

REPORT AND ACCOUNTS

SMITH & NEPHEW FARNHAM LIMITED

31 December 2004



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 2004.

Activities and review of operations

The principal activity of the Company is to act as an investment company.

Results and dividends

The Company did not make a profit or loss during the year (2003: £nil). The Directors do not recommend payment of a dividend (2003: £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 2004, in the share capital of the ultimate holding company were as follows:-

	Ordinary Shares		Options over Ordinary Shares	
	At 31/12/04	At 01/01/04	At 31/12/04	At 01/01/04
P.R. Chambers	16,821	10,343	49,805	47,145
L. Fuller	9,242	9,242	120,071	98,786

The options granted under Executive and Employee Share Option Schemes are exercisable between 2005 and 2011 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 8,865 Share Options and exercised 6,205 Share Options. L. Fuller was granted 21,285 Share Options and exercised no Share Options.

In addition, during the year L. Fuller was awarded 6,944 shares under the 2004 Performance Share Plan. Subject to attainment of performance conditions, a further 50% of the award may vest. L. Fuller was also awarded 3,517 shares under the 2004 Co-investment Plan. Subject to attainment of performance conditions, a further 100% of the award may vest.

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

There were no other notifiable interests.

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DIRECTORS' REPORT

Employees

There were no employees of the Company during the year (2003: Nil).

Charitable and Political Contributions

There were no charitable or political contributions in the year (2003: Nil).

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, subject to any material departures disclosed and explained in the accounts; 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

10/10/05

Date

SMITH & NEPHEW FARNHAM LIMITED

Registered No. 473439

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SMITH & NEPHEW FARNHAM LIMITED

We have audited the Company's accounts for the year ended 31 December 2004, which comprise Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 13. These accounts have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the accounts in accordance with United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, 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 transactions with the Company 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 2004 and of its result 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

Date *10 October 2005*

SMITH & NEPHEW FARNHAM LIMITED

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PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Other income		32	-
Operating expenses		(32)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2&3	-	-
Taxation	4	-	-
RETAINED PROFIT FOR THE YEAR		-	-

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2004

There were no recognised gains or losses in the year ended 31 December 2004 (2003:£nil).

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BALANCE SHEET

at 31 December 2004

	Notes	2004 £000	2003 £000
CURRENT ASSETS			
Debtors	5	<u>11,998</u>	<u>11,998</u>
		11,998	11,998
CREDITORS: amounts falling due within one year	6	<u>(8,994)</u>	<u>-</u>
NET CURRENT ASSETS		3,004	11,998
CREDITORS: amounts falling due after one year	7	<u>-</u>	<u>(8,994)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,004</u>	<u>3,004</u>
CAPITAL AND RESERVES			
Called up share capital	8	<u>3,004</u>	<u>3,004</u>
EQUITY SHAREHOLDER'S FUNDS	9	<u>3,004</u>	<u>3,004</u>


Lucy Fuller
Director

Date 10/01/05.

NOTES TO THE ACCOUNTS**at 31 December 2004****1. ACCOUNTING POLICIES****Accounting Convention**

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

Current Tax

Provision is made for the tax that would arise on the remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Leases

Rentals under operating leases are charged to operating profit as incurred.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated after charging:		
Operating lease rentals on land and buildings	32	-

Certain fees for audit and non-audit services provided by Ernst & Young LLP to the Company and its subsidiary undertakings have been borne by the ultimate parent company. It is not practicable to ascertain what proportion of such fees relate to the Company and its subsidiary undertakings.

3. DIRECTORS' REMUNERATION

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

4. TAXATION

The tax assessed for the period is equal to profits on ordinary activities before tax at the standard rate of corporation tax in the UK – 30% (2003 – 30%).

There are no deferred tax assets or liabilities at the year end as there are no accelerated capital allowances or other timing differences in the Company.

5. DEBTORS

	2004 £000	2003 £000
Amounts falling due within one year:		
Amount owed by ultimate parent company	11,998	11,998

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NOTES TO THE ACCOUNTS

at 31 December 2004

6. CREDITORS: amounts falling due within one year

	2004 £000	2003 £000
Amount owed to immediate parent company	<u>8,994</u>	<u>-</u>

7. CREDITORS: amounts falling due after one year

	2004 £000	2003 £000
Amount owed to immediate parent company	<u>-</u>	<u>8,994</u>

8. SHARE CAPITAL

	Authorised 2004 & 2003	Allotted, Issued and Fully paid 2004 & 2003
Ordinary shares of £1 each	<u>3,004,000</u>	<u>3,003,908</u>

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

	Allotted, Issued and Fully paid Share Capital £000	Profit And Loss Account £000	Total Shareholder's Funds £000
Balance as at 1 January and 31 December 2003 and 2004	<u>3,004</u>	<u>-</u>	<u>3,004</u>

10. FINANCIAL COMMITMENTS

At 31 December 2004, the company had annual commitments under operating leases as set out below:

	Land and Buildings	
	2004 £000	2003 £000
Operating leases which expire:		
Within one year	70	-
After one year and within five years	<u>17</u>	<u>-</u>
	<u>87</u>	<u>-</u>

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NOTES TO THE ACCOUNTS

at 31 December 2004

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 a consolidated cash flow statement in accordance with FRS 1 (Revised).

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.