Sunrise Medical Limited and its subsidiary companies

Directors' report and financial statements

30 June 1997

Registered number 933605

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 1997.

Principal activities

The principal activity of the group is the manufacture and distribution of mobility and health care products.

The principal activity of the company is the manufacture and distribution of manual wheelchairs, electric wheelchairs and vehicles, stair mounted elevators and vertical elevators, patient aids, lifting devices and bathing systems, together with the research into and development of these products.

Future developments are likely to be in similar fields.

Acquisitions

On 31 December 1996, the company issued 26,974 ordinary shares of £1 each in exchange for the entire issued share capital of DeVilbiss Health Care (UK) Limited, a fellow subsidiary of Sunrise Medical Inc. Further details concerning the acquisition are set out in note 12 to the financial statements.

Business review

The results for the year are as follows:

	1997	1996
	£000	£000
Turnover	**80,207**	62,981
Profit on ordinary activities before taxation	**1,150**	3,700

During the year, it was announced that the businesses of group companies, with the exception of Parker Bath Company Limited, would relocate to a new central site. The results for the year therefore reflect the provisions made for relocation and reorganisation disclosed in note 6 to the accounts, together with provision for losses on disposal of properties and other tangible fixed assets of £375,000.

On 30 June 1997, the entire trade, assets and undertaking of Coopers Healthcare plc, Parker Bath Company Limited, Oxford Hoist Company Limited and DeVilbiss Health Care (UK) Limited, with the exception of certain freehold land and buildings and investments which remained in the subsidiary companies, were transferred to Sunrise Medical Limited.

These are all subsidiary companies of Sunrise Medical Limited.

Employees

The directors recognise the important role played by the company's employees in the achievement of its business goals. Recruitment, development, training and retention of employees are all essential requisites, combined with enlightened personnel policies.

The company recognises the benefits of keeping employees informed of the progress of its business and providing them with information on matters concerning them as employees. Various methods of providing information are used within the company including consultative and discussion meetings between management and staff and the distribution of internal circulars and newsletters.

It is the company's policy to give full and fair consideration to the recruitment of disabled people for vacancies that they are able to fill and, as far as possible, maintain the employment of existing employees who become disabled. Appropriate training is given so as to ensure suitable opportunities exist for each disabled person.

Directors' report *(continued)*

Research and development

The company continually incurs expenditure in the field of research and development in order to update and improve its products.

Dividend

The directors do not recommend the payment of a dividend in respect of the year (1996: £73,000).

Directors

The directors who served during the year and afterwards were:

RH Chandler	(Chairman)
B Payne	
P Riley	
J Cobbledick	(resigned 7 November 1997)
ID Burrows	(resigned 7 November 1997)
DL Hull	
L De Ruiter	(appointed 7 November 1997)

Directors' interests

Mr RH Chandler is a director of the ultimate parent company, Sunrise Medical Inc., which is incorporated outside Great Britain and is not required to notify his interests in that company or any other company incorporated outside Great Britain to the company. He had no beneficial interest in the share capital of group companies incorporated in Great Britain.

Beneficial interests of the other directors who served during the year in the 50 cents common stock of Sunrise Medical Inc. are shown below:

	Holdings at 30 June 1997		**Holdings at 1 July 1996 or later date of appointment**		**Share option movements in year**	
	Fully paid	**Share options**	**Fully paid**	**Share options**	**Granted**	**Exercised**
B Payne	56,311	82,550	56,311	72,690	10,000	-
P Riley	-	10,500	-	8,500	2,000	-
J Cobbledick	-	5,250	-	4,390	1,000	-
ID Burrows	-	21,000	-	16,140	5,000	-
DL Hull	-	4,750	-	3,890	1,000	-

The above directors had no beneficial interest in the share capital of any other group company.

