

Registered Number 362847

**SMITHS MEDICAL INTERNATIONAL LIMITED**

**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 JULY 2009**

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**SMITHS MEDICAL INTERNATIONAL LIMITED**  
**REPORT AND ACCOUNTS 2009**

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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 2009

#### **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. During the year the Company's head office relocated to Ashford, the existing office building being sold for £5,000k. The increased turnover during the year was as a result of SMI Ltd becoming the sales hub for European distribution and thus a greater volume of intercompany sales flowing through the legal entity. Administration expenses also increased due to the transfer of costs from Group HQ.

The results for the year show a pre-tax profit of £13,233k (2008 £15,040k) for the year and sales of £193,543k (2008 £174,209k).

#### **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.

## **SMITHS MEDICAL INTERNATIONAL LIMITED**

### **DIRECTORS' REPORT**

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

#### **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	(Resigned 22/06/2009)
C J Taft	(Resigned 11/12/2008)
R E Thomas	
R A White	(Appointed 22/06/2009)

### **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 25 days (2008 28 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**

### **INDEPENDENT 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 418 of the Companies Act 2006

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 'Martin Jamieson', is written over a faint, larger version of the same signature.

**Martin Jamieson**  
Director

24<sup>th</sup> September 2009

## **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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **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 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 July 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

#### **Matters on which we are required to report by exception**

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

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



**Stuart Watson**

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
1 Embankment Place  
London WC2N 6RH  
24<sup>th</sup> September 2009

# SMITHS MEDICAL INTERNATIONAL LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JULY 2009

	Notes	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
<b>Turnover</b>	2	193,543	174,209
Cost of sales		<u>(144,547)</u>	<u>(128,277)</u>
<b>Gross profit</b>		48,996	45,932
Sales and distribution costs		(15,670)	(9,235)
Administrative expenses		(23,317)	(18,744)
Operating exceptional items	3	<u>(3,657)</u>	<u>(5,037)</u>
<b>Operating profit</b>	4	6,352	12,916
Interest receivable and similar income	7	3,281	2,334
Interest payable and similar charges	8	(262)	(210)
Profit on disposal of property		<u>3,862</u>	<u>-</u>
<b>Profit on ordinary activities before taxation</b>		13,233	15,040
Tax on profit on ordinary activities	9	<u>(2,004)</u>	<u>(4,374)</u>
<b>Profit for the financial year</b>	21	<u>11,229</u>	<u>10,666</u>

There is no material difference between the profit for the financial years 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 2009**

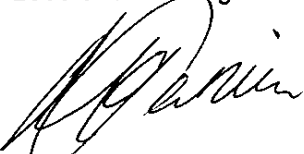
	Notes	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
Profit for the financial period	21	11,229	10,666
Fair value losses on cash-flow hedges	18	<u>(1,792)</u>	<u>(142)</u>
Total recognised gains		<u>9,437</u>	<u>10,524</u>
Total gains recognised since last annual report		<u>9,437</u>	<u>10,524</u>

