

Registered Number 362847

SMITHS MEDICAL INTERNATIONAL LIMITED

REPORT AND ACCOUNTS

FOR THE PERIOD ENDED 31 JULY 2007



SMITHS MEDICAL INTERNATIONAL LIMITED
REPORT AND ACCOUNTS 2007

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SMITHS MEDICAL INTERNATIONAL Limited

DIRECTORS' REPORT

The directors present their report and the audited accounts for the period ended 31 July 2007

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company's principal activity in the period is that of the design, manufacture, distribution and sale of medical devices. There has been no significant change in this activity during the period. In March 2007, the Company acquired the assets and liabilities of Medex Medical Limited. The Company completed the substantial part of the closure of its factory in Hythe, which is expected to be finished in 2008.

The results for the period show a pre-tax profit of £11 million (2006: £4 million) for the year and sales of £162 million (2006: £125 million).

Interim dividends totalling £nil were paid in the period ended 31 July 2007 (2006: £nil). Final dividends totalling £nil were paid in the period ended 31 July 2007 (2006: £nil).

FUTURE OUTLOOK

It is not envisaged that the Company will initiate any plans to restructure its principal activity in the forthcoming period. It is expected that the Company will maintain its current level of performance in the forthcoming period.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are:

Actions of competitors

The Company operates in highly competitive markets. Product innovations or technical advances by competitors could adversely affect the business. The diversity of operations reduces the possible effect of action by any single competitor. The Company invests in research and development in order to sustain competitive advantage, and works continually to ensure that the cost base is competitive.

Effect of legislation or other regulatory action

The Company is subject to a broad range of laws, regulations and standards in the jurisdictions in which it operates. The Company is particularly subject to regulation, with certain customers and regulatory or other enforcement bodies routinely inspecting the Company's practices, processes and premises. Certain legal liability risks, such as product liability and employer's liability, are transferred to insurers, subject to policy limits and conditions. However, the Company has been in business for many years and there is a risk of latent injury claims which may not be fully covered by insurance.

Foreign exchange

The Company is exposed to transaction risk in respect of products manufactured in one currency region and sold in another currency. The Company's practices for managing currency risk generally mitigate transaction risk in the short term. Over the longer term, the Company remains exposed to transaction risk.

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, and by using financial instruments.

Operational credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before credit terms are offered. Customer credit limits are set based on credit ratings, past experience and other factors and subject to regular review.

Concentrations of credit risk with respect to trade receivables are limited due to the diverse customer base.

SMITHS MEDICAL INTERNATIONAL LIMITED

DIRECTORS' REPORT

Foreign exchange risks

The Company makes a proportion of its sales in foreign currencies, principally US\$ and €. The resulting foreign exchange risks are managed through natural hedging.

Financing

Financing is managed on a Group basis. The financial instruments note in the annual report and accounts of Smiths Group plc provides details of how the Group manages interest rate risks, financial credit risks and liquidity risks. This can be obtained from <http://www.smiths-group.com/reports.aspx>.

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 on page 10 of the group's annual report which does not form part of this report.

DIRECTORS

The directors who held office during the period (except as noted) are given below.

C J Eaton	
G S Hardcastle	(Resigned 27/7/2007)
M C Jamieson	
D E Patterson	
J C Russell	
J J C Simpson	
C J Taft	(Appointed 27/7/2007)
R E Thomas	

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.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Company's policy and practice is to pay creditors promptly in accordance with agreed terms of business. The average time the Company took to pay an invoice was 38 days (2006: 43 days).

EMPLOYMENT POLICIES

It is the Company's policy to provide equal opportunities for employment. The Company continues to be actively involved in all aspects of the training and development of young persons, including initiatives designed to ease the transition from school to work. Disabled people are given full consideration for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

Employees are regularly provided with a wide range of information concerning the performance and prospects of the business in which they are involved by means of Employee Councils, Information and Consultation forums, and other consultative bodies that allow the views of personnel to be taken into account.

SMITHS MEDICAL INTERNATIONAL LIMITED

DIRECTORS' REPORT

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

Each person who is a director at the date of approval of this report confirms that

(a) 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, and

(b) 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

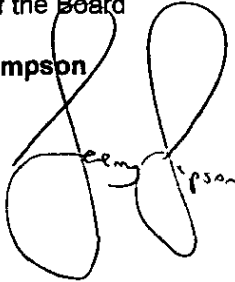
This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

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

Jeremy Simpson
Director

A handwritten signature in black ink, appearing to read 'Jeremy Simpson', written over a large, stylized circular flourish.

Neil Burdett
Secretary

A handwritten signature in black ink, appearing to read 'Neil Burdett', written in a cursive style.

31 March 2008

SMITHS MEDICAL INTERNATIONAL Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' 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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 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 and other irregularities.

