



**SUNTECH MEDICAL GROUP  
LIMITED AND ITS SUBSIDIARY  
UNDERTAKINGS**

**ANNUAL REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2006**

# **SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS**

## **ANNUAL REPORT AND ACCOUNTS**

For the year ended 31 December 2006

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# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## FIVE YEAR TRADING HISTORY

For the year ended 31 December 2006

### Results in £

	2002 £'000	% Growth	2003 £'000	% Growth	2004 £'000	% Growth	2005 £'000 (Restated)	% Growth	2006 £'000
Turnover	4,456	26 7%	5,647	19 8%	6,763	18 9%	8,040	16 1%	9,332
Cost of sales	(1,737)		(2,061)		(2,578)		(3,032)		(3,631)
Gross profit	2,719		3,586		4,185		5,008		5,701
Other operating charges	(2,152)		(2,655)		(3,026)		(3,819)		(5,095)
Operating profit	567	64 2%	931	24 5%	1,159	2 6%	1,189	(49 0%)	606
Net interest receivable	3		5		9		37		79
Profit before taxation	570	64 2%	936	24 8%	1,168	5 0%	1,226		685
Taxation	(6)		(34)		(347)		(301)		(134)
Profit after tax	564		902		821		925		551
Earnings per share									
Basic (pence)	49	59 2%	78	(9 0%)	71	12 7%	80	(41 3%)	47
Fully diluted (pence)	41	61 0%	66	(10 6%)	59	11 9%	66	(40 9%)	39
Net assets per share									
Basic (pence)	165		226		283		403		404
Fully diluted (pence)	158		210		256		359		363

### Results in US \$

	2002 \$'000	% Growth	2003 \$'000	% Growth	2004 \$'000	% Growth	2005 \$'000 (Restated)	% Growth	2006 \$'000
Turnover	6,711	38 1%	9,265	33 8%	12,396	17 4%	14,549	18 7%	17,268
Cost of sales	(2,616)		(3,381)		(4,724)		(5,487)		(6,719)
Gross profit	4,095		5,884		7,672		9,062		10,549
Other operating charges	(3,241)		(4,357)		(5,547)		(6,910)		(9,428)
Operating profit	854	78 8%	1,527	39 2%	2,125	1 3%	2,152	(47 9%)	1,121
Net interest receivable	4		7		16		67		147
Profit before taxation	858	78 8%	1,534	39 6%	2,141	3 6%	2,219	(42 9%)	1,268
Taxation	(9)		(54)		(636)		(545)		(248)
Profit after tax	849		1,480		1,505		1,674		1,020
Exchange rate (US \$)	1 506		1 641		1 833		1 810		1 850

The 2005 figures have been restated to reflect the impact of the implementation of FRS 20 'Share based payments (IFRS 2)'

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## CHAIRMAN'S STATEMENT

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For several reasons, and as mentioned as a possibility in last year's Annual Statement, 2006 has been a somewhat challenging year for the Group. It was noted last year that consolidated profits for 2006 would be lower than 2005 due to the additional development expenditure on a major new Blood Pressure (BP) product codenamed Halo and the acquisition of Oakfield Instruments Ltd (Oakfield) at the beginning of January 2006. The numbers reflect the impact of both of these. What we did not foresee was the abrupt cancellation, in the second half of the year, of all outstanding orders from one of our largest OEM BP module customers due to their being overstocked. This situation had a material impact on our overall performance. OEM business is one where we supply a BP measurement module to a company that needs BP incorporated as one component of a medical device. We have grown this product group successfully over the last few years such that we now supply many of the world's leading medical device manufacturers. It is generally a good business arrangement to have and one in which, once our module is designed in, there is every potential of long term repeat orders. The downside however, as proved to be the case in this instance, is that our own sales become more dependent on our customer's performance.

Part of the plan for Oakfield, once its acquisition was complete early last year, required investment in new products, and a restructure of the business. Both of these goals have been achieved and, as predicted, resulted in a loss for the year. In addition, the overall results for Oakfield have been slightly worse than forecast, primarily, as a result of funding problems for the UK National Health Service which restricted purchases in what is Oakfield's biggest market. On a positive note, however, Oakfield has recently, and successfully, launched its first new product since acquisition, a new pH measurement monitor, as well as having two more products under development which will be launched at the end of 2007 and in second quarter 2008.

