

Adams Healthcare Limited

Directors' report and financial statements

31 March 1998

Registered number 3319706



Directors' report and financial statements

Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the auditors to the members of Adams Healthcare Limited	4
Profit and loss account	5
Balance sheet	6
Cash flow statement	7
Notes	8

Directors' report

The directors present their annual report and the audited financial statements for the fifty-eight weeks ended 31 March 1998.

Principal activities

The company was incorporated on 17 February 1997 and acquired part of the trade and net assets from the Healthcare Division of DePuy International Limited on 28 March 1997. The company commenced trading from that date. The company's name was changed from Leading Spirit Limited on 17 March 1997.

The company's principal activities are the manufacture and distribution of pharmaceutical products to the hospital and industrial markets; distribution of surgical instruments to hospital markets and practice equipment to General Practitioners.

Business review

The company performed well in its first year, with growth of 8.4% in turnover. Underlying this growth was the increase in pharmaceutical sales of 12.6% which was achieved without the addition of new products.

The second year should see continued strong growth with several new products being launched and new markets opening up throughout the world.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors and directors' interests

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

Dr RH Adams (appointed 17 March 1997)
AD Longstaffe (appointed 17 March 1997)
York Place Company Nominees Limited (appointed 17 February 1997, resigned 17 March 1997)
DE Seymour (appointed 1 July 1997)
DG Martin (appointed 25 April 1997)

The directors who held office at the end of the financial year had the following interests in the shares of the company according to the register of directors' interests:

	Class of share	Interest at end of period	Interest at start of period or at date of appointment
Dr RH Adams	"B" Ordinary	63,000	-
AD Longstaffe	"B" Ordinary	27,000	-
DE Seymour	-	-	-
DG Martin	-	-	-

According to 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 them, during the financial year, other than set out above.

Directors' report *(continued)*

Political and charitable contributions

The company made no political or charitable contributions during the year.

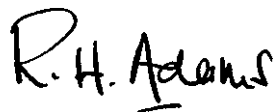
Year 2000 computer compliance

The directors consider that the company's computer systems are year 2000 compliant and that no additional costs have been incurred in achieving this.

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.

On behalf of the board



Dr RH Adams
Director

Lotherton Way
Garforth
LEEDS
LS25 2JY

23 July 1998

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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.



1 The Embankment
Neville Street
Leeds
LS1 4DW

Report of the auditors to the members of Adams Healthcare Limited

We have audited the financial statements on pages 5 to 23.

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 March 1998 and of its profit for fifty-eight weeks period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

23 July 1998

Profit and loss account

for the period ended 31 March 1998

	Note	1998 £000
Turnover	2	8,741
Cost of sales		(5,684)
		<hr/>
Gross profit		3,057
Distribution costs		(1,353)
Administrative expenses - on going		(1,091)
Administrative expenses - exceptional	4	(122)
		<hr/>
Operating profit		491
Other interest receivable and similar income	7	78
Interest payable and similar charges	8	(406)
		<hr/>
Profit on ordinary activities before taxation	3,5-6	163
Tax on profit on ordinary activities	9	(80)
		<hr/>
Profit retained for the financial period		83
		<hr/>

There is no difference between the historical cost profit for the period and the profit on ordinary activities for the period as stated above. There are no other recognised gains and losses for the period other than those stated in the profit and loss account above. All of the activities reported above resulted from the acquisition made in the period and are continuing activities.

Balance sheet

at 31 March 1998

	Note	1998 £000	£000
Fixed assets			
Intangible assets	10		5,637
Tangible assets	11		1,547
			<hr/>
			7,184
Current assets			
Stocks	12	1,149	
Debtors	13	1,497	
Cash at bank and in hand		583	
		<hr/>	
		3,229	
Creditors: amounts falling due within one year	14	(2,226)	
		<hr/>	
Net current assets			1,003
			<hr/>
Total assets less current liabilities			8,187
Creditors: amounts falling due after more than one year	15		(3,105)
Provisions for liabilities and charges	16		(80)
			<hr/>
Net assets			5,002
			<hr/>
Capital and reserves			
Called up share capital	17		4,679
Share premium account	18		240
Profit and loss account	18		83
			<hr/>
			5,002
Shareholders' funds			<hr/>
Equity		327	
Non-equity	18	4,675	
		<hr/>	
			5,002
			<hr/>

These financial statements were approved by the board of directors on 23 July 1998 and were signed on its behalf by:



Dr RH Adams
Director

Cash flow statement
for the period ended 31 March 1998

	Note	1998 £000	£000
Operating activities	21		1,543
Returns on investments and servicing of finance	22		(328)
Capital expenditure	22		(218)
Acquisition	22		(8,855)
			<hr/> (7,858)
Financing: issue of shares	22	4,919	
increase in debt	22	3,522	
		<hr/>	8,441
			<hr/> 583
Increase in cash			<hr/> <hr/>

Reconciliation of net cash flow to movement in net debt (note 23)

	1998 £000	£000
Increase in cash in the period		583
New loan (net of issue costs)	(3,913)	
Loan repayments	308	
Finance lease repayments	83	
	<hr/>	(3,522)
Change in net debt resulting from cash flows		(2,939)
New finance leases		(230)
Amortisation of debt issue costs		(11)
		<hr/>
Net debt at 31 March 1998		(3,180)
		<hr/> <hr/>

Reconciliation of movements in shareholders' funds

	1998 £000
Profit for the financial period	83
New share capital subscribed (net of issue costs)	4,919
	<hr/>
Closing shareholders' funds	5,002
	<hr/> <hr/>

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.

Tangible 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	-	50 years
Plant and machinery	-	5 to 10 years
Fixtures, fittings, tools and equipment	-	5 to 10 years

No depreciation is provided on freehold land. Depreciation is charged from the month of purchase.

Foreign currencies

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

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Patents, licences and trademarks

Expenditure on patents, licences and trademarks is written off against profits in the year in which it is incurred.

Notes (continued)

Accounting policies (continued)

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.

Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

Intangible fixed assets and amortisation

Certain intangible fixed assets are capitalised. Amortisation is provided to write off the cost or valuation of these assets by equal instalments over their estimated useful economic lives as follows:

Goodwill - 20 years

Know-how - 20 years

Any permanent diminution in the value of intangible assets is charged against profits when identified.

Notes (continued)

2 Analysis of turnover

	1998 £000
<i>By geographical market</i>	
United Kingdom	7,309
Far East, Middle East and Africa	1,432
	<hr/> 8,741 <hr/>

3 Profit on ordinary activities before taxation

	1998 £000
<i>Profit on ordinary activities before taxation is stated</i>	
<i>after charging</i>	
Auditors' remuneration:	
Audit	10
Other services - fees paid to the auditor and its associates	65
Depreciation and other amounts written off tangible fixed assets:	
Owned	130
Leased	11
Know-how amortised	200
Goodwill amortised	87
Hire of other assets - operating leases	65
Research and development expenditure	207
Rentals payable under property leases	12
	<hr/>

In addition £100,000 has been charged to goodwill in respect of auditors' other services.

4 Exceptional administrative expenses

Exceptional administrative expenses of £122,118 were incurred in the period relating to the acquisition disclosed in note 10.

Notes (continued)

5 Remuneration of directors

	1998 £000
Directors' emoluments	189
Company contributions to money purchase pension schemes	7
Amounts paid to third parties in respect of directors' services	15

The emoluments, excluding pension contributions, of the highest paid director were £107,406.

Retirement benefits are accruing to two directors under money purchase schemes.

6 Staff numbers and costs

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

	Number of employees
Administration	34
Production and distribution	32
	66

The aggregate payroll costs of these persons were as follows:

	1998 £000
Wages and salaries	1,230
Social security costs	105
Other pension costs	56
	1,391

7 Other interest receivable and similar income

	1998 £000
Other interest	78

Notes (continued)

8 Interest payable and similar charges

	1998 £000
On bank loans and overdrafts	390
Finance charges payable in respect of finance leases and hire purchase contracts	16
	<hr/> 406 <hr/>

9 Taxation

	1998 £'000
Deferred taxation	80
	<hr/>

Notes (continued)

10 Intangible fixed assets

	Know-how £000	Goodwill £000	Total £000
Cost or valuation			
On acquisition and at end of period	4,000	1,924	5,924
Amortisation			
Charged in period and at end of period	200	87	287
Net book value			
At 31 March 1998	3,800	1,837	5,637

The company acquired part of the trade and certain net assets from the Healthcare Division of DePuy International Limited on 28 March 1997.

The net assets acquired were:

	Book value at acquisition £000	Fair value adjustments £000	Fair value at acquisition £000
Tangible fixed assets	1,241	-	1,241
Intellectual property	240	(240)	-
Know - how	4,000	-	4,000
Stock	939	-	939
Debtors	1,589	-	1,589
Creditors	(828)	-	(828)
Provisions	-	(10)	(10)
	7,181	(250)	6,931
Goodwill			1,924
Fair value of consideration			8,855
The purchase consideration was satisfied by:			
Cash			7,629
Acquisition costs			173
Net debtors and creditors collected and settled by DePuy International Limited			7,802
			1,053
			8,855

All of the fair value adjustments arose as a result of the alignment of net asset values under the company's accounting policies.

