

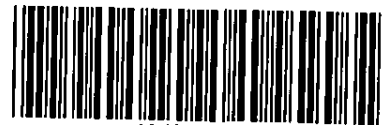
Registered Number 362847

SMITHS MEDICAL INTERNATIONAL LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 JULY 2008

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SMITHS MEDICAL INTERNATIONAL LIMITED
REPORT AND ACCOUNTS 2008

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SMITHS MEDICAL INTERNATIONAL LIMITED

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 31 July 2008.

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. The Company completed the closure of its factory in Hythe and the transfer of production to other Smiths entities overseas sites.

The results for the year show a pre-tax profit of £15 million (2007: £11 million) for the year and sales of £174 million (2007: £162 million).

Interim dividends totalling £nil were paid in the year ended 31 July 2008 (2007: £nil). Final dividends totalling £nil were paid in the year ended 31 July 2008 (2007: £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 and hedging contracts.

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>.

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 and can be found at the reference outlined above.

DIRECTORS

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

C.J. Eaton
M.C. Jamieson
D.E. Patterson
J.C. Russell
J.J.C. Simpson
C.J. Taft
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 28 days (2007: 38 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

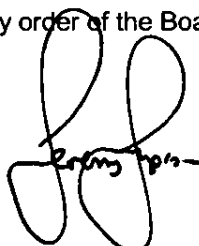
(b) the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

AUDITORS

PricewaterhouseCoopers LLP will remain as auditors by virtue of an elective resolution to dispense with the holding of annual general meetings and the appointment of auditors, passed on 14 December 1990.

By order of the Board

A handwritten signature in black ink, appearing to read 'Jeremy Simpson', is written over a large, stylized, looped signature that also appears to be 'Jeremy Simpson'.

Jeremy Simpson
Director

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 year ended 31 July 2008, 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

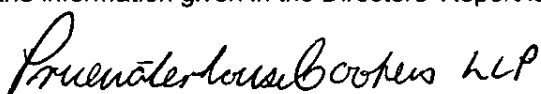
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2008 and of its profit for the year 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

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6PP

19 September 2008

SMITHS MEDICAL INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JULY 2008

	Notes	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Turnover	2	174,209	162,401
Cost of sales		<u>(128,277)</u>	<u>(126,228)</u>
Gross profit		45,932	36,173
Sales and distribution costs		(9,235)	(7,881)
Administrative expenses		(18,744)	(15,072)
Operating exceptional items	3	<u>(5,037)</u>	<u>(6,494)</u>
Operating profit	4	12,916	6,726
Income from shares in group undertakings		-	2,117
Other interest receivable and similar income	7	2,334	2,488
Interest payable and similar charges	8	(210)	(213)
Profit on ordinary activities before taxation		15,040	11,118
Tax on profit on ordinary activities	9	<u>(4,374)</u>	<u>(2,027)</u>
Profit for the financial period	21	<u>10,666</u>	<u>9,091</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 year arose from continuing activities.

SMITHS MEDICAL INTERNATIONAL LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JULY 2008**

	Notes	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Profit for the financial period	21	10,666	9,091
Fair value losses on cash-flow hedges	18	<u>(142)</u>	<u>(653)</u>
Total recognised gains		10,524	8,438
Prior period adjustment		<u>-</u>	<u>(214)</u>
Total gains recognised since last annual report		<u>10,524</u>	<u>8,224</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

