

Synthes Limited

Report and Financial Statements

31 December 2011

WEDNESDAY



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COMPANIES HOUSE

Directors

H Schaub
K Tagwerker

Secretary

Jordan Company Secretaries Limited

Auditors

Einst & Young LLP
400 Capability Green
Luton
Beds LU1 3LU

Bankers

Deutsch Bank AG
1 Great Winchester Street
London EC2N 2DB

Registered Office

20 Fewin Road
Welwyn Garden City
Herts AL7 1LG

Registered No 1231893

Directors' report

The directors present their report and financial statements for the year ended 31 December 2011

Results and dividends

The profit for the year after taxation amounted to £2,288,000 (2010 £5,349,000) The directors do not recommend a final dividend (2010 £17m)

Principal activities and review of the business

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

The key financial and other performance indicators during the year were as follows

	2011 £000	2010 £000	Change %
Turnover	69,503	70,580	-1.5
Total operating Profit	3,294	7,700	-57.2
Profit after tax	2,288	5,349	-57.2
Shareholders' funds	28,482	26,194	+8.7
Average number of employees	187	181	+3.3

The directors are satisfied with the performance and development of the company

Turnover decreased by 1.5% in 2011 with all business units performing well within the challenging market place. The introduction of the Anspach business made a solid contribution during the second half of the year.

Continuous reforms focused on cost reduction in the health care sector made for an extremely competitive year, however we were able to capitalise on many opportunities due to our focused sales force and continued support to our customer base.

Total operating profit fell by 57.2% during 2011, this is in line with expectations, following material price increases and increased costs from depreciation and amortisation after significant investments into the marketplace.

Future developments

The directors continue to pursue the management policies that have resulted in the company's continued growth. New product development continues to improve our offering to our customers, together with focused sales force expansion enabling the high service levels will secure the growth for 2012.

Post Balance Sheet Events

On 14th June 2012 Synthes parent company, Synthes Holding AG was acquired by the Johnson & Johnson group of companies. DePuy and Synthes have officially joined to create DePuy Synthes Companies of Johnson & Johnson. Following this acquisition, the DePuy Synthes Companies will become the world's largest, most innovative and comprehensive orthopaedic and neurological business.

Directors' report (continued)

Principal risks and uncertainties

The management team meets regularly to assess potential risks and uncertainties that could affect business performance. Following such assessments, strategies are modified accordingly to maximise business potential.

Competitive risks

As market leaders we are under constant threat from the competition who wish to gain market share from our organisation. Tactics typically employed by competitors include deeply discounted pricing to attract customers seeking financial savings.

Economic risk

Our primary customer is the government funded NHS, which under the current austerity measures is looking to cut costs and divert expenditure into other areas. Tendering is a common method used to target lower pricing levels for medical technologies.

Financial risk

Sufficient controls are in place with regards to debt collection. There is no currency risk locally as all products are purchased and sold in GBP.

Human resources management

In order to continue to deliver first class service, support and education we continue to invest in quality skilled personnel with a dedicated sales force serving the marketplace. We do not envisage any issues in 2012 in meeting this objective.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Directors' Report.

The company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The directors, having assessed the responses of the directors of the company's parent Synthes GmbH to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Synthes group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Synthes GmbH, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The directors who served the company during the year were as follows:

H Schaub
K Tagwerker

Political and charitable contributions

During the year the company made donations to UK charities that amounted to £Nil (2010 – £2,500).


Directors' report (continued)

Disclosure of information to the auditors


So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the Board

Director


Konrad Tagwerker
Synthes GmbH
VP Sales EMEA

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Helene Schaub, LL.M, MAES
Head Legal Department

3/9/12

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

Independent auditors' report

to the members of Synthes Limited

We have audited the financial statements of Synthes Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 16. 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).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APBs) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report (continued)

to the members of Synthes Limited

Matters on which we are required to report by exception

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

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



Juliet Thomas (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Luton

4 September 2012

Profit and loss account

for the year ended 31 December 2011

	<i>Notes</i>	<i>Continuing activities</i>		<i>Total 2011 £000</i>	<i>Total 2010 £000</i>
		<i>Ongoing</i>	<i>Acquisitions</i>		
		<i>2011 £000</i>	<i>2011 £000</i>		
Turnover	2	67,573	1,930	69,503	70,580
Cost of sales		(49,953)	(1,409)	(51,362)	(48,124)
Gross Profit		17,620	521	18,141	22,456
Distribution costs		(881)	(25)	(906)	(891)
Administrative expenses		(13,450)	(491)	(13,941)	(13,865)
Operating Profit	3	3,289	5	3,294	7,700
Profit on ordinary activities before taxation				3,294	7,700
Tax	6			(1,006)	(2,351)
Profit for the financial year	12			2,288	5,349

Statement of total recognised gains and losses

for the year ended 31 December 2011

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £2,288,000 in the year ended 31 December 2011 (2010 – profit of £5,349,000)