Notes (continued)

11 Tangible fixed assets

	Freehold Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Total
	£'000	£'000	£'000	£'000
Cost				
On acquisition	713	440	88	1,241
Additions	123	4	320	447
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	836	444	408	1,688
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
Charge for period and at end of period	24	70	47	141
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 1998	812	374	361	1,547
	<hr/>	<hr/>	<hr/>	<hr/>

Included in the total net book value of fixtures, fittings, tools and equipment is £218,088 in respect of assets held under finance leases. Depreciation for the period on these assets was £11,478.

12 Stocks

	1998 £000
Raw materials and consumables	395
Work in progress	31
Finished goods and goods for resale	723
	<hr/>
	1,149
	<hr/>

13 Debtors

	1998 £000
Trade debtors	1,402
Other debtors	25
Prepayments and accrued income	70
	<hr/>
	1,497
	<hr/>

Notes (continued)

14 Creditors: amounts falling due within one year

	1998 £000
Bank loans and overdrafts (secured)	603
Obligations under finance leases and hire purchase contracts (see note 15)	55
Trade creditors	1,076
Taxation and social security	33
Accruals and deferred income	459
	<hr/> 2,226 <hr/>

15 Creditors: amounts falling due after more than one year

	1998 £000
Bank loans and overdrafts (secured)	3,013
Obligations under finance leases and hire purchase contracts	92
	<hr/> 3,105 <hr/>

Bank loans are payable as follows:

	1998 £000
In one year or less	603
Within one to two years	603
Within two to five years	1,809
Within five to ten years	601
	<hr/> 3,616 <hr/>

The loan is repayable in equal instalments and interest is charged at 7.5% plus 2% per annum.

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	1998 £000
Within one year	77
In the second to fifth years	102
	<hr/> 179
Less future finance charges	(32)
	<hr/> 147 <hr/>

Notes (continued)

16 Provisions for liabilities and charges

	Taxation including deferred taxation £000
Charge for the period and at end of period	80

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1998 Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	270	-
Other timing differences	(3)	-
Tax losses	(187)	-
	<u>80</u>	<u>-</u>

Notes (continued)

17 Called up share capital

	1998 £000
<i>Authorised</i>	
Equity:	
225,000 "A" ordinary shares of 1 pence each	2
150,000 "B" ordinary shares of 1 pence each	2
Non - equity:	
4,675,000 cumulative redeemable preference shares of £1 each	4,675
	<hr/> 4,679 <hr/>
<i>Allotted, called up and fully paid</i>	
Equity:	
225,000 "A" ordinary shares of 1 pence each	2
150,000 "B" ordinary shares of 1 pence each	2
Non - equity:	
4,675,000 cumulative redeemable preference shares of £1 each	4,675
	<hr/> 4,679 <hr/>

All of the above shares were allotted during the period.

The consideration received for the shares was as follows:

	£000
225,000 "A" ordinary shares at £1 each	225
150,000 "B" ordinary shares at £1 each	150
4,675,000 cumulative redeemable preference shares at £1 each	4,675
	<hr/>

The shares were issued to fund the acquisition described in note 10.

Notes (continued)

17 Called up share capital (continued)

Rights attaching to shares:

(a) Income

Preference shares

The holders of the preference shares shall be entitled to receive, in priority to the holders of any other class of shares, a fixed cumulative preferential dividend ("the Preference Dividend").

The Preference Dividend shall accrue from 1 April 1998 and shall for the financial year ending 31 March 1999 be an amount equal to 6% of the subscription price. For subsequent financial years the rate of "the Preference Dividend" shall be 8%.

"A" ordinary shares

Subject to the payment of the Preference Dividend, holders of the "A" ordinary shares shall be entitled to receive a cumulative participating dividend ("the Participating Dividend").

The Participating Dividend shall be paid as follows:

Financial year ending 31 March	Percentage of net profit
2000	10%
2001	15%
2002	15%
2003	20%
2004	25%
each subsequent financial year	25%

"B" ordinary shares

No dividend shall be declared or paid on "B" ordinary shares in respect of any financial year of the company.