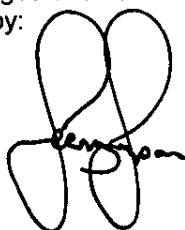
BALANCE SHEET AS AT 31 JULY 2008

	Notes	31 July 2008 £'000	31 July 2007 £'000
Fixed assets			
Goodwill	11	7,684	8,154
Tangible fixed assets	12	20,520	25,299
Investments	13	18,289	18,289
		<u>46,493</u>	<u>51,742</u>
Current assets			
Stock	14	31,429	39,872
Debtors			
- falling due within one year	15	79,668	75,867
- falling due after one year including deferred tax recoverable of £4,014,000 (2007: £nil)	15	4,237	273
Derivative financial instruments			
- falling due within one year	18	263	182
- falling due after one year	18	53	1
Cash at bank and in hand		23	87
		<u>115,673</u>	<u>116,282</u>
Creditors (amounts falling due within one year)	16	<u>(38,565)</u>	<u>(51,534)</u>
Derivative financial instruments	18	<u>(874)</u>	<u>(420)</u>
Net current assets		<u>76,234</u>	<u>64,328</u>
Total assets less current liabilities		122,727	116,070
Creditors (amounts falling due after more than one year)	17	(32)	(27)
Derivative financial instruments	18	(30)	(5)
Provisions for liabilities and charges	19	<u>(1,846)</u>	<u>(6,072)</u>
Net assets		<u>120,819</u>	<u>109,966</u>
Capital and reserves			
Called up share capital	20	43	43
Share premium account	21	71,340	71,340
Capital reserve	21	1,192	863
Profit and loss account	21	48,244	37,720
Total shareholders' funds	22	<u>120,819</u>	<u>109,966</u>

The financial statements on pages 6 to 29 were approved by the board of directors on and were signed on its behalf by:

19 September 2008

J.J.C. Simpson
Director



SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

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).

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

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.

Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred with the exception of amounts recoverable from third parties.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

1. ACCOUNTING POLICIES (continued)

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

Stock is 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.

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.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

1. ACCOUNTING POLICIES (continued)

Trade and other debtors

Trade debtors 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

Cash includes 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, 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 are measured at amortised cost using the effective interest method. 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.

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.

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.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

1. ACCOUNTING POLICIES (continued)

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.

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'.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

1. ACCOUNTING POLICIES (continued)

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.

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 the ultimate parent undertaking.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

2. TURNOVER

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

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
United Kingdom	50,550	49,828
North America	21,944	8,337
Europe	57,264	55,414
Other overseas	44,451	48,822
	<u>174,209</u>	<u>162,401</u>

3. OPERATING EXCEPTIONAL ITEMS

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Reorganisation costs	2,750	3,004
Project One	1,739	2,529
Medex integration	548	961
	<u>5,037</u>	<u>6,494</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 £351,000 employment costs, £1,594,000 asset impairment costs and £805,000 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.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

4. OPERATING PROFIT

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Wages and salaries	27,273	27,738
Social security costs	2,412	2,562
Other pension costs	3,075	3,176
Share based compensation (note 26)	329	203
Employee costs	33,089	33,679
Depreciation of property, plant and equipment	2,632	2,190
Amortisation of computer software	1,318	1,291
Impairment of property, plant and equipment	1,594	1,814
Amortisation of goodwill	470	398
Research and development expenses	4,413	4,613
Operating leases		
- land and buildings	493	411
- other	20	8
Foreign exchange (gain)/loss	(583)	603
Fees charged by PricewaterhouseCoopers and their associates		
- statutory audit fee	97	87
- other services	23	-

5. DIRECTORS' REMUNERATION

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Aggregate emoluments	1,136	1,310

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 (2007: 6) under a defined benefit scheme.

Highest paid director:

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Aggregate emoluments	296	367
Defined benefit pension scheme:		
Accrued pension at the year end	73	61
	369	428

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

6. EMPLOYEE INFORMATION

The average monthly persons employed by the Company was:

Year ended 31 July 2008 Number	Period ended 31 July 2007 Number
938	1,037

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.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Interest receivable from group undertakings	1,988	1,977
Finance credits relating to forward foreign exchange contracts	-	143
Interest receivable on cash and deposits	338	319
Other interest receivable	8	49
	<u>2,334</u>	<u>2,488</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Interest payable on overdraft and bank loans	186	211
Finance costs relating to forward foreign exchange contracts	24	-
Interest payable to group undertakings	-	2
	<u>210</u>	<u>213</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

9. TAXATION

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Analysis of tax charge on ordinary activities		
United Kingdom		
Current tax (group relief payment) charge	8,388	2,027
Deferred tax credit	(4,014)	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	4,374	2,027

