

Synthes Limited

**Directors' report and financial
statements**

Registered number 1231893

31 December 2005



4ES1,610.06

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The principal activities of the company are the distribution of implants and instrument systems for fracture treatment and orthopaedic surgery and the provision of services to the medical and veterinary professions, based upon a firm and continuing commitment to postgraduate education.

Business review

The directors are pleased with the 2005 result. The profit for the year after taxation was £5,189,000 (2004: £5,489,000).

Our business climate remains unchanged and we continue to see growth in our core business. Expansion in our manpower and operations will enable us to grow our sales in 2006.

Future developments

The directors aim to maintain the management policies which have resulted in the company's substantial growth in recent years. They consider that 2006 will show further growth in sales, particularly in the spinal market.

Proposed dividend

The directors do not recommend the payment of a dividend (2004: £nil).

Directors and directors' interests

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

C Huber	(resigned 15 January 2006)
AJ Gibson	(resigned 2 September 2005)
F Leuzinger	(resigned 13 January 2006)
U Fluck	(appointed 27 December 2005)
E Baumgartner	(appointed 27 December 2005)
C Romer	(appointed 27 December 2005)

None of the directors had any beneficial interest in the shares of the company at the beginning or end of the year.

The interests of the directors in the ultimate parent undertaking are disclosed in the directors' report of that company.

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 by them, during the financial year.

Political and charitable contributions

The company made no political contributions during the year (2004: £nil). Donations to UK charities amounted to £2,500 (2004: £3,000).

Directors' Report *(continued)*

Liability insurance

During the year the company maintained liability insurance for its directors against claims and liabilities arising in the performance of their duties.

Auditors

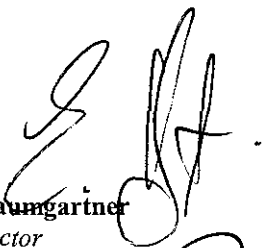
In accordance with section 384 of the Companies Act 1985 a resolution for the reappointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

U Fluck
Director



E Baumgartner
Director



C Romer
Director



21/8/2006

20 Tewin Road
Welwyn Garden City
Hertfordshire
AL7 1LG

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss 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 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 that 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SYNTHES LIMITED

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 18. 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 within it.

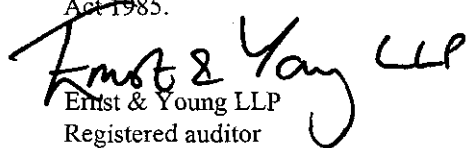
Basis of audit opinion

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 profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP

Registered auditor

Luton

Date

30 October 2006

Profit and loss account
for the year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Turnover	2	45,742	41,845 ✓
Cost of sales		(30,970)	(26,687)
Gross profit		14,772	15,158 ✓
Distribution costs		(599)	(580) ✓
Administration expenses		(7,206)	(6,778) ✓
Operating profit		6,967	7,800 ✓
Interest receivable and similar income	3	427	122 ✓
Interest payable and similar charges	4	(2)	- ✓
Profit on ordinary activities before taxation	5	7,392	7,922 ✓
Tax on profit on ordinary activities	6	(2,203)	(2,433) ✓
Profit on ordinary activities after taxation		5,189	5,489 ✓
Dividends		-	-
Retained profit for the financial year		5,189	5,489 ✓
Retained profit brought forward		15,365	9,876 ✓
Retained profit carried forward		20,554	15,365 ✓

Synthes Limited has no recognised gains or losses in the current or preceding year other than those passing through the profit and loss account.

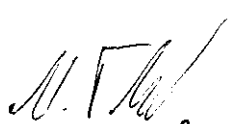
The figures for the current and prior year represent amounts relating to continuing operations only.

Balance sheet
at 31 December 2005

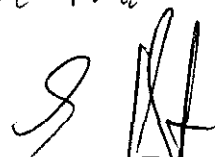
	Note	2005 £000	2004 £000
Fixed assets			
Tangible assets	7	6,891	6,306 ✓
Current assets			
Stocks	8	3,790	3,070 ✓
Debtors (including £7,456k (2004: £nil) due after more than one year)	9	14,829	6,427 ✓
Cash at bank and in hand		1,745	5,447 ✓
		<u>20,364</u>	<u>14,944 ✓</u>
Creditors: amounts falling due within one year	10	<u>(6,681)</u>	<u>(5,865) ✓</u>
Net current assets		<u>13,683</u>	<u>9,079 ✓</u>
Net assets		<u>20,574</u>	<u>15,385 ✓</u>
Capital and reserves			
Called up share capital	11	20	20 ✓
Profit and loss account		20,554	15,365 ✓
Equity shareholder's funds	12	<u>20,574</u>	<u>15,385 ✓</u>