Directors' report *(continued)*

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

Approved by the board of directors on 17 March 1998 and signed on its behalf by:

P Riley
Secretary

High Street
Wollaston
Stourbridge
West Midlands
DY8 4ZH

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

KPMG

2 Cornwall Street
Birmingham
B3 2DL

Auditors' report to the members of Sunrise Medical Limited

We have audited the financial statements on pages 6 to 30.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

17 March 1998

Consolidated profit and loss account

for the year ended 30 June 1997

	Note	1997 £000	1997 £000	1996 £000	1996 £000
Turnover					
Continuing operations		71,254		42,827	
Acquisitions		8,953		20,154	
	2		80,207		62,981
Cost of sales			(57,676)		(43,774)
Gross profit			22,531		19,207
Distribution costs			(5,585)		(4,847)
Administrative expenses			(12,480)		(8,481)
Amortisation of goodwill			(1,335)		(1,027)
Operating profit					
Continuing operations		2,613		4,434	
Acquisitions		518		418	
	6		3,131		4,852
Loss on disposal of tangible fixed assets			(353)		-
Profit on disposal of subsidiary undertaking			-		38
Interest receivable and similar income	4		350		494
Interest payable and similar charges	5		(1,978)		(1,684)
Profit on ordinary activities before taxation			1,150		3,700
Tax on profit on ordinary activities	8		(1,118)		(1,709)
Profit for the financial year			32		1,991
Dividends paid			-		(73)
Retained profit for the financial year	9		32		1,918
Retained profit brought forward			12,288		10,370
Retained profit carried forward			12,320		12,288

All of the above results relate to continuing activities.

There is no material difference between the results as disclosed in the profit and loss account and the results calculated on an unmodified historical cost basis.

Statement of total recognised gains and losses

There are no recognised gains or losses other than the results for the year reported above.

Consolidated balance sheet
at 30 June 1997

	Note	1997 £000	1997 £000	1996 £000	1996 £000
Fixed assets					
Intangible assets	*10*		**23,293**		20,305
Tangible assets	*11*		**17,474**		8,905
			40,767		29,210
Current assets					
Stocks	*13*	**10,899**		7,253	
Debtors:					
Due within one year	*14*	**20,062**		12,998	
Due after one year	*14*	**-**		3,250	
Total debtors	*14*	**20,062**		16,248	
Cash at bank and in hand		**74**		67	
		31,035		23,568	
Creditors: Amounts falling due within one year	*15*	**(31,616)**		(17,669)	
Net current (liabilities)/assets			**(581)**		5,899
Total assets less current liabilities			**40,186**		35,109
Creditors: Amounts falling due after more than one year	*16*		**(17,101)**		(17,066)
Provisions for liabilities and charges	*17*		**(814)**		(459)
Net assets			**22,271**		17,584
Capital and reserves					
Called up share capital	*18*		**197**		170
Share premium			**4,912**		4,912
Merger reserve	*19*		**4,842**		214
Profit and loss account			**12,320**		12,288
Equity shareholders' funds	*20*		**22,271**		17,584

These financial statements were approved by the board of directors on 17 March 1998 and signed on its behalf by:

P Riley

B Payne
Directors

Company balance sheet
at 30 June 1997

	Note	1997 £000	1997 £000	1996 £000	1996 £000
Fixed assets					
Intangible assets	*10*		24,102		-
Tangible assets	*11*		16,301		4,641
Investments	*12*		4,929		24,682
			45,332		29,323
Current assets					
Stocks	*13*	10,899		4,326	
Debtors:					
Due within one year	*14*	23,420		8,907	
Due after one year	*14*	-		3,250	
Total debtors	*14*	23,420		12,157	
Cash at bank and in hand		74		-	
		34,393		16,483	
Creditors: Amounts falling due within one year	*15*	(43,495)		(10,366)	
Net current (liabilities)/assets			(9,102)		6,117
Total assets less current liabilities			36,230		35,440
Creditors: Amounts falling due after more than one year	*16*		(17,101)		(16,965)
Provisions for liabilities and charges	*17*		(814)		(477)
Net assets			18,315		17,998
Capital and reserves					
Called up share capital	*18*		197		170
Share premium			4,912		4,912
Profit and loss account	*9*		13,206		12,916
Equity shareholders' funds	*20*		18,315		17,998

These financial statements were approved by the board of directors on 17 March 1998 and signed on its behalf by:

P Riley

B Payne
Directors

Consolidated cash flow statement

for the year ended 30 June 1997

	Note	1997 £000	1996 £000
Net cash inflow from operating activities	*22(a)*	**14,459**	7,392
Returns on investment and servicing of finance	*22(b)*	**(1,661)**	(1,120)
Taxation:			
UK corporation tax paid		**(2,204)**	(1,662)
Capital expenditure	*22(b)*	**(8,922)**	(2,152)
Acquisition and disposals	*22(b)*	**(1,078)**	(14,102)
Equity dividends paid		**-**	(73)
Net cash inflow/(outflow) before financing		**594**	(11,717)
Financing	*22(b)*	**(1,066)**	11,328
Decrease in cash in the year		**(472)**	(389)

