

Registered Number 00362847

SMITHS MEDICAL INTERNATIONAL LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2014

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SMITHS MEDICAL INTERNATIONAL LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014

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SMITHS MEDICAL INTERNATIONAL LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 JULY 2014

The directors present their Strategic Report on Smiths Medical International Limited for the year ended 31 July 2014.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company's principal activity in the financial year is that of the design, manufacture, distribution and sale of medical devices. There has been no significant change in this activity during the financial year.

The results for the year show a profit on ordinary activities before taxation of £31,075,000 (2013: £31,755,000) and sales of £246,884,000 (2013: £238,797,000).

The company has performed well over the year and this is reflected in the results when compared to the previous year.

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Smiths Group plc and are not managed separately. Accordingly, the principal risks and uncertainties of Smiths Group plc, which include those of the Company, are discussed in the Group's annual report, which do not form part of this report.

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 <http://www.smiths-group.com>.

On behalf of the Board



Suzie Hardy
Director

15 September 2014

SMITHS MEDICAL INTERNATIONAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 2014

The directors present their report and the audited financial statements for the year ended 31 July 2014.

DIVIDENDS

A dividend of £38,000,000 (2013: £nil) was authorised and paid during the year.

FUTURE OUTLOOK

It is not envisaged that the Company will initiate any plans to alter its principal activity and will maintain its current level of performance in the forthcoming financial year.

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 risk factors 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.

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 financial statements 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>.

DIRECTORS

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Steven Eggleston
Suzie Hardy
Ian Harper

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 44 days (2013: 43 days).

SMITHS MEDICAL INTERNATIONAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 2014

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. The Company provides share option schemes to its employees (note 25).

SMITHS MEDICAL INTERNATIONAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, 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 prepared 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.

STATEMENT OF DISCLOSURE OF INFORMATION TO INDEPENDENT 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.

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

On behalf of the Board



Suzie Hardy
Director

15 September 2014

Independent auditors' report to the members of Smiths Medical International Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 July 2014 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Smiths Medical International Limited, comprise:

- the balance sheet as at 31 July 2014;
- the profit and loss account and statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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.

In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or

- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

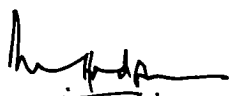
Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities, 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 and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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 Chapter 3 of Part 16 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.



Martin Hodgson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 September 2014

SMITHS MEDICAL INTERNATIONAL LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 July 2014**

	Note	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Turnover	2	246,884	238,797
Cost of sales		<u>(173,316)</u>	<u>(175,712)</u>
Gross profit		73,568	63,085
Distribution costs		(13,684)	(12,904)
Administrative expenses		(27,039)	(23,220)
Other operating (expenses)/income	3	<u>(1,902)</u>	<u>4,423</u>
Operating profit	4	30,943	31,384
Other interest receivable and similar income	7	261	533
Interest payable and similar charges	8	<u>(129)</u>	<u>(162)</u>
Profit on ordinary activities before taxation		31,075	31,755
Tax on profit on ordinary activities	9	<u>264</u>	<u>6,700</u>
Profit for the financial year	20	<u>31,339</u>	<u>38,455</u>

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

The profit for the financial year arose from continuing activities.

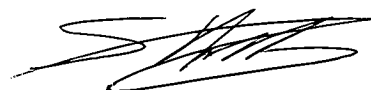
SMITHS MEDICAL INTERNATIONAL LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 July 2014**

	Note	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Profit for the financial year	20	31,339	38,455
Net fair value gains and losses on cash-flow hedges	17	(812)	954
		<hr/>	<hr/>
Total recognised gains and losses for the financial year		<u>30,527</u>	<u>39,409</u>

BALANCE SHEET AS AT 31 July 2014

	Note	31 July 2014 £'000	31 July 2013 £'000
Fixed assets			
Goodwill	10	4,867	5,336
Tangible assets	11	9,267	9,324
Investments	12	11,898	11,898
		<u>26,032</u>	<u>26,558</u>
Current assets			
Stocks	13	36,739	35,206
Debtors - amounts falling due within one year	14	95,970	103,585
Cash at bank and in hand		695	569
		<u>133,404</u>	<u>139,360</u>
Creditors - amounts falling due within one year	15	(42,309)	(41,416)
Net current assets		<u>91,095</u>	<u>97,944</u>
Total assets less current liabilities		117,127	124,502
Creditors - amounts falling due after more than one year	16	(32)	(35)
Provisions for liabilities	18	<u>(974)</u>	<u>(1,042)</u>
Net assets		<u>116,121</u>	<u>123,425</u>
Capital and reserves			
Called up share capital	19	43	43
Share premium account	20	71,340	71,340
Other reserves	20	3,263	3,906
Profit and loss account	20	41,475	48,136
Total shareholders' funds	21	<u>116,121</u>	<u>123,425</u>

The financial statements on pages 7 to 29 were approved by the Board of Directors on 15 September 2014 and were signed on its behalf by:



Suzie Hardy
Director

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and all applicable accounting standards in the United Kingdom (UK GAAP).

