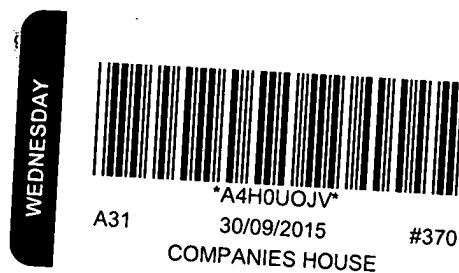


2

# Orthosonics Limited

## Report and Financial Statements

31 December 2014



**Directors**

B Bradnock  
M Finegan  
M Barry  
D Rice  
M Royall

**Company Secretary**

M Royall  
D Rice

**Auditors**

Ernst & Young LLP  
Apex Plaza  
Forbury Road  
Reading RG1 1YE

**Bankers**

Bank of America  
PO Box 407  
5 Canada Square  
London E14 5AQ

**Registered Office**

4<sup>th</sup> Floor  
115 George Street  
Edinburgh  
EH2 4JN

Registered No. SC127003

## Strategic report

The directors present their strategic report for the year ended 31 December 2014.

### Review of the business

The principal activity of the company in the year was that of medical equipment designers, manufacturers and distributors.

The Company made an increased profit for 2014, experiencing 0.8% revenue growth in the UK but a 16% decline in US markets. Revenues in these areas are expected to remain consistent during 2015. Gross margins remain strong and have improved due to sales mix of warranty, hires and capital equipment sales.

The company KPI's are as follows:

	2014 £000	2013 £000	Change %
Turnover	3,724	4,104	(9)%
Operating profit	132	26	381%
Profit for the financial year	132	26	381%
Trade receivables	702	856	(18)%
Days sales outstanding	75days	76 days	(1)%
Inventory	1,312	877	50%
Inventory turns per year	0.85	1.59	(47)%

Oscar 3 sales for 2014 amounted to £504,000 - 13 units (2013: £630,000 20 units)

SRA Developments Ltd continues to be our primary supplier/manufacture and this continues to secure our ability to deliver products to the market in a timely fashion. The company has signed a new Master Services Agreement for Manufacture and Maintenance with SRA Developments Ltd, dated 19 August 2014.

### Research and development

The company is actively involved in further research and development of its products. The costs incurred are written off to the profit and loss account as they are incurred.

### Future developments

We continue to be optimistic about the long-term future of the business as we protect the domestic market whilst further developing the existing US market and expanding new markets by a change in sales strategy throughout Europe, Asia and Emerging Markets.

On behalf of the Board

M Barry  
Director  
Date

 30/9/15

## Directors' report

The Directors present their report and financial statements for the year ended 31 December 2014.

### Results and dividends

The profit for the year after taxation amounted to £ 132,380 (2013 – profit of £25,978). The directors do not recommend a final dividend (2013 – £nil).

### Going concern

In undertaking a going concern review, the directors have made enquiries of the directors of the ultimate parent undertaking and reviewed financial and other relevant information of the company including budgets and cash flow forecasts for a period of at least twelve months from the date of signing these financial statements. The ultimate parent undertaking, Orthofix International N.V., has indicated its intention to provide financial support as is necessary for the company to continue in operation and to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements. The directors have concluded that they have no reason to believe that uncertainties exist that may cast significant doubt about the ability of the company to continue as a going concern. Accordingly, the directors have a reasonable expectation that the company will continue in operational existence and thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

### Events since the balance sheet date

#### Directors

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

B Bradnock	
M Finegan	
M Barry	
E Buxton	(resigned 14 May 2014)
M Heggstad	(appointed 16 June 2014, resigned 26 September 2014)
D Rice	(appointed 19 December 2014)
M Royall	(appointed 19 December 2014)

#### Directors' liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

#### Disclosure of information to the auditors

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

## Directors' report

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

### Small company exemptions

This report has been prepared in accordance with the special provisions applicable to companies subject to the small companies regime within Part 15 of the Companies Act 2006.

On behalf of the Board

M Barry  
Director  
Date

 30/9/15

## Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

## **to the members of Orthosonics Limited**

We have audited the financial statements of Orthosonics Limited for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

## **Independent auditors' report (continued)**

**to the members of Orthosonics Limited**

### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report.