These financial statements were approved by the board of directors on 21 / 8 / 2006 and were signed on its behalf by:

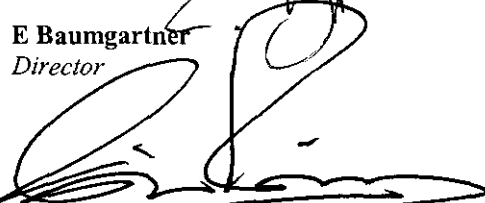
U Fluck
Director



E Baumgartner
Director



C Romer
Director



20 Tewin Road
Welwyn Garden City
Hertfordshire
AL7 1LG

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, and remain unchanged from the previous year.

Basis of preparation

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

Cash flow statement

Under the provisions of Financial Reporting Standard No.1 (Revised 1996), the company is exempt from the requirement to prepare a cash flow statement on the grounds that its parent company Stratec Holding AG has prepared consolidated financial statements which include the results of the company for the year and which contain a consolidated cash flow statement.

Related party transactions

As the company is a wholly owned subsidiary of Stratec Holding AG the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Stratec Holding AG, within which this company is included, can be obtained from the address given in note 18.

Fixed assets and depreciation

All fixed assets are initially recorded at cost. 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	-2½% per annum
Computers	-33⅓% per annum
Furniture, fixtures and office equipment	-12½% per annum
Loan sets	-33⅓% per annum

No depreciation is provided on freehold land.

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract.

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

Notes (continued)

Accounting policies (continued)

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. Contributions payable to the defined contribution scheme are taken to the profit and loss account as they become payable.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing the stocks to their present location and condition. Net realisable value is based on estimated selling price less any further costs expected to completion and disposal.

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.

Deferred tax 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, with the following exceptions:

- 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.

2 Turnover

Turnover represents the invoiced value of goods sold (excluding VAT) less discounts allowed. All of the company's turnover arose from activity in the United Kingdom and Eire.

Turnover is attributable to one class of business, being the distribution of implants and instrument systems for fracture treatment and orthopaedic surgery and the provision of services to the medical and veterinary professions.

Turnover is recognised when the goods are delivered to the customer.

Notes (continued)

3 Interest receivable and similar income

	2005 £000	2004 £000
Interest receivable – bank	141	122
Interest receivable from group undertakings	286	-
	<u>427</u>	<u>122</u> ✓

4 Interest payable and similar charges

	2005 £000	2004 £000
Interest payable – bank	2	-
	<u>2</u>	<u>-</u>

5 Profit on ordinary activities before taxation

	2005 £000	2004 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration - audit	20	20 ✓
Depreciation	3,368	2,610 ✓
Operating lease rentals - motor vehicles	3	17 ✓
	<u>3,391</u>	<u>2,637</u>

6 Taxation

Analysis of charge in period

	2005 £000	2004 £000
<i>UK corporation tax</i>		
Current tax on income for the period	2,537	2,576 ✓
Adjustments in respect of prior periods	(64)	28 ✓
	<u>2,473</u>	<u>2,604</u>
Total current tax charge	2,473	2,604
Deferred tax (see note 17)	(270)	(171) ✓
	<u>2,203</u>	<u>2,433</u> ✓
Tax on profit on ordinary activities	2,203	2,433

Notes (continued)

6 Taxation (continued)

The current tax charge for the period is higher (2004: higher) than the standard rate of corporation tax in the UK (30%, (2004: 30%)). The differences are explained below.

	2005 £000	2004 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	7,392	7,922
	<hr/>	<hr/>
Current tax at 30% (2004: 30%)	2,217	2,377
	<hr/>	<hr/>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	61	15
Depreciation for the period in excess of capital allowances	259	184
Adjustments to tax charge in respect of previous periods	(64)	28
	<hr/>	<hr/>
Total current tax charge	2,473	2,604
	<hr/>	<hr/>

7 Tangible fixed assets

	Freehold land and buildings £000	Computers £000	Furniture, fixtures and office equipment £000	Loan sets £000	Total £000
<i>Cost</i>					
At beginning of year	1,236	277	530	13,472	15,515
Additions	-	65	98	3,797	3,960
Disposals	-	(89)	-	(67)	(156)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,236	253	628	17,202	19,319
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At beginning of year	302	236	438	8,233	9,209
Charged in year	27	33	15	3,293	3,368
On disposals	-	(82)	-	(67)	(149)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	329	187	453	11,459	12,428
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2005	907	66	175	5,743	6,891
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	934	41	92	5,239	6,306
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The gross book value of freehold land and buildings includes £985,000 (2004: £985,000) of depreciable assets.
The loan set additions have been transferred from stock.

