

Company No. 362847

SMITHS MEDICAL INTERNATIONAL LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
5 AUGUST 2006

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**Smiths Medical International Limited**

**Annual report and financial statements  
For the 53 weeks ended 5 August 2006**

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**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**DIRECTORS' REPORT**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

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The Directors have pleasure in presenting their report and the audited financial statements for the 53 weeks ended 5 August 2006.

**PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS**

The principal activity of the Company continues to be the manufacture of surgical and medical plastic products in the UK. Turnover has increased to £125,034,000 (2005 : £124,115,000) during the period. During the period, management has agreed to close the manufacturing site in Hythe and has arranged for the subsequent transfer of production to other Smiths Group sites (see note 7).

**RESULTS AND DIVIDENDS**

The profit for the period after taxation was £2,991,000 (2005: £9,902,000). The retained profit for the period of £2,991,000 has been transferred to reserves (2005: £9,902,000). The Directors have provided a preference dividend of £2,000 (2005: preference dividend of £2,000) and do not recommend the payment of a final dividend.

**FUTURE DEVELOPMENTS**

The Company will pursue its existing activities and continue to seek business opportunities to ensure the future profitability of the Company.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Directors of Smiths Group plc manage the Smiths Group's risks at a group level, rather than at an individual business unit level. For this reason, the Company's Directors believe that a disclosure of the groups risk would not be appropriate for an understanding of the development, performance or position of Smiths Medical International Limited business. The principle risks and uncertainties of Smiths Group plc are disclosed in the groups Annual Reports.

**KEY PERFORMANCE INDICATORS**

The Directors of Smiths Group plc manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Smiths Medical International Limited. The development, performance and position of the medical division of Smiths Group plc, which includes the company, is discussed in the group's annual report which does not form part of this report.

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**DIRECTORS' REPORT**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

**DIRECTORS AND THEIR INTERESTS**

The Directors who held office during the period are given below:

C.J. Eaton	
G.S. Hardcastle	(Appointed 27/7/2006)
M.C. Jamieson	
D.E. Patterson	
J.C. Russell	
J.J.C. Simpson	
C. Surch	(Resigned 27/7/2006)
R.E. Trawicki	(Resigned 31/8/2005)
R.E. Thomas	

None of the Directors held any interest in the share capital of the Company.

The number of 25p ordinary shares of Smiths Group plc held by Directors and their immediate families were:

	<b><u>2006</u></b>	<b><u>2005*</u></b>
C.J. Eaton	952	952
G.S. Hardcastle	30,487	27,712
M.C. Jamieson	23,426	13,468
R.E. Thomas	682	0
J.C. Russell	397	386
J.J.C. Simpson	60	60
D.E. Patterson	0	0

\*or as at date of appointment

The number of options and contingent awards held by Directors and their immediate families over the 25p ordinary shares of Smiths Group plc, under the terms of the Smiths Group Sharesave Scheme, the Smiths Industries Executive Share Option Scheme, the Smiths Industries Senior Executive Deferred Share Scheme, the Smiths Group Co-Investment Plan and the Smiths Group Performance Share Plan.

	<b>5 August 2006</b>	<b>Granted during period</b>	<b>Exercised during period</b>	<b>Lapsed during period</b>	<b>1 August 2005*</b>
J.J.C. Simpson	34,714	10,250	-	-	24,464
C.J. Eaton	86,353	12,000	3,490	-	77,843
G.S. Hardcastle	164,974	-	2,775	-	167,749
M.C. Jamieson	167,285	25,298	2,757	-	144,744
R.E. Thomas	37,465	8,468	1,271	-	30,268
J.C. Russell	46,487	-	-	-	46,487
D.E. Patterson	50,600	8,750	-	-	41,850

\*or as at date of appointment

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
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**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

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Details of the Smiths Group Sharesave Scheme, the Smiths Industries 1995 Executive Share Option Scheme, the Smiths Industries Senior Executive Deferred Share Scheme, the Smiths Group Co-Investment Plan and the Smiths Group Performance Share Plan are contained in the Annual Report and financial statements of Smiths Group plc.