# SMITHS MEDICAL INTERNATIONAL LIMITED

## BALANCE SHEET AS AT 31 JULY 2009

	Notes	31 July 2009 £'000	31 July 2008 £'000
<b>Fixed assets</b>			
Goodwill	11	7,215	7,684
Tangible assets	12	17,124	20,520
Investments	13	18,289	18,289
		<u>42,628</u>	<u>46,493</u>
<b>Current assets</b>			
Stock	14	38,104	31,429
Debtors			
- falling due within one year	15	124,501	79,668
- falling due after one year including deferred tax recoverable of £5,115,266 (2008 £4,014,000)	15	5,224	4,237
Derivative financial instruments			
- falling due within one year	18	1,784	263
- falling due after one year	18	-	53
Cash at bank and in hand		6	23
		<u>169,619</u>	<u>115,673</u>
<b>Creditors (amounts falling due within one year)</b>	16	<u>(74,899)</u>	<u>(38,565)</u>
Derivative financial instruments	18	<u>(4,506)</u>	<u>(874)</u>
<b>Net current assets</b>		<u>90,214</u>	<u>76,234</u>
<b>Total assets less current liabilities</b>		<u>132,842</u>	<u>122,727</u>
<b>Creditors (amounts falling due after more than one year)</b>	17	<u>(34)</u>	<u>(32)</u>
Derivative financial instruments	18	-	(30)
<b>Provisions for liabilities</b>	19	<u>(1,938)</u>	<u>(1,846)</u>
<b>Net assets</b>		<u>130,870</u>	<u>120,819</u>
<b>Capital and reserves</b>			
Called up share capital	20	43	43
Share premium account	21	71,340	71,340
Capital reserve	21	1,806	1,192
Profit and loss account	21	57,681	48,244
<b>Total shareholders' funds</b>	22	<u>130,870</u>	<u>120,819</u>

The financial statements on pages 6 to 29 were approved by the board of directors on 24<sup>th</sup> September 2009 and were signed on its behalf by



**Martin Jamieson**  
Director

# **SMITHS MEDICAL INTERNATIONAL LIMITED**

## **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009**

### **1. ACCOUNTING POLICIES**

#### **Basis of preparation**

The accounts have been prepared in accordance with the Companies Act 2006 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

#### **Consolidation**

As the Company is a wholly owned subsidiary of Smiths Group plc which prepares publicly available consolidated group accounts, the Company has not prepared consolidated accounts as permitted by section 400 of the Companies Act 2006

#### **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 businesses 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 businesses 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 2009

### 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%

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 interest is capitalised as part of tangible fixed assets

#### **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 2009

### 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 2009

### 1. ACCOUNTING POLICIES (continued)

#### **Fair value of financial assets and liabilities**

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

The following methods are used to estimate the fair values of the financial instruments

- cash, trade receivables and payables and floating rate borrowings – the carrying value is a good approximation of the fair value,
- forward exchange contracts, currency swaps, interest rate instruments and embedded derivatives – net present value of the future cash-flows, calculated using market data at the balance sheet date (principally exchange rates and yield curves)

#### **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 2009**

### **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 2009

#### 2. TURNOVER

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

	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
United Kingdom	45,887	50,550
North America	12,590	21,944
Europe	90,565	57,264
Other overseas	44,501	44,451
	<u>193,543</u>	<u>174,209</u>

#### 3. OPERATING EXCEPTIONAL ITEMS

	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
Reorganisation costs	420	2,750
HQ Relocation costs	943	-
Watford Reorganisation	300	-
Project One	1,994	1,739
Medex Integration	-	548
	<u>3,657</u>	<u>5,037</u>

Reorganisation costs include £158,000 incurred in relocating to Ashford from the Military Road site in Hythe, and £262,000 relating to Cozmo pump stocks written off. The company announced that it was withdrawing from the Cozmo market and sales of new pumps ceased before the year end.

Reorganisation costs for the prior year 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.

HQ relocation costs were incurred in moving the medical HQ function from the group's London head office to within the medical division, and included £311,000 for redundancy, and £406,000 personal relocation expenses for the medical group managing director.

The Watford manufacturing facility is to be moved to Luton, and this is a provision for costs to be incurred.

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, and were for the medical division.

Medex was acquired by the parent undertaking in March 2005 and there were costs incurred in the prior year on integrating the activities of the business into the company. There has been no charge in the current year.