Notes (continued)

8 Stocks

	2005 £000	2004 £000
Finished goods and goods for resale	3,790	3,070 ✓

Included in finished goods and goods for resale is stock valued at £338,000 (2004: £197,000) held on consignment at hospital premises. Synthes Limited retains legal title of these goods until sold.

9 Debtors

	2005 £000	2004 £000
Trade debtors	6,908	6,038 ✓
Amounts owed by group undertakings	7,153	-
Other debtors	134	11
Deferred tax asset (see note 17)	468	198 ✓
Prepayments and accrued income	166	180 ✓
	<u>14,829</u>	<u>6,427 ✓</u>

Debtors include amounts owed by group undertakings of £7,000,000 (2004: £nil) and a deferred tax asset of £456,000 (2004: £186,000) due after more than one year.

10 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Trade creditors	24	28 ✓
Amount owed to group undertakings	2,887	2,371 ✓
Other creditors including taxation and social security:		
Mainstream corporation tax	1,274	1,433 ✓
Other taxation and social security	1,610	1,166 ✓
Accruals and deferred income	886	867 ✓
	<u>6,681</u>	<u>5,865 ✓</u>

11 Called up share capital

	2005 £000	2004 £000
<i>Authorised, allotted, called up and fully paid</i>		
Equity: ordinary shares of £1 each	20	20

Notes (continued)

12 Reconciliation of movements in shareholder's funds

	2005 £000	2004 £000
Profit on ordinary activities after taxation	5,189	5,489 ✓
Dividends	-	-
	<hr/>	<hr/>
Net addition to shareholder's funds	5,189	5,489 ✓
Opening shareholder's funds	15,385	9,896 ✓
	<hr/>	<hr/>
Closing shareholder's funds	20,574	15,385 ✓
	<hr/> <hr/>	<hr/> <hr/>

13 Remuneration of directors

	2005 £000	2004 £000
Directors' emoluments	230	254 ✓
Company contributions to money purchase pension schemes	16	19 ✓
	<hr/>	<hr/>
	246	273 ✓
	<hr/> <hr/>	<hr/> <hr/>

The emoluments of the highest paid director were £145,000 (2004: £144,000), and company pension contributions of £nil (2004: £nil) were made to a money purchase scheme on his behalf.

	Number of directors	
	2005	2004
Members of money purchase schemes	1	1 ✓
	<hr/>	<hr/>

Notes (continued)

14 Staff numbers and costs

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

	Number of employees	
	2005	2004
Administration	9	9
Selling and distribution	103	94
	<u>112</u>	<u>103</u>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	3,894	3,425
Social security costs	493	452
Other pension costs (see note 15)	222	301
	<u>4,609</u>	<u>4,178</u>

15 Pensions

The pension cost charge for the year represents contributions payable by the company to the defined contribution scheme and amounts to £222,000 (2004: £301,000). There were contributions of £40,000 outstanding at the end of the financial year (2004: £40,000).

16 Commitments

There are no capital commitments at the end of the financial year (2004: £nil).

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

	2005 £000	2004 £000
Operating leases for motor vehicles which expire:		
In the second to fifth year	<u>3</u>	<u>-</u>

Notes (continued)

17 Deferred taxation

	2005 £000	2004 £000
At beginning of the year	198	27
Credit for the year	270	171
	<hr/>	<hr/>
At end of the year	468	198
	<hr/>	<hr/>

The elements of the deferred tax asset are as follows:

	2005 £000	2004 £000
Difference between accumulated depreciation and capital allowances	456	186
Other timing differences	12	12
	<hr/>	<hr/>
Undiscounted deferred tax asset (see note 9)	468	198
	<hr/>	<hr/>

18 Parent company and controlling party

The largest group in which the results of the company are consolidated is that headed by Synthes Inc., incorporated in Delaware, USA. The smallest group in which they are consolidated is that headed by Synthes Holding AG, incorporated in Switzerland. The consolidated accounts of these groups are available to the public and may be obtained from CH44 36, Oberdorf, Switzerland.

The directors regard Synthes Inc. as being the ultimate parent company and controlling party.