## **EMPLOYEES**

The maintenance of a highly skilled workforce is key to the future of the Company. The Directors regularly review health and safety matters and it is their policy to ensure that:

1. full and fair consideration is given to all applications for employment made by disabled persons, having regard to their capabilities;
2. when existing employees become disabled (whether from illness or accident) every reasonable effort is made to continue to provide suitable employment either in the same or, by training, in an alternative job;
3. disabled persons are given equal consideration for training, career development and opportunities for promotion within the Company.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of their financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through the newsletters and monthly briefing groups.

## **POLICY ON PAYMENT OF CREDITORS**

The Company's policy is to pay creditors promptly in accordance with agreed terms of business. The total amount of creditors falling due within one year as at 5 August 2006 represents 43 days (2005: 38 days) worth as a proportion of the total amount invoiced by suppliers during the period ended on that date.

## **FINANCIAL RISK MANAGEMENT**

The company's operations expose it to a variety of financial risks that include the effects of price risk, credit risk, liquidity risk and interest rate risk. The company has in place a risk management programme that seeks to limit the adverse effects of these on the financial performance of the company by monitoring cash flows and levels of debt.

### **Price risk**

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**DIRECTORS' REPORT**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

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**Credit risk**

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Review of debtors is also made on a regular basis.

**Liquidity risk**

The company manages liquidity at a group level with a system of pooled funds in place over its bank accounts. At the company level budgetary controls monitor cash against forecast.

**Interest rate cash flow risk**

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include a loan to the parent company and cash balances, whilst interest bearing liabilities relate to cash overdraft balances. For both categories interest rates are on a floating rate basis with no market risk.

**RESEARCH AND DEVELOPMENT**

The Company is currently undertaking research and development into new products and technologies which will expand and extend its current product ranges, or improve existing products within these ranges.

**DONATIONS**

During the period, the Company made charitable donations of £356,000 (2005: £332,000). There were no political donations (2005: £nil).

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company at the end of the period and of its profit or loss for that period. In preparing those financial statements the Directors are required to:

- confirm that suitable accounting policies have been used and applied consistently;
- confirm that judgements and estimates are reasonable and prudent;
- confirm that applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business.

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**DIRECTORS' REPORT**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

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The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

**DISCLOSURE OF INFORMATION TO AUDITORS**

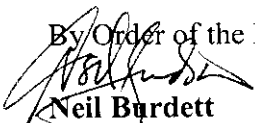
So far as the Directors are aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware.

The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**AUDITORS**

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board

  
**Neil Burdett**  
Secretary

17 January 2007 London

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF SMITHS MEDICAL INTERNATIONAL LIMITED**

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We have audited the financial statements of Smiths Medical International Limited for the 53 weeks ended 5 August 2006, which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF SMITHS MEDICAL INTERNATIONAL LIMITED**

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**Opinion**

In our opinion:

- 1 the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 5 August 2006. and of its profit for the period then ended;
- 2 the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- 3 the information given in the Directors' Report is consistent with the financial statements.

*PricewaterhouseCoopers LLP*

*PricewaterhouseCoopers LLP*

*Chartered Accountants and Registered Auditors*

*London*

*18 January 2007*

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

	<u>Note</u>	<u>2006</u> <u>£'000</u>	As restated (note 1) <u>2005</u> <u>£'000</u>
<b>TURNOVER</b>		125,034	124,115
	2	<u>125,034</u>	<u>124,115</u>
Cost of Sales		(94,775)	(90,671)
<b>GROSS PROFIT</b>		<u>30,259</u>	<u>33,444</u>
Distribution costs		(7,294)	(5,521)
Administrative expenses		(10,739)	(13,400)
Operating exceptional items	7	(9,819)	(1,993)
<b>OPERATING PROFIT BEFORE INTEREST</b>		<u>2,407</u>	<u>12,530</u>
Net Interest receivable	8	1,866	1,616
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>4,273</u>	<u>14,146</u>
Tax on profit on ordinary activities	9	(1,282)	(4,244)
<b>RETAINED PROFIT FOR THE FINANCIAL PERIOD</b>	19	<u>2,991</u>	<u>9,902</u>

The Company has no recognised gains or losses other than the profit for the financial period above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the financial period stated above and their historical cost equivalents.

