.7 million) and by 12.6% at constant currency. R&D expense was 4.0% of revenues (2013 H1: 3.3%) with spend being incurred on projects to improve our range of foams, with a particular focus on products with antimicrobial properties. These projects are being worked on jointly with the Bulk Materials division.

Adjusted operating margin improved by 325 bps to 27.1% (2013 H1: 23.8%) mainly as a result of sales mix.

Bulk Materials

Bulk Material revenues, excluding intercompany sales, reduced by 14% to £1.9 million (2013 H1: £2.2 million) at reported currency and decreased by 12% at constant currency. The adjusted operating margin including intercompany sales decreased to 9.8% (2013 H1: 20.1%), resulting from the reduced volume of business as well as the change in sales mix.

Geographic breakdown of revenues

The geographic breakdown of Group revenues in 2014 is set out in note 5. Overall, less than 40% of revenues are in Euros as the UK companies still invoice in Sterling to most of their European partners, and nearly all sales to the US are invoiced in US Dollars. The Group's policy is to set up natural hedges where possible and to hedge significant transactional risk. The Group estimates that a 10% movement in the £:US$ or £:Euro exchange rate will impact Sterling revenues by approximately 2% and 4% respectively and, in the absence of any hedging, this would result in an impact on profit of 1.3% and 0.6% respectively.

Profit before tax
Profit before tax for the period was 18% higher at £7.1 million (2013 H1: £6.0 million).

The Group's effective rate of tax for the six months was 15.5% (2013 H1: 13.0%). This is reflective of the recognition of previously unrecognised brought forward tax losses in the UK, R&D relief and the continued impact of the phased introduction of the patent box relief scheme. It also reflects the impact of blending profits and losses from different countries and the different tax rates associated with these countries.

Profit after tax and earnings per share
Adjusted profit after tax increased by 14% to £6.2 million (2013 H1: £5.4 million), resulting in a 13% increase in adjusted basic earnings per share to 2.97p (2013 H1: 2.63p) and a 13% increase in diluted adjusted earnings per share to 2.92p (2013 H1: 2.59p).

Profit after tax increased 15% to £6.0 million (2013 H1: £5.2 million), resulting in a 14% increase in basic earnings per share to 2.88p (2013 H1: 2.53p) and a 13% increase in diluted earnings per share to 2.82p (2013 H1: 2.49p).

Dividend per share
The Board intends to pay an interim dividend of 0.22p per share (2013 H1: 0.19p) on 31 October 2014 to shareholders on the register on 3 October 2014. This is an increase of 15.8% compared with 2013 H1.

Cash Flow and Balance Sheet
Table 3 summarises the Group cash flows.

Table 3

Cash Flow	Six months ended 30 June 2014 £'000	Six months ended 30 June 2013 £'000
Adjusted operating profit (Table 1)	**7,224**	6,528
Non-cash items	**1,360**	1,501
EBITDA[6]	**8,584**	8,029
Working capital movement	**(1,423)**	(2,946)
Operating cash flow	**7,161**	5,083
Capital expenditure and capitalised R&D	**(866)**	(1,181)
Net Interest	**25**	(210)
Tax	**(929)**	351
Free cash flow	**5,391**	4,043
Financing	**–**	(6,764)
Dividends paid	**(850)**	(712)
Proceeds from share issues	**9**	266
Exchange losses	**364**	(55)
Net increase/(decrease) in cash and cash equivalents	**4,914**	(3,222)

6. EBITDA is earnings before interest, tax, depreciation, intangible asset amortisation and share based payments

The Group had an operating cash flow of £7.2 million (2013 H1: £5.1 million) and a conversion of adjusted operating profit into free cash flow of 75% (2013 H1: 62%).

Working capital increased by £1.4 million in the period. Inventory increased by £0.3 million to 4.7 months of supply (2013 H1: 4.6 months). Trade receivables increased by £0.3 million with debtor days at 45 (2013 H1: 42 days) in line with the growth of the business. Trade payables reduced by £0.8 million.