Reconciliation of net cashflow to movement in net debt (note 22(c))

	1997 £000	£000	1996 £000	£000
Decrease in cash in the year	**(472)**		(389)	
Cash outflow/(inflow) from change in debt financing	**1,066**		(11,328)	
Change in net debt resulting from cash flows		**594**		(11,717)
Loans and finance leases acquired with subsidiary		**-**		(4,642)
Loan notes issued to acquire subsidiary		**-**		(5,035)
New finance leases		**-**		(74)
Movement in net debt in the year		**594**		(21,468)
Net debt at 1 July 1996		**(21,483)**		(15)
Net debt at 30 June 1997		**(20,889)**		(21,483)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the group's financial statements:

Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules and with the requirements of the Companies Act 1985, except as explained below:

At the end of the year the trade and net assets of subsidiary undertakings were transferred to the company at their book value which was less than their fair value. The cost of the company's investment in those subsidiary undertakings reflected the underlying fair value of their net assets and goodwill at the time of acquisition. As a result of this transfer, the value of the company's investment in those subsidiary undertakings fell below the amount at which it was stated in the company's accounting records. Schedule 4 to the Companies Act 1985 requires that the investment be written down accordingly and that the amount be charged as a loss in the company's profit and loss account. However, the directors consider that, as there has been no overall loss to the company, it would fail to give a true and fair view to charge that diminution to the company's profit and loss account for the year and it should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill. The effect of this departure is to increase the holding company's profit for the financial year by £20,772,000 and increase the value of goodwill in the holding company's balance sheet. The goodwill will be written off over its useful life. The group accounts are not affected by this transfer.

Basis of consolidation

The group financial statements include the assets and liabilities of all subsidiary undertakings as at 30 June 1997 together with the results of all subsidiary undertakings made up to that date. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. In respect of the company's external acquisitions, the goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is amortised over a period of ten or twenty years. In respect of intragroup acquisitions, the goodwill arising is written off against merger reserves.

A separate profit and loss account dealing with the results of the company only has not been presented as allowed by the Companies Act 1985.

Depreciation

Depreciation is provided so as to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives. The following annual rates on the straight line method are in force:

Freehold buildings	2½%
Leasehold land and buildings	8%
Plant and machinery	15-33%
Office equipment	20-33%
Fixtures and fittings	15%
Motor vehicles	25%
Tooling	20-33%
Equipment for rental	20-33%

Freehold land is not depreciated.

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks

Stocks are valued at the lower of cost and net realisable value. In respect of work in progress and finished goods, cost includes production overheads and the attributable proportion of indirect overhead expenses based on a normal level of activity.

Warranty costs

Warranty costs are charged to the profit and loss account as incurred and provision is made for further warranty claims anticipated at the year end in respect of sales during the year.

Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of timing differences to the extent that it is probable that assets/liabilities will crystallise in the foreseeable future.

Research and development

Expenditure on research and development is written off against profits in the year in which it is incurred.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling and recorded at the rates of exchange ruling at the dates of the transactions. Balances denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Leasing and hire purchase

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account in the year in which they are incurred.

Rentals receivable as lessor under operating leases are included in turnover for the year on an accruals basis.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Notes *(continued)*

2 Turnover

Turnover represents amounts invoiced excluding value added tax and trade discounts. All of the group's turnover derives from its principal activity.

The analysis of turnover by geographical destination is as follows:

	1997	1996
	£000	£000
United Kingdom	52,817	34,403
Rest of Europe	23,145	23,854
Rest of World	4,245	4,724
	80,207	62,981

3 Staff numbers and costs

The average number of employees (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1997	1996
Management and administration	352	293
Production	564	455
	916	748

The aggregate payroll costs of these employees were as follows:

	£000	£000
Wages and salaries	15,794	11,432
Social security costs	1,606	1,135
Other pension costs (note 23)	261	144
	17,661	12,711

Notes *(continued)*

4 Interest receivable and similar income

	1997 £000	1996 £000
Bank interest receivable	134	59
On loans to parent company and fellow subsidiary undertakings	209	421
Other interest receivable	7	14
	350	494

5 Interest payable and similar charges

	1997 £000	1996 £000
On bank loans and overdrafts	13	184
On loans from parent company and fellow subsidiaries	1,611	1,177
Finance charges payable in respect of finance leases and hire purchase contracts	9	23
Other interest payable	345	300
	1,978	1,684

6 Operating profit

The total figures for continuing operations in 1997 include the following amounts relating to acquisitions: cost of sales £6,942,000 and net operating expenses (namely, administrative expenses) £1,493,000.

