

**STRATEC Medical Limited**

**Directors' report and financial statements**

31 December 1998

Registered number 1231893



## **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 1998.

### **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 encouraged by the growth in the business seen in 1998. Competitive pressures and the impact of cost saving initiatives in the National Health Service have contributed to the continued pressure on revenue and margins. During 1999, further growth is expected.

### **Proposed dividend**

The directors have proposed the payment of a final dividend for the year of £1,500,000 (1997: £750,000) making, with the interim dividend of £1,000,000 (1997: £2,000,000), a total of £2,500,000 for the year (1997: £2,750,000).

### **Directors and directors' interests**

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

|            |                         |
|------------|-------------------------|
| R Maag     |                         |
| JL Pinsent | (resigned 23 July 1998) |
| 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 £11,164 (1997: £9,120).

## 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 will thus require 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 is a failure by other parties to remedy their own Year 2000 issues.

The company is well advanced in the phase of assessing the risks to our business resulting from the date change to the year 2000. We have assessed the likely impact on our activities and developed action plans to deal with the key risks.

Much of the cost of implementing the action plans will be subsumed into recurring activities of the company.

### 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 15.

### **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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG 5 February 1999

**KPMG**  
*Chartered Accountants*  
*Registered Auditors*

**Profit and loss account**  
*for the year ended 31 December 1998*

|  | <i>Note</i> | 1998<br>£000 | 1997<br>£000 |
|--|-------------|--------------|--------------|
| <b>Turnover</b>                                      | 2           | 21,157       | 19,503       |
| Cost of sales  |             | (12,992)     | (12,295)     |
|  |             | <hr/>        | <hr/>        |
| <b>Gross profit</b>                                  |             | 8,165        | 7,208        |
| Distribution costs                                   |             | (266)        | (234)        |
| Administration expenses                              |             | (4,354)      | (3,733)      |
| Other operating income                               | 3           | -            | 824          |
|  |             | <hr/>        | <hr/>        |
| <b>Operating profit</b>                              |             | 3,545        | 4,065        |
| Other interest receivable and similar income         | 4           | 29           | 25           |
| Interest payable and similar charges                 | 5           | (14)         | (16)         |
|  |             | <hr/>        | <hr/>        |
| <b>Profit on ordinary activities before taxation</b> |             | 3,560        | 4,074        |
| Tax on profit on ordinary activities                 | 7           | (1,125)      | (1,292)      |
|  |             | <hr/>        | <hr/>        |
| <b>Profit on ordinary activities after taxation</b>  |             | 2,435        | 2,782        |
| Dividends - proposed                                 |             | (1,500)      | (750)        |
| - paid   |             | (1,000)      | (2,000)      |
|  |             | <hr/>        | <hr/>        |
| <b>Retained profit/(loss) for the financial year</b> |             | (65)         | 32           |
| Retained profit brought forward                      |             | 2,195        | 2,163        |
|  |             | <hr/>        | <hr/>        |
| <b>Retained profit carried forward</b>               |             | 2,130        | 2,195        |
|  |             | <hr/> <hr/>  | <hr/> <hr/>  |

STRATEC Medical Limited has no recognised gains or losses in the current or preceeding 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 1998*

|  | <i>Note</i> | <b>1998</b>    | <b>1997</b>    |
|--|-------------|----------------|----------------|
|  |             | <b>£000</b>    | <b>£000</b>    |
| <b>Fixed assets</b>  |             |                |                |
| Tangible assets  | 8           | 1,062          | 1,063          |
| <b>Current assets</b>  |             |                |                |
| Stocks   | 9           | 2,750          | 1,951          |
| Debtors  | 10          | 4,169          | 3,197          |
| Cash at bank and in hand                                       |             | 362            | 194            |
|  |             | <u>7,281</u>   | <u>5,342</u>   |
| <b>Creditors: amounts falling due within one year</b>          | 11          | <u>(6,193)</u> | <u>(4,073)</u> |
| <b>Net current assets</b>                                      |             | <u>1,088</u>   | <u>1,269</u>   |
| <b>Total assets less current liabilities</b>                   |             | <u>2,150</u>   | <u>2,332</u>   |
| <b>Creditors: amounts falling due after more than one year</b> | 12          | -              | (117)          |
| <b>Net assets</b>  |             | <u>2,150</u>   | <u>2,215</u>   |
| <b>Capital and reserves</b>                                    |             |                |                |
| Called up share capital  | 13          | 20             | 20             |
| Profit and loss account  |             | 2,130          | 2,195          |
| <b>Equity shareholders' funds</b>                              | 14          | <u>2,150</u>   | <u>2,215</u>   |