These financial statements 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.

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year.

Consolidation

As the Company is a wholly owned subsidiary of Smiths Group plc which prepares publicly available consolidated group financial statements, the Company has not prepared consolidated financial statements 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.

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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

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 buildings – over the period of the lease,
- Plant and machinery – 10% to 20%,
- Fixtures, fittings and 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 when it arises.

Stocks

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

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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

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.

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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

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 to 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.

Turnover

Turnover 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.

Turnover from services is recognised in accounting years 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.

Turnover 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

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.

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 year. 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 financial year 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

2. TURNOVER

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

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
United Kingdom	39,333	38,552
North America	30,800	17,580
Europe	116,349	114,594
Other overseas	60,402	68,071
	<u>246,884</u>	<u>238,797</u>

3. OTHER OPERATING (EXPENSES)/INCOME

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Insurance claim	-	4,423
Restructuring costs	<u>(1,902)</u>	<u>-</u>
	<u>(1,902)</u>	<u>4,423</u>

Prior year income relates to insurance income received to compensate for loss of profit incurred as a result of problems with one of the Company's suppliers.

Restructuring costs during the year relate to expenditure incurred in closing a manufacturing facility in the UK and moving it to the Czech Republic.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

4. OPERATING PROFIT

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Wages and salaries	22,868	22,576
Social security costs	2,041	2,031
Other pension costs (note 24)	1,851	1,781
Share based compensation (note 25)	169	159
	<hr/>	<hr/>
Employee costs	26,929	26,547
Depreciation of tangible fixed assets (note 11)		
- owned	2,281	3,686
- leased	24	24
Amortisation of goodwill (note 10)	469	470
Loss/(profit) on disposal of fixed assets	1,353	(5)
Research and development expenses	3,198	3,983
Operating leases		
- land and buildings	1,478	1,292
- plant and machinery	419	416
Foreign exchange losses/(gains)	2,034	(1,213)
Fees charged by PricewaterhouseCoopers LLP and their associates		
- statutory audit fees of the company and certain affiliates	140	141
- services related to information technology and tax	63	45
	<hr/>	<hr/>

5. DIRECTORS' REMUNERATION

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Aggregate emoluments	434	395
Company contributions in respect of defined contribution pension schemes	51	47
	<hr/>	<hr/>
Highest paid director:		
	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Aggregate emoluments	205	218
Company contributions in respect of defined contribution pension schemes	23	22
	<hr/>	<hr/>

Certain directors provide services both to the Company and a number of other related Smiths Group plc entities. Retirement benefits are accruing to no directors (2013: nil) under a defined benefit scheme.

No directors exercised share options in the year with Smiths Group plc (2013: nil).

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

6. EMPLOYEE INFORMATION

The average number of monthly persons employed by the Company was:

	Year ended 31 July 2014 Number	Year ended 31 July 2013 Number
UK	695	695
Overseas	59	67
	<u>754</u>	<u>762</u>

Certain employees' have contracts of service with Smiths Group plc company. Remuneration in respect of these employees is included above because they work full time for and are paid by the Company.

7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Interest receivable from Group undertakings	261	483
Interest receivable on cash and deposits	-	50
	<u>261</u>	<u>533</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Interest payable on overdraft and bank loans	107	140
Finance costs relating to forward foreign exchange contracts	22	22
	<u>129</u>	<u>162</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Analysis of tax charge on ordinary activities		
United Kingdom		
Current tax	(60)	(17)
Adjustment to tax in respect of prior year	(204)	(6,683)
Total current United Kingdom tax	(264)	(6,700)
Deferred taxation		
Origination and reversal of timing differences	-	-
Total deferred tax	-	-
Tax on profit on ordinary activities	(264)	(6,700)

The tax for the financial year is different (2013: different) from the standard rate of corporation tax in the UK (22.33%). The differences are explained below:

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Profit on ordinary activities before taxation	31,075	31,755
UK corporation tax at 22.33% (2013: 23.67%)	6,939	7,516
Effects of:		
Income not chargeable for tax purposes	(209)	(55)
Expenses not deductible for tax purposes	169	108
Accelerated capital allowances	-	(3)
Depreciation less industrial building allowances on ineligible assets	505	858
Other timing differences	-	(27)
Research and development allowances	(60)	(51)
Adjustment to tax in respect of prior year	(204)	(6,683)
	7,140	1,663
Group relief surrendered from fellow subsidiary - current year	(7,404)	(8,363)
Total current tax	(264)	(6,700)

The Company is part of a UK tax group including all the UK based subsidiaries of Smiths Group plc. At 31 July 2011 the Company recognised UK tax assets relating to capital allowances of £2,096,219, and other timing differences of £nil. The value of these assets is reviewed regularly and is dependent on the ability to recover them against forecast UK taxable profits of the tax group. Having considered the impact of the increased pension deficit on the outlook for the UK tax base of Smiths Group plc, the Company derecognised the tax assets at 31 July 2012 because it is no longer probable that they will be recovered.

At 31 July 2014 the Company has unrecognised deferred tax assets of £5,236,035 (2013: £4,989,220) relating to:

- capital allowances £5,236,035 (2013: £4,845,820); and
- other timing differences £nil (2013: £143,400).

These tax allowances remain available to the Company and can be utilised should the UK tax base of Smiths Group plc improve.

A reduction in the rate of corporation tax to 20.00% was substantively enacted on 2 July 2013 to be effective from 1 April 2015.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

10. GOODWILL

	Goodwill £'000
Cost	
At 1 August 2013	9,392
Additions	-
	<hr/>
At 31 July 2014	<u>9,392</u>
Accumulated amortisation	
At 1 August 2013	4,056
Charge for the year	469
	<hr/>
At 31 July 2014	<u>4,525</u>
Net book value	
At 31 July 2014	<u>4,867</u>
At 31 July 2013	<u>5,336</u>

Goodwill represents the difference between the price paid for Pneupac Limited and Medex Medical Limited, and the net assets acquired. The trade and assets of Pneupac Limited and Medex Medical Limited were transferred to Smiths Medical International Limited.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

11. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, and equipment £'000	Total £'000
Cost or valuation				
At 1 August 2013	6,607	14,753	24,915	46,275
Transfers to/from other Group Companies	-	(38)	-	(38)
Additions	-	312	2,196	2,508
Disposals	-	(256)	(632)	(888)
At 31 July 2014	6,607	14,771	26,479	47,857
Accumulated depreciation				
At 1 August 2013	5,078	12,138	19,735	36,951
Transfers to/from other Group Companies	-	(8)	-	(8)
Charge for the year	89	745	1,471	2,305
Disposals	-	(27)	(631)	(658)
At 31 July 2014	5,167	12,848	20,575	38,590
Net book value				
At 31 July 2014	1,440	1,923	5,904	9,267
At 31 July 2013	1,529	2,615	5,180	9,324

Additions in the year reflect capital investment in the ordinary course of business.

Disposals consisted primarily of the disposal of fixed assets at book value at the end of their useful life in the ordinary course of business.

The net book amount of property comprises:

	31 July 2014 £'000	31 July 2013 £'000
Freehold	1,413	1,478
Short Leaseholds	27	51
	<u>1,440</u>	<u>1,529</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

12. FIXED ASSET INVESTMENTS

		Shares in group undertakings £'000
Cost or valuation		
At 1 August 2013		18,289
Additions		-
		<hr/>
At 31 July 2014		18,289
Provision for permanent diminution in value		
At 1 August 2013		6,391
Additions		-
		<hr/>
At 31 July 2014		6,391
Net book value		
At 31 July 2014		<hr/> 11,898 <hr/>
At 31 July 2013		<hr/> 11,898 <hr/>
	31 July 2014 £'000	31 July 2013 £'000
Investment in subsidiaries		
Pneupac Limited	7,835	7,835
Graseby Medical Limited	229	229
Medex Medical Limited	3,834	3,834
	<hr/>	<hr/>
	11,898	11,898
	<hr/>	<hr/>

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 Directors believe that the carrying value of the investments is supported by their underlying net assets.

The principal subsidiaries at 31 July 2014, 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

13. STOCKS

	31 July 2014 £'000	31 July 2013 £'000
Stock comprises		
Raw materials	3,680	4,441
Work in progress	1,355	894
Finished goods	31,704	29,871
	<u>36,739</u>	<u>35,206</u>

There are no material differences between the carrying value of stock and its replacement cost.