# SMITHS MEDICAL INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009

### 4. OPERATING PROFIT

	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
Wages and salaries	24,421	27,273
Social security costs	2,277	2,412
Other pension costs	3,078	3,075
Share based compensation (note 26)	614	329
Employee costs	30,390	33,089
Depreciation of property, plant and equipment	2,063	2,632
Amortisation of computer software	1,316	1,318
Impairment of property, plant and equipment	581	1,594
Amortisation of goodwill	469	470
Profit on disposal of fixed assets	(152)	(71)
Research and development expenses	4,177	4,413
Operating leases		
- land and buildings	523	493
- plant and machinery	16	20
Foreign exchange gain	(865)	(583)
Fees charged by PricewaterhouseCoopers and their associates		
- statutory audit fee	94	97
- other fees pursuant to legislation	45	23

### 5. DIRECTORS' REMUNERATION

	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
Aggregate emoluments	1,488	1,136

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 5 directors (2008: 6) under a defined benefit scheme.

#### Highest paid director

	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
Aggregate emoluments	266	296
Defined benefit pension scheme		
Accrued pension at the year end	75	73
Exercise of Share Options	270	-
	611	369

# SMITHS MEDICAL INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009

### 6. EMPLOYEE INFORMATION

The average monthly persons employed by the Company was

Year ended 31 July 2009 Number	Year ended 31 July 2008 Number
825	938

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 2009 £'000	Year ended 31 July 2008 £'000
Interest receivable from group undertakings	3,048	1,988
Interest receivable on cash and deposits	229	338
Other interest receivable	4	8
	<u>3,281</u>	<u>2,334</u>

### 8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
Interest payable on overdraft and bank loans	127	186
Finance costs relating to forward foreign exchange contracts	135	24
	<u>262</u>	<u>210</u>

# SMITHS MEDICAL INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009

### 9. TAXATION

	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
<b>Analysis of tax charge on ordinary activities</b>		
<b>United Kingdom</b>		
Current tax (group relief payment) charge		
Current year	3,649	6,050
Prior year	(543)	2,338
	<u>3,106</u>	<u>8,388</u>
Deferred tax credit	<u>(1,102)</u>	<u>(4,014)</u>
Tax on profit on ordinary activities	<u>2,004</u>	<u>4,374</u>

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

	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000
Profit on ordinary activities before taxation	<u>13,233</u>	<u>15,040</u>
UK corporation tax at 28% (2008 29 33%)	3,706	4,411
Effects of		
Income not chargeable for tax purposes	(1,133)	-
Expenses not deductible for tax purposes	50	319
Accelerated capital allowances	1,007	1,419
Depreciation on ineligible less IBA's	29	-
(Increase)/decrease in other timing differences	103	(1)
Research and development allowances	(113)	(98)
Adjustment to tax in respect of prior period	<u>(543)</u>	<u>2,338</u>
	<u>3,106</u>	<u>8,388</u>
Group relief surrendered from fellow subsidiary		
- current year	(3,649)	(6,050)
- prior year	543	(2,338)
Group relief payment	<u>3,106</u>	<u>8,388</u>
Total current tax	<u>3,106</u>	<u>8,388</u>
Deferred tax credit	<u>(1,102)</u>	<u>(4,014)</u>
Tax charge to profit and loss account	<u>2,004</u>	<u>4,374</u>

# SMITHS MEDICAL INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009

### 10. DEFERRED TAXATION

The deferred tax asset at the balance sheet date is £5,115,266 (2008 £4,014,000) and was recognised 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 2009 £'000	Year ended 31 July 2008 £'000
Difference between accumulated depreciation and amortisation and capital allowances	4,924	3,915
Other timing differences	191	99
	<u>5,115</u>	<u>4,014</u>

### 11. GOODWILL

	Goodwill £'000
<b>Cost</b>	
At 1 August 2008	9,392
Additions	-
	<u>9,392</u>
At 31 July 2009	9,392
<b>Accumulated amortisation</b>	
At 1 August 2008	1,708
Charge for the year	469
	<u>2,177</u>
At 31 July 2009	2,177
<b>Net book value</b>	
At 31 July 2009	<u>7,215</u>
At 31 July 2008	<u>7,684</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 2009