These financial statements were approved by the board of directors on 5/2/99 and were signed on its behalf by:

  
**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 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 20.

#### *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 <sup>1</sup> / <sub>3</sub> % 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 1997 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

|                     | 1998<br>£000 | 1997<br>£000 |
|---------------------|--------------|--------------|
| Interest receivable | 29           | 25           |

**Notes (continued)**

**5 Interest payable and similar charges**

|                              | 1998<br>£000 | 1997<br>£000 |
|------------------------------|--------------|--------------|
| On bank loans and overdrafts | 14           | 16           |
|                              | <u>14</u>    | <u>16</u>    |

**6 Profit on ordinary activities before taxation**

|  | 1998<br>£000 | 1997<br>£000 |
|--|--------------|--------------|
| <i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i> |              |              |
| Auditors' remuneration - audit KPMG  | 26           | 26           |
| - audit PricewaterhouseCoopers   | 10           | -            |
| - non-audit  | 27           | 16           |
| Directors' remuneration (note 15)  | 381          | 286          |
| Depreciation (note 8)  | 75           | 71           |
| Operating lease rentals - motor vehicles   | 173          | 157          |
| Loss/(Profit) on sale of fixed assets  | 7            | (11)         |
| Foreign exchange (gains)/losses  | (25)         | 110          |
|  | <u>1,125</u> | <u>1,292</u> |

**7 Taxation**

|   | 1998<br>£000 | 1997<br>£000 |
|---|--------------|--------------|
| UK corporation tax at 31% (1997: 31.5%) | 1,125        | 1,250        |
| Overseas tax                            | -            | 42           |
|   | <u>1,125</u> | <u>1,292</u> |

**Notes (continued)**

**8 Tangible fixed assets**

|                       | Freehold<br>land and<br>buildings | Computers | Furniture,<br>fixtures<br>and office<br>equipment | Motor<br>vehicles | Total |
|-----------------------|-----------------------------------|-----------|---|-------------------|-------|
|                       | £000                              | £000      | £000  | £000              | £000  |
| <b>Cost</b>           |                                   |           |   |                   |       |
| At beginning of year  | 1,150                             | 439       | 473   | 50                | 2,112 |
| Additions             | -                                 | 60        | 32  | -                 | 92    |
| Disposals             | -                                 | -         | -   | (30)              | (30)  |
| At end of year        | 1,150                             | 499       | 505   | 20                | 2,174 |
| <b>Depreciation</b>   |                                   |           |   |                   |       |
| At beginning of year  | 154                               | 428       | 441   | 26                | 1,049 |
| Charged in year       | 18                                | 30        | 21  | 6                 | 75    |
| On disposals          | -                                 | -         | -   | (12)              | (12)  |
| At end of year        | 172                               | 458       | 462   | 20                | 1,112 |
| <b>Net book value</b> |                                   |           |   |                   |       |
| At 31 December 1998   | 978                               | 41        | 43  | -                 | 1,062 |
| At 31 December 1997   | 996                               | 11        | 32  | 24                | 1,063 |

Land and buildings includes land of £250,000 (1997:£250,000) on which no depreciation has been charged.

**9 Stocks**

|                                     | 1998<br>£000 | 1997<br>£000 |
|-------------------------------------|--------------|--------------|
| Finished goods and goods for resale | 2,750        | 1,951        |

**Notes (continued)**

**10 Debtors**

|                                | 1998                              |                                  | 1997                              |                                  |
|--------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                                | Due<br>within<br>one year<br>£000 | Due<br>after<br>one year<br>£000 | Due<br>within<br>one year<br>£000 | Due<br>after<br>one year<br>£000 |
| Trade debtors                  | 3,643                             | -                                | 2,836                             | -                                |
| Other debtors                  | 14                                | -                                | 43                                | -                                |
| Prepayments and accrued income | 137                               | -                                | 130                               | -                                |
| Advance corporation tax        | -                                 | 375                              | -                                 | 188                              |
|                                | <u>3,794</u>                      | <u>375</u>                       | <u>3,009</u>                      | <u>188</u>                       |