The tax for the period is different from the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Profit on ordinary activities before taxation	15,040	11,118
UK corporation tax at 29.33% (2007:30%)	4,411	3,335
Effects of:		
Expenses not deductible for tax purposes	319	179
Accelerated capital allowances	1,419	(819)
Income not subject to UK taxation	-	(635)
Increase in other timing differences	(1)	-
Research and development allowances	(98)	(33)
Adjustment to tax in respect of prior period	2,338	2,037
	<hr/>	<hr/>
	8,388	4,064
Group relief surrendered from fellow subsidiary		
- current year	(6,050)	(2,027)
- prior year	(2,338)	(2,037)
Group relief payment	8,388	2,027
	<hr/>	<hr/>
Total current tax	8,388	2,027
Deferred tax credit	(4,014)	-
	<hr/>	<hr/>
Tax charge to profit and loss account	4,374	2,027

10. DEFERRED TAXATION

The deferred tax asset at the balance sheet date is £4,014,000 (2007: £nil) and was recognized as a result of a review of the estimate as to the likely crystallisation of that asset. The asset primarily arises due to Accelerated Capital Allowances ("ACAs"). The deferred tax asset has been calculated at the statutory corporation tax rate of 28%.

The elements of deferred taxation are as follows:

	Year ended 31 July 2008 £'000	Period ended 31 July 2007 £'000
Difference between accumulated depreciation and amortization and capital allowances	(3,915)	-
Other timing differences	(99)	-
	<hr/>	<hr/>
	(4,014)	-

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

11. GOODWILL

	Goodwill £'000
Cost	
At 1 August 2007	9,392
Additions	-
At 31 July 2008	<u>9,392</u>
Accumulated amortisation	
At 1 August 2007	1,238
Charge for the year	470
At 31 July 2008	<u>1,708</u>
Net book value	
At 31 July 2008	<u>7,684</u>
At 31 July 2007	<u>8,154</u>

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

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

12. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, and equipment £'000	Total £'000
Cost or valuation				
At 1 August 2007	7,448	30,060	27,019	64,527
Transfers (to)/from other Group Companies	104	(3,248)	(7)	(3,151)
Additions	28	958	1,229	2,215
Disposals	-	(169)	(398)	(567)
At 31 July 2008	<u>7,580</u>	<u>27,601</u>	<u>27,843</u>	<u>63,024</u>
Depreciation				
At 1 August 2007	2,549	23,221	13,458	39,228
Transfers (to)/from other Group Companies	104	(1,970)	(5)	(1,871)
Charge for the year	56	1,222	2,672	3,950
Impairment	187	366	1,041	1,594
Disposals	-	(71)	(326)	(397)
At 31 July 2008	<u>2,896</u>	<u>22,768</u>	<u>16,840</u>	<u>42,504</u>
Net book value				
At 31 July 2008	<u>4,684</u>	<u>4,833</u>	<u>11,003</u>	<u>20,520</u>
At 31 July 2007	<u>4,899</u>	<u>6,839</u>	<u>13,561</u>	<u>25,299</u>

Additions in the year reflected 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.

Impairment consisted of a charge against the manufacturing facility in Hythe.

The net book amount of property comprises:

	31 July 2008 £'000	31 July 2007 £'000
Freehold	4,515	4,706
Short Leaseholds	<u>169</u>	<u>193</u>
	<u>4,684</u>	<u>4,899</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

13. FIXED ASSET INVESTMENT

	Shares in group undertakings £'000	
Cost or valuation		
At 1 August 2007		18,289
Additions		-
At 31 July 2008		18,289
Provision for permanent diminution in value		
At 1 August 2007		-
Additions		-
At 31 July 2008		-
Net book value		
At 31 July 2008		18,289
At 31 July 2007		18,289
	31 July 2008 £'000	31 July 2007 £'000
Investment in Subsidiaries		
Pneupac Limited	7,835	7,835
Graseby Medical Limited	229	229
Medex Medical Limited	10,225	10,225
	<u>18,289</u>	<u>18,289</u>

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.