### 12. TANGIBLE ASSETS

	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, and equipment £'000	Total £'000
<b>Cost or valuation</b>				
At 1 August 2008	7,580	27,601	27,843	63,024
Transfers (to)/from other Group Companies	-	(2,306)	25	(2,281)
Additions	386	764	1,693	2,843
Disposals	<u>(1,373)</u>	<u>(6,020)</u>	<u>(3,713)</u>	<u>(11,106)</u>
At 31 July 2009	<u>6,593</u>	<u>20,039</u>	<u>25,848</u>	<u>52,480</u>
<b>Depreciation</b>				
At 1 August 2008	2,896	22,768	16,840	42,504
Transfers (to)/from other Group Companies	-	(1,233)	19	(1,214)
Charge for the year	182	945	2,252	3,379
Impairment	-	581	-	581
Disposals	<u>(419)</u>	<u>(5,996)</u>	<u>(3,479)</u>	<u>(9,894)</u>
At 31 July 2009	<u>2,659</u>	<u>17,065</u>	<u>15,632</u>	<u>35,356</u>
<b>Net book value</b>				
At 31 July 2009	<u>3,934</u>	<u>2,974</u>	<u>10,216</u>	<u>17,124</u>
At 31 July 2008	<u>4,684</u>	<u>4,833</u>	<u>11,003</u>	<u>20,520</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, and the disposal of the Military Road site in Hythe on the 1<sup>st</sup> April 2009, at a receivable consideration of £5,000,000

Impairment consisted of a charge against manufacturing equipment

The net book amount of property comprises

	31 July 2009 £'000	31 July 2008 £'000
Freehold	3,788	4,515
Short Leaseholds	<u>146</u>	<u>169</u>
	<u>3,934</u>	<u>4,684</u>

# SMITHS MEDICAL INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009

### 13. FIXED ASSET INVESTMENT

	<b>Shares in group undertakings £'000</b>	
<b>Cost or valuation</b>		
At 1 August 2008		18,289
Additions		-
At 31 July 2009		18,289
<b>Provision for permanent diminution in value</b>		
At 1 August 2008		-
Additions		-
At 31 July 2009		-
<b>Net book value</b>		
At 31 July 2009		18,289
At 31 July 2008		18,289
	<b>31 July 2009</b>	<b>31 July 2008</b>
	<b>£'000</b>	<b>£'000</b>
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 2009, which all operate in their country of incorporation, are listed below

	<b>Country of incorporation</b>	<b>Interest directly held</b>	<b>Class of capital</b>	<b>Principal activity</b>
<b>Domestic subsidiary undertakings</b>				
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 2009

### 14. STOCK

	31 July 2009 £'000	31 July 2008 £'000
<b>Stock comprises</b>		
Raw materials	4,893	7,847
Work in progress	840	1,172
Finished goods	32,371	22,410
	<u>38,104</u>	<u>31,429</u>

### 15. DEBTORS

	31 July 2009 £'000	31 July 2008 £'000
<b>Amounts falling due within one year</b>		
Trade debtors	16,332	16,909
Amounts owed by group undertakings	102,068	62,199
Other debtors	116	191
Prepayments and accrued income	5,985	369
	<u>124,501</u>	<u>79,668</u>
<b>Amounts falling after more than one year</b>		
Other debtors	109	223
Deferred tax (note 10)	5,115	4,014
	<u>5,224</u>	<u>4,237</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.

Prepayments and accrued income includes £5,000,000 deferred consideration for the sale of Military Road, Hythe.

