

STRATEC Medical Limited

**Directors' report and financial
statements**

Registered number 1231893

31 December 1999



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

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 1999 result. During 2000 further growth is anticipated, although the impact of competitive pressures and NHS cost saving initiatives is expected to intensify.

Proposed dividend

The directors recommend that final ordinary dividends of £1,500,000 be paid (1998: £1,500,000). An interim dividend of £1,500,000 (1998: £1,000,000), was paid during the year.

Directors and directors' interests

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

R Maag
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.

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

The company made no political contributions during the year. Donations to UK charities amounted to £155 (1998: £11,164).

Directors' Report *(continued)*

Year 2000 compliance

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and required modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there was failure by other parties to remedy their own Year 2000 issues.

The company assessed the risk to the business of the date change and developed action plans to deal with the key risks.

Liability insurance

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

Auditors

In accordance with Section 384 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.

By order of the board



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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG 11 February 2000

KPMG
Chartered Accountants
Registered Auditors

Profit and loss account
for the year ended 31 December 1999

	<i>Note</i>	1999 £000	1998 £000
Turnover	2	23,898	21,157
Cost of sales		(13,927)	(12,992)
Gross profit		9,971	8,165
Distribution costs		(284)	(266)
Administration expenses		(5,177)	(4,354)
Operating profit		4,510	3,545
Other interest receivable and similar income	3	25	29
Interest payable and similar charges	4	-	(14)
Profit on ordinary activities before taxation	5	4,535	3,560
Tax on profit on ordinary activities	6	(1,390)	(1,125)
Profit on ordinary activities after taxation		3,145	2,435
Dividends - proposed		(1,500)	(1,500)
- paid		(1,500)	(1,000)
Retained profit/(loss) for the financial year		145	(65)
Retained profit brought forward		2,130	2,195
Retained profit carried forward		2,275	2,130

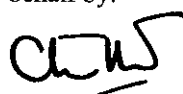
STRATEC Medical Limited has no recognised gains or losses in the current or preceding year other than those passing through the profit and loss account.

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

Balance sheet
at 31 December 1999

	Note	1999 £000	1998 £000
Fixed assets			
Tangible assets	7	1,181	1,062
Current assets			
Stocks	8	3,186	2,750
Debtors	9	4,736	4,169
Cash at bank and in hand		705	362
		<u>8,627</u>	<u>7,281</u>
Creditors: amounts falling due within one year	10	<u>(7,513)</u>	<u>(6,193)</u>
Net current assets		<u>1,114</u>	<u>1,088</u>
Net assets		<u>2,295</u>	<u>2,150</u>
Capital and reserves			
Called up share capital	11	20	20
Profit and loss account		<u>2,275</u>	<u>2,130</u>
Equity shareholders' funds	12	<u>2,295</u>	<u>2,150</u>

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



CD Hunt
Director

11/2/00

and were signed on its

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 1996), the company is exempt from the requirement to prepare a cash flow statement on the grounds that 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. The consolidated financial statements of STRATEC Holding AG, within which this company is included, can be obtained from the address given in note 18.

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 $\frac{1}{3}$ % 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. The old defined benefit scheme was closed on 1 February 1995.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

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.