14. DEBTORS

	31 July 2014 £'000	31 July 2013 £'000
Amounts falling due within one year		
Trade debtors	24,182	23,582
Amounts owed by Group undertakings	69,682	76,645
Prepayments and accrued income	1,124	871
Current tax provision	82	-
Derivative financial instruments (note 17)	900	2,487
	<u>95,970</u>	<u>103,585</u>

The amounts owed by Group undertakings are not secured and attract interest on non-trading elements at the average rate of 0.73% (2013: 1.36%) in the year. Interest was not charged to Group undertakings on trading balances.

15. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 July 2014 £'000	31 July 2013 £'000
Trade creditors	6,868	6,981
Amounts owed to Group undertakings	30,085	29,241
Taxation and social security	1,257	1,436
Accruals and deferred income	3,469	2,871
Derivative financial instruments (note 17)	630	887
	<u>42,309</u>	<u>41,416</u>

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

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

	31 July 2014 £'000	31 July 2013 £'000
20,000 (2013: 20,000) 7% preference shares of €2 each	<u>32</u>	<u>35</u>

Arrears of dividend amount to £15,500 (€19,600) (2013: £14,700 (€16,800)).

The preference shares are non redeemable.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

17. FINANCIAL INSTRUMENTS

Foreign exchange risk

Transactional currency exposure

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

Cash-flow hedging

At 31 July 2014, 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 £46,916,000 (2013: £62,261,000). The fair values of the hedging instruments are disclosed in the derivative table below.

The majority of hedged transactions will be recognised in the income statement in the same year 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 profiles of the foreign currency contracts are as follows:

	31 July 2014 £'000	31 July 2013 £'000
Maturing within six months	174	1,564
Maturing between six and twelve months	96	36
Total fair value of foreign currency contracts	<u>270</u>	<u>1,600</u>

The movements relating to cash flow hedging resulting in a £812,000 loss (2013: £954,000 profit) being recognised directly in reserves during the financial year are summarised in the table below.

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Net cash-flow hedge gains/(losses) deferred in reserves at start of year	1,035	81
(Losses)/profits on effective cash-flow hedges recognised in reserves	(1,902)	(1,855)
Amounts removed from reserves and recognised in the income statement	1,090	2,809
Net cash-flow hedge gains deferred in reserves at end of financial year	<u>223</u>	<u>1,035</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

17. FINANCIAL INSTRUMENTS (continued)

Financial derivatives

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

	Contract or underlying nominal amount		Fair value		
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Net £'000
At 31 July 2014					
Foreign exchange contracts (cash flow hedges)	26,196	20,720	900	(630)	270
Balance sheet entries:					
Debtors falling due within one year			900	-	900
Debtors falling due after one year			-	-	-
Creditors due in less than one year			-	(630)	(630)
Creditors due in more than one year			-	-	-
Total financial derivatives			900	(630)	270

	Contract or underlying nominal amount		Fair value		
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Net £'000
At 31 July 2013					
Foreign exchange contracts (cash flow hedges)	36,414	25,847	2,487	(887)	1,600
Balance sheet entries:					
Debtors falling due within one year			2,487	-	2,487
Debtors falling due after one year			-	-	-
Creditors due in less than one year			-	(887)	(887)
Creditors due in more than one year			-	-	-
Total financial derivatives			2,487	(887)	1,600

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, DKK, CHF, SEK, and ZAR.

SMITHS MEDICAL INTERNATIONAL LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014****18. PROVISIONS FOR LIABILITIES**

	Warranty provision and product liability £'000	Property £'000	Reorgan isation £'000	Litigation £'000	Total £'000
At 1 August 2013	160	882	-	-	1,042
Utilised during the year	-	-	-	-	-
Charged to profit and loss account	14	15	-	-	29
Released to profit and loss account	-	(97)	-	-	(97)
At 31 July 2014	174	800	-	-	974

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.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

19. CALLED UP SHARE CAPITAL

	31 July 2014 £'000	31 July 2013 £'000
EQUITY SHARES		
Authorised		
50,000 (2013: 50,000) ordinary shares of £1 each	<u>50</u>	<u>50</u>
Issued and fully paid		
43,217 (2013: 43,217) ordinary shares of £1 each	<u>43</u>	<u>43</u>

20. RESERVES

	Share premium account £'000	Capital reserve £'000	Hedge reserve (note 17) £'000	Profit and loss account £'000
At 1 August 2013	71,340	2,871	1,035	48,136
Profit for the financial year	-	-	-	31,339
Dividend paid	-	-	-	(38,000)
Total recognised losses for the financial year	-	-	(812)	-
Capital contribution (note 25)	-	169	-	-
At 31 July 2014	<u>71,340</u>	<u>3,040</u>	<u>223</u>	<u>41,475</u>