The principal subsidiaries at 31 July 2008, which all operate in their country of incorporation, are listed below:

	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 YEAR ENDED 31 JULY 2008

14. STOCK

	31 July 2008 £'000	31 July 2007 £'000
Stock comprises		
Raw materials	7,847	14,604
Work in progress	1,172	1,716
Finished goods	22,410	23,552
	<u>31,429</u>	<u>39,872</u>

15. DEBTORS

	31 July 2008 £'000	31 July 2007 £'000
Amounts falling due within one year		
Trade debtors	16,909	19,463
Amounts owed by group undertakings	62,199	55,673
Other debtors	191	434
Prepayments and accrued income	369	297
	<u>79,668</u>	<u>75,867</u>
Amounts falling after more than one year		
Other debtors	223	273
Deferred tax (note 10)	4,014	-
	<u>4,237</u>	<u>273</u>

The "amounts owed by group undertakings" are not secured and attracted interest on non-trading elements at the average rate of 6.16% in the year. Interest was not charged to group undertakings on trading balances.

SMITHS MEDICAL INTERNATIONAL LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008****16. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31 July 2008 £'000	31 July 2007 £'000
Trade creditors	6,978	12,674
Amounts due to group undertakings	25,251	32,344
Other taxation and social security costs	1,798	2,057
Other creditors	445	339
Accruals and deferred income	4,093	4,120
	<u>38,565</u>	<u>51,534</u>

The “amounts owed to group undertakings” did not attract interest.

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

	31 July 2008 £'000	31 July 2007 £'000
Other creditors (in lieu of dividends due on redeemable preference shares)	32	27
	<u>32</u>	<u>27</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

18. 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 2008, 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 £28,124,000 (2007: £38,601,000). 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 2008 £'000	31 July 2007 £'000
Maturing within six months	(601)	(181)
Maturing between six and twelve months	(9)	(57)
Maturing between twelve and eighteen months	22	(4)
Total fair value of foreign currency contracts	<u>(588)</u>	<u>(242)</u>

The movements relating to cash flow hedging and resulting in a £142,000 loss (2007: loss of £653,000) being recognised directly in reserves during the period are summarised in the table below.

	31 July 2008 £'000	31 July 2007 £'000
Net cash-flow hedge gains and (losses) deferred in reserves at start of period	(207)	446
Gains and (losses) on effective cash-flow hedges recognised in reserves	(1,494)	704
Amounts removed from reserves and recognised in the income statement	1,352	(1,357)
Net cash-flow hedge gains and (losses) deferred in reserves at end of period	<u>(349)</u>	<u>(207)</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

18. 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		
At 31 July 2008	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Net £'000
Foreign exchange contracts (cash flow hedges)	15,027	13,097	316	(904)	(588)
Balance sheet entries:					
Debtors falling due within one year			263		
Debtors falling due after one year			53		
Creditors due in less than one year				(874)	
Creditors due in more than one year				(30)	
Total financial derivatives			316	(904)	(588)

	Contract or underlying nominal amount		Fair value		
At 31 July 2007	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Net £'000
Foreign exchange contracts (cash flow hedges)	10,103	28,498	183	(425)	(242)
Balance sheet entries:					
Debtors falling due within one year			182		
Debtors falling due after one year			1		
Creditors due in less than one year				(420)	
Creditors due in more than one year				(5)	
Total financial derivatives			183	(425)	(242)

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 YEAR ENDED 31 JULY 2008

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty provision and product liability £'000	Property £'000	Reorgan isation £'000	Litigation £'000	Total £'000
At 1 August 2007	2,352	100	3,328	292	6,072
Utilised during the period	(167)	-	(4,816)	(6)	(4,989)
Charged to profit and loss account	617	20	1,704	-	2,341
Released to profit and loss account	(1,469)	-	(109)	-	(1,578)
At 31 July 2008	1,333	120	107	286	1,846