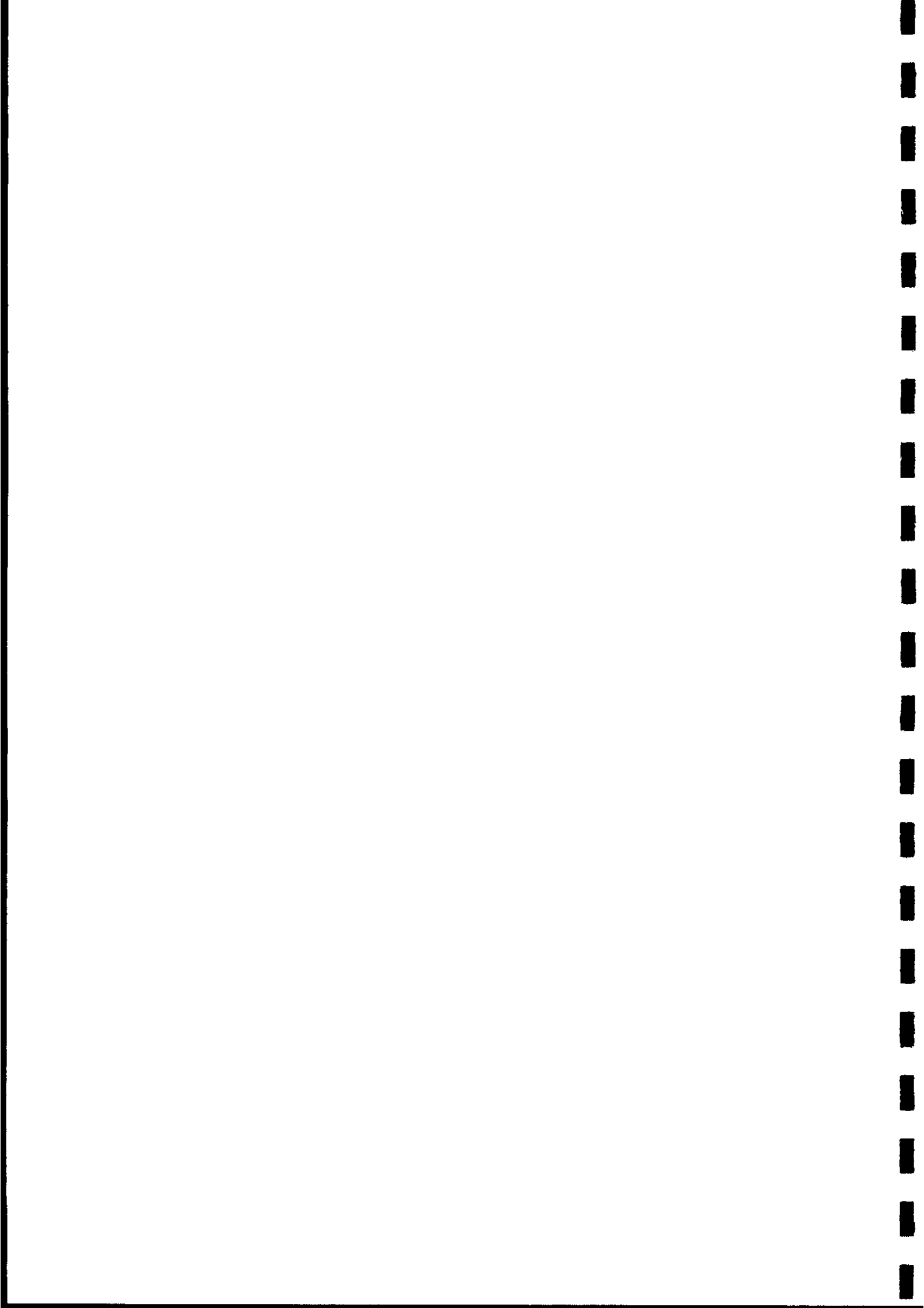
2 Turnover

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 interest receivable and similar income

	1999 £000	1998 £000
Interest receivable	25	29



Notes (continued)