SMITHS MEDICAL INTERNATIONAL Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMITHS MEDICAL INTERNATIONAL LIMITED

We have audited the financial statements of Smiths Medical International Limited for the period 6 August 2006 to 31 July 2007, which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 July 2007 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH

2 April 2008

SMITHS MEDICAL INTERNATIONAL Limited

**PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 JULY 2007**

	Notes	Period ended 31 July 2007 £'000	Period ended 5 August 2006 (restated) £'000
Turnover	2	162,401	125,034
Cost of sales		<u>(126,228)</u>	<u>(94,775)</u>
Gross profit		36,173	30,259
Sales and distribution costs		(7,881)	(7,294)
Administrative expenses		(15,072)	(11,450)
Operating exceptional items	3	<u>(6,494)</u>	<u>(9,819)</u>
Operating profit	4	6,726	1,696
Income from shares in group undertakings		2,117	-
Other interest receivable and similar income	7	2,488	2,313
Interest payable and similar charges	8	(213)	(113)
Profit on ordinary activities before taxation		11,118	3,896
Tax on profit on ordinary activities	9	<u>(2,027)</u>	<u>(1,282)</u>
Profit for the financial period	20	<u>9,091</u>	<u>2,614</u>

There is no material difference between the profit for the financial periods stated above and the profit calculated on a historical cost basis

The profit for the financial period arose from continuing activities

SMITHS MEDICAL INTERNATIONAL Limited**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE PERIOD ENDED 31 JULY 2007**

		Period ended 31 July 2007	Period ended 5 August 2006 (restated)
	Notes	£'000	£'000
Profit for the financial period		9,091	2,614
Fair value losses on cash-flow hedges		<u>(653)</u>	<u>(323)</u>
Net income/(cost) recognised directly in equity		<u>(653)</u>	<u>(323)</u>
Total recognised gains relating to the period		8,438	2,291
Prior period adjustment	20	<u>(214)</u>	<u>-</u>
Total gains recognised since last annual report		<u>8,224</u>	<u>2,291</u>

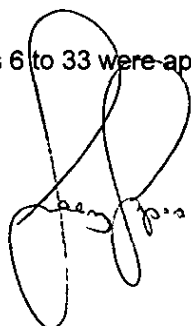
SMITHS MEDICAL INTERNATIONAL Limited

BALANCE SHEET AS AT 31 JULY 2007

	Notes	31 July 2007 £	5 August (restated) 2006 £
Fixed assets			
Intangible fixed assets	10	8,154	6,110
Tangible fixed assets	11	25,299	25,106
Investments	12	18,289	8,064
		<u>51,742</u>	<u>39,280</u>
Current assets			
Stock	13	39,872	27,706
Debtors			
- falling due within one year	14	75,867	79,792
- falling due after one year	14	273	420
Derivative financial instruments			
- falling due within one year	17	182	1,866
- falling due after one year	17	1	-
Cash at bank and in hand		87	61
		<u>116,282</u>	<u>109,845</u>
Creditors (amounts falling due within one year)	15	(51,534)	(38,154)
Derivative financial instruments	17	(420)	(964)
		<u>64,328</u>	<u>70,727</u>
Net current assets			
		<u>64,328</u>	<u>70,727</u>
Total assets less current liabilities		116,070	110,007
Creditors (amounts falling due after more than one year)	16	(27)	(27)
Derivative financial instruments	17	(5)	-
Provisions for liabilities and charges	18	(6,072)	(8,655)
		<u>109,966</u>	<u>101,325</u>
Net assets			
		<u>109,966</u>	<u>101,325</u>
Capital and reserves			
Called up share capital	19	43	43
Share premium account	20	71,340	71,340
Capital reserve	20	863	660
Profit and loss account	20	37,720	29,282
		<u>109,966</u>	<u>101,325</u>
Total shareholders' funds	21	<u>109,966</u>	<u>101,325</u>

The financial statements on pages 6 to 33 were approved by the board of directors on 31 March 2008 and were signed on its behalf by

Jeremy Simpson
Director



SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

1 ACCOUNTING POLICIES

Basis of preparation

The accounts have been prepared in accordance with the Companies Act 1985 and all applicable accounting standards in the United Kingdom (UK GAAP)

These accounts have been prepared on a going concern basis and under the historical cost convention (as modified to include revaluation of certain financial instruments, pension assets and liabilities and properties)

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates

Changes in accounting policy

The Company has adopted 'FRS 20 Share-based payment' ("FRS 20"), 'FRS 23 (IAS 21) The Effects of Changes in Foreign Exchange Rates' ("FRS 23"), 'FRS 24 (IAS 29) Financial Reporting in Hyperinflationary Economies' ("FRS 24"), the disclosure requirements of 'FRS 25 (IAS 32) Financial Instruments Disclosure and presentation' ("FRS 25") and 'FRS 26 (IAS 39) Financial Instruments Measurement' ("FRS 26") in these accounts. FRS 20 has been adopted as required by the standard. FRS 23, FRS 24, the disclosure requirements of FRS 25 and FRS 26 have been adopted to bring the Company accounting policies closer to the policies used to prepare the Smiths Group plc consolidated accounts.