We have invested £0.6 million in capital equipment and software in the first six months (2013 H1: £0.8 million). The major areas of spend have been in developing our ERP business information system for launch in Etten Leur and in upgrading equipment around the Group. £0.2 million of R&D spend has been capitalised (2013 H1: £0.4 million). No development costs were impaired in the period (2013 H1: £0.3m).

Given the repayment of our €25 million term facility in September 2013, finance costs were £nil in the period (H1 2013: £0.2 million). 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. At 31 October 2013, this facility was reduced to £4.0 million and was undrawn as at 30 June 2014.

Net taxation of £0.8 million has been paid as a result of the fiscal merger of the German group of companies completed in 2012, with payments relating to both 2012 and 2013 being made in the period. Further tax payments of £0.1 million were made in other jurisdictions in which the Group operates.

The Group paid its final dividend for the year ended 31 December 2013 of £0.9 million (2013 H1: £0.7 million) on 28 May 2014.

The Group had a free cash flow of £5.4 million in the period (2013 H1: £4.0 million), with a net increase in cash equivalents of £4.9 million (2013 H1: £3.2 million decrease).

At the end of the period, the Group had net cash[7] of £10.2 million (2013 H2: net cash[7] of £5.3 million). The movement in net cash during 2014 H1 is reconciled in Table 4 below:

Table 4

Movement in net cash[7]	£'000
Net cash as at 1 January 2014	**5,257**
Exchange rate impacts	364
Free cash flow	5,391
Dividends paid	(850)
Proceeds from share issues	9
Net cash as at 30 June 2014	**10,171**

7. Net cash is defined as cash and cash equivalents plus short term investments less financial liabilities and bank loans

The Group's going concern position is fully described in note 11 and the Group had no borrowings in the period.

Condensed Consolidated Income Statement

for the six months ended 30 June 2014

	Note	**(Unaudited) Six months ended 30 June 2014 £'000**	(Unaudited) Six months ended 30 June 2013 £'000	(Audited) Year ended 31 December 2013 £'000
Revenue from continuing operations	5	**29,440**	27,392	59,499
Cost of sales		**(12,600)**	(11,748)	(25,231)
Gross profit		**16,840**	15,644	34,268
Distribution costs		**(381)**	(324)	(744)
Administration costs		**(9,574)**	(9,082)	(20,079)
Other income		**142**	90	281
Profit from operations		**7,027**	6,328	13,726
Finance income		**30**	1	1
Finance costs		**(3)**	(362)	(583)
Profit before taxation		**7,054**	5,967	13,144
Income tax	7	**(1,090)**	(778)	(1,778)
Profit for the period attributable to equity holders of the parent		**5,964**	5,189	11,366
Earnings per share				
Basic	4	**2.88p**	2.53p	5.52p
Diluted	4	**2.82p**	2.49p	5.45p
Adjusted diluted	4	**2.92p**	2.59p	5.64p

Condensed Consolidated Statement of Comprehensive Income

	(Unaudited) Six months ended 30 June 2014 £'000	(Unaudited) Six months ended 30 June 2013 £'000	(Audited) Year ended 31 December 2013 £'000
Profit for the period	**5,964**	5,189	11,366
Exchange differences on translation of foreign operations	**(2,375)**	2,439	732
(Loss)/gain arising on cash flow hedges	**(79)**	(193)	698
Other comprehensive (expense)/income for the period	**(2,454)**	2,246	1,430
Total comprehensive income for the period attributable to equity holders of the parent	**3,510**	7,435	12,796