4 Interest payable and similar charges

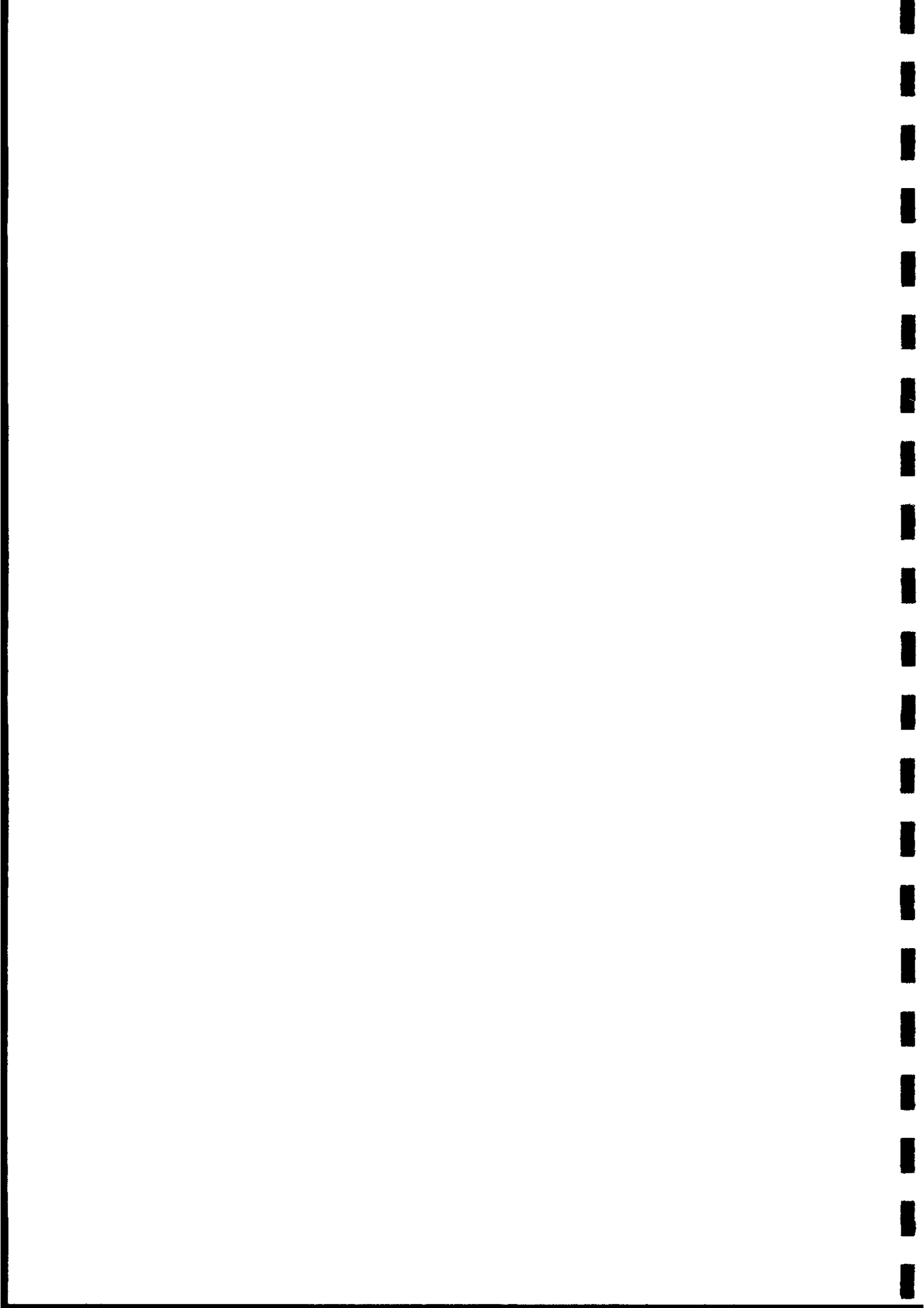
	1999 £000	1998 £000
On bank loans and overdrafts	-	14

5 Profit on ordinary activities before taxation

	1999 £000	1998 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration - audit KPMG	27	26
- audit PricewaterhouseCoopers	-	10
- non-audit	5	27
Directors' remuneration (note 13)	260	381
Depreciation (note 7)	127	75
Operating lease rentals - motor vehicles	218	173
(Profit)/Loss on sale of fixed assets	(10)	7
Foreign exchange (gains)/losses	(544)	(25)

6 Taxation

	1999 £000	1998 £000
UK corporation tax at 30.25% (1998: 31%)	1,390	1,125
	1,390	1,125



Notes (continued)