*Ernst & Young LLP*

Ian Oliver (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Reading

Date 30/9/15

## Profit and loss account

for the year ended 31 December 2014

	Notes	2014 £	2013 £
<b>Turnover</b>	2	3,724,054	4,103,748
Cost of sales		<u>(1,111,676)</u>	<u>(1,390,613)</u>
<b>Gross Profit</b>		2,612,378	2,713,135
Distribution costs		(1,046,810)	(1,201,341)
Administrative expenses		<u>(1,433,188)</u>	<u>(1,485,816)</u>
<b>Operating Profit</b>	3	132,380	25,978
<b>Profit on ordinary activities before taxation</b>		<u>132,380</u>	<u>25,978</u>
Tax	6	-	-
<b>Profit for the financial year</b>	13	<u>132,380</u>	<u>25,978</u>

All amounts relate to continuing activities.

## Statement of total recognised gains and losses

for the year ended 31 December 2014

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £132,380 in the year ended 31 December 2014 (2013 – profit of £25,978).

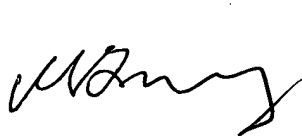
## Balance sheet

at 31 December 2014

	Notes	2014 £	2013 £
<b>Fixed assets</b>			
Intangible assets	7	68,619	82,692
Tangible assets	8	182,642	228,596
		<u>251,261</u>	<u>311,288</u>
<b>Current assets</b>			
Stocks	9	1,312,267	877,219
Debtors	10	769,755	866,870
Cash at bank and in hand		643,289	977,831
		<u>2,725,311</u>	<u>2,721,920</u>
<b>Creditors:</b> amounts falling due within one year	11	(834,129)	(1,023,145)
<b>Net current assets</b>		<u>1,891,182</u>	<u>1,698,775</u>
<b>Total assets less current liabilities</b>		<u>2,142,443</u>	<u>2,010,063</u>
<b>Capital and reserves</b>			
Called up share capital	12, 13	120	120
Share premium account	13	166,869	166,869
Profit and loss account	13	1,975,454	1,843,074
<b>Shareholders' funds</b>	13	<u>2,142,443</u>	<u>2,010,063</u>

Approved by the Board

M Barry  
Director  
Date



30/9/15

## Notes to the financial statements

at 31 December 2014

### 1. Accounting policies

#### ***Basis of preparation***

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

#### ***Going concern***

In undertaking a going concern review, the directors have made enquiries of the directors of the ultimate parent undertaking and reviewed financial and other relevant information of the company including budgets and cash flow forecasts for a period of at least twelve months from the date of signing these financial statements. The ultimate parent undertaking, Orthofix International N.V., has indicated its intention to provide financial support as is necessary for the company to continue in operation and to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements. The directors have concluded that they have no reason to believe that uncertainties exist that may cast significant doubt about the ability of the company to continue as a going concern. Accordingly, the directors have a reasonable expectation that the company will continue in operational existence and thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

#### ***Statement of cash flows***

The directors have taken advantage of the exemption in FRS 1 (revised) from including a statement of cash flows in the financial statements on the grounds that the company is wholly owned and its ultimate parent undertaking, Orthofix International N.V. publishes group financial statements which include a statement of cash flows.

#### ***Intangible fixed assets***

Intangible fixed assets, comprising patent costs, are stated at cost less depreciation. Depreciation is provided at 10% on a straight-line basis to write off the cost less estimated residual value of each asset over its expected useful life.

#### ***Tangible fixed assets***

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, as follows:

Motor vehicles	–	4 years
Hire and demonstration equipment	–	3 years
Computers and office equipment	–	3 years

The carrying values of tangible and intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### ***Revenue recognition***

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer which is usually on despatch from the company's warehouse, provided that there are no uncertainties regarding acceptance, there is persuasive evidence of an arrangement, the sale price is fixed or determinable and collection of the related receivable is probable.

The revenue from equipment hired to customers on an operating lease is recognised on a straight-line basis over the hire period.

## Notes to the financial statements

at 31 December 2014

### 1. Accounting policies (continued)

#### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. Where necessary, provision is made for obsolete, slow moving and defective stocks.