Taking the above factors into account, overall sales at £9.3m (2005: £8.0m) grew 16.1% for the year (2006 includes a full year of sales by Oakfield). Like for like sales for the BP division grew 5.1%, although underlying sales in US dollars showed a slightly higher increase of 7.4%. The lower growth percentage in pounds sterling reflects the fact that the dollar declined against sterling during the year. The average exchange rate (used to translate the trading numbers) showed a modest dollar depreciation of 2.3% for the year. However, the closing rate at the 31 December 2006 (used to translate the balance sheet) had declined 13.8% from a year earlier which had a more material impact on the comparatives year on year. Operating profit at £606,000 (2005: £1.2m) fell by 49.0% reflecting additional development expenditure on *Halo* of £551,000 (2005: £79,000) and the loss made by Oakfield. The sales shortfall against budget in the second half of the year for the BP Division was also a contributing factor and, while overhead expenditure was kept under tight control, we continued to invest in those projects we believe to be important for the longer term growth of the business. The consolidated Group tax charge declined in absolute terms, due to lower profits, but also declined as a percentage of profit to 19.6% (2005: 24.6%). The lower percentage reflects the availability of tax losses in the UK for Oakfield, together with an active Group tax planning programme. Earnings per share fell, in view of the lower profits, by 41.3% to 47p (2005: 80p). Net assets per share were £4.04 (2005: £4.03). The closing cash position (the majority of which is held in US dollars) fell from £3.0m to £2.4m. Part of this drop is attributable to the declining exchange rate but cash has also been used for the acquisition of Oakfield and its continued funding together with the purchase of our minority stake in Empirical Technologies Corporation.

2006 has been a disappointing one for us in that we did not deliver the growth to which we have all become accustomed. 2007 will be very much a pivotal year. Looking at the factors that will influence it, the successful launch of *Halo* will be critical. In this regard I am also sorry to report that we are running about six months behind the schedule the Board approved when it sanctioned the project in 2005. The development programme, and particularly the integration of the optional temperature and SpO2 modules sourced from other suppliers, has proved more complex than originally envisaged. We now anticipate a launch by the middle of the year. Beta versions of the product are currently undergoing field trials and distribution channels in a number of major markets have been secured. The distributors, and also target customer groups to whom a demonstration has been given, are enthusiastic about the product's capabilities and its potential. Also on a positive note, I am pleased to report that the major OEM customer who stopped ordering last year recommenced at the beginning of 2007. Taking all factors into account therefore, I remain positive about the prospects for the Group and believe that we should, during 2007, start to get the sales and profits back on the trend lines established prior to 2006.

Finally may I express my thanks, and that of the Board, to all of our staff in the UK, the US, and now, for the first time in Asia, who have worked hard and with their usual dedication on the Group's behalf.

J K Laurie  
Chairman  
25 April 2007

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## REVIEW OF OPERATIONS

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### SunTech BP Division

Overall sales growth in 2006, measured in US dollars, was 7.4% with the second half of the year not sustaining the reasonable performance of the first half, primarily due to a shortfall of OEM module sales to a major customer. Total sales for this product group grew 9.1% in the year. Ambulatory BP (ABP) and Stress BP product group sales were also below expectations in growth terms. The former grew 6.0% while the latter recorded a slight fall (1.7%) year on year as a result of the loss of private label sales to a European customer who ceased ordering from us and developed their own product as an add-on to their proprietary ECG stress systems. We believe this new competitive product is not however a significant market threat and will only see limited success due to inferior performance in demanding applications. Our Stress BP product, *Tango*, continues to be the worldwide market leader and is poised for growth in 2007 with further adoption by leading ECG Stress manufacturers. Sales of BP Cuffs & Accessories were the best performing, registering a 22.2% increase, albeit from a relatively low base. Geographically we achieved low overall sales growth of 1.7% in our largest market, The Americas, primarily due to the loss of OEM module sales mentioned earlier. Europe however achieved a 14.4% increase and the Far East, where we opened a new sales office in Hong Kong during the year, achieved a commendable 27.4% growth.

Operationally, 2006 has been a very busy one for us. Points worthy of particular note are

- The majority of the engineering group was engaged in design and development on the *Halo* project (and associated production test systems), our next generation OEM module and a new line of BP cuffs. *Halo* is the first device in a new product grouping for the company and will provide an introduction to large new markets and alternative distribution channels around the world. The project development plan was however somewhat aggressive and several delays have been experienced along the way such that that we now anticipate the launch date being some six months later than originally planned. Subject only to this proviso, we remain enthusiastic about the potential of this product and distributors have already been signed up, or identified, in most major markets for its launch.
- Our associated company, ETC, has continued to make good progress in developing their beat-to-beat BP technology and have already started pre-clinical trials. Human testing is expected to begin by mid-2007 with the target date of proving the technology as clinically accurate by early 2008.
- The growing complexity of our business and an increased need, for cost reasons, to develop and build some of our products, in China, has led us to create a new position of Director of Operations. We were fortunate to appoint a highly experienced manager, Jim Meckstroth, and with his arrival we believe we have the last key function within the executive team we need to drive the growth of the business forward.

Total R&D spending, including *Halo* during the year amounted to £1.4m, an increase of 29.0% over 2005.