All operations are continuing.

The notes on pages 10 to 23 form part of these financial statements.

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**BALANCE SHEET**  
**AS AT 5 AUGUST 2006**

			As restated (note 1)
	<u>Note</u>	<u>2006</u> £'000	<u>2005</u> £'000
<b>FIXED ASSETS</b>			
Tangible Assets	10	25,106	23,400
Intangible Assets	11	6,110	6,458
Investment in Subsidiaries	12	<u>8,064</u>	<u>8,064</u>
		39,280	37,922
<b>CURRENT ASSETS</b>			
Stocks	13	27,706	25,572
Debtors	14	80,831	69,044
Cash at bank and in hand		<u>61</u>	<u>50</u>
		108,598	94,666
<b>CREDITORS: amounts falling due within one year</b>	15	(38,317)	(33,569)
		<u>          </u>	<u>          </u>
<b>NET CURRENT ASSETS</b>		70,281	61,097
		<u>          </u>	<u>          </u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		109,561	99,019
<b>CREDITORS: amounts falling due after more than one year</b>	16	(27)	(28)
<b>Provisions for liabilities and charges</b>	17	(8,655)	(1,103)
		<u>          </u>	<u>          </u>
<b>NET ASSETS</b>		<u>100,879</u>	<u>97,888</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	43	43
Share premium account	19	71,340	71,340
Profit and loss account	19	29,496	26,505
		<u>          </u>	<u>          </u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>	20	<u>100,879</u>	<u>97,888</u>
<b>ANALYSIS OF SHAREHOLDERS' FUNDS</b>			
Equity		37,604	34,613
Non-equity		63,275	63,275
	20	<u>100,879</u>	<u>97,888</u>

The financial statements on pages 8 to 23 were approved by the Board on [    date    ] and signed on its behalf by:

**J J C SIMPSON**

Director

The notes on pages 10 to 23 form part of these financial statements.

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

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**1. ACCOUNTING POLICIES**

**Basis of Accounting**

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below. These are reviewed periodically to ensure that they continue to be the most appropriate for the Company.

**Changes in accounting policies**

The Company has adopted, FRS 21, 'Events after the balance sheet date', FRS 25, 'Financial instruments: disclosure and presentation', and FRS 28, 'Corresponding amounts' in these financial statements. The adoption of these standards represents a change in accounting policy and the comparative figures have been restated accordingly.

There was no financial or disclosure impact on the adoption of FRS 21 and FRS 28.

The effect of the change in accounting policy to adopt the presentation requirements of FRS 25, paragraphs 1 to 50, was to reclassify preference shares of £27,000 (2005: £28,000) from equity to liabilities and the related dividends of £2,000 (2005: £2,000) are now recognised as interest costs.

**a) Turnover**

Turnover, which comprises a single class of activity, represents the net amount invoiced to customers less trade discounts, excluding value added tax. Revenue is recognised when the risks and rewards of the underlying sale has been transferred to the customer, which is usually where title passes.

**b) Cost of sales**

Cost of sales represents the expenditure incurred in bringing goods and services to the location and to the condition in which a sale could take place, including all related production overheads.

**c) Tangible fixed assets and depreciation**

Tangible fixed assets are carried at cost less any permanent diminution in value.

Depreciation is provided on all relevant assets in use at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life on a straight line basis, as follows:

Plant and machinery	- 10 years
Motor vehicles	- 4 years
Fixtures, fittings, tools, equipment and vehicles	- 2 to 10 years

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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d) **Goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given and associated costs over the fair value of the identifiable assets and liabilities acquired, is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful economic life, normally a period of twenty years. If the carrying value of goodwill is considered to exceed its recoverable amount, an impairment charge is included in operating profit.

e) **Research and Development**

Research and development expenditure, other than that recoverable from third parties, is written off as incurred.

f) **Taxation**

The tax on profit on ordinary activities represents the amount paid for Group relief in respect of tax losses claimed in the current period.

g) **Deferred taxation**

Deferred taxation, where material, is recognised in respect of timing differences that have originated but not reversed as at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as disclosed in the accounts, arising from the inclusion of gains and losses in the tax computations in periods different from those in which they are recognised in the accounts.

h) **Stocks and Work in Progress**

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost is determined on a "first in, first out" basis and, in the case of work in progress and finished goods, includes the relevant proportion of overheads.

i) **Foreign Exchange**

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction, or if hedged forward at the contract rate. Exchange differences arising in the ordinary course of business are included in trading profit.

Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date, or at contracted rates where hedging arrangements are in place.

j) **Financial Instruments**

The company uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange rates. Foreign currency assets and liabilities covered by forward contracts are translated at the contract rate of exchange.

k) **Operating Leases**

Operating lease rentals are charged to the profit and loss account during the period in which they are incurred.

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

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l) **Finance Leases**

Equipment leased to customers under finance leases is deemed to be sold at normal selling value, which is taken to turnover at the inception of the lease. Debtors under finance leases represent outstanding amounts due under such agreements less finance charges allocated to future periods.

Finance lease interest is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investments.

m) **Cash flow statement and related party disclosures**

The Company is a wholly owned subsidiary of Smiths Group plc and is included in the consolidated financial statements of Smiths Group plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The Company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of Smiths Group plc group or investees of Smiths Group plc group.

n) **Investments**

Investments in subsidiary undertakings are included in the balance sheet at cost less any necessary provisions for permanent diminution in value.

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

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**2. TURNOVER**

The analysis of turnover by geographical area is as follows:

	<b><u>2006</u></b> <b><u>£'000</u></b>	<b><u>2005</u></b> <b><u>£'000</u></b>
U.K.	38,185	38,293
Overseas	86,849	85,822
<b>TOTAL</b>	<b><u>125,034</u></b>	<b><u>124,115</u></b>

**3. OPERATING PROFIT**

Operating profit is stated after charging:

	<b><u>2006</u></b> <b><u>£'000</u></b>	<b><u>2005</u></b> <b><u>£'000</u></b>
Staff costs (see note 5)	33,386	29,423
Depreciation on owned assets	4,999	4,306
Depreciation of assets held under finance leases	25	24
Amortisation of intangible assets	348	347
Operating leases - Land and buildings	387	437
Auditors' remuneration - Audit services	86	78
Auditors' remuneration - Non-audit services	-	-
Research and development expenditure	4,466	4,428
Donations	356	332
Foreign exchange Loss/(Profit)	176	(1,072)
Loss on sale of assets	47	144
	<b><u>          </u></b>	<b><u>          </u></b>

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

**4. DIRECTORS' EMOLUMENTS**

	<u>2006</u> £'000	<u>2005</u> £'000
Aggregate emoluments (including pension contributions)	<u>965</u>	<u>865</u>
Defined contribution pension scheme	9	6

There were 5 Directors (2005: 4 Directors) of the Company to whom retirement benefits were accruing during the period ended 5 August 2006 under a defined benefit scheme. There was one (2005: 1 Director) Director of the Company to whom retirement benefits were accruing during the period ended 5 August 2006 under a money purchase scheme.

There were 4 Directors (2005: 4 Directors) who exercised share options during the period.

The Directors are employees of the ultimate parent company Smiths Group plc or other group undertakings, and in some cases are Directors of other group undertakings. However the Directors do not believe it is possible to meaningfully allocate these emoluments between their respective duties.

<u>Highest paid director</u>	<u>2006</u> £'000	<u>2005</u> £'000
Total amount of emoluments	323	364
Accrued pension	51	45

The highest paid director has exercised share options in the financial period.

**5. STAFF COSTS**

	<u>2006</u> £'000	<u>2005</u> £'000
Wages and salaries	27,375	24,321
Social security costs	2,523	2,179
Other pension costs (see note 21)	3,488	2,923
	<u>33,386</u>	<u>29,423</u>

Certain employees' contracts of service have been transferred to Smiths Group plc company starting 1 January 2006. Remuneration in respect of these employees is included above because they work full time for and are paid by the company.