Condensed Statement of Financial Position

	(Unaudited) 30 June 2014 £'000	(Unaudited) 30 June 2013 £'000	(Audited) 31 December 2013 £'000
Assets			
Non-current assets			
Acquired intellectual property rights	**9,688**	10,739	10,256
Software intangibles	**1,637**	1,468	1,662
Development costs	**1,782**	1,574	1,702
Goodwill	**37,761**	40,379	39,278
Property, plant and equipment	**16,182**	17,472	16,707
Deferred tax assets	**1,355**	2,446	21,728
Trade and other receivables	**18**	19	14
	68,423	74,097	71,347
Current assets			
Inventories	**8,229**	8,760	8,042
Trade and other receivables	**11,696**	10,492	12,158
Current tax assets	**63**	–	343
Cash and cash equivalents	**10,171**	5,619	5,257
	30,159	24,871	25,800
Total assets	**98,582**	98,968	97,147
Liabilities			
Current liabilities			
Trade and other payables	**5,477**	4,650	6,298
Current tax liabilities	**752**	1,144	1,220
Other taxes payable	**254**	736	260
Other loans	**–**	8,256	–
Obligations under finance leases	**5**	4	4
	6,488	14,790	7,782
Non-current liabilities			
Trade and other payables	**504**	546	520
Deferred tax liabilities	**2,617**	2,873	2,754
Obligations under finance leases	**2**	5	3
	3,123	3,424	3,277
Total liabilities	**9,611**	18,214	11,059
Net assets	**88,971**	80,754	86,088
Equity			
Share capital	**10,385**	10,291	10,343
Share premium	**32,517**	32,092	32,364
Share-based payments reserve	**1,395**	1,295	1,326
Investment in own shares	**(148)**	(77)	(144)
Share-based payments deferred tax reserve	**121**	74	158
Other reserve	**1,531**	1,531	1,531
Hedging reserve	**572**	(240)	651
Translation reserve	**(3,042)**	1,040	(667)
Retained earnings	**45,640**	34,748	40,526
Equity attributable to equity holders of the parent	**88,971**	80,754	86,088

Condensed 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	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2014 (audited)	**10,343**	**32,364**	**1,326**	**(144)**	**158**	**1,531**	**651**	**(667)**	**40,526**	**86,088**
Consolidated profit for the period to 30 June 2014	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,964**	**5,964**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**(79)**	**(2,375)**	**–**	**(2,454)**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**(79)**	**(2,375)**	**5,964**	**3,510**
Share-based payments	**–**	**–**	**250**	**–**	**(37)**	**–**	**–**	**–**	**–**	**213**
Share options exercised	**42**	**153**	**(181)**	**–**	**–**	**–**	**–**	**–**	**–**	**14**
Shares purchased by EBT	**–**	**–**	**–**	**(190)**	**–**	**–**	**–**	**–**	**–**	**(190)**
Shares sold by EBT	**–**	**–**	**–**	**186**	**–**	**–**	**–**	**–**	**–**	**186**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(850)**	**(850)**
At 30 June 2014 (unaudited)	**10,385**	**32,517**	**1,395**	**(148)**	**121**	**1,531**	**572**	**(3,042)**	**45,640**	**88,971**

	Share capital £'000	Share premium £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Other reserve £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2013 (audited)	10,230	31,887	1,122	(77)	180	1,531	(47)	(1,399)	30,271	73,698
Consolidated profit for the period to 30 June 2013	–	–	–	–	–	–	–	–	5,189	5,189
Other comprehensive income	–	–	–	–	–	–	(193)	2,439	–	2,246
Total comprehensive income	–	–	–	–	–	–	(193)	2,439	5,189	7,435
Share-based payments	–	–	173	–	(106)	–	–	–	–	67
Share options exercised	61	205	–	–	–	–	–	–	–	266
Shares purchased by EBT	–	–	–	–	–	–	–	–	–	–
Shares sold by EBT	–	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–	–	–	(712)	(712)
At 30 June 2013 (unaudited)	10,291	32,092	1,295	(77)	74	1,531	(240)	1,040	34,748	80,754