### Oakfield Instruments

The company which designs, develops and markets products for the gastroenterology and urology markets was acquired on 3 January 2006. The low price paid recognised that, although having an excellent brand name, Oakfield needed investment in order to update its aging product range. During the first year of ownership we have taken action to rationalise the cost base, mothballed the US subsidiary, increased the new product development focus and increased and strengthened the sales team. It will however take time for the measures taken to bear fruit and the sales performance and resulting loss for the year reflect this. In late 2006 we launched a new pH monitor and have secured our first OEM customer for it in the United States. Two further gastroenterology products are currently under development.

### Outlook

2007 has started well. At the time of writing, albeit early in the year, sales in US dollar terms are 20.7% ahead of the corresponding period last year. The exchange rate continues to be a concern however as the dollar has weakened further since the end of 2006. Internally, we now have in place the completed organisation structure we believe we need to drive business growth to the next level. All of the executive team are focused on the strategic and operational issues that we have identified as being critical to the success of the business. Taking account of all of these factors, and the impending launch of *Halo*, the potential for which we are all very excited about, I remain confident in the prospects for the Group going forward.

R R Woolley  
Group Chief Executive  
25 April 2007

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## REPORT OF THE DIRECTORS

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The directors present their report together with the audited financial statements for the year ended 31 December 2006

### Principal activity

The group is principally engaged in the sale of medical instruments

### Results and dividends

There was a profit for the year after taxation amounting to £551,000 (2005 £925,000 restated) The directors do not recommend the payment of a dividend

### Business review

The following information is supplemental to, and should be read in conjunction with, that provided in the 5 Year Trading History for the business on page 1 and that given in the Chairman's Statement and Review of Operations on pages 2 and 3 The Board's objective is to give shareholders more comprehensive information with regard to their investment, the strategy for its development, the risks and uncertainties it faces and the key performance indicators used by the Board and the executive management to set objectives and measure progress SunTech Medical Group Ltd (SMG) is however a private company and the Board is conscious that the Report and accounts are accessible to competitors and others Their access to some of the detailed information used to measure performance could prove detrimental to the interests of the company Figures and information provided in the Report and Accounts are therefore, of necessity, a balance between giving shareholders a detailed overview and maintaining commercial confidentiality

The objective is to grow SMG by maintaining a primary focus on blood pressure (BP) and related technologies, whilst also considering non BP acquisitions in the medical devices sector which are synergistic, and where existing expertise, knowledge and contacts can be leveraged Core business growth will however be achieved organically through the continued development of new products and new markets

### Business Environment

The market for medical devices is a growing one, influenced by an aging world population and emerging new markets in countries such as China and India The medical market is not subject to cyclical economic trends but can be adversely susceptible to pricing and reimbursement pressures together with other changes in government policy in some countries where keeping overall healthcare spending under control is a constant and increasing challenge Within this environment, SMG competes internationally in the clinical grade medical device market It numbers amongst its OEM customer base several of the world's leading medical companies Competition in each of the product group sectors SMG sells in differs In sales terms, no single customer accounts for more than 15% of Group sales The industry is however consolidating and SMG remains susceptible to some of its customer base being lost as a result of this activity

### Principal risks and uncertainties

The management of the business and the company's strategy are subject to a number of risks The directors have set out below the principal risks facing the business that they judge to be material for the Group The Board reviews identified risks on a regular basis and ensures, in so far as possible, that appropriate processes are in place to monitor and mitigate them If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group

*Majority of group earnings come from a technology that may, ultimately, become obsolete*

Our investment in ETC and the exclusive development and licensing deal signed with them gave SMG access to a viable alternative technology for BP measurement A regular review is carried out to identify new technologies

*Consumer grade BP companies could ultimately take over the clinical grade market*

The company maintains a focus on keeping its 'leading edge' technology position for clinical grade accuracy

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## REPORT OF THE DIRECTORS (CONTINUED)

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### **Principal risks and uncertainties (continued)**

*Company reputation could be damaged by poor performing products in the field and/or product recalls*

Emphasis is placed on thorough product testing and stringent quality control procedures. The Company also conforms to ISO 13485 2003 and ISO 9001 2000.

*Intellectual property theft*

Key BP intellectual property is controlled in the US. All employees are subject to legally enforceable confidentiality agreements and key employees to restrictive employment contracts in so far as legally allowable. Trade marks are protected in key markets.

*Loss of key staff*

Regular review of salaries, rewards and benefit packages are carried out. The Group CEO reviews key employees appraisals and meets with them to discuss progress on a regular basis. Keyman insurance policies are in place on several senior staff. Succession planning is reviewed regularly.

*Exchange risk*

The group's earnings are exposed as a result of the majority of trade being conducted in US dollars while the group reporting is in sterling. The risk is currency translation with limited ability to hedge or transfer. The scope for further hedging possibilities is under review and the acquisition of Oakfield Instruments, whose largest market is the UK provides some limited possibilities for reducing risk.

