

**Synthes Limited**

**Directors' report and financial  
statements**

Registered number 1231893

31 December 2007

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

### Results and dividends

Profit for the year after taxation is £4,484,000 (2006 £5,105,000) The directors do not recommend the payment of a dividend (2006 nil)

The principal activities of the company continue to be 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

The key financial and other performance indicators during the year were as follows

	2007	2006	Change
	£'000	£'000	%
Turnover	60,003	48,780	+23%
Total operating profit	5,858	6,941	-16%
Profit after tax	4,484	5,105	-12%
Shareholders' funds	30,163	25,679	+17%
Average number of employees	142	123	+15%

Turnover increased by 23% in 2007 with all business units achieving strong double digit growth. Despite continuous reforms focused on cost reduction in the healthcare sector, we actually found an improved more business friendly climate in 2007 compared with last year. We were able to capitalise on more opportunities due to our substantially increased and improved sales force. While the sector benefited from increased capital funding we believe we made significant progress in strengthening our competitive position and gained appreciable market share.

Operating profit declined by 16% compared to 2006 due to continued headcount expansion and customer investments of product during 2007.

### Future developments

The directors aim to maintain the management policies which have resulted in the company's substantial growth in recent years. They foresee improving opportunities for growth driven by a full pipeline of new products and increased service levels due to our significant expansion of the sales force. The company expects to achieve strong double digit growth in 2008, well outpacing the industry average.

### Principal Risks and Uncertainties

The management team meets regularly to assess potential risks and uncertainties that could affect business performance. Following such assessments strategies are modified accordingly to maximise business potential.

- **Competitive Risk**

As market leaders we are under constant threat from the competition who want to gain market share from our Organisation. Tactics typically employed by competitors include deeply discounted pricing to attract customers seeking financial savings.

### **Director's report (cont'd)**

- Economic Risk

Our primary customer is the government funded NHS, which is always looking for ways to reduce costs as it is constantly under threat of financial shortfall. Tendering is a common method used to target lower pricing levels for medical technologies.

### **Directors**

The directors who held office during the year were as follows

U Fluck  
E Baumgartner  
C Romer

### **Political and charitable contributions**

The company made no political contributions during the year (2006 £nil). Donations to UK charities during the year amounted to £2,800 (2006 £2,500).

### **Liability insurance**

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

### **Directors' statement as to disclosure of information to auditors**

The directors who were members of the board at the time of approving the directors' report are listed above. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

### Auditors

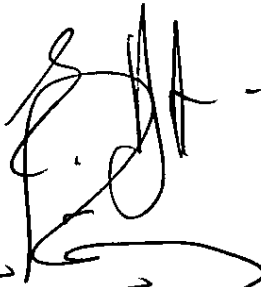
In accordance with section 384 of the Companies Act 1985 a resolution for the reappointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

On behalf of the board

**U Fluck**  
Director



**E Baumgartner**  
Director



**C Romer**  
Director



22 May 2008

## 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). The financial statements are required by law to 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,
- 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 to 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 MEMBERS OF SYNTHES LIMITED**

We have audited the company's financial statements for the year ended 31 December 2007 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable 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 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNTHES LIMITED (continued)**

**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 2007 and of its 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

*Ernst & Young LLP*

Ernst & Young LLP

Registered auditor

Luton

Date

*22 May 2008*



**Profit and loss account**  
*for the year ended 31 December 2007*

	<i>Note</i>	2007 £000	2006 £000
Turnover	2	60,003	48,780
Cost of sales		(42,819)	(33,638)
<b>Gross profit</b>		<b>17,184</b>	<b>15,142</b>
Distribution costs		(759)	(847)
Administration expenses		(10,567)	(7,354)
<b>Operating profit</b>		<b>5,858</b>	<b>6,941</b>
Interest receivable and similar income	3	746	578
Interest payable and similar charges	4	(1)	(8)
<b>Profit on ordinary activities before taxation</b>	5	<b>6,603</b>	<b>7,511</b>
Tax on profit on ordinary activities	6	(2,119)	(2,406)
<b>Profit on ordinary activities after taxation</b>		<b>4,484</b>	<b>5,105</b>

Synthes Limited has no recognised gains or losses in the current or preceding year other than the profit of £4,484,000 (2006 £5,105,000) 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 2007*