The adoption of FRS 20, FRS 23 and FRS 26 represent a change in accounting policy and the comparative figures have been restated accordingly. There was no material effect on the accounts arising from the adoption of FRS 24 because the Company has no operations in hyperinflationary economies. The adoption of the disclosure requirements of FRS 25 has no effect on the profit and loss account or the balance sheet. The Company has taken the exemptions available under FRS 25 to subsidiary undertakings where the required disclosures are made in the Group accounts.

Details of the impact of the new standards on the current and prior year are given in Note 20.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired business at the date of acquisition.

Goodwill arising from acquisitions of subsidiaries after 1 August 1998 is included in intangible assets. It is capitalised at cost and amortised on a straight-line basis over an estimated useful economic life of up to 20 years. Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

Goodwill arising from acquisitions of subsidiaries before 1 August 1998 was set against reserves in the year of acquisition.

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.

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

1. ACCOUNTING POLICIES (continued)

Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any recognised impairment losses

Land is not depreciated. Depreciation is provided on other assets estimated to write off the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives. In general, the rates used are

- Freehold and long leasehold buildings – 2%,
- Short leasehold property – over the period of the lease,
- Plant, machinery, etc – 10% to 20%,
- Motor vehicles – 25%,
- Tools and other equipment – 10% to 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount

No borrowing costs are capitalised as part of property, plant and equipment

Investments

The Company's investment in shares in group companies are stated at cost less provision for impairment. Any impairment is charged to the profit and loss account as it arises

Stock

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

1. ACCOUNTING POLICIES (continued)

Provisions

Provisions for warranties and product liability, disposal indemnities, restructuring costs, vacant leasehold property and legal claims are recognised when, the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are discounted where the time value of money is material.

Where there are a number of similar obligations, for example where a warranty provision has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where a leasehold property is vacant, or sub-let under terms such that the rental income is insufficient to meet all outgoings, provision is made for the anticipated future shortfall up to termination of the lease, or the termination payment, if smaller.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate provision for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and bank overdrafts.

Financial assets

Financial assets are initially recognised at transaction price when the Company becomes party to contractual obligations. The transaction price used includes transaction costs unless the asset is being fair valued through the profit and loss account.

The classification of financial assets depends on the purpose for which the assets were acquired. Management determines the classification of an asset at initial recognition and re-evaluates their designation at each reporting date. Assets are classified as loans and receivables, held to maturity investments, available-for-sale financial assets, or financial assets where changes in fair value are charged (or credited) to the profit and loss account.

The subsequent measurement of financial assets depends on their classification. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets where changes in fair value are charged (or credited) to the profit and loss account are subsequently measured at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously taken to reserves are included in the profit and loss account.

Financial assets are derecognised when the right to receive cash-flows from the assets has expired or has been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

1. ACCOUNTING POLICIES (continued)

Financial liabilities

Borrowings are initially recognised at the fair value of the proceeds, net of related transaction costs. These transaction costs and any discount or premium on issue are subsequently amortised under the effective yield method through the profit and loss account as interest over the life of the loan, and added to the liability disclosed in the balance sheet. Related accrued interest is included in the borrowings figure.

Borrowings are classified due within one year unless the Company has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

Cash-flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash-flow hedges are recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when a forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity reserves and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. If a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

1. ACCOUNTING POLICIES (continued)

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Revenue

Revenue from the sale of goods is recognised when the risks and rewards of ownership have been transferred to the customer, which is usually when title passes.

Revenue from services is recognised in accounting periods in which the services are rendered, by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a portion of the total services to be provided.

Revenue is measured at the fair value of the consideration received, net of trade discounts and sales taxes.

Pension obligations

The Company's principal arrangements are provided through the independent Smiths Industries Pension Scheme, which is a defined benefit scheme. The Company is unable to identify its share of the underlying assets and liabilities of the scheme, and accordingly accounts for its contributions to the scheme as if it were a defined contribution scheme in accordance with 'FRS 17 Retirement benefits'.

Share based compensation

The Group operates a number of equity-settled share-based compensation plans and Smiths Group plc has made grants under these plans to Group employees working for the Company.

The fair value of the shares or share options granted is recognised as an expense over the vesting period to reflect the value of the employee services received. The corresponding credit is treated as a capital contribution from the parent company.

The fair value of options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, principally binomial models. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number of share options which are likely to vest.

In accordance with the transitional provisions of 'FRS 20 Share-based Payment', no charge had been recognised for grants of equity instruments made before 7 November 2002.

The Company has adopted 'UITF Abstract 44 Group and Treasury Share Transactions'.