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 July 2014 £'000	Year ended 31 July 2013 £'000
Profit for the financial year	31,339	38,455
Fair value movements on cash-flow hedges (note 17)	<u>(812)</u>	<u>954</u>
Total recognised gains relating to the year	30,527	39,409
Capital contribution (note 25)	169	159
Dividend paid	<u>(38,000)</u>	<u>-</u>
Net (decrease)/increase to shareholders' funds	<u>(7,304)</u>	<u>39,568</u>
Opening shareholders' funds	123,425	83,857
Closing shareholders' funds	<u>116,121</u>	<u>123,425</u>

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

22. OPERATING LEASE COMMITMENTS

The Company had annual commitments under non-cancellable operating leases as follows:

	Land & Buildings		Other	
	31 July 2014 £'000	31 July 2013 £'000	31 July 2014 £'000	31 July 2013 £'000
On contracts expiring:				
Within one year	61	-	48	89
After one and within five years	689	821	268	299
After five years	642	643	-	-
Total	<u>1,392</u>	<u>1,464</u>	<u>316</u>	<u>388</u>

23. CAPITAL COMMITMENTS

	31 July 2014 £'000	31 July 2013 £'000
Contracts placed for future capital expenditure not provided in the financial statements	<u>532</u>	<u>2,204</u>
Future capital expenditure authorised by directors but not contracted and not provided in the financial statements	<u>3,626</u>	<u>4,138</u>

24. PENSIONS

Staff of the Company participated 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. These pension schemes were closed with effect from 31 October 2009. The Company provides a defined contribution pension plan for its employees.

The assets of the Smiths Industries Pension 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. Further details of these pension plans, the actuarial assumptions used and the latest actuarial valuations can be found in the consolidated financial statements of Smiths Group plc for the year ended 31 July 2014.

The Company has no pension cost in respect of the defined benefit pension plans because the Company contributions are set with respect to the current service period only and the schemes are closed. The Company has accounted for these plans as if the scheme was a defined contribution scheme, because of the basis on which its contributions are assessed. In 2015 the Company does not expect to make any payments in respect of the defined benefit pension plans.

The total expense recognised in the income statement in respect of defined contribution pensions was £1,851,000 (2013: £1,781,000). At 31 July 2014 £nil (2013: £nil) was due to the scheme.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

25. SHARE BASED COMPENSATION

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

Smiths Group Sharesave Scheme (SAYE)

The SAYE scheme is an HM Revenue & Customs-approved all-employee savings-related share option scheme which is open to all UK employees, including directors, with 12 months' service or more. Participants enter into a contract to save a fixed amount per month of up to £500 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). No grants under the 95 ESOS were made in the 2013/14 financial year.

SMITHS MEDICAL INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 July 2014

25. 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.

	SAYE	ESOS	Total	Weighted average price for option plans £
Ordinary shares under option				
1 August 2013	261,676	45,131	306,807	8.55
Granted	99,521	-	99,521	9.90
Exercised	(34,856)	(3,000)	(37,856)	8.28
Lapsed	(16,269)	-	(16,269)	8.76
Transferred (to)/from other Smiths Companies	(37,328)	-	(37,328)	8.62
31 July 2014	272,744	42,131	314,875	8.99

Options were exercised on an irregular basis during the year and the average closing share price of Smiths Group plc over the financial year was 1,353.95p (2013: 1,195.79p). There has been no change to the effective option price of any of the outstanding options during the year.

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 2014 and 2013 are volatility of 25% (2013: 25%) and dividend yield of 3.75% (2013: 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 CIP of £14.04 (2013: £10.84) and SAYE of £3.11 (2013: £2.52).

Included within administrative expenses is an expense arising from share-based payment transactions of £169,000 (2013: £159,000), all of which relates to equity-settled share-based compensation.

26. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption provided by Paragraph 3(c) of 'FRS 8: Related party disclosures' not to disclose transactions with entities that are, directly or indirectly, wholly owned by Smiths Group plc.

27. ULTIMATE PARENT UNDERTAKING

For the year ended 31 July 2014, Smiths Medical International Limited was a wholly owned subsidiary of Smiths Medical Group Limited.

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

The annual report and financial statements of Smiths Group plc may be obtained from the Company Secretary, Smiths Group plc, Cardinal Place, 80 Victoria Street, London, SW1E 5JL.