Balance sheet

at 31 December 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Intangible assets	7	2,223	–
Tangible assets	8	10,920	9,344
		13,143	9,344
Current assets			
Stocks	9	8,298	9,049
Debtors – amounts falling due after one year		2,329	2,420
– amounts falling due within one year		12,122	11,643
	10	14,451	14,063
Cash at bank and in hand		4,412	4,977
		27,161	28,089
Creditors amounts falling due within one year	11	(11,822)	(11,239)
Net current Assets		15,339	16,850
Total assets less current liabilities		28,482	26,194
Capital and reserves			
Called up share capital	12	20	20
Profit and loss account	13	28,462	26,174
Shareholders' funds	13	28,482	26,194

Director

Konrad Tagwerker
Synthes GmbH
VP Sales EMEA

Helene Schaub, LL.M, MAES
Head Legal Department

3/9/12

Notes to the financial statements

at 31 December 2011

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

Statement of cash flows

Under the provisions of FRS 1 (Revised 1996), the company is exempt from the requirement to prepare a statement of cash flows on the grounds that its ultimate parent undertaking, Synthes Inc, has prepared publicly available group financial statements which include the undertaking company

Goodwill and intangible fixed assets

Positive goodwill arising on acquisitions is capitalised as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following its acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets are amortised on a straight line basis over their useful economic lives. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value might not be recoverable

Amortisation is charged on each asset evenly over its expected useful life, as follows

Goodwill	–	12.5% straight line per annum
Benefit of contract	–	50% straight line per annum
Non compete agreement	–	50% straight line per annum

Tangible fixed assets

All fixed assets are initially recorded at cost

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows

Freehold buildings	–	2.5% straight line per annum
Computers	–	33.33% straight line per annum
Furniture, fixtures and office equipment	–	12.5% straight line per annum
Loan sets	–	33.33% straight line per annum

No depreciation is provided on freehold land

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable

Notes to the financial statements

at 31 December 2011

1. Accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Interest income

Revenue is recognised as interest accrues during the year.

Stocks

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

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Operating lease commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Notes to the financial statements

at 31 December 2011

1. Accounting policies (continued)

Pensions

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 are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Notes to the financial statements

at 31 December 2011

2. Turnover

Turnover represents the amounts derived from the provision of goods which fall within the company's ordinary activities, stated net of value added tax

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

Turnover both by source and destination arose from activity in the United Kingdom

	2011 £000	2010 £000
United Kingdom	69,503	69,628
Eire	–	952
	<u>69,503</u>	<u>70,580</u>

3. Operating Profit

This is stated after charging/(crediting)

	2011 £000	2010 £000
Auditors' remuneration	42	36
Amortisation of intangible fixed assets	265	–
Depreciation of owned fixed assets	6,147	6,019
Operating lease rentals – land and buildings	91	91
– vehicles	4	4
	<u>4</u>	<u>4</u>

4. Directors' remuneration

No remuneration was paid to directors in 2011 (2010 – £nil) as all directors were remunerated through other group companies and did not receive any remuneration in respect of their services to the company
No directors were members of money purchase pension schemes (2010 – £nil)

5 Staff costs

	2011 £000	2010 £000
Wages and salaries	7,894	7,738
Social security costs	1,085	1,216
Other pension costs	532	476
	<u>9,511</u>	<u>9,430</u>

The average monthly number of employees during the year was made up as follows

	No	No
Administration	12	11
Selling and distribution	175	170
	<u>187</u>	<u>181</u>

Notes to the financial statements

at 31 December 2011

6. Tax

(a) Tax on profit on ordinary activities

The tax (credit)/charge is made up as follows

	2011 £000	2010 £000
Current tax		
UK corporation tax on the profit for the year	1,237	2,814
Adjustments in respect of prior year	(322)	(181)
Total current tax (note 6(b))	915	2,633
Deferred tax.		
Origination and reversal of timing differences	(351)	(282)
Adjustment in respect of prior year	263	–
Effect of changes in tax rates	179	–
Total deferred tax	91	(282)
Tax on profit on ordinary activities	1,006	2,351

(b) Factors affecting tax (credit)/charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26.5% (2010 – 28.0%). The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	3,294	7,700
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 – 28.0%)	872	2,156
Effects of		
Expenses not deductible for tax purposes	13	59
Depreciation in excess of capital allowances	326	329
Adjustments in respect of prior year	(322)	(181)
Other timing differences	26	270
Current tax for the year (note 6(a))	915	2,633

Factors affecting current and future tax charges

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 26.5%

During the year, the relevant deferred tax balances have been re-measured as a result of the change in the UK main corporation tax rate to 26%, which was substantively enacted on 29 March 2011 and will be effective from 1 April 2011, and to 25%, which was substantively enacted on 5 July 2011 and will be effective from 1 April 2012

Notes to the financial statements

at 31 December 2011

6. Tax (continued)

A number of changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24% from 1 April 2012. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012. A further reduction to the main rate is also proposed to reduce the rate to 22% from 1 April 2014. None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

(c) Deferred tax

The deferred tax asset recognised in the financial statements is as follows

	2011 £000	2010 £000
Depreciation in excess of capital allowances	2,292	2,147
Other Short term timing differences	37	273
As at 31 December (note 10)	<u>2,329</u>	<u>2,420</u>