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the exchange rate ruling at the date of transaction and monetary assets and liabilities denominated in a foreign currency are retranslated at the closing exchange rate at the balance sheet date

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions, and from the retranslation of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account

Current taxation

The tax on profit on ordinary activities includes amounts paid or received for Group relief in respect of tax losses claimed and surrendered in the current period. All current tax liabilities have been assumed by Smiths Group plc, the ultimate parent Company

Deferred taxation

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

Deferred assets are recognised only when their recovery is considered probable

Deferred tax is not discounted

Dividends

Dividends are recognised as a liability in the period in which they are authorised. Interim dividends are recognised when they are paid, and final dividends are recognised when they have been approved by shareholders at the Annual General Meeting

2. TURNOVER

The Company operates in one business segment. The analysis of turnover by geographical area is as follows

	Period ended 31 July 2007 £'000	Period ended 5 August 2006 £'000
United Kingdom	49,828	38,185
North America	8,337	11,443
Europe	55,414	36,009
Other overseas	48,822	39,397
	<u>162,401</u>	<u>125,034</u>

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

3 OPERATING EXCEPTIONAL ITEMS

	Period ended 31 July 2007 £'000	Period ended 5 August 2006 £'000
Reorganisation costs	3,004	7,728
Project One	2,529	1,416
Medex	961	675
	<u>6,494</u>	<u>9,819</u>

Reorganisation costs for the period mainly relate to the closure of the Hythe manufacturing site and its transfer to other Smiths Group sites. The amount includes £1,035,000 employment costs, £1,356,000 redundancy costs and £613,000 other costs in relation to the closure.

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.

4. OPERATING PROFIT

	Period ended 31 July 2007 £'000	Period ended 5 August 2006 (restated) £'000
Wages and salaries	27,738	27,375
Social security costs	2,562	2,523
Other pension costs	3,176	3,488
Share based compensation (note 25)	203	377
Employee costs	33,679	33,763
Depreciation of property, plant and equipment	4,004	4,603
Amortisation of intangible assets	1,291	421
Impairment/Amortisation of goodwill	398	348
Research and development expenses	4,613	4,466
Operating leases		
- land and buildings	411	387
- other	8	-
Foreign exchange loss	603	176
Fees charged by PricewaterhouseCoopers and their associates		
- statutory audit fee	87	86

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

5. DIRECTORS' REMUNERATION

	Period ended 31 July 2007 £'000	Period ended 5 August 2006 £'000
Aggregate emoluments	<u>1,310</u>	<u>965</u>

The directors provide services both to the Company and a number of other related Smiths Group plc entities. Aggregate emoluments therefore represent an allocation of the director's total remuneration. Retirement benefits are accruing to 6 directors (2005: 6) under a defined benefit scheme.

Highest paid director

	Period ended 31 July 2007 £'000	Period ended 5 August 2006 £'000
Aggregate emoluments	367	323
Defined benefit pension scheme		
Accrued pension at the year end	<u>61</u>	<u>51</u>
	<u>428</u>	<u>374</u>

6 EMPLOYEE INFORMATION

The average monthly persons employed by the Company was

Period ended 31 July 2007 No.	Period ended 5 August 2006 No.
<u>1,037</u>	<u>1,036</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.

SMITHS MEDICAL INTERNATIONAL Limited**NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007****7 INTEREST RECEIVABLE AND SIMILAR INCOME**

	Period ended 31 July 2007 £'000	Period ended 5 August 2006 (restated) £'000
Interest receivable from group undertakings	1,977	771
Finance credits relating to forward foreign exchange contracts	143	334
Other interest receivable	368	1,208
	<u>2,488</u>	<u>2,313</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	Period ended 31 July 2007 £'000	Period ended 5 August 2006 £'000
Interest payable on overdraft and bank loans	211	111
Interest payable to group undertakings	2	2
	<u>213</u>	<u>113</u>

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

9. TAXATION

	Period ended 31 July 2007 £'000	Period ended 5 August 2006 £'000
Analysis of tax charge on ordinary activities		
United Kingdom		
Current tax (group relief payment)	2,027	1,282
	<hr/>	<hr/>
Tax on profit on ordinary activities	2,027	1,282

The tax for the period is different than the standard rate of corporation tax in the UK (30%) The differences are explained below

	Period ended 31 July 2007 £'000	Period ended 5 August 2006 £'000
Profit on ordinary activities before taxation	11,118	4,273
UK corporation tax at 30% (2006 30%)	3,335	1,282
Effects of		
Expenses not deductible for tax purposes	179	-
Accelerated capital allowances	(819)	-
Income not subject to UK taxation	(635)	-
Research and development allowances	(33)	-
Adjustment to tax in respect of prior period	2,037	1,249
	<hr/>	<hr/>
	4,064	2,531
Group relief surrendered from fellow subsidiary		
- current year	(2,027)	(1,282)
- prior year	(2,037)	(1,249)
Group relief receipt	2,027	1,282
	<hr/>	<hr/>
Total current tax	2,027	1,282

The Company has unrecognised deferred tax assets of £1,009k (2006 £1,700k) that could potentially improve the tax rate in future years. These assets relate to a mixture of accelerated capital allowances and other short term timing differences. They are not recognised because no taxable profits are expected to arise in future periods, due to the forecast availability of Group relief.