	Share capital £'000	Share premium £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Other reserve £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2013 (audited)	10,230	31,887	1,122	(77)	180	1,531	(47)	(1,399)	30,271	73,698
Consolidated profit for the year to 31 December 2012	–	–	–	–	–	–	–	–	11,366	11,366
Other comprehensive income	–	–	–	–	–	–	698	732	–	1,430
Total comprehensive income	–	–	–	–	–	–	698	732	11,366	12,796
Share-based payments	–	–	400	–	(22)	–	–	–	–	378
Share options exercised	113	477	(196)	–	–	–	–	–	–	394
Shares purchased by EBT	–	–	–	(277)	–	–	–	–	–	(277)
Shares sold by EBT	–	–	–	210	–	–	–	–	–	210
Dividends paid	–	–	–	–	–	–	–	–	(1,111)	(1,111)
At 31 December 2013 (audited)	10,343	32,364	1,326	(144)	158	1,531	651	(667)	40,526	86,088

Condensed Consolidated Statement of Cash Flows

	(Unaudited) Six months ended 30 June 2014 £'000	(Unaudited) Six months ended 30 June 2013 £'000	(Audited) Year ended 31 December 2013 £'000
Cash flows from operating activities			
Profit from operations	**7,027**	6,328	13,726
Adjustments for:			
Depreciation	**868**	924	1,783
Amortisation - intellectual property rights	**197**	200	400
- development costs	**151**	103	204
- software intangibles	**91**	15	91
Impairment of development costs	**–**	286	337
Increase in inventories	**(334)**	(2,127)	(1,510)
Increase in trade and other receivables	**(282)**	(196)	(1,931)
(Decrease)/increase in trade and other payables	**(807)**	(623)	653
Share-based payments expense	**250**	173	400
Taxation	**(929)**	351	(83)
Net cash inflow from operating activities	**6,232**	5,434	14,070
Cash flows from investing activities			
Purchase of software	**(76)**	(375)	(618)
Capitalised research and development	**(237)**	(397)	(612)
Purchases of property, plant and equipment	**(553)**	(409)	(836)
Disposal of property, plant and equipment	**–**	–	64
Interest received	**30**	1	1
Net cash used in investing activities	**(836)**	(1,180)	(2,001)
Cash flows from financing activities			
Dividends paid	**(850)**	(712)	(1,111)
Finance lease	**(2)**	(3)	(5)
Repayment of secured loan	**–**	(6,761)	(14,385)
Issue of equity shares	**13**	266	395
Shares purchased by EBT	**(190)**	–	(277)
Shares sold by EBT	**186**	–	210
Interest paid	**(3)**	(211)	(583)
Net cash (used in) financing activities	**(846)**	(7,421)	(15,756)
Net increase/(decrease) in cash and cash equivalents	**4,550**	(3,167)	3,687
Cash and cash equivalents at the beginning of the period	**5,257**	8,841	8,841
Effect of foreign exchange rate changes	**364**	(55)	103
Cash and cash equivalents at the end of the period	**10,171**	5,619	5,257

Notes Forming Part of the Condensed 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, Winsford, 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 twelve months ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

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

2. Basis of preparation

The information for the year ended 31 December 2013 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor reported on those accounts; their report was unqualified, did not draw attention to any matters of emphasis without qualifying the report and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

3. Accounting policies

The same accounting policies, presentations and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. The unaudited condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with the International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. These condensed interim accounts should be read in conjunction with the annual accounts of the Group for the year ended 31 December 2013. The annual financial statements of Advanced Medical Solutions Group plc are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Changes in accounting policies

The adoption of the following standards, at 1 January 2014, has had no material impact on the Group's financial statements:

- IFRS 10 'Consolidated Financial Statements'
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets'
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting'

4. Earnings per share

	(Unaudited) Six months ended 30 June 2014 £'000	(Unaudited) Six months ended 30 June 2013 £'000	(Audited) Year ended 31 December 2013 £'000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**5,964**	5,189	11,366
Number of shares	**'000**	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**207,302**	204,930	205,795
Effect of dilutive potential ordinary shares: share options, deferred share bonus, LTIPs	**3,978**	3,080	2,869
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**211,280**	208,010	208,664

Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the period.