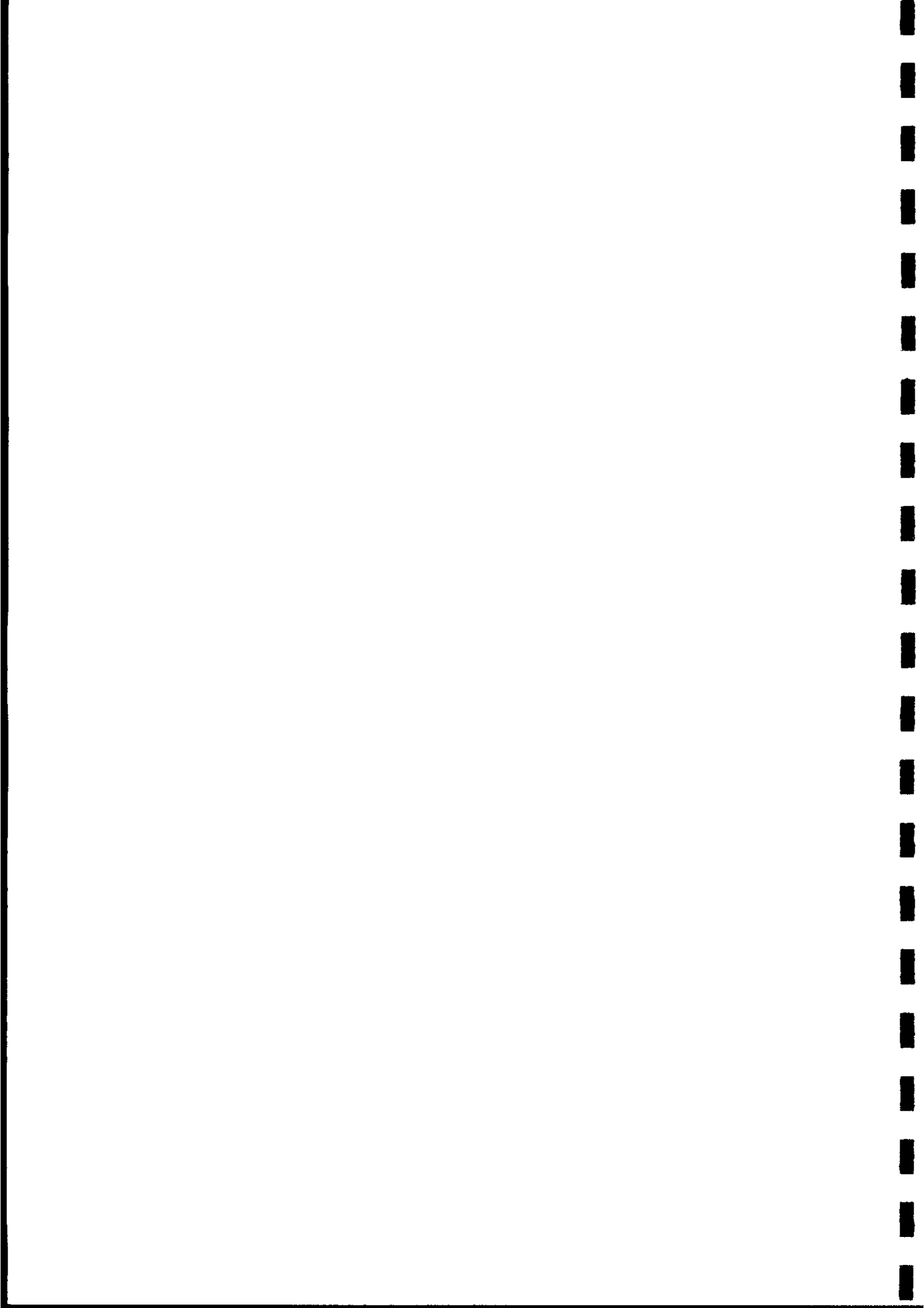
7 Tangible fixed assets

	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	499	505	20	2,174
Additions	-	193	50	3	246
Disposals	-	(439)	(42)	(10)	(491)
At end of year	1,150	253	513	13	1,929
Depreciation					
At beginning of year	172	458	462	20	1,112
Charged in year	18	85	24	-	127
On disposals	-	(439)	(42)	(10)	(491)
At end of year	190	104	444	10	748
Net book value					
At 31 December 1999	960	149	69	3	1,181
At 31 December 1998	978	41	43	-	1,062

The gross book value of freehold land and buildings includes £899,365 (1998: £899,365) of depreciable assets.