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

#### **Deferred taxation**

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

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

#### **Foreign currencies**

Monetary assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken to the profit and loss account.

#### **Operating leases**

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

#### **Pensions**

The company operates a defined contribution scheme on behalf of all eligible employees. The charge against profits is the amount of contributions payable to the pension scheme in respect of the accounting period.

#### **Research and development expenditure**

Research and development expenditure is written off to the profit and loss account as incurred.

### 2. Turnover

Turnover arises from the principal activities of the company and originates in the United Kingdom. All activities are continuing.

Turnover represents recognised sales less credit notes to outside customers and excludes value added tax.

	2014	2013
	£	£
United Kingdom	2,068,543	2,051,757
Other European countries	427,389	474,424
USA	1,129,524	1,338,271
Rest of World	98,598	239,296
	<u>3,724,054</u>	<u>4,103,748</u>

## Notes to the financial statements

at 31 December 2014

### 3. Operating Profit

This is stated after charging / (crediting):

	2014	2013
	£	£
Auditor's remuneration – audit of the financial statements	22,500	18,950
– taxation services	6,500	5,350
Depreciation of owned fixed assets	106,973	152,060
Amortisation of intangible assets	14,073	14,496
(Profit)/ Loss on disposal of fixed assets	(2,985)	6,532
(Gain)/Loss on foreign currency translation	(1,592)	15,613

### 4. Directors' remuneration

	2014	2013
	£	£
Aggregate remuneration	25,000	25,409

Certain directors' remuneration has been borne by other group companies. Those directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 December 2014 and 31 December 2013.

### 5. Staff costs

	2014	2013
	£	£
Wages and salaries	352,700	481,264
Social security costs	9,489	11,493
Other pension costs	3,551	3,448
	365,740	496,205

The average monthly number of employees (including executive directors) during the year was:

	2014	2013
	No.	No.
Sales and marketing	3	5
General and administrative	3	3
	6	8

## Notes to the financial statements

at 31 December 2014

### 6. Tax

(a) Tax on profit on ordinary activities

The tax result is made up as follows:

	2014	2013
	£	£
<b>Current tax:</b>		
UK corporation tax on the profit for the year	–	–
Adjustment in respect of prior years	–	–
Total current tax (note 6(b))	–	–
Deferred tax (note 6(c))	–	–
Tax charge (credit) on profit on ordinary activities	–	–

(b) Factors affecting the current tax for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 21.5 % (2013 – 23.25%). The differences are explained below:

	2014	2013
	£	£
Profit on ordinary activities before tax	132,380	25,978
Tax on profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.5% (2013 – 23.25%)	28,462	6,040
<b>Effects of:</b>		
Disallowed expenses and non-taxable income	169	1,323
Depreciation in excess of capital allowances	(18,236)	36,771
Group relief claimed	(10,394)	(44,134)
Current tax charge (credit) for the year (note 6(a))	–	–

## Notes to the financial statements

at 31 December 2014

### 6. Tax (continued)

#### (c) Deferred tax

The unrecognised deferred tax asset is made up as follows:

	<i>Unrecognised</i>	
	<i>2014</i>	<i>2013</i>
	£	£
Accelerated capital allowances	<u>274,817</u>	<u>292,900</u>

The statutory financial statements do not recognise the deferred tax assets of £274,817 (2013 – £292,900) as the directors consider there is uncertainty that there will be suitable taxable profits from which the future reversal of this timing difference can be deducted.

#### (d) Factors that may affect future tax charges

In his Budget 2013 on 20 March 2013, the Chancellor of the Exchequer announced further changes to the UK rate of corporation tax. This included a reduction in the UK corporation tax rate from 23% to 21% effective 1 April 2014 and a further 1% reduction to 20% from 1 April 2015.

Finance Act 2013, which includes these further reductions in the UK corporate tax rate, was substantively enacted in July 2013 and so deferred tax assets and liabilities have been calculated accordingly at 20%.

The UK government intends to reduce the UK corporate income tax rate further, to 19% by 1 April 2017 and 18% by 1 April 2020, which will be enacted in subsequent Finance Bills.