Diluted EPS is calculated on the same basis as basic EPS but with the further adjustment to the weighted average shares in issue to reflect the effect of all potentially dilutive share options. The number of potentially dilutive share options is derived from the number of share options and awards granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period.

4. Earnings per share continued

Adjusted earnings per share

The calculation of adjusted EPS excluding amortisation of associated intangible assets and is based on earnings of:

	(Unaudited) Six months ended 30 June 2014 £'000	(Unaudited) Six months ended 30 June 2013 £'000	(Audited) Year ended 31 December 2013 £'000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**5,964**	5,189	11,366
Amortisation of acquired intangible assets	**197**	200	400
Earnings excluding amortisation of acquired intangible assets	**6,161**	5,389	11,766

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

Adjusted EPS after adding back amortisation of acquired intangible assets:

	(Unaudited) Six months ended 30 June 2014 pence	(Unaudited) Six months ended 30 June 2013 pence	(Audited) Year Ended 31 December 2013 pence
Adjusted basic EPS	**2.97p**	2.63p	5.72p
Adjusted diluted EPS	**2.92p**	2.59p	5.64p

The adjusted diluted EPS information is considered to provide a fairer representation of the Group's trading performance.

5. Segment information

In the latter stages of the year to December 2012 the Group was re-organised into four business units: Branded Direct, Branded Distributed, OEM and Bulk Materials. These divisions are the basis on which the Group reports its segment information.

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 Group's external borrowings. 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 business units are as follows:

Branded Direct

Selling, marketing and innovation of the Group's branded products sold directly by the Group's sales teams.

Branded Distributed

Selling, marketing and innovation of the Group's branded products sold by distributors in markets not serviced by the Group's sales teams.

OEM

Distribution, marketing and innovation of the Group's products supplied to partners under their brands.

Bulk Materials

Distribution, marketing and innovation of bulk materials to medical device partners and convertors.

Notes Forming Part of the Condensed Consolidated Financial Statements continued

5. Segment information continued

Segment information about these businesses is presented below:

Six months ended 30 June 2014 (unaudited)	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Eliminations £'000	Consolidated £'000
Revenue						
External sales	**11,648**	**4,089**	**11,831**	**1,872**	**–**	**29,440**
Inter-segment sales				**397**	**(397)**	**–**
Total revenue	**11,648**	**4,089**	**11,831**	**2,269**	**(397)**	**29,440**
Result						
Segment result	**3,317**	**702**	**3,194**	**223**	**–**	**7,436**
Unallocated expenses						**(409)**
Profit from operations						**7,027**
Finance income						**30**
Finance costs						**(3)**
Profit before tax						**7,054**
Tax						**(1,090)**
Profit for the year						**5,964**

At 30 June 2014 (unaudited) Other Information	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Consolidated £'000
Capital additions:					
Software intangibles	**27**	**7**	**34**	**8**	**76**
Development	**42**	**56**	**139**	**–**	**237**
Property, plant and equipment	**215**	**67**	**214**	**57**	**553**
Depreciation and amortisation	**419**	**171**	**586**	**131**	**1,307**
Balance sheet					
Assets					
Segment assets	**54,803**	**15,134**	**24,468**	**4,177**	**98,582**
Consolidated total assets					**98,582**
Liabilities					
Segment liabilities	**5,018**	**1,334**	**2,844**	**415**	**9,611**
Consolidated total liabilities					**9,611**

