

Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activities

The principal activities of the company are the distribution of implants and instrument systems for fracture treatment and reconstructive orthopaedic surgery and the provision of services to the medical and veterinary professions, based upon a firm and continuing commitment to postgraduate education.

Business review

The directors are pleased with the result for 1997, although the strength of sterling continued to be a significant contributory factor. Underlying trading conditions have toughened significantly and this, together with the planned transfer of a major distributorship back to its principal, has affected the revenue result.

1998 is expected to be similarly challenging and the directors expect modest growth over the year.

Proposed dividend

The directors have proposed the payment of a final dividend for the year of £750,000 (1996: £500,000) making, with the interim dividend of £2,000,000 (1996: £700,000), a total of £2,750,000 for the year (1996: £1,200,000).

Directors and directors' interests

The directors who held office during the year were as follows:

R Maag
JL Pinsent
AJ Gibson
CD Hunt

None of the directors had any beneficial interest in the shares of the company at the beginning or end of the year.

The interests of R Maag in the ultimate parent undertaking are disclosed in the directors' report of that company.

Directors' report *(continued)*

Directors and directors' interests *(continued)*

As set out in the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Political and charitable contributions

Donations to UK charities amounted to £9,120 (1996: £13,937).

Liability insurance

During the year the company maintained liability insurance for its directors against claims and liabilities arising in the performance of their duties.

By order of the board

A handwritten signature in black ink, appearing to be 'R Maag', written over a horizontal line.

R Maag
Director

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.



Aquis Court
31 Fishpool Street
St Albans
Hertfordshire, AL3 4RF

Report of the auditors to the members of STRATEC Medical Limited

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of directors and auditors

As described on page 3 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 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG 2 February 1998

KPMG
Chartered Accountants
Registered Auditors

Profit and loss account

for the year ended 31 December 1997

	<i>Note</i>	1997 £000	1996 £000
Turnover	2	19,503	21,799
Cost of sales		(12,295)	(16,101)
Gross profit		7,208	5,698
Distribution costs		(234)	(261)
Administration expenses		(3,733)	(3,716)
Other operating income	3	824	-
Operating profit		4,065	1,721
Other interest receivable and similar income	4	25	20
Interest payable and similar charges	5	(16)	(19)
Profit on ordinary activities before taxation		4,074	1,722
Tax on profit on ordinary activities	7	(1,292)	(550)
Profit on ordinary activities after taxation		2,782	1,172
Dividends - proposed		(750)	(500)
- paid		(2,000)	(700)
Retained profit/(loss) for the financial year		32	(28)
Retained profit brought forward		2,163	2,191
Retained profit carried forward		2,195	2,163

STRATEC Medical Limited has no recognised gains or losses in the year (1996: none) other than those passing through the profit and loss account.

The figures for the current and prior year represent amounts relating to continuing operations only.

Balance sheet
at 31 December 1997

	Note	1997 £000	1996 £000
Fixed assets			
Tangible assets	8	1,063	1,102
Current assets			
Stocks	9	1,951	2,248
Debtors	10	3,197	3,795
Cash at bank and in hand		194	373
		<u>5,342</u>	<u>6,416</u>
Creditors: amounts falling due within one year	11	(4,073)	(5,168)
		<u>1,269</u>	<u>1,248</u>
Net current assets			
		<u>1,269</u>	<u>1,248</u>
Total assets less current liabilities		<u>2,332</u>	<u>2,350</u>
Creditors: amounts falling due after more than one year	12	(117)	(167)
		<u>2,215</u>	<u>2,183</u>
Net assets			
		<u>2,215</u>	<u>2,183</u>
Capital and reserves			
Called up share capital	13	20	20
Profit and loss account		2,195	2,163
		<u>2,215</u>	<u>2,183</u>
Equity shareholders' funds		<u>2,215</u>	<u>2,183</u>

These financial statements were approved by the board of directors on 22.2.98
behalf by:

and were signed on its


R Maag
Director


CD Hunt
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Cash flow statement

Under the provisions of Financial Reporting Standard No.1 (Revised), the company has not prepared a cash flow statement because its parent company STRATEC Holding AG has prepared consolidated financial statements which include the results of the company for the year and which contain a consolidated cash flow statement.

Related party transactions

As the company is a wholly owned subsidiary of STRATEC Holding AG the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	2% per annum
Computers	-	33 1/3% per annum
Furniture, fixtures and office equipment	-	20% per annum
Motor vehicles	-	25 % per annum

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract.

Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Notes (continued)

Accounting policies (continued)

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. Contributions payable to the defined contribution scheme are taken to the profit and loss account as they become payable. As explained in note 17 the old defined benefit scheme was closed on 1 February 1995.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing the stocks to their present location and condition.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2 Turnover

Turnover represents the invoiced value of goods sold (excluding VAT) less discounts allowed. All of the company's turnover arose from activity in the British Isles.

Turnover is attributable to one class of business, being the distribution of implants and instrument systems for fracture treatment and reconstructive orthopaedic surgery and the provision of services to the medical and veterinary professions.

3 Other operating income

During the year the company terminated an agreement with a supplier which resulted in a payment by the supplier generating income of £824,000.