SMITHS MEDICAL INTERNATIONAL Limited**NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007****10 INTANGIBLE FIXED ASSETS**

	Goodwill £'000
Cost	
At 6 August 2006	6,950
Additions	2,442
	<hr/>
At 31 July 2007	9,392
	<hr/>
Accumulated amortisation	
At 6 August 2006	840
Charge for the year	398
	<hr/>
At 31 July 2007	1,238
	<hr/>
Net book value	
At 31 July 2007	8,154
	<hr/>
At 6 August 2006	6,110
	<hr/>

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

Goodwill additions represents the difference between the price paid for Medex Medical Limited and the net assets acquired

SMITHS MEDICAL INTERNATIONAL Limited
NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007
11. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, and equipment £'000	Total £'000
Cost or valuation				
At 6 August 2006	4,574	19,644	37,259	61,477
Exchange adjustments				
Transfers (to)/from other Group Companies	2,874	9,794	(14,041)	(1,373)
Additions	-	1,413	4,210	5,623
Disposals	-	(791)	(409)	(1,200)
At 31 July 2007	<u>7,448</u>	<u>30,060</u>	<u>27,019</u>	<u>64,527</u>
Depreciation				
At 6 August 2006	1,220	13,825	21,326	36,371
Exchange adjustments				
Transfers (to)/from other Group Companies	802	7,852	(9,932)	(1,278)
Charge for the year	527	2,335	2,433	5,295
Disposals	-	(791)	(369)	(1,160)
At 31 July 2007	<u>2,549</u>	<u>23,221</u>	<u>13,458</u>	<u>39,228</u>
Net book value				
At 31 July 2007	<u>4,899</u>	<u>6,839</u>	<u>13,561</u>	<u>25,299</u>
At 6 August 2006	<u>3,354</u>	<u>5,819</u>	<u>15,933</u>	<u>25,106</u>

Additions/Transfers in the period reflected the purchase of the Fixed Assets of Medex Limited at book value, along with capital investment in the ordinary course of business

Disposals/Transfers consisted primarily of the sale of Fixed Assets at book value to other Smiths Group companies pursuant to the closure of the factory in Hythe, along with disposal of assets at the end of their useful life, in the ordinary course of business

The net book amount of property comprises

	31 July 2007 £'000	5 August 2006 £'000
Freehold	4,706	3,137
Short Leaseholds	193	217
	<u>4,899</u>	<u>3,354</u>

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

		Shares in group undertakings £'000
Cost or valuation		
At 6 August 2006		8,064
Additions		10,225
		<hr/>
At 31 July 2007		18,289
Provision for permanent diminution in value		
At 6 August 2006		-
Additions		-
		<hr/>
At 31 July 2007		-
		<hr/>
Net book value		
At 31 July 2007		18,289
		<hr/>
At 6 August 2006		8,064
		<hr/>
	31 July 2007 £'000	5 August 2006 £'000
Investment in Subsidiaries		
Pneupac Limited	7,835	7,835
Graseby Medical Limited	229	229
Medex Medical Limited	10,225	-
	<hr/>	<hr/>
	18,289	8,064

In the opinion of the directors the value of investments in subsidiary undertakings is not less than the aggregate amount at which they are shown in the Company's balance sheet

	Country of incorporation	Interest directly held	Class of capital	Principal activity
Domestic subsidiary undertakings				
Pneupac Limited	England and Wales	100	Ordinary Shares	Non-trading
Graseby Medical Limited	England and Wales	100	Ordinary Shares	Non-trading
Medex Medical Limited	England and Wales	100	Ordinary Shares	Non-trading

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

13. STOCKS

	31 July 2007 £'000	5 August 2006 £'000
Stocks comprise		
Raw materials	14,604	10,817
Work in progress	1,716	1,545
Finished goods	<u>23,552</u>	<u>15,344</u>
	<u>39,872</u>	<u>27,706</u>

14 DEBTORS

	31 July 2007 £'000	5 August 2006 (restated) £'000
Amounts falling due within one year		
Trade debtors	19,463	15,973
Amounts owed by group undertakings	55,673	63,107
Other debtors	434	198
Prepayments and accrued income	<u>297</u>	<u>514</u>
	<u>75,867</u>	<u>79,792</u>
Amounts falling after more than one year		
Other debtors	<u>273</u>	<u>420</u>
	<u>273</u>	<u>420</u>

The "amounts owed by group undertakings" are not secured

Trade debtors have been restated following the adoption of FRS 23, see note 20 for details

SMITHS MEDICAL INTERNATIONAL Limited**NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007****15. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31 July 2007 £'000	5 August 2006 (restated) £'000
Trade creditors	12,674	10,358
Amounts due to group undertakings	32,344	21,598
Other taxation and social security costs	2,057	1,660
Other creditors	339	290
Accruals and deferred income	4,120	4,248
	<u>51,534</u>	<u>38,154</u>

Trade creditors have been restated following the adoption of FRS 23, see note 20 for details

16. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 July 2007 £'000	5 August 2006 £'000
Other creditors	<u>27</u>	<u>27</u>
	<u>27</u>	<u>27</u>

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

17. FINANCIAL INSTRUMENTS

Foreign exchange risk

Transactional currency exposure

The Company has transactional currency exposure arising from sales or purchases in currencies other than their functional currency, predominantly USD, EUR, JPY and AUD. In accordance with Smiths Group policy the Company hedges net exposures to agreed sales or purchases which are expected to occur within the next twelve months using forward foreign exchange contracts. This policy minimises the risk that the profits generated from the transaction will be affected by foreign exchange movements which occur after the price has been determined.