**11 Creditors: amounts falling due within one year**

|   | 1998<br>£000 | 1997<br>£000 |
|---|--------------|--------------|
| Bank loan   | -            | 50           |
| Trade creditors   | 223          | 62           |
| Amount owed to group undertakings                       | 2,386        | 1,500        |
| Other creditors including taxation and social security: |              |              |
| Mainstream corporation tax                              | 688          | 667          |
| Advance corporation tax                                 | 692          | 368          |
| Other taxation and social security                      | 387          | 356          |
| Proposed dividend                                       | 1,500        | 750          |
| Accruals and deferred income                            | 317          | 320          |
|   | <u>6,193</u> | <u>4,073</u> |

## Notes (continued)

### 12 Creditors: amounts falling due after more than one year

|            | 1998<br>£000 | 1997<br>£000 |
|------------|--------------|--------------|
| Bank loans | -            | 117          |

The loan was repaid in advance of the loan term during the year. No penalties were incurred by the company for early settlement of the debt.

The rate of interest payable on the bank loan was 1.5% above base rates. The bank loan was secured by a mortgage over the company's freehold property, and was repayable by instalments over a period of 8 years.

#### Analysis of debt:

|                                      | 1998<br>£000 | 1997<br>£000 |
|--------------------------------------|--------------|--------------|
| Debt can be analysed as falling due: |              |              |
| In one year or less, or on demand    | -            | 50           |
| Between one and two years            | -            | 50           |
| Between two and five years           | -            | 67           |
|                                      | -            | 167          |

### 13 Called up share capital

|   | 1998<br>£000 | 1997<br>£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

|  | 1998<br>£000 | 1997<br>£000 |
|--|--------------|--------------|
| Profit on ordinary activities after taxation     | 2,435        | 2,782        |
| Dividends  | (2,500)      | (2,750)      |
| Net (reductions)/addition to shareholders' funds | (65)         | 32           |
| Opening shareholders' funds                      | 2,215        | 2,183        |
| Closing shareholders' funds                      | 2,150        | 2,215        |

## Notes (continued)

### 15 Remuneration of directors

|   | 1998<br>£000      | 1997<br>£000      |
|---|-------------------|-------------------|
| Directors' emoluments                                   | 223               | 228               |
| Company contributions to money purchase pension schemes | 158               | 58                |
|   | <u>          </u> | <u>          </u> |

The emoluments of the highest paid director were £95,282 (1997:£86,481), and company pension contributions of £13,118 (1997: £12,919) were made to a money purchase scheme on his behalf.

|  | Number of directors |                   |
|--|---------------------|-------------------|
|  | 1998                | 1997              |
| Retirement benefits are accruing to the following number of directors under money purchase schemes | 4                   | 4                 |
|  | <u>          </u>   | <u>          </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 |                   |
|--------------------------|---------------------|-------------------|
|                          | 1998                | 1997              |
| Administration           | 7                   | 6                 |
| Selling and distribution | 65                  | 55                |
|                          | <u>          </u>   | <u>          </u> |
|                          | 72                  | 61                |
|                          | <u>          </u>   | <u>          </u> |

The aggregate payroll costs of these persons were as follows:

|                                   | 1998<br>£000      | 1997<br>£000      |
|-----------------------------------|-------------------|-------------------|
| Wages and salaries                | 1,645             | 1,467             |
| Social security costs             | 193               | 160               |
| Other pension costs (see note 17) | 311               | 221               |
|                                   | <u>          </u> | <u>          </u> |
|                                   | 2,149             | 1,848             |
|                                   | <u>          </u> | <u>          </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 £311,000 (1997: £221,000). There were no contributions outstanding at the end of the financial year (1997: £nil).

Due to the defined benefit 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 1998. 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:

|   | 1998<br>£000 | 1997<br>£000 |
|---|--------------|--------------|
| Operating leases for motor vehicles which expire: |              |              |
| Within one year                                   | 46           | 22           |
| In the second to fifth years inclusive            | 201          | 113          |
|   | <u>247</u>   | <u>135</u>   |

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

|                  | 1998<br>£000 | 1997<br>£000 |
|------------------|--------------|--------------|
| Telephone system | 36           | -            |
|                  | <u>36</u>    | <u>-</u>     |

### 19 Deferred tax

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

|  | 1998<br>£000 | 1997<br>£000 |
|--|--------------|--------------|
| Difference between accumulated depreciation and capital allowances | 38           | 43           |
| Other timing differences   | -            | -            |
|  | <u>38</u>    | <u>43</u>    |



**Notes (continued)**

**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 company's registered office, at STRATEC Holding AG, CH44 36, Oberdorf, Switzerland.

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