**SMITHS MEDICAL INTERNATIONAL LIMITED****NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009****16. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>31 July 2009 £'000</b>	<b>31 July 2008 £'000</b>
Trade creditors	6,417	6,978
Amounts due to group undertakings	63,980	25,251
Other taxation and social security costs	1,374	1,798
Other creditors	35	445
Accruals and deferred income	3,093	4,093
	<u>74,899</u>	<u>38,565</u>

The "amounts owed to group undertakings" did not attract interest, and are not secured

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

	<b>31 July 2009 £'000</b>	<b>31 July 2008 £'000</b>
Other creditors (in lieu of dividends due on redeemable preference shares)	34	32
	<u>34</u>	<u>32</u>



# SMITHS MEDICAL INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009

### 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 2009, 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 £77,859,000 (2008: £28,124,000). 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 2009 £'000	31 July 2008 £'000
Maturing within six months	(1,974)	(601)
Maturing between six and twelve months	(748)	(9)
Maturing between twelve and eighteen months	-	22
Total fair value of foreign currency contracts	<u>(2,722)</u>	<u>(588)</u>

The movements relating to cash flow hedging and resulting in a £1,792,000 loss (2008: loss of £142,000) being recognised directly in reserves during the period are summarised in the table below:

	31 July 2009 £'000	31 July 2008 £'000
Net cash-flow hedge losses deferred in reserves at start of period	(349)	(207)
Losses on effective cash-flow hedges recognised in reserves	(2,638)	(1,494)
Amounts removed from reserves and recognised in the income statement	846	1,352
Net cash-flow hedge losses deferred in reserves at end of period	<u>(2,141)</u>	<u>(349)</u>

# SMITHS MEDICAL INTERNATIONAL LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009

### 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		
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Net £'000
<b>At 31 July 2009</b>					
Foreign exchange contracts (cash flow hedges)	33,056	44,803	1,784	(4,506)	(2,722)
Balance sheet entries					
Debtors falling due within one year			1,784		
Debtors falling due after one year					
Creditors due in less than one year				(4,506)	
Creditors due in more than one year					
<b>Total financial derivatives</b>			<b>1,784</b>	<b>(4,506)</b>	<b>(2,722)</b>

	Contract or underlying nominal amount		Fair value		
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Net £'000
<b>At 31 July 2008</b>					
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)	
<b>Total financial derivatives</b>			<b>316</b>	<b>(904)</b>	<b>(588)</b>

#### 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 2009

### 19. PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty provision and product liability £'000	Property £'000	Reorgan isation £'000	Litigation £'000	Total £'000
At 1 August 2008	1,333	120	107	286	1,846
Utilised during the year	(413)	-	(69)	(3)	(485)
Charged to profit and loss account	232	180	300	370	1,082
Released to profit and loss account	(505)	-	-	-	(505)
At 31 July 2009	647	300	338	653	1,938

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 Luton/Watford reorganisation. In respect of the Hythe manufacturing site some £69,000 was utilised in the period against redundancy payments. A provision of £300,000 has been made for the reorganisation of Watford manufacturing to Luton. 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 2009

### 20. CALLED UP SHARE CAPITAL

	31 July 2009 £'000	31 July 2008 £'000
<b>Authorised</b> 50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>
<b>Issued and fully paid</b> 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 2008	71,340	1,192	48,244
Profit for the financial year	-	-	11,229
Total recognised losses for the year	-	-	(1,792)
Capital contribution (note 26)	-	614	-
At 31 July 2009	<u>71,340</u>	<u>1,806</u>	<u>57,681</u>

### 22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 July 2009 £'000	31 July 2008 £'000
Profit for the financial year	11,229	10,666
Fair value movements on cash-flow hedges (note 18)	<u>(1,792)</u>	<u>(142)</u>
Total recognised gains and losses relating to the year	9,437	10,524
Capital contribution (note 26)	614	329
Net addition to shareholders' funds	<u>10,051</u>	<u>10,853</u>
Opening shareholders' funds	120,819	109,966
Closing shareholders' funds	<u>130,870</u>	<u>120,819</u>

## SMITHS MEDICAL INTERNATIONAL LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009

#### 23. OPERATING LEASE COMMITMENTS

At 31 July 2009, the Company had annual commitments under non-cancellable operating leases as follows

	Land & Buildings		Other	
	31 July 2009 £'000	31 July 2008 £'000	31 July 2009 £'000	31 July 2008 £'000
On contracts expiring				
Within one year	-	-	7	1
After one and within five years	320	320	-	15
After five years	566	130	-	-
Total	<u>886</u>	<u>450</u>	<u>7</u>	<u>16</u>