	<i>Note</i>	<b>2007</b>	<b>2006</b>
		<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>			
Tangible assets	7	10,878	7,987
<b>Current assets</b>			
Stocks	8	7,029	5,431
Debtors	9		
amounts falling due after one year		10,124	9,792
amounts falling due within one year		9,237	6,963
Cash at bank and in hand		2,635	3,261
		<u>29,025</u>	<u>25,447</u>
<b>Creditors: amounts falling due within one year</b>	10	<u>(9,740)</u>	<u>(7,755)</u>
<b>Net current assets</b>		<b>19,285</b>	<b>17,692</b>
<b>Net assets</b>		<b>30,163</b>	<b>25,679</b>
<b>Capital and reserves</b>			
Called up share capital	11	20	20
Profit and loss account	12	30,143	25,659
<b>Equity shareholder's funds</b>	12	<b>30,163</b>	<b>25,679</b>

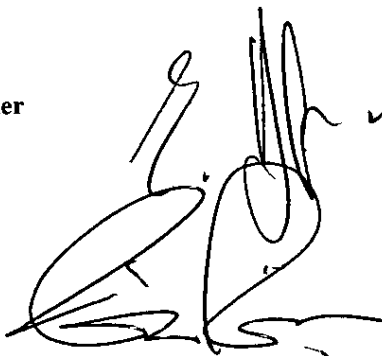
These financial statements were approved by the board of directors on 22/5/08 and were signed on its behalf by

**U Fluck**  
*Director*



Date

**E Baumgartner**  
*Director*



Date

**C Romer**  
*Director*



Date

## 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 ultimate parent company Synthes Inc has prepared consolidated financial statements which include the results of the company for the year and which contain a consolidated cash flow statement

#### *Revenue recognition*

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

##### *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

##### *Interest income*

Revenue is recognised as interest accrues during the period.

#### *Related party transactions*

As the company is a wholly owned subsidiary of Synthes Inc, 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 Synthes Inc, 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.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction

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

#### *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 amounts derived from the provision of goods and services which fall within the group's ordinary activities, stated net of value added tax.

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 both by source and destination arose from activity in the United Kingdom and Eire.

<i>Turnover by geographical segment</i>	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
United Kingdom	56,480	46,045
Eire	3,523	2,735
	<b>60,003</b>	<b>48,780</b>

## Notes (continued)

### 3 Interest receivable and similar income

	2007 £000	2006 £000
Interest receivable – bank	191	105
Interest receivable from group undertakings	555	473
	<u>746</u>	<u>578</u>

### 4 Interest payable and similar charges

	2007 £000	2006 £000
Interest payable	<u>1</u>	<u>8</u>

### 5 Profit on ordinary activities before taxation

	2007 £000	2006 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration – audit	22	21
Depreciation of owned assets	5,070	4,336
Operating lease rentals – motor vehicles	4	3
– Building	7	-
	<u>5,103</u>	<u>4,360</u>

### 6 Taxation

#### Analysis of charge in period

	2007 £000	2006 £000
<i>UK corporation tax</i>		
Current tax on income for the period	2,213	2,518
Adjustments in respect of prior periods	-	109
Foreign tax	98	40
	<u>2,311</u>	<u>2,667</u>
Total current tax charge	2,311	2,667
Deferred tax (see note 17)	(192)	(261)
	<u>2,119</u>	<u>2,406</u>
Tax on profit on ordinary activities	2,119	2,406

## Notes (continued)

### 6 Taxation (continued)

The current tax charge for the period is higher (2006 higher) than the standard rate of corporation tax in the UK (30%, (2006 30%)). The differences are explained below

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	6,603	7,511
	<hr/>	<hr/>
Current tax at 30% (2006 30%)	1,981	2,253
<i>Effects of</i>		
Expenses not deductible for tax purposes	56	46
Depreciation for the period in excess of capital allowances	211	330
Pension provision adjustment	63	(71)
Adjustments in respect of prior periods	-	109
	<hr/>	<hr/>
Total current tax charge	2,311	2,667
	<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	280	655	22,579	24,750
Additions	45	121	32	7,800	7,998
Disposals	-	(40)	-	(38)	(78)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,281	361	687	30,341	32,670
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At beginning of year	356	226	480	15,701	16,763
Charged in year	29	51	30	4,960	5,070
On disposals	-	(40)	-	(1)	(41)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	385	237	510	20,660	21,792
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2007	896	124	177	9,681	10,878
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	880	54	175	6,878	7,987
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The gross book value of freehold land and buildings includes £1,030,000 (2006 £985,000) of depreciable assets  
The loan set additions have been transferred from stock

## Notes (continued)

### 8 Stocks

	2007 £000	2006 £000
Finished goods and goods for resale	7,029	5,431

Included in finished goods and goods for resale is stock valued at £1,087,000 (2006 £632,000) held on consignment at hospital premises. Synthes Limited retains legal title of these goods until sold.

