

REPORT AND ACCOUNTS

SMITH & NEPHEW FARNHAM LIMITED

(Formerly Homecraft Manufacturing Limited)

31 December 2002



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

Shelley Close

Lowmoor Business Park

Kirkby in Ashfield

Nottinghamshire

NG17 7ET

SMITH & NEPHEW FARNHAM LIMITED
DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 2002.

Activities and review of operations

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

Results and dividends

The profit for the year attributable to shareholders amounts to £8,541,000 (2001: Nil). The Directors recommend payment of a interim dividend of £11,994,000 (2001: Nil).

Directors

The Directors of the Company at the date of this report are shown on page 1. On 22 July 2002, M.G. Parson resigned as a Director and J.V. Sutton was appointed as a Director. On 20 June 2003, J.V. Sutton resigned as a Director.

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 31st December 2002, in the share capital of the ultimate holding company were as follows:-

	Ordinary Shares		Options over Ordinary Shares	
	At 31/12/02	At 01/01/02	At 31/12/02	At 01/01/02
P.R. Chambers	6,795	3,952	40,238	33,547
L. Fuller	9,226	1,865	124,286	118,865
J.V. Sutton	0	0	3,609	2,652

The options granted under Executive and Employee Share Option Schemes are exercisable between 2003 and 2011 at prices ranging between 124p and 409.5p per share. During the year, under the rules of Smith & Nephew plc's Share Option Schemes, P.R. Chambers was granted 9,521 Share Options and exercised 2,830 Share Options. L. Fuller was granted 12,777 Share Options and exercised 7,356 Share Options. J.V. Sutton was granted 957 Share Options.

There were no other notifiable interests.

SMITH & NEPHEW FARNHAM LIMITED
DIRECTORS' REPORT

Employees

There were no employees of the Company during the year (2001: Nil).

Charitable and Political Contributions

There were no charitable or political contributions in the year (2001: 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

A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the members at the AGM.

By order of the Board

PR Renteria

Smith & Nephew Nominee Services Limited
Secretary

Date 30 OCT 2003

SMITH & NEPHEW FARNHAM LIMITED

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

We have audited the company's financial statements for the year ended 31 December 2002, which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, and the related notes 1 to 15. These financial statements 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 financial statements in accordance with United Kingdom law and accounting standards.

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

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 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 financial statements. It also includes an assessment of the significant estimates and judgements 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 of the state of affairs of the company as at 31 December 2002 and of its profit 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 *31 October 2003*

SMITH & NEPHEW FARNHAM LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
Other income less expenses	2	(18)	-
Exceptional Item	3	(2,851)	-
Income from shares in group undertakings		11,410	-
		-----	-----
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	8,541	-
Taxation	5	-	-
		-----	-----
PROFIT FOR THE YEAR		8,541	-
Dividends	6	(11,994)	-
		-----	-----
LOSS FOR THE YEAR		<u>(3,453)</u>	<u>-</u>

All of the activities of the Company are continuing.

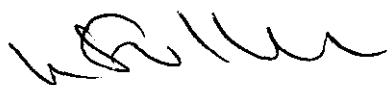
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There were no recognised gains or losses other than the profit attributable to shareholders of the Company of £8,541,000 in the year ended 31 December 2002 (2001: Nil)

SMITH & NEPHEW FARNHAM LIMITED**BALANCE SHEET**

at 31 December 2002

	Notes	2002 £000	2001 £000
FIXED ASSETS			
Investments	7	-	3,000
		-----	-----
		-	3,000
CURRENT ASSETS			
Debtors falling due within one year	8	14,998	6,446
Cash and bank		-	11
		-----	-----
		14,998	6,457
CREDITORS: amounts falling due within one year	9	(11,994)	(3,000)
		-----	-----
NET CURRENT ASSETS		3,004	3,457
		-----	-----
TOTAL ASSETS LESS CURRENT LIABILITIES		3,004	6,457
		=====	=====
CAPITAL AND RESERVES			
Called up share capital	10	3,004	3,004
Profit and loss account	11	-	3,453
		-----	-----
EQUITY SHAREHOLDER'S FUNDS	11	3,004	6,457
		=====	=====

**L Fuller**
Director

Date 30 OCT 2003

SMITH & NEPHEW FARNHAM LIMITED**NOTES TO THE ACCOUNTS****at 31 December 2002****1. ACCOUNTING POLICIES****Accounting Convention**

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

The accounts present information about the Company as an individual undertaking and not about its group. The Company is a wholly owned subsidiary undertaking of a body registered in England and Wales and is therefore exempt from the requirement to prepare group accounts under Section 228 of the Companies Act 1985.