The movement on deferred tax asset is as follows

	£000
At 1 January 2011	2,420
Charge to the profit and loss account	(172)
Adjustment in respect to prior year	263
As at 31 December 2011	<u>2,329</u>

Notes to the financial statements

at 31 December 2011

7. Intangible fixed assets

	<i>Goodwill</i> £000	<i>Non compete agreement</i> £000	<i>Benefits of contracts</i> £000	<i>Total</i> £000
Cost				
At 1 January 2011	–	–	–	–
Additions	1,906	194	388	2,488
At 31 December 2011	1,906	194	388	2,488
Amortisation				
At 1 January 2011	–	–	–	–
Charged in the year	(95)	(57)	(113)	(265)
At 31 December 2011	(95)	(57)	(113)	(265)
Net book value				
At 31 December 2011	1,811	137	275	2,223
At 1 January 2011	–	–	–	–

On 1 June 2011, the Company acquired the rights to distribute Anspach products in the United Kingdom from Forth Medical Limited for a total consideration of £3,265,000

The benefit of contracts was valued by independent valuers, Duff & Phelps. The non compete agreement was valued at the amount paid.

Net assets acquired

	Book and fair value £000
Non compete agreement	194
Benefit of contracts	388
Tangible fixed assets	616
Stock	161
Net assets	1,359
Goodwill arising on acquisition	1,906
	3,265
Discharged by	
Cash consideration	1,971
Deferred consideration	1,294
	3,265

Notes to the financial statements

at 31 December 2011

8. Tangible fixed assets

	<i>Freehold land and buildings £000</i>	<i>Computer equipment £000</i>	<i>Furniture, fixtures and office equipment £000</i>	<i>Loan sets £000</i>	<i>Total £000</i>
Cost					
At 1 January 2011	1,388	387	691	45,998	48,464
Additions	–	15	21	7,759	7,795
Disposals	–	(8)	(7)	(877)	(892)
At 31 December 2011	1,388	394	705	52,880	55,367
Depreciation					
At 1 January 2011	611	331	527	37,651	39,120
Charged in the year	30	41	46	6,030	6,147
Disposals	–	(7)	(3)	(810)	(820)
At 31 December 2011	641	365	570	42,871	44,447
Net book value					
At 31 December 2011	747	29	135	10,009	10,920
At 1 January 2011	777	57	164	8,347	9,344

The gross book value of freehold land and buildings includes £1,138,000 (2010 – £1,138,000) of depreciable assets. The loan set additions have been transferred from stock.

9. Stocks

	<i>2011 £000</i>	<i>2010 £000</i>
Finished goods and goods for resale	8,298	9,049

Included in finished goods and goods for resale is stock valued at £2,566,739 (2010 – £3,529,271) held on consignment at hospital premises. Synthes Limited retains legal title of these goods until sold.

Notes to the financial statements

at 31 December 2011

10. Debtors

	2011 £000	2010 £000
Trade debtors	11,537	11,181
Amounts owed by group undertakings	171	–
Other debtors	21	40
Corporation tax	97	–
Deferred tax (note 6(c))	2,329	2,420
Prepayments and accrued income	296	422
	<u>14,451</u>	<u>14,063</u>

Amounts falling due after more than one year included above are

	2011 £000	2010 £000
Deferred tax (note 6(c))	<u>2,329</u>	<u>2,420</u>

11. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	130	129
Amounts owed to group undertakings	5,969	5,114
Corporation tax	–	1,778
Other taxation and social security costs	2,629	2,408
Accruals and deferred income	3,094	1,810
	<u>11,822</u>	<u>11,239</u>

12. Issued share capital

<i>Allotted, called up and fully paid</i>	<i>No</i>	2011 £000	<i>No</i>	2010 £000
Ordinary shares of £1 each	20,000	<u>20</u>	20,000	<u>20</u>

Notes to the financial statements

at 31 December 2011

13. Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total share- holders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2010	20	37,825	37,845
Profit for the year	–	5,349	5,349
Dividends	–	(17,000)	(17,000)
At 1 January 2011	20	26,174	26,194
Profit for the year	–	2,288	2,288
At 31 December 2011	20	28,462	28,482 ¹

14. Other financial commitments

At 31 December 2011 the company had annual commitments under non-cancellable operating leases as set out below

	<i>2011</i>		<i>2010</i>	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire				
In one to two years	91	–	–	–
In two to five years	–	–	91	4

15. Related party transactions

As the company is a wholly owned subsidiary of Synthes Inc 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. The group financial statements of Synthes Inc, within which this company is included, can be obtained from the address given in note 16.

16. Ultimate parent undertaking and controlling party

The smallest and largest group in which the results of the company are group is that headed by Synthes Inc, incorporated in Delaware, USA. The directors of the company regard Synthes Inc as being the ultimate parent undertaking and controlling party. The group financial statements of these groups are available to the public and may be obtained from CH44 36, Oberdorf, Switzerland.