(b) Capital

In the event of a winding up of the company or other return of capital, the assets of the company remaining after payment of its debts and liabilities shall be applied in the following manner and order of priority:

- 1) Unpaid and accrued Preference Dividend.
- 2) Preference shares (subscription price plus any redemption premium).
- 3) Unpaid and accrued Participating Dividend.
- 4) "A" ordinary shares (subscription price including premium paid).
- 5) "B" ordinary shares (paid up nominal value).
- 6) Deferred shares (paid up nominal value).
- 7) The balance of such assets shall be distributed amongst the holder of the equity shares *pari passu*.

Notes (continued)

17 Called up share capital (continued)

(c) Redemption

Preference shares

- 1) The preference shares shall be redeemed at the issue price as follows:

Date of redemption	Number of preference shares redeemed
31 March 2000	200,000
31 March 2001	400,000
31 March 2002	600,000
31 March 2003	775,000
31 March 2004	900,000
31 March 2005	900,000
31 March 2006	900,000

Earlier redemption of preference shares is possible at any time by giving 3 months notice in writing.

The preference shares shall be redeemed at the issue price for cash on a listing or on a sale.

- 2) Immediately prior to any redemption of preference shares the company shall declare a dividend on the shares to be redeemed equal to 20% of the issue price paid.

"A" ordinary shares

"A" ordinary shares shall be redeemed on a ratchet basis according to operating profits and rates of return achieved by the holders of "A" ordinary shares and preference shares.

(d) Appointment of directors

The holders of more than 50 per cent of "A" ordinary shares have the right to appoint two directors; one non - executive director and one non - executive chairman.

(e) Voting

Preference shares

The holders of preference shares shall not be entitled to vote at general meetings unless certain conditions specified in the Articles of Association are met.

"A" ordinary shares and "B" ordinary shares

The holders of "A" ordinary shares and "B" ordinary shares shall be entitled to vote at general meetings.

Deferred shares

The holders of deferred shares shall not be entitled to vote at general meetings, or to participate in the profits or assets.

Notes (continued)

17 Called up share capital (continued)

(f) Conversion

In the event of a sale or listing each of the equity shares shall be converted into one fully paid ordinary share ranking pari passu in all respects.

18 Share premium and reserves

	Share premium account £000	Profit and loss account £000
Retained profit for the period		83
Premium on share issues, less expenses	240	
	<hr/>	<hr/>
At end of period	240	83
	<hr/>	<hr/>

Non-equity interests in shareholders' funds are analysed by class of share and/or series of warrant as follows:

	1998 £000
Cumulative redeemable preference shares	4,675
	<hr/>
Non-equity interests	4,675
	<hr/>

19 Commitments

(a) There were no contracted capital commitments at 31 March 1998.

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

	1998	
	Land and buildings £000	Other £000
Operating leases which expire:		
In the second to fifth years inclusive	26	67
	<hr/>	<hr/>

Notes (continued)

20 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £56,044.

21 Reconciliation of operating profit to net cash inflow from operating activities

	1998 £000
Operating profit	491
Depreciation charge	141
Amortisation of goodwill and know-how	287
Increase in stocks	(210)
Decrease in debtors	92
Increase in creditors	731
Amortisation of debt issue costs	11
	<hr/>
	1,543
	<hr/> <hr/>

Notes (continued)

22 Analysis of cash flows

	1998 £000
Returns on investments and servicing of finance	
Interest received	78
Interest paid	(390)
Interest element of finance lease rental payments	(16)
	<hr/> (328) <hr/>
Capital expenditure	
Purchase of tangible fixed assets	(218)
	<hr/>
Acquisitions	
Acquisition of business (note 10)	(8,855)
	<hr/>
Financing	
Proceeds of bank borrowings	4,000
Repayment of amounts borrowed	(308)
Capital element of finance lease rental payments	(83)
Costs of issuing debt finance	(87)
	<hr/>
Increase in net debt	3,522
	<hr/>
Issue of preference share capital	4,675
Cost of issuing equity share capital	(131)
Issue of ordinary share capital	375
	<hr/>
Issue of share capital	4,919
	<hr/>
	8,441 <hr/>

Notes (continued)

23 Analysis of changes in net debt

	Cash flows	Other changes	At 31 March 1998
	£000	£000	£000
Cash at bank and in hand	583	-	583
Debt due within one year	(3,522)	2,864	(658)
Debt due after one year	-	(3,105)	(3,105)
	<u>(2,939)</u>	<u>(241)</u>	<u>(3,180)</u>

24 Major non-cash transactions

During the period the company entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £229,566.