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 relates to the closure of the Hythe manufacturing site and Medex integration. In respect of the Hythe manufacturing site some £3,070,000 was utilised in the period against redundancy payments, £351,000 against employment costs, £847,000 against other costs, and £109,000 released back to profit and loss. Some £548,000 was utilised in relation to Medex integration (described further in note 3). The provisions are expected to be utilised within the period of nine 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 YEAR ENDED 31 JULY 2008

20. CALLED UP SHARE CAPITAL

	31 July 2008 £'000	31 July 2007 £'000
Authorised		
50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>
Issued and fully paid		
43,217 ordinary shares of £1 each	<u>43</u>	<u>43</u>

21. RESERVES

	Share premium account £'000	Capital reserve £'000	Profit and loss account £'000
At 1 August 2007	71,340	863	37,720
Profit for the financial period	-	-	10,666
Total recognised losses for the period	-	-	(142)
Capital contribution (note 26)	-	329	-
At 31 July 2008	<u>71,340</u>	<u>1,192</u>	<u>48,244</u>

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 July 2008 £'000	31 July 2007 £'000
Profit for the financial period	10,666	9,091
Fair value movements on cash-flow hedges (note 18)	<u>(142)</u>	<u>(653)</u>
Total recognised gains and losses relating to the period	10,524	8,438
Capital contribution (note 26)	329	203
Net addition to shareholders' funds	<u>10,853</u>	<u>8,641</u>
Opening shareholders' funds	109,966	101,325
Closing shareholders' funds	<u>120,819</u>	<u>109,966</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

23. OPERATING LEASE COMMITMENTS

At 31 July 2008, the Company had annual commitments under non-cancellable operating leases as follows:

	Land & Buildings		Other	
	31 July 2008 £'000	31 July 2007 £'000	31 July 2008 £'000	31 July 2007 £'000
On contracts expiring:				
Within one year	-	-	1	-
After one and within five years	320	-	15	20
After five years	130	450	-	-
Total	450	450	16	20

24. CAPITAL COMMITMENTS

	31 July 2008 £'000	31 July 2007 £'000
Contracts placed for future capital expenditure not provided in the accounts	347	676
Future capital expenditure authorised by directors but not contracted and not provided in the accounts	903	2,803

25. 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 £3.1m (2007: £3.2m). 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 2008.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

26. 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).

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 2007	408,449	319,600	728,049	7.54
Granted	76,122	114,250	190,372	9.48
Exercised	(55,497)	(28,500)	(83,997)	7.71
Lapsed	(127,250)	(7,750)	(135,000)	8.92
Transferred from other Smiths Companies	-	6,000	6,000	8.92
31 July 2008	301,824	403,600	705,424	8.31

At 31 July 2008 there were 133,976 (2007: 170,584) ordinary shares under option in respect of options issued before 7 November 2002 with a weighted average exercise price of £7.51 (2007: £7.31)

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2008

26. 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 1,014.32p (2007: 1,012.15p). 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 2007 and 2008 are as follows:

	Year ended 31 July 2008	
	SAYE	95 ESOS
Weighted average fair value (£)	2.48	1.73
Key assumptions used:		
Weighted average share price	9.14	8.69
Range of exercise prices (£)	5.25-9.12	6.69-10.97
Range of expected volatility (%)	17-33	18-30
Risk-free interest rate (%)	3.9-5.6	4.3-5.2
Range of expected option term (life)	2.2-7.2 yrs	5 yrs
Dividend yield (%)	3.75	3.75
	Period ended 31 July 2007	
	SAYE	95 ESOS
Weighted average fair value (£)	2.19	1.94
Key assumptions used:		
Weighted average share price	8.25	8.32
Range of exercise prices (£)	5.25-8.68	6.69-9.01
Range of expected volatility (%)	17-36	18-34
Risk-free interest rate (%)	3.7-5.6	4.3-5.5
Range of expected option term (life)	2.2-7.2 yrs	5 yrs
Dividend yield (%)	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 £328,808 (2007: £202,794), all of which relates to equity-settled share-based compensation.

27. ULTIMATE PARENT UNDERTAKING

For the year ended 31 July 2008, 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 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.