Medequip Sub 1 Limited

Directors' report and financial statements

Registered number 933605

For the year ended 2 July 1999

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 2 July 1999.

Principal activities

The principal activity of the company was the manufacture, distribution and rental of mobility and healthcare products. On 30 March 1998, the company transferred its trade, assets and undertaking, other than those relating to the Parker Bath division of the company, to its immediate parent undertaking for a consideration equal to the book value of the assets transferred.

On 22 June 1998, the company transferred its remaining Parker Bath trade to a fellow subsidiary undertaking for a consideration equal to the book value of the assets transferred and the company ceased to trade.

Business review

The results for the year are as follows:

	1999	1998
	£000	£000
Turnover	-	65,572
Loss on ordinary activities before taxation	-	(2,269)

Dividend

A dividend of £10,805,000 was paid in the year *(1998: £Nil)*.

Directors

The directors who served during the year and afterwards were:

B Payne (resigned 31 March 2000)
P Riley
R Huggenberger *(appointed 22 March 2000)*

Directors' interests

Mr B Payne and Mr P Riley are directors of the immediate parent company, Sunrise Medical Limited, and their interests in the shares of group companies are set out in the accounts of that company.

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 4 April 2000 and signed on its behalf by:

P Riley
Secretary

High Street
Wollaston
Stourbridge
West Midlands
DY8 4PS

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 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 company 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 company and to prevent and detect fraud and other irregularities.

KPMG
2 Cornwall Street
Birmingham
B3 2DL

Report of the auditors to the members of Medequip Sub 1 Limited

We have audited the financial statements on pages 4 to 11.

Respective responsibilities of directors and auditors

As described on page 2, 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 2 July 1999 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

4 April 2000

Profit and loss account

for the year ended 2 July 1999

	Note	**1999** **£000**	1998 £000
Turnover	*2*	-	65,572
Cost of sales		-	(50,946)
Gross profit		-	14,626
Distribution costs		-	(7,220)
Administrative expenses		-	(6,481)
Amortisation of goodwill		-	(1,461)
Operating loss		-	(536)
Profit on disposal of tangible fixed assets		-	22
Interest receivable and similar income	*4*	-	19
Interest payable and similar charges	*5*	-	(1,774)
Loss on ordinary activities before taxation		-	(2,269)
Tax on loss on ordinary activities	*8*	-	1,341
Loss for the financial year		-	(928)
Dividends paid		**(10,805)**	-
Retained loss for the financial year		**(10,805)**	(928)
Retained profit brought forward		**12,278**	13,206
Retained profit carried forward		**1,473**	12,278

All of the above results relate to discontinued activities within the company, but continuing activities within its group.

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.

Balance sheet
at 2 July 1999

	Note	1999 £000	1998 £000
Current assets			
Debtors	9	**6,582**	17,387
Net assets		**6,582**	17,387
Capital and reserves			
Called up share capital	10	**197**	197
Share premium		**4,912**	4,912
Profit and loss account		**1,473**	12,278
Equity shareholders' funds	11	**6,582**	17,387

These financial statements were approved by the board of directors on 4 April 2000 and signed on its behalf by:

P Riley
Director

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.

The company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

No cash flow statement has been presented as the company is a wholly owned subsidiary of Sunrise Medical Limited whose consolidated financial statements include a consolidated cash flow statement dealing with the cash flows of the group.

Depreciation

Depreciation was 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 were in force:

Freehold buildings	2½%
Leasehold land and buildings	Over the lease term
Plant and machinery	15-33%
Office equipment	20-33%
Fixtures and fittings	15%
Motor vehicles	25%
Tooling	20-33%
Equipment for rental	10-50%

Freehold land is not depreciated.

The asset lives of certain medical equipment held for rental were reassessed during the previous year in the light of actual experience as explained in note 6 to the accounts.