Operating profit is stated	1997 £000	1996 £000
after charging		
Auditors' remuneration and expenses		
Audit fees (including parent company £20,400 *(1996: £19,550)*)	80	64
Other	78	122
Depreciation of tangible fixed assets:		
Owned	2,148	1,417
Leased	63	60
Operating leases:		
Plant and machinery	659	439
Research and development expenditure	2,273	1,319
Reorganisation costs	1,510	771
Exchange differences	(185)	(10)
Rents receivable under operating leases	(2,035)	-

Notes *(continued)*

7 Directors' emoluments

	1997 £000	1996 £000
Emoluments	**391**	423
Company contributions to money purchase pension schemes	**10**	15
	401	438

	Number	Number
Number of directors who are:		
Members of money purchase pension schemes	**4**	4

Highest paid director:	£000	£000
Total emoluments excluding pension contributions	**108**	107
Pension contributions to money purchase schemes	**-**	-
	108	107

8 Taxation on profit on ordinary activities

The taxation charge based on the profit for the year is made up as follows:

	1997 £000	1996 £000
UK corporation tax at 32.5% *(1996: 33%)*	**920**	1,831
Deferred taxation	**340**	(112)
Adjustments in respect of prior periods:		
Corporation tax	**(175)**	30
Deferred taxation	**33**	(43)
US withholding tax suffered	**-**	3
	1,118	1,709

Notes *(continued)*

9 Company profit for the year

The group profit for the financial year includes a profit of £290,000 *(1996: £2,405,000)* which has been dealt with in the financial statements of the parent company.

The movement in the profit and loss account for the company during the year is set out below:

	£000
At beginning of year	12,916
Retained profit for the financial year	290
At end of year	13,206

10 Intangible fixed assets

	Group Goodwill £000	Company Goodwill £000
Cost		
At beginning of year	21,332	-
Acquisitions	4,323	3,330
Reallocated from cost of investment (see note 1)	-	20,772
At end of year	25,655	24,102
Amortisation		
At beginning of year	1,027	-
Charged in year	1,335	-
At end of year	2,362	-
Net book value		
At 30 June 1997	**23,293**	**24,102**
At 30 June 1996	20,305	-

Under the terms of the Coopers Healthcare plc acquisition agreement, an additional £993,000 was paid in the year following completion of the earn-out period. The consideration was dependent upon the subsidiary's trading and hence no provision was made last year as the outcome was uncertain.

During the year consolidation goodwill arising on the acquisition of DeVilbiss Health Care (UK) Limited of £13,345,000 was written off against the merger reserve set up on acquisition.

The cumulative amount of goodwill resulting from earlier acquisitions which has been written off against reserves is £659,000 *(1996: £659,000)*. This amount is net of goodwill attributable to businesses disposed of prior to the balance sheet date.

Notes *(continued)*

11 Tangible fixed assets

Group

	Freehold land and buildings £000	Short Leasehold land and buildings £000	Motor vehicles, plant and machinery £000	Fixtures, fittings, tools and office equipment £000	Total £000
Cost					
At beginning of year	5,545	95	2,903	5,164	13,707
Acquisition of subsidiary undertakings	-	343	1,488	-	1,831
Additions	5,053	78	1,964	2,064	9,159
Disposals	-	-	(560)	(337)	(897)
At end of year	10,598	516	5,795	6,891	23,800
Gross amount of depreciable assets	8,902	516	5,795	6,891	22,104
Depreciation					
At beginning of year	522	8	1,425	2,847	4,802
Charge for the year	146	29	949	1,087	2,211
Eliminated on disposals	-	-	(449)	(238)	(687)
Reclassification	(1)	-	21	(20)	-
At end of year	667	37	1,946	3,676	6,326
Net book value					
At 30 June 1997	**9,931**	**479**	**3,849**	**3,215**	**17,474**
At 30 June 1996	5,023	87	1,478	2,317	8,905

Included in the net book values are motor vehicles with a net book value of £123,000 *(1996: £176,000)* and fixtures, fittings, tools and equipment with a net book value of £Nil *(1996 £31,000)* held under finance leases and hire purchase contracts.