8 Stocks

	1999 £000	1998 £000
Finished goods and goods for resale	3,186	2,750



Notes (continued)

9 Debtors

	1999		1998	
	Due within one year £000	Due after one year £000	Due within one year £000	Due after one year £000
Trade debtors	4,599	-	3,643	-
Other debtors	6	-	14	-
Prepayments and accrued income	131	-	137	-
Advance corporation tax	-	-	-	375
	<u>4,736</u>	<u>-</u>	<u>3,794</u>	<u>375</u>

10 Creditors: amounts falling due within one year

	1999 £000	1998 £000
Trade creditors	18	223
Amount owed to group undertakings	4,596	2,386
Other creditors including taxation and social security:		
Mainstream corporation tax	347	688
Advance corporation tax	-	692
Other taxation and social security	598	387
Proposed dividend	1,500	1,500
Accruals and deferred income	454	317
	<u>7,513</u>	<u>6,193</u>

11 Called up share capital

	1999 £000	1998 £000
<i>Authorised, allotted, called up and fully paid</i>		
Equity: ordinary shares of £1 each	<u>20</u>	<u>20</u>

Notes *(continued)*

12 Reconciliation of movements in shareholders' funds

	1999 £000	1998 £000
Profit on ordinary activities after taxation	3,145	2,435
Dividends	(3,000)	(2,500)
Net addition/(reduction) to shareholders' funds	<u>145</u>	<u>(65)</u>
Opening shareholders' funds	2,150	2,215
Closing shareholders' funds	<u><u>2,295</u></u>	<u><u>2,150</u></u>

13 Remuneration of directors

	1999 £000	1998 £000
Directors' emoluments	208	223
Company contributions to money purchase pension schemes	<u>52</u>	<u>158</u>

The emoluments of the highest paid director were £99,981 (1998: £ 95,282), and company pension contributions of £14,219 (1998: £13,118) were made to a money purchase scheme on his behalf.

	Number of directors	
	1999	1998
Retirement benefits are accruing to the following number of directors under money purchase schemes	<u>3</u>	<u>4</u>

Notes (continued)