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

2 Turnover

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

The analysis of turnover by geographical destination is as follows:

	1999	1998
	£000	£000
United Kingdom	-	37,020
Rest of Europe	-	23,631
Rest of World	-	4,921
	-	65,572

3 Staff numbers and costs

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

	Number of employees	
	1999	1998
Management and administration	-	273
Production	-	642
	-	915

Notes *(continued)*

3 Staff numbers and costs *(continued)*

The aggregate payroll costs of these employees were as follows:

	1999 £000	1998 £000
Wages and salaries	-	14,853
Social security costs	-	1,336
Other pension costs (note 13)	-	108
	-	16,297

4 Interest receivable and similar income

	1999 £000	1998 £000
Bank interest receivable	-	19

5 Interest payable and similar charges

	1999 £000	1998 £000
On bank loans and overdrafts	-	5
On loans from parent company and fellow subsidiaries	-	1,403
Other interest payable	-	366
	-	1,774

6 Operating loss

	1999 £000	1998 £000
Operating loss is stated		
after charging/(crediting)		
Auditors' remuneration and expenses		
Audit fees	-	57
Other	-	62
Depreciation of tangible fixed assets:		
Owned	-	2,058
Leased	-	36
Release of backlog depreciation (see below)	-	(1,245)
Operating leases:		
Plant and machinery	-	773
Land and buildings	-	326
Research and development expenditure	-	1,774
Exchange differences	-	41
Rents receivable	-	(1,857)

Notes *(continued)*

6 Operating loss *(continued)*

During the preceding financial year, the asset lives of certain medical equipment held for rental were reassessed in the light of actual experience in recent years. Such assets are now being written off over 10 years, rather than over 3 to 5 years. The backlog depreciation as a result of this reassessment previously charged on such assets still in use was credited to the profit and loss account in the preceding financial year and is being charged to the profit and loss account over the remaining useful lives of the assets concerned.

7 Directors' emoluments

	1999	1998
	£000	£000
Emoluments	-	393
Company contributions to money purchase pension schemes	-	9
	-	402
	Number	Number
Number of directors who are:		
Members of money purchase pension schemes	-	4
	£000	£000
Highest paid director:		
Total emoluments excluding pension contributions	-	118

8 Taxation on loss on ordinary activities

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

	1999	1998
	£000	£000
Deferred taxation	-	(1,252)
Adjustments in respect of prior periods:		
Corporation tax	-	14
Deferred taxation	-	(103)
	-	(1,341)

9 Debtors

	1999	1998
	£000	£000
Amounts owed by parent company and fellow subsidiary undertakings	**6,582**	17,387

Notes *(continued)*

10 Share capital

	1999 £000	1998 £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 ordinary shares of £1 each	**147**	147
50,000 deferred shares of £1 each	**50**	50
	197	197

11 Reconciliation of movements in shareholders' funds

	1999 £000	1998 £000
Loss for the financial year	-	(928)
Dividends paid	**(10,805)**	-
Net decrease in shareholders' funds	**(10,805)**	(928)
Equity shareholders' funds at beginning of year	**17,387**	18,315
Equity shareholders' funds at end of year	**6,582**	17,387

12 Contingencies

The company, together with certain other UK group companies, has entered into cross guarantees with Barclays Bank PLC in respect of the borrowings of the group companies concerned.

13 Pension fund

The company operated a defined contribution pension scheme. The total pension costs charged to the profit and loss account for the year amounted to £Nil *(1998: £108,000)*. The amount accrued at the end of the year was £Nil *(1998: £Nil)*.

The group operates a small defined benefit pension scheme for certain employees, providing benefits based on pensionable pay. The assets of the scheme are held separately from the group, being invested with insurance companies. Contributions to the scheme were 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. Further details are given in the accounts of the parent company.

Notes *(continued)*

14 Ultimate parent company

The company's ultimate parent company is Sunrise Medical Inc., a company incorporated in the United States of America, and its intermediate parent company is Sunrise Medical Limited, a company registered in England and Wales.

These financial statements have been consolidated in the financial statements of Sunrise Medical Limited, a company registered in England and Wales, and in the financial statements of Sunrise Medical Inc., a company incorporated in the United States of America. Copies of these financial statements may be obtained from: High Street, Wollaston, Stourbridge, West Midlands DY8 4PS.

15 Related party transactions

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