**6. EMPLOYEE INFORMATION**

The average number of persons employed by the Company during the period, including Executive Directors, was:

<b>By activity</b>	<u>2006</u> Number	<u>2005</u> Number
Manufacturing	422	369
Administration	614	593
	<u>1,036</u>	<u>962</u>



**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

**7. OPERATING EXCEPTIONAL ITEMS**

	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Reorganisation costs	7,728	231
Loss on sale of assets	-	74
Project One	1,416	1,373
Medex	675	315
	<u>9,819</u>	<u>1,993</u>

Reorganisation costs for the period mainly relate to the closure of the Hythe manufacturing site and its transfer to other Smiths Groups sites. The amount includes £1,897,000 impairment of assets, £5,669,000 redundancy costs and £264,000 other costs in relation to the closure. This is offset by the excess reorganisation costs made in the prior year for the closure of a European production site amounting to £102,000.

Project One is a business process reengineering project involving the introduction of a new IT system. The amount involves consultancy and other costs that are not directly attributable to the design of the IT system.

Medex was acquired by the parent undertaking in March 2005 and costs have been incurred in the period on integrating the activities of the business into the company.

**8. NET INTEREST RECEIVABLE**

	<u>2006</u> <u>£'000</u>	As restated (note 1) <u>2005</u> <u>£'000</u>
<b>Interest receivable and similar income</b>		
Interest receivable: bank	1,155	1,649
Interest receivable: parent undertaking	771	62
Interest receivable: other group companies	25	-
Interest receivable: other	28	30
	<u>1,979</u>	<u>1,741</u>
<b>Interest payable and similar charges</b>		
Interest payable: bank	(25)	(49)
Interest on overdue tax	-	(4)
Bank charges	(86)	(70)
Preference share dividend: 10p (2005: 10p) per share	(2)	(2)
	<u>(113)</u>	<u>(125)</u>
	<u>1,866</u>	<u>1,616</u>

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 53 WEEKS ENDED 5 AUGUST 2006**

**9. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<u>2006</u> £'000	<u>2005</u> £'000
<b>United Kingdom current tax</b>		
UK corporation tax charge at 30% (2005: 30%)	<u>1,282</u>	<u>4,244</u>
	<u>2006</u> £'000	<u>2005</u> £'000
Profit on ordinary activities before taxation	<u>4,273</u>	<u>14,146</u>
Profit on ordinary activities multiplied by standard rate in the UK 30% (2005: 30%)	1,282	4,244
Adjustment to prior year taxation	1,249	-
	<u>2,531</u>	<u>4,244</u>
Group relief surrendered from fellow subsidiary:		
- current year	(1,282)	-
- prior year	(1,249)	-
Payment for group relief	1,282	-
	<u>1,282</u>	<u>4,244</u>
Current tax per Profit and Loss account	<u>1,282</u>	<u>4,244</u>

The company has an unrecognised deferred tax asset of around £1,700,000 arising from accelerated capital allowance and short term timing differences. This deferred tax asset has not been recognised as the directors understand that group relief is expected to be surrendered to the company for the foreseeable future meaning that no taxable profits will be available to justify the recognition of the deferred tax asset.

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
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**10. TANGIBLE FIXED ASSETS**

	<u>Property</u>	<u>Plant and</u>	<u>Fixtures, fittings,</u>	<u>Total</u>
	<u>£'000</u>	<u>machinery</u>	<u>tools, equipment</u>	<u>£'000</u>
		<u>£'000</u>	<u>and vehicles</u>	
			<u>£'000</u>	<u>£'000</u>
<b>Cost</b>				
1 August 2005	4,564	18,958	31,680	55,202
Additions	10	1,561	7,849	9,420
Transfers to/from other				
group undertakings	-	(276)	(757)	(1,033)
Disposals	-	(599)	(1,513)	(2,112)
5 August 2006	<u>4,574</u>	<u>19,644</u>	<u>37,259</u>	<u>61,477</u>
<b>Depreciation</b>				
1 August 2005	317	11,753	19,732	31,802
Transfers to/from other				
group undertakings		(120)	(319)	(439)
Charge for period	349	1,717	2,958	5,024
Impairment	554	1,068	275	1,897
Disposals		(593)	(1,320)	(1,913)
5 August 2006	<u>1,220</u>	<u>13,825</u>	<u>21,326</u>	<u>36,371</u>
<b>Net book value</b>				
5 August 2006	<u>3,354</u>	<u>5,819</u>	<u>15,933</u>	<u>25,106</u>
31 July 2005	<u>4,247</u>	<u>7,205</u>	<u>11,948</u>	<u>23,400</u>