Investments

Investments in subsidiary undertakings are carried at cost unless, in the opinion of the Directors, there has been an impairment in value.

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.

Deferred Tax

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.

2. OTHER INCOME LESS EXPENSES

Other income less expenses comprise the foreign exchange loss on the termination of forward cover contracts totalling £18,000, in the year ended 31 December 2002.

3. EXCEPTIONAL ITEM

Exceptional items comprise the loss of £2,851,482 on sale of the investment in AbilityOne Homecraft Limited.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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.

5. TAXATION

The tax assessed for the period is lower than losses on ordinary activities before tax at the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2002 £000	2001 £000
Current tax charge	-	-
Profit on ordinary activities before tax at 30%	2,562	-
Difference	<u>2,562</u>	<u>-</u>
Difference explained by:		
Untaxed income	2,562	-
	<u>2,562</u>	<u>-</u>

SMITH & NEPHEW FARNHAM LIMITED**NOTES TO THE ACCOUNTS****at 31 December 2002****6. DIVIDENDS**

	2002	2001
	£000	£000
Final dividend proposed	<u>11,994</u>	<u>-</u>

7. INVESTMENTS

Investment in Subsidiary undertakings at cost amounts to:	£000
Cost	
At 1 January 2002	3,000
Acquisitions	1
Disposals	(3,001)
	<u>-</u>
At 31 December 2002	<u>-</u>
At 31 December 2001	<u>3,000</u>

On the 27 March 2002, the Company acquired the entire issued share capital in AbilityOne Homecraft Limited from Smith & Nephew Homecraft Limited for a consideration of £1. AbilityOne Homecraft Limited then issued additional new ordinary shares to the Company in exchange for its investment in Smith & Nephew Homecraft Ltd. The Company's investment was subsequently sold at a loss to Smith & Nephew plc.

8. DEBTORS

	2002	2001
	£000	£000
Amounts falling due within one year:		
Amount owed by ultimate parent company	11,998	-
Amounts owed by immediate parent company	3,000	3,000
Amounts due by group undertakings	-	3,446
	<u>14,998</u>	<u>6,446</u>

9. CREDITORS: amounts falling due within one year

	2002	2001
	£000	£000
Amount owed to ultimate parent company	-	3,000
Dividends payable	11,994	-
	<u>11,994</u>	<u>3,000</u>

SMITH & NEPHEW FARNHAM LIMITED
NOTES TO THE ACCOUNTS
at 31 December 2002

10. CALLED UP SHARE CAPITAL

	Authorised 2002 and 2001 £	Allotted, called up and fully paid 2002 and 2001 £
Ordinary shares of £1 each	3,003,908	3,003,908

11. RECONCILIATION OF SHAREHOLDER'S FUNDS AND MOVEMENT ON RESERVES

	Allotted, Called up and Fully paid £000	Retained Profits £000	Total Shareholder's Funds £000
Balance at 1 January 2001 and 2002	3,004	3,453	6,457
Profit for the year	-	8,541	8,541
Dividends	-	(11,994)	(11,994)
As at 31 December 2002	3,004	-	3,004

12. CONTINGENT LIABILITIES

The Company, together with Smith & Nephew plc and certain fellow subsidiary undertakings, has entered into a guarantee with the National Westminster Bank plc in respect of the net overdrafts of the other parties to the guarantee. At 31 December 2002 the Company's contingent liability under the guarantee amounted to £12,100,000 (2001: £19,645,665).

13. 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 FRS1 (Revised).

14. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption in FRS8 from disclosing transactions with related parties that are members of the Smith & Nephew plc group.

15. 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.