The net book value of assets held for use in operating leases, included within motor vehicles, plant and machinery, is £1,128,000. Depreciation charged in the period amounted to £280,000.

Notes *(continued)*

11 Tangible fixed assets *(continued)*

Company

	Freehold land and buildings £000	Short Leasehold land and buildings £000	Motor vehicles, plant and machinery £000	Fixtures, fittings, tools and office equipment £000	Total £000
Cost					
At beginning of year	2,781	95	1,888	4,311	9,075
Additions	5,042	-	1,142	1,798	7,982
Disposals	-	-	(297)	(307)	(604)
Transfer from group undertakings	1,549	406	2,380	692	5,027
At end of year	9,372	501	5,113	6,494	21,480
Gross amount of depreciable assets	8,052	501	5,113	6,494	20,160
Depreciation					
At beginning of year	485	8	1,257	2,684	4,434
Charge for the year	92	14	272	833	1,211
Eliminated on disposals	-	-	(272)	(213)	(485)
Transfer from group undertakings	-	-	19	-	19
At end of year	577	22	1,276	3,304	5,179
Net book value					
At 30 June 1997	**8,795**	**479**	**3,837**	**3,190**	**16,301**
At 30 June 1996	2,296	87	631	1,627	4,641

Capital commitments

Commitments for capital expenditure at the year end were as follows:

	1997 £000	1996 £000
Contracted for but not provided in the financial statements	**432**	115

Notes *(continued)*

12 Investments

	Shares in subsidiary undertakings £000
Cost	
At beginning of year	25,948
Additions	1,019
Reallocation to goodwill (see note 1)	(20,772)
At end of year	6,195
Amounts written off	
At beginning and end of year	1,266
Net book value	
At 30 June 1997	**4,929**
At 30 June 1996	24,682

Additions in the year represent additional consideration payable of £993,000 in respect of the Coopers Healthcare plc acquisition (as explained in note 10 to the accounts) and the intragroup acquisition of DeVilbiss Health Care (UK) Limited. The amount shown in the company represents the nominal value of the acquisition consideration. Further information is given later in this note regarding the fair value of the consideration and of the assets acquired.

Notes *(continued)*

12 **Investments** *(continued)*

The company had the following investments at 30 June 1997.

Name of subsidiary undertaking	**Class of shares held**	**Proportion held**	**Nature of business**
Coopers Healthcare plc*	Ordinary and preference	100%	Mobility aids and umbrella handles; now dormant
Cooper & Sons Limited	Ordinary	100%	Dormant
FH Bye & Company Limited	Ordinary	100%	Dormant
Parker Bath Company Limited*	Ordinary	100%	Healthcare bathing products; now dormant
Oxford Hoist Company Limited	Ordinary	100%	Healthcare lifting equipment; now dormant
Minivator Limited*	Ordinary	100%	Dormant
Bec Mobility Limited*	Ordinary	100%	Dormant
FJ Payne (Manufacturing) Limited	Ordinary	100%	Dormant
DeVilbiss Health Care (UK) Limited*	Ordinary	100%	Sale and rental of healthcare equipment; now dormant
DeVilbiss Health Care (UK) Holdings Limited	Ordinary	100%	Dormant
Homecare Health Products (UK) Limited	Ordinary	100%	Dormant

*Direct subsidiaries of Sunrise Medical Limited.

All of the above subsidiary undertakings are incorporated in Great Britain and registered in England and Wales.

Notes *(continued)*

12 Investments *(continued)*

On 31 December 1996, the company acquired all of the shares of DeVilbiss Health Care (UK) Limited, a fellow subsidiary of Sunrise Medical Inc. The consideration given was in the form of shares in the company with a fair value of £18,000,000. The fair value of the assets acquired was £4,655,000 (see table below). The resulting goodwill of £13,345,000 has been written off against the merger reserve.

