

REPORT AND ACCOUNTS

SMITH & NEPHEW FARNHAM LIMITED

31 December 2005



SMITH & NEPHEW FARNHAM LIMITED

Registered No. 473439

DIRECTORS

P.R. Chambers

L. Fuller

SECRETARY

Smith & Nephew Nominee Services Limited

AUDITORS

Ernst & Young LLP

1 More London Place

London

SE1 2AF

REGISTERED OFFICE

15 Adam Street

London

WC2N 6LA

SMITH & NEPHEW FARNHAM LIMITED

Registered No. 473439

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 2005.

Activities and review of operations

The principal activity of the Company is to act as a finance company.

Results and dividends

There was a £25,000 loss attributable to shareholders for the year (2004: nil). The Directors do not recommend payment of a dividend (2004: nil).

Directors

The Directors of the Company at the date of this report are shown on page 1.

Directors' interests

None of the Directors has any beneficial interest in the shares of the Company. The interests of the Directors, who were Directors as at 31 December 2005, in the share capital of the ultimate holding company were as follows:-

	Ordinary Shares		Options over Ordinary Shares (i)		Co-investment Plan Matched Shares at 1 x gross bonus (ii)		Performance Share Plan Share Awards (iii)	
	At	At 01/01/05	At	At 01/01/05	At 31/12/05	At 01/01/05	At	At 01/01/05
	31/12/05		31/12/05				31/12/05	
P.R. Chambers	27,197	16,821	56,373	49,805	1,976	-	5,908	-
L. Fuller	14,536	9,242	106,553	120,071	6,937	3,517	14,428	6,944

(i) The options granted under Executive and Employee Share Option Schemes are exercisable between 2005 and 2012 at prices ranging between 145p and 574.5p per share. During the year, under the rules of Smith & Nephew plc's Share Option Schemes, P.R. Chambers was granted 17,589 Share Options and exercised 11,021 Share Options and L. Fuller was granted 22,268 Share Options and exercised 35,786 Share Options.

(ii) P.R. Chambers was awarded 1,976 shares and L. Fuller was awarded 3,420 shares under the 2004 Co-investment Plan. Subject to attainment of performance conditions, a further 100% of the award may vest.

(iii) During the year P.R. Chambers was awarded 5,908 shares and L. Fuller was awarded 7,484 shares under the 2004 Performance Share Plan. Subject to attainment of performance conditions, a further 50% of the award may vest.

Further details of the above schemes can be found in the Smith & Nephew plc accounts.

There were no other notifiable interests as at 31 December 2005 or 1 January 2005.

SMITH & NEPHEW FARNHAM LIMITED

Registered No. 473439

DIRECTORS' REPORT

Statement of Directors' responsibilities for the accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, 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; and*
- *prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.*

The Directors confirm that the accounts comply with the above requirements.

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 accounts comply with the Companies Act 1985. 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.

Auditors

The Company has passed elective resolutions pursuant to S379A of the Companies Act and accordingly the auditors will remain in office.

By order of the Board



Smith & Nephew Nominee Services Limited
Secretary

SMITH & NEPHEW FARNHAM LIMITED

Registered No. 473439

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SMITH & NEPHEW FARNHAM LIMITED**

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 13. These financial statements have been prepared under the 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 are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it.

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 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 Company's affairs as at 31 December 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

22nd October 2006

SMITH & NEPHEW FARNHAM LIMITED

Registered No. 473439

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Other income		73	32
Operating expenses		<u>(98)</u>	<u>(32)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2&3	(25)	-
Taxation	4	<u>-</u>	<u>-</u>
RETAINED LOSS FOR THE YEAR		<u>(25)</u>	<u>-</u>

All the above results derive from continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2005

There are no recognised gains and losses other than the loss attributable to the shareholder of the Company of £25,000 for the year ended 31 December 2005 (2004: nil).

SMITH & NEPHEW FARNHAM LIMITED

Registered No. 473439

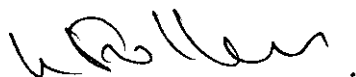
BALANCE SHEET

at 31 December 2005

	Notes	2005 £000	2004 £000
CURRENT ASSETS: Debtors	5	3,027	11,998
CREDITORS: amounts falling due within one year	6	<u>(31)</u>	<u>(8,994)</u>
NET CURRENT ASSETS		2,996	3,004
PROVISIONS FOR LIABILITIES AND CHARGES	7	<u>(17)</u>	<u>-</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,979</u>	<u>3,004</u>
CAPITAL AND RESERVES			
Called up share capital	8	3,004	3,004
Profit and loss account	9	<u>(25)</u>	<u>-</u>
EQUITY SHAREHOLDER'S FUNDS	9	<u>2,979</u>	<u>3,004</u>

These financial statements were approved by the Board of Directors on behalf by L. Fuller, Director:

23 October 2006 and signed on its



NOTES TO THE ACCOUNTS
at 31 December 2005

1. ACCOUNTING POLICIES

Accounting Convention

The accounts have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Leases

Rentals paid/ received under operating leases are charged/ credited to operating profit on a straight-line basis over the term of the relevant lease.