### 7. Intangible fixed assets

	<i>Patent costs</i>
	£
<b>Cost:</b>	
At 1 January 2014	189,099
Additions	-
Disposals	-
At 31 December 2014	<u>189,099</u>
<b>Amortisation:</b>	
At 1 January 2014	106,407
Provided during the year	14,073
Disposals	-
At 31 December 2014	<u>120,480</u>
Net book value:	
At 31 December 2014	<u>68,619</u>
At 1 January 2014	<u>82,692</u>

## Notes to the financial statements

at 31 December 2014

### 8. Tangible fixed assets

	<i>Computers and office equipment</i>	<i>Motor vehicles</i>	<i>Hire and demo equipment</i>	<i>Total</i>
	£	£	£	£
Cost:				
At 1 January 2014	8,427	24,688	1,715,066	1,748,181
Additions	4,166	-	56,455	60,621
Transfer	-	-	5	5
Disposals	-	(24,688)	-	(24,688)
At 31 December 2014	12,593	-	1,771,526	1,784,119
Depreciation:				
At 1 January 2014	6,557	22,688	1,490,340	1,519,585
Provided during the year	1,306	-	105,667	106,973
Transfer	-	-	(2,393)	(2,393)
Disposals	-	(22,688)	-	(22,688)
At 31 December 2014	7,863	-	1,593,614	1,601,477
Net book value:				
At 31 December 2014	4,730	-	177,912	182,642
At 1 January 2014	1,870	2,000	224,726	228,596

Included within the amounts for hire and demo equipment are the following which have been leased to hospitals under operating leases:-

	2014	2013
	£	£
Cost	45,510	45,510
Accumulated depreciation	(43,427)	(36,592)
	2,083	8,918

### 9. Stocks

	2014	2013
	£	£
Finished goods	1,312,267	877,219

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Stock of £133,606 (2013 – £140,818) is held by hospitals on a consignment basis.

## Notes to the financial statements

at 31 December 2014

### 10. Debtors

	2014	2013
	£	£
Trade debtors	702,112	856,313
Other current assets	2,036	-
Prepayments and accrued income	65,607	10,557
	<u>769,755</u>	<u>866,870</u>

### 11. Creditors: amounts falling due within one year

	2014	2013
	£	£
Amounts owed to group undertakings	161,274	371,203
Trade creditors	70,604	156,454
Accruals and deferred income	597,934	477,623
Other creditors	4,317	17,865
	<u>834,129</u>	<u>1,023,145</u>

### 12. Issued share capital

	2014		2013	
<i>Allotted, called up and fully paid</i>	No.	£	No.	£
Ordinary shares of £1 each	120	<u>120</u>	120	<u>120</u>

### 13. Reconciliation of shareholders' funds and movements on reserves

	Share capital	Share premium	Profit and loss account	Total shareholders' funds
	£	£	£	£
At 1 January 2013	120	166,869	1,817,096	1,984,085
Profit for the year	-	-	25,978	25,978
At 1 January 2014	120	166,869	1,843,074	2,010,063
Profit for the year	-	-	132,380	132,380
At 31 December 2014	<u>120</u>	<u>166,869</u>	<u>1,975,454</u>	<u>2,142,443</u>

## Notes to the financial statements

at 31 December 2014

### 14. Related party transactions

Goods and services purchased from related parties:

	2014	2013
	£	£
B.R.D.P. Bradnock	25,000	25,000

B Bradnock provides medical consultancy services and is also a director of the company.

Balances due to related parties at 31 December:

	2014	2013
	£	£
B Bradnock	12,500	12,500

The company is not required to disclose transactions with wholly owned fellow group undertakings in the Orthofix International N.V. group under the exemptions provided by FRS 8. There were no other transactions with related parties which would be required to be disclosed under the standard or other requirements.

### 15. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Orthofix International N.V., a company registered in the Netherlands Antilles.

The directors regard Orthofix International N.V., a company incorporated in the Netherlands Antilles, as the ultimate parent undertaking and controlling party. The company has been included in the group financial statements of Orthofix International N.V. Copies of the group financial statements can be obtained from The Bank of New York Mellon, 101 Barclay Street, New York, NY 10286, United States of America.