	Book value, being fair value to the group £000
Fixed assets	
Intangible	3,330
Tangible	1,831
	5,161
Current assets	
Stock	2,528
Debtors	4,063
Total assets	11,752
Creditors	
Bank overdraft	85
Taxation creditor	584
Other current creditors	6,428
Total liabilities	7,097
Net assets	4,655

Included in group profit for the financial year is a profit of £136,000 relating to the above acquisition. The acquired group made a loss in the previous financial period (1 July 1996 to 31 December 1996) of £106,000.

Notes *(continued)*

13 Stocks

	Group		Company	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Raw materials and consumables	**5,958**	4,046	**5,958**	2,421
Work in progress	**2,620**	1,885	**2,620**	1,464
Finished goods	**2,321**	1,322	**2,321**	441
	10,899	7,253	**10,899**	4,326

14 Debtors

	Group		Company	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Trade debtors	**13,135**	9,481	**13,135**	6,396
Amounts owed by group undertakings:				
Parent company and fellow subsidiary undertakings	**4,589**	6,044	**7,947**	5,141
Subsidiary undertakings	**-**	-	**-**	11
Other debtors	**1,559**	358	**1,559**	314
Prepayments and accrued income	**779**	365	**779**	295
	20,062	16,248	**23,420**	12,157

Included in debtors are the following amounts which are due after more than one year:

Amounts owed by parent company and fellow subsidiary undertakings	**-**	3,250	**-**	3,250

Notes *(continued)*

15 Creditors: amounts falling due within one year

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Loan notes (note 16)	**1,007**	1,007	**1,007**	1,007
Bank loans and overdrafts	**950**	471	**950**	324
Obligations under hire purchase and finance leases	**69**	85	**69**	-
Payments on account	**70**	281	**70**	-
Trade creditors	**9,920**	5,169	**9,920**	3,333
Amounts owed to group undertakings:				
Parent company and fellow subsidiary undertakings	**12,098**	4,871	**12,098**	1,570
Subsidiary undertakings	**-**	-	**11,879**	643
Other creditors including taxation and social security	**1,993**	2,625	**1,993**	1,730
Accruals	**5,509**	3,160	**5,509**	1,759
	31,616	17,669	**43,495**	10,366

Other creditors including taxation and social security comprises:	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Corporation tax	**1,010**	1,885	**1,010**	1,325
Other taxation and social security	**491**	674	**491**	373
Other creditors	**492**	66	**492**	32
	1,993	2,625	**1,993**	1,730

16 Creditors: Amounts falling due after more than one year

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Loan notes (see below)	**3,021**	4,028	**3,021**	4,028
ECSC Loan	**2,500**	-	**2,500**	-
Obligations under hire purchase and finance leases	**30**	101	**30**	-
Amounts owed to group undertakings:				
Parent and fellow subsidiary undertakings	**11,550**	12,937	**11,550**	12,937
	17,101	17,066	**17,101**	16,965

Notes *(continued)*

16 Creditors: Amounts falling due after more than one year *(continued)*

The loan notes, £4 million *(1996: £5 million)* of which carry interest at 8% per annum and the balance at 7% per annum, are repayable by equal annual instalments falling due on the anniversary of the acquisitions to which they relate. They fall due as follows:

	Group 1997 £000	1996 £000	Company 1997 £000	1996 £000
Within one year	**1,007**	1,007	**1,007**	1,007
In two to five years inclusive	**3,021**	4,028	**3,021**	4,028
	4,028	5,035	**4,028**	5,035

Hire purchase and finance lease obligations fall due as follows:

	Group 1997 £000	1996 £000	Company 1997 £000	1996 £000
Within one to two years	**24**	72	**24**	-
Within two to five years	**6**	29	**6**	-
	30	101	**30**	-

The ECSC loan of £2.5 million is repayable in one instalment on 24 May 2002. Interest is charged at six month LIBOR plus 1%. An interest rebate is available from the ECSC payable over the term of the loan. The amount of rebate receivable will be dependent upon job creation.