Deferred tax

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 a right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is likely that taxable income will be available against which future reversals of the underlying timing differences can be made.

Contingencies and provisions

Provision is made for loss contingencies when it is deemed probable that an adverse outcome will occur and the amount of the loss can be reasonably estimated.

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005	2004
	£000	£000
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Operating lease rentals receivable on land and buildings	(73)	(32)
Operating lease rentals payable on land and buildings	<u>71</u>	<u>32</u>

Certain fees for audit and non-audit services provided by Ernst & Young LLP to the Company have been borne by a fellow group company.

3. DIRECTORS' REMUNERATION

All employment costs attributable to the Directors are borne by a fellow group company.

NOTES TO THE ACCOUNTS
at 31 December 2005

4. TAXATION

(a) Factors affecting tax charge for period

The tax assessed for the year is lower (2004: equal to) than the loss on ordinary activities before tax at the standard rate of corporation tax in the UK – 30% (2004 – 30%)

	2005	2004
	£000	£000
Loss on ordinary activities before tax	(25)	-
Loss on ordinary activities multiplied by standard rate of corporation tax in UK of 30% (2004 – 30%)	(8)	-
<i>Effects of:</i>		
Tax losses not recognised as deferred tax asset	8	-
Current tax credit	-	-

(b) Factors affecting future tax charge

A deferred tax asset of £8,000 has not been recognised on the grounds that the Company does not expect to generate any future taxable profits against which the losses may be offset.

5. DEBTORS

	2005	2004
	£000	£000
<i>Amounts falling due within one year:</i>		
Amount owed by immediate parent company	3,004	-
Prepayments and accrued income	10	-
Trade debtors	13	-
Amount owed by ultimate parent company	-	11,998
	<u>3,027</u>	<u>11,998</u>

6. CREDITORS: amounts falling due within one year

	2005	2004
	£000	£000
Amount owed to ultimate parent company	21	-
Deferred income	10	-
Amount owed to immediate parent company	-	8,994
	<u>31</u>	<u>8,994</u>

NOTES TO THE ACCOUNTS
at 31 December 2005

7. PROVISIONS FOR LIABILITIES AND CHARGES

	£000
<i>Other provisions</i>	
At 1 January 2005	-
Provision made during the year	17
	<hr/>
At 31 December 2005	17
	<hr/>

The Company has a contractual obligation under the terms of the operating lease for dilapidations. Management is in discussions with the landlord as to the amount that the Company must pay to the landlord to settle the obligation and considers the amount provided to be its determination of the amount of the obligation.

All legal fees associated with the above discussions have been borne by a fellow group undertaking.

8. SHARE CAPITAL

	Authorised 2005 & 2004	Allotted, Issued and Fully paid 2005 & 2004
Ordinary shares of £1 each		
	3,004,000	3,003,908
	<hr/>	<hr/>

9. RECONCILIATION OF SHAREHOLDER'S FUNDS AND MOVEMENT IN RESERVES

	Share Capital £000	Profit and Loss Account £000	2005 Total Shareholder's Funds £000	2004 Total Shareholder's Funds £000
As at 1 January	3,004	-	3,004	3,004
Loss for the year	-	(25)	(25)	-
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December	3,004	(25)	2,979	3,004
	<hr/>	<hr/>	<hr/>	<hr/>

10. FINANCIAL COMMITMENTS

At 31 December 2005, the Company had annual commitments under operating leases as set out below:

	Land and Buildings 2005 £000	2004 £000
Operating leases which expire:		
Within one year	-	70
After one year and within five years	-	17
	<hr/>	<hr/>
	-	87
	<hr/>	<hr/>

SMITH & NEPHEW FARNHAM LIMITED

Registered No. 473439

**NOTES TO THE ACCOUNTS
at 31 December 2005**

11. CASH FLOW STATEMENT

The Company is not required to produce a cash flow statement. It is a wholly owned subsidiary of Smith & Nephew plc which prepares consolidated financial statements in which the Company is included.

12. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are members of the Smith & Nephew plc group.

13. GROUP ACCOUNTS

The Company's immediate parent undertaking is Smith & Nephew Trading Group Limited, a company registered in England and Wales. In the Directors' opinion the Company's ultimate parent undertaking and controlling party is Smith & Nephew plc, a company registered in England and Wales. Copies of its group accounts, which include the Company, are available from 15 Adam Street, London, WC2N 6LA.