*Continuity of business operations could be affected as a result of fire, natural disaster or epidemic*

A review of the adequacy and comprehensiveness of group insurance cover for business interruption is currently being carried out. A disaster recovery plan has been prepared and is in place for the Group's US business base. This will be extended during 2007 to cover all operational bases.

### **Key Performance Indicators**

The Board's main strategic focus is continued sales growth and on enhancing profit margins over the longer term.

On an operating basis the Board monitors key performance indicators on a weekly basis. Whilst the weekly order intake and outstanding order book are reported, the usefulness of this statistic has diminished over the last two years because an increasing number of larger customers are not prepared to provide more than a short term visibility on their order requirements. Those customers who do provide blanket long term orders will increasingly change, or even cancel, them completely if they find themselves overstocked. As a result of this a more meaningful number monitored by the Board is actual weekly, monthly and annual cumulative sales against the comparative period last year.

On a monthly basis the Board also receives detailed divisional CEOs' and financial reports which, inter alia, analyse the reasons for budget variances, and highlight key business issues that should be brought to the attention of the Board together with on-time delivery performance and quality statistics.

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## REPORT OF THE DIRECTORS (CONTINUED)

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### Directors

The present membership of the Board is set out on page 23 of the annual report and accounts. R Willcock was appointed as Director on 12 May 2006.

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law in the United Kingdom 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 the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- i select suitable accounting policies and then apply them consistently,
- ii make judgements and estimates that are reasonable and prudent,
- iii state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- iv prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- i there is no relevant audit information of which the group and the company's auditors are unaware, and
- ii the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

R Willcock  
Company Secretary  
25 April 2007





# **SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS**

## **PRINCIPAL ACCOUNTING POLICIES**

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### **BASIS OF PREPARATION**

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

The principal accounting policies of the group are set out below. They have remained unchanged from the previous year except as stated below

### **CHANGES IN ACCOUNTING POLICIES**

In preparing the financial statements for the current year, the group has adopted the following Financial Reporting Standard

#### **FRS 20 'Share-Based Payments (IFRS 2)'**

FRS 20 'Share-Based Payments (IFRS 2)' requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of FRS 20, the group did not recognise the financial effect of share-based payments until such payments were settled

In accordance with the transitional provisions of FRS 20, the standard has been applied retrospectively to all grants of equity instruments after 7 November 2002 that had not vested as of 31 December 2006

For the year ended 31 December 2005, the change in accounting policy has resulted in a net decrease in the profit for the year of £79,000. For the year ended 31 December 2006 the change in accounting policy has resulted in a net decrease in the profit and loss account of £66,000

### **BASIS OF CONSOLIDATION**

The group financial statements consolidate those of the company and of its subsidiary undertakings (see note 8)

The company took advantage of merger relief offered by section 131 of the Companies Act 1985 and merger accounting offered by Financial Reporting Standard No 6 'Acquisitions and Mergers' on an acquisition dated 13 December 2000

The acquisition method has been applied to account for the acquisition of Oakfield Instruments and its subsidiary undertaking

### **ASSOCIATES**

In the group financial statements investments in associates are accounted for using the equity method of accounting. The consolidated profit and loss account includes the group's share of the associate's profit and losses while the group's share of the net assets of the associate is shown in the consolidated balance sheet

### **TURNOVER**

Turnover is the total amount receivable by the group for goods supplied and services provided, excluding VAT and trade discounts. Turnover is recognised on shipment for goods and on provision for services

## **SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS**

### **PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

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#### **TANGIBLE FIXED ASSETS AND DEPRECIATION**

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates generally applicable are

Plant and machinery	15%
Fixtures, fittings and equipment	10-33%
Motor vehicles	20-25%

#### **LEASED ASSETS**

All leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

#### **INVESTMENTS**

Investments are included at cost.

#### **STOCKS**

Stocks are stated at the lower of cost and net realisable value.

#### **DEFERRED TAXATION**

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date on an undiscounted basis.

#### **FOREIGN CURRENCIES**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Fixed assets purchased in foreign currencies are retranslated at each balance sheet date. All other exchange differences are dealt with through the profit and loss account.

#### **RESEARCH AND DEVELOPMENT**

Research and development expenditure is charged to profits in the period in which it is incurred.

#### **CONTRIBUTIONS TO DEFINED CONTRIBUTION PENSION SCHEMES**

The pension costs charged against profits represent the amount of the contributions payable to the schemes in respect of the accounting period.