Cash-flow hedging

At 31 July 2007, the Company had outstanding foreign currency contracts designated as hedging instruments in cash-flow hedges of future foreign currency sales and purchases with a nominal value of £38,600,000 (2006 £52,900,000). The fair value of the hedging instruments is disclosed in the derivative table below.

The majority of hedged transactions will be recognised in the income statement in the same period as the cash-flows are expected to occur, with the only differences arising as a result of normal commercial credit terms on sales and purchases. The maturity profile of the foreign currency contracts is as follows:

	31 July 2007 £'000	5 August 2006 £'000
Maturing within six months	(181)	322
Maturing between six and twelve months	(57)	580
Maturing between twelve and eighteen months	(4)	-
Total fair value of foreign currency contracts	<u>(242)</u>	<u>902</u>

The movements relating to cash flow hedging recognised directly in reserves during the period are summarised in the table below:

	31 July 2007 £'000	5 August 2006 £'000
Net cash-flow hedge gains and losses deferred in reserves at start of period	446	769
Gains and losses on effective cash-flow hedges recognised in reserves	704	992
Amounts removed from reserves and recognised in the income statement	(1,357)	(1,315)
Net cash-flow hedge gains and losses deferred in reserves at end of period	<u>(207)</u>	<u>446</u>

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

17 FINANCIAL INSTRUMENTS (continued)

Financial derivatives

The tables below set out the nominal amount and fair value of derivative financial instruments held by the Company

	Contract or underlying nominal amount		Fair value		
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Net £'000
At 31 July 2007					
Foreign exchange contracts (cash flow hedges)	10,103	28,498	183	(425)	(242)
Balance sheet entries					
Current assets			183		
Creditors due in less than one year				(420)	
Creditors due in more than one year				(5)	
Total financial derivatives			183	(425)	(242)

	Contract or underlying nominal amount		Fair value		
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Net £'000
At 5 August 2006					
Foreign exchange contracts (cash flow hedges)	32,716	20,230	1,866	(964)	902
Balance sheet entries					
Current assets			1,866		
Creditors due in less than one year				(964)	
Creditors due in more than one year					
Total financial derivatives			1,866	(964)	902

Fair value of financial instruments

The fair values of financial assets and financial liabilities are the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale

Forward foreign exchange contracts are valued using market valuations at the balance sheet date
Embedded derivatives are valued using the net present value of discounted cash-flows and market prices for forward foreign exchange contracts

All financial instruments are recognised on the balance sheet at a value which is not materially different from their fair value

The primary currencies are USD, EUR, JPY, AUD, CAD, SEK, and ZAR

SMITHS MEDICAL INTERNATIONAL Limited**NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007****18. PROVISIONS FOR LIABILITIES AND CHARGES**

	Warranty provision and product liability £'000	Property £'000	Reorgan isation £'000	Litigation £'000	Total £'000
At 6 August 2006	2,415	100	5,840	300	8,655
Utilised during the period	(341)	-	(3,001)	(8)	(3,350)
Charged to profit and loss account	278	-	776	-	1,054
Released	-	-	(287)	-	(287)
At 31 July 2007	2,352	100	3,328	292	6,072

Warranty and 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.

Property provisions are made for the likely costs of dilapidation of leased premises and are expected to be utilised during the term of the applicable lease.

Reorganisation mainly relates to redundancy costs for the closure of the Hythe manufacturing site provided in the prior year accounts. Some £3,001,000 was utilised in the period against redundancy payments, a further £776,000 charged to the provision in the period relating to performance payments to employees and £287,000 released. The provisions are expected to be utilised within the period of 18 months.

Litigation provisions relate to potential third party claims against the Company and are expected to be utilised over the period of any particular claim.