14 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	
	1999	1998
Administration	9	7
Selling and distribution	69	65
	<hr/>	<hr/>
	78	72
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1999	1998
	£000	£000
Wages and salaries	2,170	1,844
Social security costs	270	193
Other pension costs (see note 15)	256	311
	<hr/>	<hr/>
	2,696	2,348
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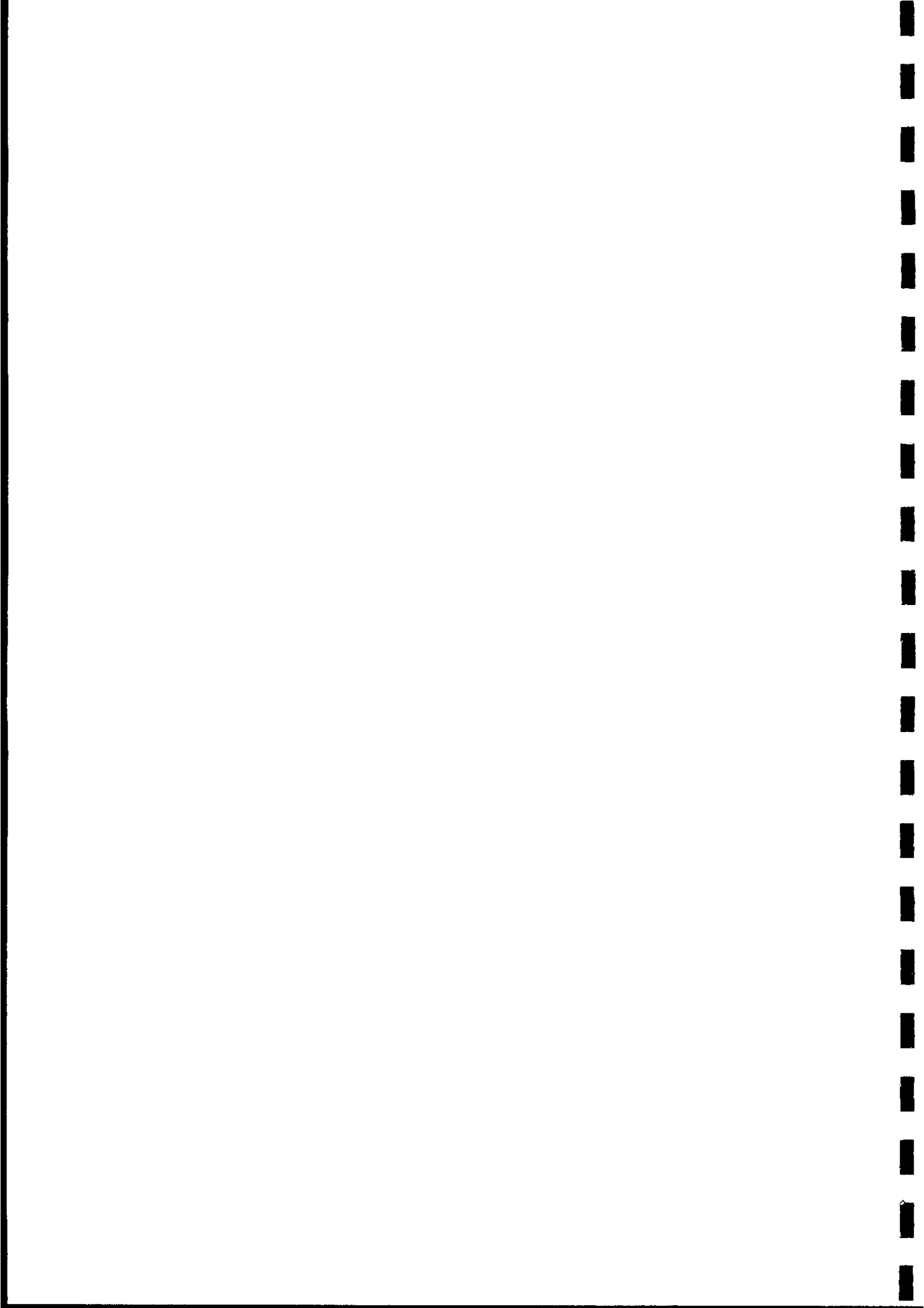
15 Pensions

The pension cost charge for the year represents contributions payable by the company to the defined contribution scheme and amounts to £256,000 (1998: £311,000). There were no contributions outstanding at the end of the financial year (1998: £nil).

16 Commitments

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

	1999	1998
	£000	£000
Operating leases for motor vehicles which expire:		
Within one year	29	46
In the second to fifth years inclusive	115	201
	<hr/>	<hr/>
	144	247
	<hr/>	<hr/>



Notes *(continued)*

17 Deferred tax

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

	1999 £000	1998 £000
Difference between accumulated depreciation and capital allowances	31	38
	<u>31</u>	<u>38</u>

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

The largest group in which the results of the company are consolidated is that headed by SYNTHES-STRATEC Inc., incorporated in Delaware, USA. The smallest group in which they 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 company's registered office, at STRATEC Holding AG, CH44 36, Oberdorf, Switzerland.

The directors regard SYNTHES-STRATEC Inc. as being the ultimate parent company.