The amounts owed to group undertakings which fall due after more than one year include a group loan of £11,261,600 *(1996: £12,669,300)* which is repayable by annual instalments of £1,407,700 and carries interest at 8% per annum. The remaining group creditors of £288,535 *(1996: £268,144)* carry interest at 9% per annum. The amounts fall due as follows:

	Group and Company 1997 £000	1996 £000
Within two to five years inclusive	**5,919**	5,899
After more than five years	**5,631**	7,038
	11,550	12,937

The instalments falling due within one year are included within amounts due to parent and fellow subsidiaries disclosed in note 15 to the accounts.

Notes *(continued)*

17 Provisions for liabilities and charges

Group

	Deferred taxation	Provision for warranty costs	Total
	£000	£000	£000
Balance at beginning of year	300	159	459
Acquisitions	-	-	-
Transfer to profit and loss account	373	(18)	355
Balance at end of year	673	141	814

Company

	Deferred taxation	Provision for warranty costs	Total
	£000	£000	£000
Balance at beginning of year	477	-	477
Transfer from subsidiary undertakings	16	141	157
Transfer to profit and loss account	180	-	180
Balance at end of year	673	141	814

The amount provided for deferred taxation, calculated on the liability method at 31% *(1996: 33%)* is as follows:

	Group 1997 £000	1996 £000	Company 1997 £000	1996 £000
Accelerated capital allowances	**774**	570	**774**	487
Other timing differences	**(101)**	(270)	**(101)**	(10)
	673	300	**673**	477

Notes *(continued)*

17 Provisions for liabilities and charge *(continued)*

The unprovided deferred taxation asset, calculated on the liability method at 31% *(1996: 33%)* is as follows:

	Group 1997 £000	1996 £000	Company 1997 £000	1996 £000
Depreciation in excess of capital allowances	**(196)**	-	-	-

18 Share capital

	1997 £000	1996 £000
Authorised:		
450,000 ordinary shares of £1 each	**450**	450
50,000 deferred shares of £1 each	**50**	50
	500	500
Allotted, called up and fully paid:		
146,858 *(1996:119,884)* ordinary shares of £1 each	**147**	120
50,000 deferred shares of £1 each	**50**	50
	197	170

During the year the company issued 26,974 ordinary shares of £1 each for a consideration with a fair value of £18 million in connection with the acquisition of DeVilbiss Health Care (UK) Limited, a fellow subsidiary of Sunrise Medical Inc. The excess of the fair value of the consideration over the nominal value, amounting to £17,973,000 has been credited to the merger reserve in the group accounts in accordance with the provisions of Section 131 of the Companies Act 1985.

19 Merger reserve

	Group £000
At beginning of year	**214**
On shares issued in the year	**17,973**
Goodwill written off	**(13,345)**
At end of year	**4,842**

Notes *(continued)*

20 Reconciliation of movements in shareholders' funds

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Profit for the financial year	32	1,991	290	2,405
Dividends	-	(73)	-	(73)
New share capital	18,000	3,715	27	3,715
Acquisition goodwill written off	(13,345)	-	-	-
Net increase in shareholders' funds	4,687	5,633	317	6,047
Equity shareholders' funds at beginning of year	17,584	11,951	17,998	11,951
Equity shareholders' funds at end of year	22,271	17,584	18,315	17,998

21 Obligations under operating leases

The group and company has the following annual commitments under operating leases which expire as follows:

Group

	1997 Land and buildings £000	1997 Plant and machinery £000	1996 Land and buildings £000	1996 Plant and machinery £000
Within one year	52	120	-	15
Within two to five years inclusive	466	181	148	291
Over five years	230	28	-	-
	748	329	148	306

Company

	1997 Land and buildings £000	1997 Plant and machinery £000	1996 Land and buildings £000	1996 Plant and machinery £000
Within one year	52	120	-	13
Within two to five years inclusive	466	181	48	253
Over five years	230	28	-	-
	748	329	48	266

Notes *(continued)*

22 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	1997 £000	1996 £000
Operating profit	**3,131**	4,852
Exceptional items	**(353)**	-
Amortisation of goodwill	**1,335**	1,027
Depreciation charges	**2,211**	1,477
Profit on sale of tangible fixed assets	**(27)**	(1)
Increase in stocks	**(1,118)**	(1,445)
Decrease/(increase) in debtors	**279**	(1,865)
Increase in creditors	**9,019**	3,309
(Decrease)/increase in warranty provisions	**(18)**	38
Net cash inflow from operating activities	**14,459**	7,392