Six months ended 30 June 2013 (unaudited)	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Eliminations £'000	Consolidated £'000
Revenue						
External sales	11,001	3,465	10,743	2,183	–	27,392
Inter-segment sales				388	(388)	–
Total revenue	11,001	3,465	10,743	2,571	(388)	27,392
Result						
Segment result	2,906	574	2,541	518	–	6,539
Unallocated expenses						(211)
Profit from operations						6,328
Finance income						1
Finance costs						(362)
Profit before tax						5,967
Tax						(778)
Profit for the year						5,189

5. Segment information continued

At 30 June 2013 (unaudited) Other Information	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Consolidated £'000
Capital additions:					
Software intangibles	75	6	258	36	375
Development	103	46	172	76	397
Property, plant and equipment	187	60	156	6	409
Depreciation and amortisation	445	125	575	97	1,242
Balance sheet					
Assets					
Segment assets	55,451	15,351	23,688	4,478	98,968
Consolidated total assets					98,968
Liabilities					
Segment liabilities	5,034	1,540	2,779	605	9,958
Unallocated liabilities					8,256
Consolidated total liabilities					18,214

Unallocated liabilities consist of the Group's external borrowings.

Year ended 31 December 2013 (audited)	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Eliminations £'000	Consolidated £'000
Revenue						
External sales	22,918	8,785	23,629	4,167	–	59,499
Inter-segment sales				766	(766)	–
Total revenue	22,918	8,785	23,629	4,933	(766)	59,499
Result						
Segment result	6,023	1,654	5,790	668	–	14,135
Unallocated expenses						(409)
Profit from operations						13,726
Finance income						1
Finance costs						(583)
Profit before tax						13,144
Tax						(1,778)
Profit for the year						11,366

At 31 December 2013 (audited) Other Information	Branded Direct £'000	Branded Distributed £'000	OEM £'000	Bulk Materials £'000	Consolidated £'000
Capital additions:					
Software intangibles	131	15	400	72	618
Development	168	70	369	5	612
Property, plant and equipment	330	117	197	192	836
Depreciation and amortisation	872	310	1,037	259	2,478
Balance sheet					
Assets					
Segment assets	54,470	15,196	23,172	4,309	97,147
Consolidated total assets					97,147
Liabilities					
Segment liabilities	5,629	1,675	3,156	599	11,059
Consolidated total liabilities					11,059

Notes Forming Part of the Condensed Consolidated Financial Statements continued

5. Segment information continued

Geographical segments

The Group operates in the UK, Germany, the Netherlands and the Czech Republic, with sales offices located in Russia and the USA. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

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

	(Unaudited) Six months ended 30 June 2014 £'000	(Unaudited) Six months ended 30 June 2013 £'000	(Audited) Year ended 31 December 2013 £'000
United Kingdom	**7,406**	6,119	13,225
Germany	**7,652**	7,599	15,687
Europe excluding United Kingdom and Germany	**7,510**	7,742	17,331
United States of America	**5,984**	5,105	11,819
Rest of World	**888**	827	1,437
	29,440	27,392	52,589

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

	(Unaudited) Six months ended 30 June 2014 £'000	(Unaudited) Six months ended 30 June 2013 £'000	(Audited) Year ended 31 December 2013 £'000
United Kingdom	**37,839**	32,895	34,271
Germany	**54,410**	59,634	56,522
Europe excluding United Kingdom and Germany	**6,074**	6,266	6,315
United States of America	**259**	173	39
	98,582	98,968	97,147

6. Financial Instruments' fair value disclosures

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

The Group held the following financial instruments at fair value at 30 June 2014. The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs i.e. those that would be classified as level 2 or 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