4 Other interest receivable and similar income

	1997 £000	1996 £000
Interest receivable	25	20

Notes (continued)

5 Interest payable and similar charges

	1997 £000	1996 £000
On bank loans and overdrafts	16	19
	<u>16</u>	<u>19</u>

6 Profit on ordinary activities before taxation

	1997 £000	1996 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration - audit	26	26
- non -audit	16	16
Directors' remuneration (note 15)	286	276
Depreciation (note 8)	71	78
Operating lease rentals - motor vehicles	157	177
(Profit)/loss on sale of fixed assets	(11)	1
Foreign exchange losses/(gains)	110	(681)
	<u>110</u>	<u>(681)</u>

7 Taxation

	1997 £000	1996 £000
UK corporation tax at 31.5% (1996: 33%)	1,250	550
Overseas tax	42	-
	<u>1,292</u>	<u>550</u>

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings	Computers	Furniture, fixtures and office equipment	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	1,150	437	462	64	2,113
Additions	-	2	11	20	33
Disposals	-	-	-	34	34
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,150	439	473	50	2,112
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At beginning of year	136	413	414	48	1,011
Charged in year	18	15	27	11	71
On disposals	-	-	-	33	33
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	154	428	441	26	1,049
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 1997	996	11	32	24	1,063
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	1,014	24	48	16	1,102
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Land and buildings includes land of £250,000 (1996:£250,000) on which no depreciation has been charged.

9 Stocks

	1997 £000	1996 £000
Finished goods and goods for resale	1,951	2,248
	<hr/>	<hr/>

Notes (continued)

10 Debtors

	1997		1996	
	Due within one year £000	Due after one year £000	Due within one year £000	Due after one year £000
Trade debtors	2,836	-	3,559	-
Other debtors	43	-	12	-
Prepayments and accrued income	130	-	99	-
Advance corporation tax	-	188	-	125
	<u>3,009</u>	<u>188</u>	<u>3,670</u>	<u>125</u>

11 Creditors: amounts falling due within one year

	1997 £000	1996 £000
Bank loans	50	50
Trade creditors	62	987
Amount owed to group undertakings	1,500	2,554
Other creditors including taxation and social security:		
Mainstream corporation tax	667	317
Advance corporation tax	368	287
Other taxation and social security	356	294
Proposed dividend	750	500
Accruals and deferred income	320	179
	<u>4,073</u>	<u>5,168</u>

At 31 December 1996 accruals and deferred income includes contributions payable to the company's pension scheme amounting to £11,000.

There were no contributions outstanding at 31 December 1997.

Notes (continued)

12 Creditors: amounts falling due after more than one year

	1997 £000	1996 £000
Bank loan	117	167

The rate of interest payable on the bank loan is 1.5% above base rates. The bank loan is secured by a mortgage over the company's freehold property, and is repayable by instalments over a period of 8 years. No instalments fall due after more than 5 years at the end of the current or prior period.

Analysis of debt:

	1997 £000	1996 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	50	50
Between one and two years	50	50
Between two and five years	67	117
	<u>167</u>	<u>217</u>

13 Called up share capital

	1997 £000	1996 £000
<i>Authorised, allotted, called up and fully paid</i>		
Equity: ordinary shares of £1 each	20	20

14 Reconciliation of movements in shareholders' funds

	1997 £000	1996 £000
Profit on ordinary activities after taxation	2,782	1,172
Dividends	(2,750)	(1,200)
Net increase/(reduction) in shareholders' funds	32	(28)
Opening shareholders' funds	2,183	2,211
Closing shareholders' funds	<u>2,215</u>	<u>2,183</u>

Notes (continued)

15 Remuneration of directors

	1997 £000	1996 £000
Directors' emoluments	228	213
Company contributions to money purchase pension schemes	58	63
	<u>286</u>	<u>276</u>

The emoluments of the highest paid director were £86,481 (1996: £75,810), and company pension contributions of £12,919 (1996: £9,088) were made to a money purchase scheme on his behalf.

	Number of directors	
	1997	1996
Retirement benefits are accruing to the following number of directors under money purchase schemes	4	4
	<u>4</u>	<u>4</u>

16 Staff numbers and costs

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

	Number of employees	
	1997	1996
Administration	6	6
Selling and distribution	55	55
	<u>61</u>	<u>61</u>

The aggregate payroll costs of these persons were as follows:

	1997 £000	1996 £000
Wages and salaries	1,627	1,576
Social security costs	160	174
Other pension costs (see note 17)	221	208
	<u>2,008</u>	<u>1,958</u>

Notes (continued)

17 Pensions

The pension cost charge for the year represents contributions payable by the company to the defined contribution scheme and amounts to £221,000 (1996: £208,000). There were no contributions outstanding at the end of the financial year (1996: £11,000).

Due to the defined benefits scheme's closure on 1 February 1995, and the remaining surplus identified at the most recent actuarial valuation, no charge has been made in the profit and loss account for the year ended 31 December 1997. The directors consider that any such charge calculated in accordance with Statement of Standard Accounting Practice 24 would not be material.

18 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	1997 £000	1996 £000
Operating leases for motor vehicles which expire:		
Within one year	22	40
In the second to fifth years inclusive	113	58
	<u>135</u>	<u>98</u>

19 Deferred tax

Potential future tax assets have not been recognised on the following timing differences:

	1997 £000	1996 £000
Difference between accumulated depreciation and capital allowances	43	-
Other timing differences	-	4
	<u>43</u>	<u>4</u>

20 Ultimate parent company and parent undertaking of larger group of which the company is a member

The largest and smallest group in which the results of the company are consolidated is that headed by STRATEC Holding AG, incorporated in Switzerland. Copies of the group accounts are available to the public and may be obtained from the parent companies' registered office, at STRATEC Holding AG, CH44 36, Oberdorf, Switzerland.

The directors regard STRATEC Holding AG as being the ultimate parent company.