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006

	Note	Existing operations 2006 £000	Acquisitions 2006 £000	Total 2006 £000	Restated 2005 £000
Turnover	1	8,447	885	9,332	8,040
Cost of sales		(3,181)	(450)	(3,631)	(3,032)
Gross profit		5,266	435	5,701	5,008
Other operating charges	2	(4,408)	(688)	(5,096)	(3,819)
<b>Operating profit/(loss) before share of associate</b>		<b>858</b>	<b>(253)</b>	<b>605</b>	<b>1,189</b>
Share of associate's operating profit				<b>1</b>	-
<b>Operating profit</b>				<b>606</b>	<b>1,189</b>
Net interest receivable	3			<b>79</b>	<b>37</b>
<b>Profit on ordinary activities before taxation</b>	1			<b>685</b>	<b>1,226</b>
Tax on profit on ordinary activities	5			<b>(134)</b>	<b>(301)</b>
<b>Profit for the year transferred to reserves</b>	14			<b>551</b>	<b>925</b>

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006 £000	Restated 2005 £000
Profit for the year	551	925
Currency translation (loss)/profit on foreign currency net investment	(535)	401
<b>Total recognised gains and losses relating to year</b>	<b>16</b>	<b>1,326</b>

All operations are considered to be continuing

The accompanying accounting policies and notes form an integral part of these financial statements

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## BALANCE SHEETS AT 31 DECEMBER 2006

	Note	2006 £000	Group 2005 £000	2006 £000	Company 2005 £000
<b>Fixed assets</b>					
Tangible assets	7	372	288	10	1
Investments	8	58	5	728	560
		<u>430</u>	<u>293</u>	<u>738</u>	<u>561</u>
<b>Current assets</b>					
Stocks	9	1,096	867	-	-
Debtors	10	1,770	1,540	355	89
Cash at bank and in hand		2,393	3,008	11	243
		<u>5,259</u>	<u>5,415</u>	<u>366</u>	<u>332</u>
<b>Creditors amounts falling due within one year</b>	11	<u>(993)</u>	<u>(1,023)</u>	<u>(1,020)</u>	<u>(678)</u>
<b>Net current assets/(liabilities)</b>		<u>4,266</u>	<u>4,392</u>	<u>(654)</u>	<u>(346)</u>
		<u>4,696</u>	<u>4,685</u>	<u>84</u>	<u>215</u>
<b>Capital and reserves</b>					
Called up share capital	12	116	116	116	116
Share premium account	13	3	3	3	3
Profit and loss account	13	4,577	4,566	(35)	96
<b>Shareholders' funds</b>	14	<u>4,696</u>	<u>4,685</u>	<u>84</u>	<u>215</u>

The financial statements were approved by the Board of Directors on 25 April 2007

J K Laurie  
Director



The accompanying accounting policies and notes form an integral part of these financial statements

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
<b>Net cash inflow from operating activities</b>	15		173		1,331
<b>Returns on investments and servicing of finance</b>					
Interest received		84		37	
Interest paid		(5)		-	
<b>Net cash inflow from returns on investments and servicing of finance</b>			79		37
<b>Taxation</b>			(134)		(208)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(205)		(87)	
Purchase of subsidiary undertakings		(266)		-	
Sale of tangible fixed assets		6		1	
Investment in associated undertaking		(60)		-	
<b>Net cash outflow from capital expenditure and financial investment</b>			(525)		(86)
<b>Net cash (outflow)/inflow before financing</b>			(407)		1,074
<b>Financing</b>					
Issue of ordinary share capital		-		3	
<b>Net cash inflow from financing</b>			-		3
<b>(Decrease)/increase in cash</b>	16		(407)		1,077

The accompanying accounting policies and notes form an integral part of these financial statements

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## NOTES TO THE ANNUAL REPORT AND ACCOUNTS

For the year ended 31 December 2006

### 1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and profit on ordinary activities before taxation is attributable to the sale of medical instruments

An analysis of turnover by geographic market is given below

	2006 £000	2005 £000
United Kingdom	1,267	585
Continental Europe	1,809	1,478
North America	4,947	5,092
Rest of the world	1,309	885
	<u>9,332</u>	<u>8,040</u>

The profit on ordinary activities before taxation is stated after

	2006 £000	2005 £000
Auditors' remuneration		
Audit services	25	18
Non-audit services	17	30
Depreciation		
Tangible fixed assets owned	112	94
Operating lease rentals		
Plant and machinery	4	9
Other	179	97
Loss on sale of fixed assets	2	-
Research and development expenditure	<u>1,388</u>	<u>966</u>

### 2 OTHER OPERATING CHARGES

	2006 £000	Restated 2005 £000
Administration expenses	5,111	3,865
Other operating income	(15)	(46)
	<u>5,096</u>	<u>3,819</u>

### 3 INTEREST RECEIVABLE

	2006 £000	2005 £000
Net interest receivable	<u>79</u>	<u>37</u>

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## NOTES TO THE ANNUAL REPORT AND ACCOUNTS (CONTINUED)

For the year ended 31 December 2006

### 4 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows

	2006 £000	Restated 2005 £000
Wages and salaries	3260	2,620
Share options expense (see note 13)	66	79
Social security costs	295	229
Other pension costs	84	65
	<u>3,705</u>	<u>2,993</u>