### 9 Debtors

	2007 £000	2006 £000
Trade debtors	8,986	6,391
Amounts owed by group undertakings	9,203	9,140
Other debtors	14	11
Deferred tax asset (see note 17)	921	729
Prepayments and accrued income (see note 15)	237	484
	<u>19,361</u>	<u>16,755</u>

Amounts falling due after one year included above are

	2007 £000	2006 £000
Amounts owed by group undertakings	9,203	9,000
Deferred tax asset (see note 17)	921	792
	<u>10,124</u>	<u>9,792</u>

### 10 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	99	121
Amount owed to group undertakings	5,614	4,297
Other creditors including taxation and social security		
Mainstream corporation tax	838	1,235
Other taxation and social security	1,927	1,545
Accruals and deferred income	1,262	557
	<u>9,740</u>	<u>7,755</u>

## Notes (continued)

### 11 Called up share capital

	2007 £000	2006 £000
<i>Authorised, allotted, called up and fully paid</i>		
Equity ordinary shares of £1 each	20	20
	<u>20</u>	<u>20</u>

### 12 Reconciliation of movements in shareholder's funds and movement on reserves

	2007 £000	2006 £000
Profit on ordinary activities after taxation	4,484	5,105
Dividends	-	-
	<u>4,484</u>	<u>5,105</u>
Net addition to shareholders' funds	4,484	5,105
Opening shareholder's funds	25,679	20,574
	<u>25,679</u>	<u>20,574</u>
Closing shareholders' funds	30,163	25,679
	<u>30,163</u>	<u>25,679</u>

### 13 Remuneration of directors

No emoluments were paid to the directors in 2007 as all directors were remunerated through other group companies and did not receive any remuneration in respect to their services to the company. No directors were members of money purchase pension schemes.



## 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	
	2007	2006
Administration	11	10
Selling and distribution	131	113
	<u>142</u>	<u>123</u>

The aggregate payroll costs of these persons were as follows

	2007 £000	2006 £000
Wages and salaries	5,800	4,284
Social security costs	664	472
Other pension costs (see note 15)	379	(49)
	<u>6,843</u>	<u>4,707</u>

### 15 Pensions

	2007 £000	2006 £000
Prepaid pension contributions (included in 'Prepayments and accrued income' – Note 9)	-	318

There were contributions of £nil outstanding at the end of the financial year (2006 nil)

### 16 Commitments

There are no capital commitments at the end of the financial year (2006 £nil)

Annual commitments under non-cancellable operating leases are as follows

	2007		2006	
	Land & Buildings £000	Other £000	Land & Buildings £000	Other £000
Operating leases for which expire				
Within one year	-	-	-	2
In the second to fifth year	91	4	-	-
	<u>91</u>	<u>4</u>	<u>-</u>	<u>-</u>

**Notes** *(continued)*

**17 Deferred taxation**

	2007 £000	2006 £000
At beginning of the year	729	468
Credit for the year	192	261
	<hr/>	<hr/>
At end of the year	921	729
	<hr/>	<hr/>

The elements of the deferred tax asset are as follows

	2007 £000	2006 £000
Difference between accumulated depreciation and capital allowances	921	792
Other timing differences	-	(63)
	<hr/>	<hr/>
Undiscounted deferred tax asset (see note 9)	921	729
	<hr/>	<hr/>

**18 Parent company and controlling party**

The smallest and largest group in which the results of the company are consolidated is that headed by Synthes Inc , incorporated in Delaware, USA. The directors of the company regard Synthes Inc as being the ultimate parent company and controlling party. The consolidated accounts of these groups are available to the public and may be obtained from CH44 36, Oberdorf, Switzerland.