(b) Analysis of cashflows for headings netted in the cash flow statement

Returns on investment and servicing of finance:

	1997 £000	1996 £000
Interest received	**320**	495
Interest paid	**(1,972)**	(1,592)
Interest element of HP and finance lease payments	**(9)**	(23)
Net cash outflow for returns on investment and servicing of finance	**(1,661)**	(1,120)

Capital expenditure

	1997 £000	1996 £000
Payments to acquire tangible fixed assets	**(9,159)**	(2,221)
Receipts from sales of tangible fixed assets	**237**	69
Net cash outflow for capital expenditure	**(8,922)**	(2,152)

Notes *(continued)*

22 Notes to the consolidated cash flow statement *(continued)*

(b) Analysis of cashflows for headings netted in the cash flow statement *(continued)*

Acquisitions and disposals

	1997 £000	1996 £000
Purchase of subsidiary undertakings	(993)	(15,452)
Net (overdrafts)/cash acquired with subsidiary undertakings	(85)	1,368
Sale of subsidiary undertakings	-	(18)
Net cash outflow from acquisitions and disposals	**(1,078)**	(14,102)

Financing

	1997 £000	1996 £000
Capital element of finance lease rental payments	(87)	(83)
Repayment of loans	(3,479)	(3,709)
New loans	2,500	15,120
Net cash (outflow)/inflow from financing	**(1,066)**	11,328

(c) Analysis of net debt

Group

	At 1 July 1996 £000	Cashflow £000	Other non cash changes £000	At 30 June 1997 £000
Cash at bank, in hand	67	7	-	74
Overdrafts	(471)	(479)	-	(950)
	(404)	(472)	-	(876)
Debt due within one year	(3,928)	3,479	(2,394)	(2,843)
Debt due after one year	(16,965)	(2,500)	2,394	(17,071)
Finance leases	(186)	87	-	(99)
	(21,079)	1,066	-	(20,013)
	(21,483)	594	-	(20,889)

Notes *(continued)*

22 Notes to the consolidated cash flow statement *(continued)*

(d) Purchase of subsidiary undertakings

	Purchases £000
Acquisitions in year:	
Intangible fixed assets	
Tangible fixed assets	3,330
Stocks	1,831
Debtors	2,528
Bank overdraft	4,063
Creditors	(85)
Taxation creditor	(6,428)
	(584)
Goodwill	4,655
	13,345
Consideration given	18,000
Satisfied by:	
Shares allotted	18,000
Additional payment re prior year acquisition:	
Earn out - cash consideration	993

The subsidiary undertaking acquired during the year contributed £794,000 to the group's net operating cashflows, paid £215,000 in respect of net returns on investment and servicing of finance, paid £520,000 in respect of taxation and utilised £664,000 for capital expenditure.

(e) Major non - cash transactions

Most of the consideration for the purchase of subsidiary undertakings that occurred during the year comprised share capital. Further details of the acquisitions are given above.

23 Pension fund

The company operates a defined contribution pension scheme and most of its principal trading subsidiary undertakings contribute to employees personal pension plans. The total pension costs charged to the profit and loss account for the year amounted to £190,000 *(1996 £144,000)*. The amount accrued at the end of the year was £Nil *(1996 £Nil)*.

Notes *(continued)*

23 Pension fund *(continued)*

One of the company's subsidiaries, DeVilbiss Health Care (UK) Limited, operates a defined benefit pension scheme, providing benefits based on pensionable pay. The assets of the scheme are held separately from the company, being invested with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the attained age method. The latest actuarial valuation of the scheme was at 1 May 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments, assumed to be 9%, and the rates of increase in salaries and pensions, assumed to be 8%. The actuarial valuation showed that the market value of the assets of the scheme was £853,000. This represented a fund cover of 96% of past service liabilities, after allowing for future increases. The pension charge for the six months since acquisition by Sunrise Medical Limited was £71,000.

24 Ultimate parent company

The company's ultimate parent company is Sunrise Medical Inc., a company incorporated in the United States of America.

The financial statements of Sunrise Medical Inc. are the only financial statements incorporating the results of the company. Copies of these financial statements may be obtained from: High Street, Wollaston, Stourbridge, West Midlands DY8 4ZH.

25 Related party transactions

The company is a wholly owned subsidiary and is therefore exempt from disclosure requirements regarding related party transactions.