The average number of employees of the group during the year was

	2006 Number	2005 Number
Production	51	42
Administration	53	38
	<u>104</u>	<u>80</u>

Remuneration in respect of directors was as follows

	2006 £000	2005 £000
Emoluments	297	251
Pension contributions to money purchase pension schemes	20	2
	<u>317</u>	<u>253</u>

In 2006 three directors (2005 one) participated in money purchase pension schemes

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## NOTES TO THE ANNUAL REPORT AND ACCOUNTS (CONTINUED)

For the year ended 31 December 2006

### 5 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the period and represents

	2006 £000	2005 £000
United Kingdom corporation tax	(6)	111
Overseas taxation	111	134
Total current tax	105	245
Deferred tax		
Origination and reversal of timing differences	29	56
Tax on profit on ordinary activities	134	301

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2005 30%)  
The differences are explained as follows

	2006 £000	Restated 2005 £000
Profit on ordinary activities before tax	685	1,226
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	206	368
Effect of		
Expenses not deductible for taxation purposes	35	38
Capital allowances in excess of depreciation	(4)	(5)
Prior year adjustment	-	(2)
Tax payable at different rates	(103)	(154)
Current tax charge for period	134	245

### 6 PROFIT FOR THE FINANCIAL PERIOD

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's loss for the year was £126,000 (restated 2005 loss £34,000)



# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## NOTES TO THE ANNUAL REPORT AND ACCOUNTS (CONTINUED)

For the year ended 31 December 2006

### 7 TANGIBLE FIXED ASSETS

The group	Plant and machinery £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2006	214	446	13	673
On acquisition	-	66	25	91
Additions	119	49	31	199
Exchange rate differences	(25)	(48)	(1)	(74)
Disposals	-	(5)	(14)	(19)
At 31 December 2006	308	508	54	870
<b>Depreciation</b>				
At 1 January 2006	113	265	7	385
On acquisition	-	40	17	57
Provided in the year	28	77	7	112
Exchange rate differences	(15)	(30)	(1)	(46)
On disposals	-	(1)	(9)	(10)
At 31 December 2006	126	351	21	498
<b>Net book amount at 31 December 2006</b>	<b>182</b>	<b>157</b>	<b>33</b>	<b>372</b>
31 December 2005	101	181	6	288

The company	Fixtures, fitting and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>			
At 1 January 2006	1	-	1
Additions	1	9	10
At 31 December 2006	2	9	11
<b>Depreciation</b>			
At 1 January 2006	-	-	-
Provided in the year	-	1	1
At 31 December 2006	-	1	1
<b>Net book amount at 31 December 2006</b>	<b>2</b>	<b>8</b>	<b>10</b>
31 December 2005	1	-	1

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## NOTES TO THE ANNUAL REPORT AND ACCOUNTS (CONTINUED)

For the year ended 31 December 2006

### 8 FIXED ASSETS INVESTMENTS

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Subsidiary undertakings	-	728	-	555
Associates	58	-	-	-
Other investments	-	-	5	5
	<b>58</b>	<b>728</b>	<b>5</b>	<b>560</b>

At 31 December 2006 the group held interests in the following investments

	Country of incorporation	Class of share capital held	Nature of business
<b>Subsidiary companies</b>			
Suntech Medical Inc*	USA	Common stock	Sale of medical instruments
Suntech Medical Ltd**	England and Wales	Ordinary	Sale of medical instruments
Oakfield Instruments Limited**	England and Wales	Ordinary	Sale of medical instruments
Suntech Medical Limited**	Hong Kong	Ordinary	Sale of medical instruments
Suntech Medical (USA) Inc**	USA	Common stock	Dormant
Oakfield Instruments Inc*	USA	Common stock	Dormant
Suntech EB Trustee Limited**	England and Wales	Ordinary	Dormant
<b>Associates</b>			
Empirical Technologies Corporation***	USA	Common stock	Medical instruments research

\* 100% owned by the group

\*\* 100% owned by the parent

\*\*\* 25% owned by the group

#### Subsidiary undertakings

	Company 2006 £000
<b>Cost</b>	
At 1 January 2006	555
Reclassified from other investments	5
Additions (note 20)	168
At 31 December 2006	<b>728</b>

#### Associates

	Group 2006 £000
<b>Cost</b>	
At 1 January 2006	-
Additions	57
Share of retained profit	1
At 31 December 2006	<b>58</b>

**SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS**

**NOTES TO THE ANNUAL REPORT AND ACCOUNTS (CONTINUED)**

For the year ended 31 December 2006

**9 STOCKS**

	<b>Group 2006 £000</b>	<b>Company 2006 £000</b>	<b>Group 2005 £000</b>	<b>Company 2005 £000</b>
Raw materials and consumables	457	-	522	-
Work in progress	157	-	182	-
Finished goods and goods for resale	482	-	163	-
	<u>1,096</u>	<u>-</u>	<u>867</u>	<u>-</u>