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

	Ave. exchange rate		**Foreign currency**		**Contract value**		**Fair value**	
	30 June 2014 USD:£1	31 Dec 2013 USD:£1	**30 June 2014 USD'000**	31 Dec 2013 USD'000	**30 June 2014 £'000**	31 Dec 2013 £'000	**30 June 2014 £'000**	31 Dec 2013 £'000
Cash flow hedges								
Sell US dollars								
Less than 3 months	**1.540**	1.547	**3,150**	3,500	**2,045**	2,262	**199**	144
3 to 6 months	**1.525**	1.519	**2,400**	2,250	**1,573**	1,481	**167**	118
7 to 12 months	**1.614**	1.534	**2,200**	5,550	**1,363**	3,618	**69**	251
Over 12 months	**1.663**	1.595	**1,000**	1,600	**601**	1,003	**11**	31
			8,750	12,900	**5,582**	8,364	**446**	544

6. Financial Instruments' fair value disclosures continued

	Ave. exchange rate		Foreign currency		Contract value		Fair value	
	30 June 2014 EUR:£1	31 Dec 2013 EUR:£1	**30 June 2014 EUR'000**	31 Dec 2013 EUR'000	**30 June 2014 £'000**	31 Dec 2013 £'000	**30 June 2014 £'000**	31 Dec 2013 £'000
Cash flow hedges								
Sell Euros								
Less than 3 months	**1.157**	1.157	**950**	1,100	**821**	951	**60**	34
3 to 6 months	**1.163**	1.164	**1,150**	1,100	**988**	945	**66**	24
7 to 12 months	**–**	1.164	**–**	2,300	**–**	1,977	**–**	49
			2,100	4,500	**1,809**	3,873	**126**	107

7. Taxation

UK Corporation Tax for the six month period is charged at 22% (six months ended June 2013: 23.5%, year ended 31 December 2013: 23.25%). The effective rate of current tax for the six months ended 30 June 2014 was 15.5% (six months ended 30 June 2013: 13%, year ended 31 December 2013: 13.5%) after the application of losses brought forward, patent box and research and development tax relief, with some off-set for disallowable expenditure. The rate of tax is reflective of the impact of blending profits and losses from different countries and the different tax rates associated with those countries.

8. Dividends

Amounts recognised as distributions to equity holders in the period:

	(Unaudited) Six months ended 30 June 2014 £'000	(Unaudited) Six months ended 30 June 2013 £'000	(Audited) Year ended 31 December 2013 £'000
Final dividend for the year ended 31 December 2012 of 0.35p per ordinary share	**–**	712	712
Interim dividend for the year ended 31 December 2013 of 0.19p per ordinary share	**–**	–	399
Final dividend for the year ended 31 December 2013 of 0.41p per ordinary share	**850**	–	–
	850	712	1,111

The Board intends to pay an interim dividend of 0.22p per share (2013 H1: 0.19p) on 31 October 2014 to shareholders on the register at the close of business on 3 October 2014.

9. Contingent liabilities

The Directors are not aware of any contingent liabilities faced by the Group as at 30 June 2014 (30 June 2013: £nil, 31 December 2013: £nil).

10. Share capital

Share capital as at 30 June 2014 amounted to £10,385,000 (30 June 2013: £10,291,000, 31 December 2013: £10,343,000). During the period, the Group issued 540,602 shares in respect of exercised share options and 283,721 shares in respect of the Deferred Share Bonus Scheme.

11. 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 regards to the Group's financial position, it had cash and cash equivalents at 30 June 2014 of £10.2 million. The Group also has in place a revolving credit facility of £4 million, which has not been drawn down and is available until 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.

After taking 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 condensed consolidated financial statements.

12. Principal risks and uncertainties

Further detail concerning the principal risks affecting the business activities of the Group is detailed on page 3 of the Annual Report and Accounts for the year ended 31 December 2013. There have been no significant changes since the last annual report.

Notes Forming Part of the Condensed Consolidated Financial Statements continued

13. Seasonality of sales
There are no significant factors affecting the seasonality of sales between the first and second half of the year.

14. Events after the balance sheet date
The Directors are not aware of any material event subsequent to the end of the interim reporting period ended 30 June 2014.

15. Copies of the interim results
Copies of the interim results can be obtained from the Group's registered office at Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT.

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