The net book amount of property comprises:

	<u>2006</u>	<u>2005</u>
	<u>£'000</u>	<u>£'000</u>
Freehold	3,137	4,005
Long leaseholds	-	-
Short leaseholds	<u>217</u>	<u>242</u>
	<u>3,354</u>	<u>4,247</u>

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**11. INTANGIBLE ASSETS**

Goodwill represents the difference between the price paid for Pneupac Limited and the net assets acquired.

	<b><u>Goodwill</u></b> <b>£'000</b>
<b>Cost</b>	
1 August 2005	6,950
Additions	-
Reclassification	-
Disposals	-
	<hr/>
5 August 2006	6,950
<b>Amortisation</b>	
1 August 2005	492
Reclassification	-
Charge for period	348
Disposals	-
	<hr/>
5 August 2006	840
Net book value	
5 August 2006	6,110
	<hr/> <hr/>
31 July 2005	6,458
	<hr/> <hr/>

**12. INVESTMENTS**

	<b><u>2006</u></b> <b>£'000</b>	<b><u>2005</u></b> <b>£'000</b>
<b>Investment in Subsidiaries</b>		
Pneupac Limited	7,835	7,835
Graseby Medical Limited	<u>229</u>	<u>229</u>
	<b>8,064</b>	<b>8,064</b>

<b>Percentage of ordinary shares held</b>	<b>2006</b>	<b>2005</b>	<b>Country of Incorporation/ Registration</b>
Pneupac Limited	100	100	England and Wales
Graseby Medical Limited	100	100	England and Wales

Both above companies are Non-trading.

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**13. STOCKS**

	<u>2006</u>	<u>2005</u>
	<u>£'000</u>	<u>£'000</u>
Raw materials and consumables	10,817	9,461
Work in progress	1,545	1,391
Finished goods and goods for resale	15,344	14,720
	<u>27,706</u>	<u>25,572</u>

**14. DEBTORS**

	<u>2006</u>	<u>2005</u>
	<u>£'000</u>	<u>£'000</u>
<b>Due within one year:</b>		
Trade debtors	16,592	18,152
Amounts owed by group undertakings	63,107	49,400
Other debtors and prepayments	712	1,175
	<u>80,411</u>	<u>68,727</u>
<b>Due after more than one year:</b>		
Finance Leases	420	317
	<u>80,831</u>	<u>69,044</u>

**15. CREDITORS: amounts falling due within one year**

	<u>2006</u>	<u>2005</u>
	<u>£'000</u>	<u>£'000</u>
Trade creditors	10,521	8,455
Amounts owed to group undertakings	21,598	19,709
Taxes and social security costs	1,660	1,363
Other creditors	290	296
Accruals and deferred income	4,248	3,746
	<u>38,617</u>	<u>33,569</u>

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**16. CREDITORS: amounts falling due after more than one year**

	<u>2006</u> £'000	<u>2005</u> £'000
7% Cumulative preference shares of €2 each	<u>27</u>	<u>28</u>

The number of authorised preference share capital stands at 20,000 (2005: 20,000) of these 20,000 were allotted, issued and fully paid (2005: 20,000).

The 7% cumulative preference shares carry a fixed cumulative preferential dividend at the rate of 7% per annum payable annually in arrears on or before 30 September. The shares have no redemption entitlement. On winding up the holders have priority before all other classes of shares to receive repayment of capital plus any arrears of dividend. The holders have the same voting rights as the other classes of shares.