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

19. CALLED UP SHARE CAPITAL

	31 July 2007 £'000	5 August 2006 £'000
Authorised		
50,000 ordinary shares of £1 each	50	50
Issued and fully paid		
43,217 ordinary shares of £1 each	43	43

20. RESERVES

	Share premium account £'000	Capital reserve (restated) £'000	Profit and loss account (restated) £'000	Total £'000
At 6 August 2006 as previously reported	71,340	-	29,496	100,836
Prior period adjustment				
FRS 20	-	660	(660)	-
FRS 26	-	-	446	446
At 6 August 2006 restated	71,340	660	29,282	101,282
Profit for the financial period	-	-	9,091	9,091
Total recognised gains for the period	-	-	(653)	(653)
Capital contribution (note 25)	-	203	-	203
At 31 July 2007	71,340	863	37,720	109,923

Prior period adjustment and impact of new standards

The prior period adjustments relate to the implementation of FRS 20, FRS 23 and FRS 26

The implementation of FRS 20 and UITF 44 has reduced profit and loss at 1 August 2005 by £283,000 and led to the recognition of a £283,000 capital reserve at the same date arising from capital contributions from the parent company through share based compensation plans. The new accounting policy has increased administrative expenses by £203,000 (2006 £377,000), with a corresponding reduction in the profit and loss reserves and increase in the capital reserve.

Following the adoption of FRS 23, debtor and creditor balances relating to transactions hedged using foreign currency contracts have been restated from forward contract rates to market rates. At 5 August 2006 this restatement reduced trade debtors by £619,000 and trade creditors by £163,000. This restatement has no effect on net assets because, in accordance with FRS 26, corresponding assets and liabilities have been recognised relating to derivative financial instruments.

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

20. RESERVES (continued)

The adoption of FRS 26 has led to the recognition of assets of £183,000 (2006 £1,866,000) and liabilities of £425,000 (2006 £964,000) in the closing balance sheet. The impact on net assets is only £(207,000) (2006 £446,000) because there are offsetting adjustments from not carrying trade debtors and creditors at forward contract rate with a net value of £(35,000) (2006 £456,000).

The adoption of FRS 26 has had no effect on the profit before tax reported. However credits relating to foreign exchange transactions of £143,000 (2006 £334,000) have been reclassified from administrative expenses to interest receivable and similar income.

The adoption of FRS 23 and FRS 25 has not had a material effect on the Company's accounts.

Analysis of impact of new standards	FRS 20 £'000	FRS 26 £'000	Total £'000
Adjustment to cumulative recognised gains and losses at 6 August 2006	(283)	769	486
Adjustment to profit and loss account for the period ended 5 August 2006	(377)	-	(377)
Adjustment to statement of total recognised gains and losses for the period ended 5 August 2006		(323)	(323)
	<u>(660)</u>	<u>446</u>	<u>(214)</u>

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 July 2007 £'000	5 August (restated) 2006 £'000
Profit for the financial period	9,091	2,614
Fair value (losses)/gains on cash-flow hedges	(653)	(323)
Total recognised gains and losses relating to the period	8,438	2,291
Capital contribution (note 25)	203	377
Net addition to shareholders' funds	8,641	2,668
Opening shareholders' funds (as previously reported)	100,879	97,888
Adjustments to opening shareholders' funds at 6 August 2006 due to adoption of FRS 26	446	769
Opening shareholders' funds (as restated)	101,325	98,657
Closing shareholders' funds	109,966	101,325

22 OPERATING LEASE COMMITMENTS

At 31 July 2007, the Company had annual commitments under non-cancellable operating leases as follows

	Land & Buildings		Other	
	31 July 2007 £'000	5 August 2006 £'000	31 July 2007 £'000	5 August 2006 £'000
On contracts expiring				
Within one year	-	-	-	-
After one and within five years	-	-	20	-
After five years	450	387	-	-
Total	450	387	20	-

23 CAPITAL COMMITMENTS

	31 July 2007 £'000	5 August 2006 £'000
Contracts placed for future capital expenditure not provided in the accounts	676	1,202
Future capital expenditure authorised by directors but not contracted and not provided in the accounts	2,803	4,671

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

24. PENSIONS

The Company's principal pension 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 a separate trustee administered fund

The total pension cost for the Company, was £3.2m (2006 £3.5m) This represents contributions payable to Smiths Group plc which is responsible for making contributions to the pension fund on behalf of the Group as a whole With effect from 1 January 2006, a number of employees of the Company who are members of the Smiths Industries Pension Scheme became employees of the ultimate parent Company, Smiths Group plc, and now perform their services under contract from that Company (see Note 6)

The Company is unable to identify its share of the underlying assets and liabilities of the pension scheme on a consistent and reasonable basis, and each participating employer is exposed to actuarial risk associated with current and former employees of the other employers participating in the scheme Paragraph 9(b) of FRS17 allows that in the case, the pension cost is equal to the Company's contributions to the scheme(s) during the accounting period and there will be no balance sheet item

Further details of the Group pension plan, the actuarial assumptions used and the latest actuarial valuation can be found in the accounts of Smiths Group plc for the period ended 31 July 2007

25. SHARE BASED COMPENSATION

The Group operates share schemes and plans for the benefit of employees The nature of the principal schemes and plans under which grants have been made to Group employees working for Smiths Medical International Limited is set out below

Smiths Group Sharesave Scheme (SAYE)