**10 DEBTORS**

	<b>Group 2006 £000</b>	<b>Company 2006 £000</b>	<b>Group 2005 £000</b>	<b>Company 2005 £000</b>
Trade debtors	1,426	-	1,228	-
Amounts owed by group undertakings	-	341	-	74
Amounts owed by related undertakings	2	-	14	6
Prepayments and accrued income	133	12	49	9
Other debtors	19	2	87	-
Deferred tax asset	173	-	14	-
Corporation tax recoverable	17	-	148	-
	<u>1,770</u>	<u>355</u>	<u>1,540</u>	<u>89</u>

The deferred tax asset comprises

	<b>Group 2006 £000</b>	<b>Group 2005 £000</b>
Accelerated capital allowances	44	100
Other timing differences	129	(86)
	<u>173</u>	<u>14</u>

**11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>Group 2006 £000</b>	<b>Company 2006 £000</b>	<b>Group 2005 £000</b>	<b>Company 2005 £000</b>
Bank overdraft	112	-	-	-
Trade creditors	352	24	276	21
Amounts owed to group undertakings	-	961	-	627
Amounts owed to related undertakings	1	1	9	5
Corporation tax	17	-	113	11
Other taxation and social security	30	8	16	6
Accruals and deferred income	455	26	603	8
Other creditors	26	-	6	-
	<u>993</u>	<u>1,020</u>	<u>1,023</u>	<u>678</u>

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## NOTES TO THE ANNUAL REPORT AND ACCOUNTS (CONTINUED)

For the year ended 31 December 2006

### 12 SHARE CAPITAL

	2006 £000	2005 £000
Authorised		
100,000,000 Ordinary shares of 10p each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
1,161,981 (2005 1,161,981) Ordinary shares of 10p each	<u>116</u>	<u>116</u>

#### Contingent rights to the allotment of shares

As at 31 December 2006 the group maintained one share-based payment scheme for employee compensation

The company has granted options to certain directors and employees in respect of 260,750 (2005 244,500) 10p ordinary shares at £1 21 - £5 88 per share, exercisable between December 2004 and June 2016

For the options granted to vest the company must achieve an average earnings per share (EPS) growth exceeding UK Retail Price Index + 1% over a three year period. The beneficiaries should be in continuous employment during the period other than early termination of employment by attaining normal retirement age, ill health or redundancy

All share based employee compensation will be settled in equity. The group has no legal or constructive obligation to repurchase or settle the options.

Share option and weighted average exercise price are as follows for the reporting periods presented

	Number	2006 Weighted average exercise price pence	Number	2005 Weighted average exercise price pence
Outstanding at 1 January	244,500	142	240,500	129
Granted	16,250	588	9,000	500
Lapsed	-	-	(2,500)	190
Exercised	-	-	(2,500)	121
Outstanding at 31 December	<u>260,750</u>	<u>170</u>	<u>244,500</u>	<u>142</u>

The fair values of options which were granted since 30 April 2003 were determined by using the Black-Scholes valuation model. Significant inputs into the calculation include a weighted average share price of £1 70 and exercise prices as illustrated above. Furthermore the calculation takes into account a volatility rate of 9.5%, based on expected share price. Risk-free interest rate was determined at 4.75%.

The underlying expected volatility was determined by reference to historical data. No special features immanent to the options granted were incorporated into the measurement of fair value.

In total, £66,000 of employee compensation expense relating to share options has been included in the consolidated profit and loss statement for 2006 (2005 £79,000). The corresponding credit is taken to shareholders' funds. No liabilities were recognised due to share-based transactions.

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## NOTES TO THE ANNUAL REPORT AND ACCOUNTS (CONTINUED)

For the year ended 31 December 2006

### 13 RESERVES

	Share premium account £000	Profit and loss account £000
<b>The group</b>		
At 1 January 2006	3	4,566
Exchange adjustment	-	(535)
Profit for the year	-	551
Share options expense transferred to reserves (see note 4)	-	66
Shares held by the Employee Benefit Trust	-	(71)
At 31 December 2006	<u>3</u>	<u>4,577</u>
	Share premium account £000	Profit and loss account £000
<b>The company</b>		
At 1 January 2006	3	96
Loss for the year	-	(126)
Share options expense transferred to reserves	-	66
Shares held by the Employee Benefit Trust	-	(71)
At 31 December 2006	<u>3</u>	<u>(35)</u>