**17. PROVISIONS FOR LIABILITIES AND CHARGES**

	Re- organisation £'000	Product liability £'000	Other £'000	Total £'000
1 August 2005	263	435	405	1,103
Charged	5,717	1,785	357	7,559
Released	-	-	-	-
Utilised	(140)	(167)	-	(307)
5 August 2006	<u>5,840</u>	<u>2,053</u>	<u>762</u>	<u>8,655</u>

Reorganisation mainly relates to the £5,669,000 redundancy costs for the closure of the Hythe manufacturing site (see Note 7). A provision of £171,000 (2005: £263,000) is also outstanding for the reorganisation at the Watford site. The provisions are expected to be utilised within the period of 18 months.

Product liability provisions are made for the likely costs of after sales support based on recent past experiences of the business. These are expected to be utilised over the period of the applicable liability.

Other includes litigation, warranty and dilapidation provisions. A total of £221,000 (2005: £202,000) are expected to be utilised after more than one year.

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**18. CALLED UP SHARE CAPITAL**

	<u>2006</u> £'000	<u>2005</u> £'000
<b>Authorised</b>		
50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>
<b>Allotted and fully paid</b>		
43,217 ordinary shares of £1 each (2005: 43,217)	<u>43</u>	<u>43</u>

**19. RESERVES**

	Share premium account £'000	Profit and loss account £'000
At 1 August 2005	71,340	26,505
Retained profit for the financial period	-	2,991
At 5 August 2006	<u>71,340</u>	<u>29,496</u>

**20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<u>2006</u> £'000	As restated (note 1) <u>2005</u> £'000
Profit for the financial period	2,991	9,902
Rate of exchange on Euro preference shares	-	1
Net addition/(reduction) to shareholders' funds	<u>2,991</u>	<u>9,903</u>
Opening shareholders' funds as previously reported	97,916	88,013
Prior period adjustment – FRS 25	(28)	(28)
Opening shareholders' funds as restated	<u>97,888</u>	<u>87,985</u>
Closing shareholders' funds	<u>100,879</u>	<u>97,888</u>

**SMITHS MEDICAL INTERNATIONAL LIMITED**  
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**21. PENSION ARRANGEMENTS**

The company's principal arrangements are provided through the Independent Smiths Industries Pension Scheme, which is a defined benefit scheme to which eligible employees contribute, and whose assets are held in separate trustee administered funds.

The company is unable to identify its share of the underlying assets and liabilities of the scheme, and accordingly has accounted for its contributions to the scheme as if it were a defined contribution scheme in accordance with Financial Reporting Standard 17. The particulars of the scheme, including details of the most recent actuarial valuation carried out in March 2003, are presented in the financial statements of Smiths Group plc. The regular pension cost is assessed using the Projected Unit method. The total pension cost for the company was £3,488,000 (2005: £2,923,000). This represents contributions paid to the holding company, which is responsible for making contributions to the pension fund on behalf of the group as a whole.

Any contributions made by the company are based on pension costs across the group as a whole.

**22. CAPITAL AND OTHER COMMITMENTS**

The following future capital expenditure commitments, not otherwise provided for in these financial statements, existed at the balance sheet date:

	<u>2006</u> £'000	<u>2005</u> £'000
Amounts contracted for	<u>1,202</u>	<u>1,280</u>
Authorised but not contracted for	<u>4,671</u>	<u>3,802</u>

**23. FINANCIAL COMMITMENTS UNDER OPERATING LEASES**

At 5 August 2006, the company had annual commitments under non-cancellable operating leases for land and buildings expiring as follows:

	<u>2006</u> £'000	<u>2005</u> £'000
Within one year	-	-
Within two to five years	-	-
After five years	<u>387</u>	<u>387</u>



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**24. ULTIMATE PARENT UNDERTAKING**

The immediate parent undertaking is Smiths Medical Group Limited. The ultimate parent undertaking and controlling party is Smiths Group plc, registered in England and Wales. Copies of the financial statements of Smiths Group plc can be obtained from The Company Secretary, Smiths Group plc, 765 Finchley Road, London NW11 8DS.

The Company is exempt from preparing consolidated financial statements on the grounds that it qualifies as an intermediate parent company under section 228 of the Companies Act 1985. These financial statements therefore present information about the Company as an individual undertaking and not about its group.