The SAYE scheme is an HM Revenue & Customs-approved all-employee savings-related share option scheme which is open to all UK employees, including directors, with 12 months' service or more Participants enter into a contract to save a fixed amount per month of up to £250 in aggregate for three or five years and are granted an option over Smiths Group plc shares ("Shares") at a fixed option price, set at a 20% discount to market price at the date of invitation to participate In the case of five-year savings contracts, participants can elect to delay maturity of the contract until its seventh anniversary The number of Shares comprising the option is determined by the monthly amount saved and the bonus paid on maturity of the savings contract Options granted under the SAYE scheme are not subject to any performance conditions

Smiths Industries 1995 Executive Share Option Scheme (95 ESOS)

Options granted under the 95 ESOS can only be exercised after three years if a performance requirement, determined by the Remuneration Committee of the Board of Directors of Smiths Group plc (the "Committee"), has been met Options granted under the 95 ESOS up to 2001 are subject to performance testing based on total shareholder return of the Group versus the total return of the General Industrials Sector of the FTSE All Shares Index Options granted from 2002 are subject to a performance test based on growth in the Group's earnings per share If the performance requirement is not satisfied at the end of the third year, the performance period may be extended for up to two further years so that performance is tested over a four-year period at the end of the fourth year and a five-year period at the end of the fifth year The performance requirement is that the growth in the Group's normalised earnings per share over the three/four/five financial years beginning immediately prior to the option grant must exceed the increase in the UK Retail Prices Index over the same period by 3% per annum (for options up to one times base salary) and by 4% per annum (for the excess up to two times base salary)

SMITHS MEDICAL INTERNATIONAL Limited**NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007****25. SHARE BASED COMPENSATION (continued)**

The following table summarises the options over Smiths Group plc shares issued to employees working for the Company since 7 November 2002

	SAYE	ESOS	Total	Weighted average price for option plans £
Ordinary shares under option				
1 August 2005	256,996	198,400	455,396	6 53
Granted	76,622	89,500	166,122	8 53
5 August 2006	333,618	287,900	621,518	7 07
Granted	74,831	109,250	184,081	8 85
Exercised	-	(57,700)	(57,700)	6 69
Lapsed	-	(19,850)	(19,850)	7 44
31 July 2007	408,449	319,600	728,049	7 54

At 31 July 2007 there were 170,584 (2006 245,462) ordinary shares under option in respect of options issued before 7 November 2002 with a weighted average exercise price of £7 31 (2006 £7 25)

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

25. SHARE BASED COMPENSATION (continued)

Options were exercised on an irregular basis during the period and the average closing share price of Smiths Group plc over the financial year was 1,012 15p (2006 945 2p) There has been no change to the effective option price of any of the outstanding options during the period

For the purposes of valuing options to arrive at the share-based payment charge, the Binomial option pricing model has been used for most schemes The assumptions used in the model for 2006 and 2007 are as follows

	Period ended 31 July 2007			
	SAYE	95 ESOS	PSP	DSS/CIP
Weighted average fair value (£)	2 19	1 94	6 40	7 81
Key assumptions used				
Weighted average share price	8 25	8 32	8 66	8 72
Range of exercise prices (£)	5 25-8 68	6 69-9 01		
Range of expected volatility (%)	17-36	18-34	16-18	
Risk-free interest rate (%)	3 7-5 6	4 3-5 5	4 3-4 8	
Range of expected option term (life)	2 2-7 2 yrs	5 yrs	3 yrs	3 yrs
Dividend yield (%)	3 75	3 75	3 75	3 75

	Period ended 5 August 2006			
	SAYE	95 ESOS	PSP	DSS/CIP
Weighted average fair value (£)	2 17	1 52	6 24	7 34
Key assumptions used				
Weighted average share price	6 19	5 81	7 83	7 47
Range of exercise prices (£)	5 25-7 98	6 69-9 01		
Range of expected volatility (%)	17-33	24-34	16 5	
Risk-free interest rate (%)	3 5-5 1	4 3-4 4	4 3	
Range of expected option term (life)	3 2-7 2 yrs	5 yrs	3 yrs	3 yrs
Dividend yield (%)	3 75	3 75	3 75	3 75

Assumptions on expected volatility and expected option term have been made on the basis of historical data, wherever available, for the period corresponding with the vesting period of the option Best estimates have been used where historical data is not available in this respect

Included within administrative expenses is an expense arising from share-based payment transactions of £202,794 (2006 £377,211), all of which relates to equity-settled share-based compensation

SMITHS MEDICAL INTERNATIONAL Limited

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 JULY 2007

26. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption provided by Paragraph 3(c) of 'FRS 8 Related party disclosures' not to disclose transactions with entities that are part of Smiths Group plc

27 ULTIMATE PARENT UNDERTAKING

For the period ended 31 July 2007, Smiths Medical International Limited was a wholly owned subsidiary of Smiths Medical Group Limited

The ultimate parent undertaking and controlling party is Smiths Group plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Smiths Group plc is incorporated in the United Kingdom and registered in England and Wales.

The annual report and accounts of Smiths Group plc may be obtained from the Company Secretary, Smiths Group plc, 765 Finchley Road, London NW11 8DS