### 14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 2006 £000	Company 2006 £000	Restated Group 2005 £000	Restated Company 2005 £000
Exchange adjustment	(535)	-	401	-
Shares allotted during the year	-	-	3	3
Profit/(loss) for the year	551	(126)	925	(34)
Shares held by the Employee Benefit Trust	(71)	(71)	-	-
Share options expense	66	66	79	79
Increase/(decrease) in shareholders' funds	<u>11</u>	<u>(131)</u>	<u>1,408</u>	<u>48</u>
Shareholders' funds at 1 January 2006	4,685	215	3,277	167
Shareholders' funds at 31 December 2006	<u>4,696</u>	<u>84</u>	<u>4,685</u>	<u>215</u>

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## NOTES TO THE ANNUAL REPORT AND ACCOUNTS (CONTINUED)

For the year ended 31 December 2006

### 15 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £000	Restated 2005 £000
Operating profit	606	1,189
Depreciation	112	94
Loss on sale of tangible fixed assets	2	-
Increase in stocks	(196)	(74)
Increase in debtors	(295)	(180)
Increase in creditors	160	240
Exchange adjustments	(281)	(17)
Share of associate's retained profit	(1)	-
Share option expense	66	79
Net cash inflow from operating activities	173	1,331

### 16 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006 £000	2005 £000
(Decrease)/increase in cash in the year	(407)	1,077
Effect of foreign exchange movements	(320)	227
Movement in net funds in the year	(727)	1,304
Net funds at 1 January 2006	3,008	1,704
Net funds at 31 December 2006	2,281	3,008

### 17 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2006 £000	Cash flow £000	Exchange movement £000	At 31 December 2006 £000
Cash in hand and at bank	3,008	(295)	(320)	2,393
Bank overdrafts	-	(112)	-	(112)
	3,008	(407)	(320)	2,281

### 18 PENSIONS

The group operates defined contribution pension schemes for the benefit of eligible employees. The assets of the schemes are administered by trustees in funds independent from those of the group.

# SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

## NOTES TO THE ANNUAL REPORT AND ACCOUNTS (CONTINUED)

For the year ended 31 December 2006

### 19 LEASING COMMITMENTS

Operating lease payments are due within one year as set out below. The leases to which these amounts relate expire as follows:

The group	2006 Land and buildings £000	2006 Other £000	2005 Land and buildings £000	2005 Other £000
In one year or less	34	-	-	1
Between two and five years	147	6	150	2
Over five years	-	-	-	1
	<u>181</u>	<u>6</u>	<u>150</u>	<u>4</u>

#### The company

Between two and five years	<u>30</u>	<u>-</u>	<u>30</u>	<u>-</u>
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### 20 ACQUISITION

The group purchased the entire share capital of Oakfield Instruments Limited, and its subsidiary undertaking on 3 January 2006 for a total consideration of £159,196.

The total assets and liabilities acquired were as follows:

	Book value £'000	Accounting alignment £'000	Other major items £'000	Fair value £'000
Tangible fixed assets	34	-	-	34
Intangible fixed assets	317	-	(317)	-
Stocks	151	-	-	151
Debtors	167	-	-	167
Deferred tax	-	-	130	130
Cash	1	-	-	1
Total assets	<u>670</u>	<u>-</u>	<u>(187)</u>	<u>483</u>
Bank loans	101	-	-	101
Trade creditors	106	-	-	106
Other creditors	11	-	-	11
Accruals	79	13	-	92
Total liabilities	<u>297</u>	<u>13</u>	<u>-</u>	<u>310</u>
Net assets	<u>373</u>	<u>(13)</u>	<u>(187)</u>	<u>173</u>
Satisfied by				
Cash consideration				159
Acquisition costs				<u>9</u>
				168
Investment already held (see note 8)				<u>5</u>
Total cost of investment				<u>173</u>

## **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SUNTECH MEDICAL GROUP LIMITED**

We have audited the group and parent company financial statements (the "financial statements") of Suntech Medical Group Limited for the year ended 31 December 2006 which comprises the principal accounting policies, the consolidated profit and loss account and the consolidated statement of total recognized gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and notes 1 to 20. These financial statements have been prepared under accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the five year trading history, chairman's statement, review of operations, and the report of the directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

**Grant Thornton UK LLP**

**GRANT THORNTON UK LLP**

**CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS**

Central Milton Keynes

14 May 2007



**SUNTECH MEDICAL GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS**

**ANNUAL REPORT AND ACCOUNTS**

For the year ended 31 December 2006

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Company registration number	4038252
Registered office	Laytons Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0LS
Directors	J K Laurie M S Lawson R R Woolley D C McBee R Willcock
Secretary	R Willcock
Bankers	HSBC Bank Plc 65 Cornmarket Street Oxford OX1 3HY England  RBC Centura 4300 Glenwood Avenue Raleigh NC 27612 USA
Solicitors	Laytons Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0LS
Auditors	Grant Thornton UK LLP Registered auditors Chartered accountants Grant Thornton House 202 Silbury Boulevard Central Milton Keynes MK9 1LW