#### 24. CAPITAL COMMITMENTS

	31 July 2009 £'000	31 July 2008 £'000
Contracts placed for future capital expenditure not provided in the accounts	<u>437</u>	<u>347</u>
Future capital expenditure authorised by directors but not contracted and not provided in the accounts	<u>426</u>	<u>903</u>

#### 25. PENSIONS

Staff of the Company participate in the Smiths Industries Pension Scheme and the TI Group Pension Scheme, defined benefit pension plans based in the UK. With effect from 1 January 2006, a number of employees of the Company who are members of this scheme became employees of the ultimate parent Company, Smiths Group plc, and now perform their services under contract from that Company.

The assets of the scheme are held in a separate trustee-administered fund and the pensions costs are assessed in accordance with the advice of independent, professionally-qualified actuaries.

The total pension cost for the Company for both schemes was £3.1m (2008: £3.1m). This represents contributions payable to Smiths Group plc which is responsible for making contributions to the pension funds on behalf of the Group as a whole. The Company contributions are set with respect to the current service period only, so the Company has accounted for these contributions as if the scheme was a defined contribution scheme.

Further details of this pension plan, the actuarial assumptions used and the latest actuarial valuation can be found in the company accounts of Smiths Group plc for the year ended 31 July 2009.

## **SMITHS MEDICAL INTERNATIONAL LIMITED**

### **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009**

#### **26. SHARE BASED COMPENSATION**

The Company's ultimate parent company operates share schemes and plans for the benefit of employees of the Group. The nature of the principal schemes and plans, including general conditions, 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 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, 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). Executive directors received their final grants of options under the 95 ESOS in October 2003. From 2004 senior executives, including directors, have received awards under the PSP (see below). Grants under the 95 ESOS continue to be made to other executives.

##### **Value Sharing Plan (VSP)**

The VSP is a one-off long-term incentive plan approved by the shareholders in July 2008 rewarding executives for value creation at Group and Divisional levels over three-year and four-year periods commencing with the financial year 2008/09. Executives with divisional responsibilities will be rewarded for value creation within the division for which they are responsible. The divisional awards will depend on meeting an internal value growth target set for the division in which the participant works.

## SMITHS MEDICAL INTERNATIONAL LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2009

#### 26. SHARE BASED COMPENSATION (continued)

##### Share options movement table

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

	SAYE	ESOS	VSP	Total	Weighted average price for option plans £
Ordinary shares under option					
1 August 2008	301,824	403,600	-	705,424	8.31
Granted	183,827	-	20,949	204,776	5.11
Exercised	(61,499)	(9,600)	-	(71,099)	6.42
Lapsed	(58,642)	(27,750)	-	(86,392)	8.15
Transferred from other Smiths Companies	20,647	7,750	-	28,397	2.45
31 July 2008	386,157	374,000	20,949	781,106	7.64

At 31 July 2009 there were 110,294 (2008 133,976) ordinary shares under option in respect of options issued before 7 November 2002 with a weighted average exercise price of £7.65 (2008 £7.51)

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 832.08p (2008 1,014.32p). There has been no change to the effective option price of any of the outstanding options during the period.

##### Assumptions underlying share options valuations

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 and the Monte Carlo method is used for schemes with total shareholder return performance targets. The key assumptions used in the models for 2009 and 2008 are volatility of 23% (2008 21%) and dividend yield of 3.75% (2008 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. These generated a weighted average fair value for VSP of £10.47.

Included within administrative expenses is an expense arising from share-based payment transactions of £614,506 (2008 £328,808), all of which relates to equity-settled share-based compensation.

#### 27. ULTIMATE PARENT UNDERTAKING

For the year ended 31 July 2009, 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, Cardinal Place, 80 Victoria Street, London, SW1E 5JL.