

Smith & Nephew Collagenase Limited

Report and Financial Statements

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31 December 2004



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Smith & Nephew Collagenase Limited

Registered No. 543761

Registered Office

101 Hessle Road
Hull HU3 2BN

Secretary

Smith & Nephew Nominee Services Limited

Auditors

Ernst & Young LLP
PO Box 61
Cloth Hall Court
14 King Street
Leeds LS1 2JN

Directors' report

At 31 December 2004

The directors present their report and financial statements for the year ended 31 December 2004.

Activities and review of operations

The principal activity of the company continues to be the sale of collagenase wound products.

Collagenase woundcare products are manufactured on behalf of the company by Nordmark Arzneimittel GmbH under a contract manufacturing agreement with Abbott GmbH. The company is responsible for the development and international marketing of the collagenase range.

Results and dividends

The results for the year are considered to be satisfactory.

The loss for the year amounts to €860,000 (2003 loss - €1,374,000) and is dealt with as shown in the profit and loss account. No dividend is proposed for the year ended 31 December 2004 (2003 - €Nil).

Directors

The directors of the company who served during the year and to the date of this report are those listed below:

J L Dick
D A Trollope

In accordance with the Articles of Association, both of the directors retire at the Annual General Meeting and, being eligible, each offer themselves for re-election.

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 parent company, Smith & Nephew plc, are as follows:

Interests in ordinary shares:

	<i>At 31 December 2004</i>	<i>At 1 January 2004</i>
J L Dick	19,983	82,079
D A Trollope	5,298	3,919

Options over ordinary shares:

	<i>At 31 December 2004</i>	<i>At 1 January 2004</i>	<i>Options granted during the year</i>	<i>Options exercised during the year</i>
J L Dick	123,450	51,745	73,044	1,339
D A Trollope	181,323	159,590	23,112	1,379

The options granted under Executive and Employee Share Option Schemes are exercisable between 2004 and 2014 at prices ranging between 124p and 574.5p per share. The market price of the shares at 31 December 2004 was 533p per share. There were no other notifiable interests.

Directors' report

At 31 December 2004

In addition, during the year J L Dick and D A Trollope were awarded 28,066 shares and 7,736 shares respectively under the 2004 Performance Share Plan. Subject to attainment of performance conditions, a further 50% of the award may vest. J L Dick and D A Trollope were also awarded 2,711 shares and 2,115 shares respectively under the 2004 Co-investment Plan. Subject to attainment of performance conditions, a further 100% of the award may vest.

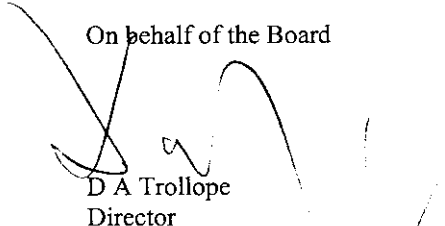
Post balance sheet events

On 21 October 2005 the shares of Smith & Nephew Collagenase Limited were transferred for a consideration of £2 to Smith & Nephew (Overseas) Limited. On the same date, Smith & Nephew Collagenase Limited amended its articles of association to permit the issue of 25,000,000 €1 shares. These shares were allotted to Smith & Nephew (Overseas) Limited for a consideration of €25,000,000 on 21 October 2005 in cash.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



D A Trollope
Director

27 October 2005

Directors' report

At 31 December 2004

Statement of directors' responsibilities in respect of the financial statements

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 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.

Independent auditors' report

to the members of Smith & Nephew Collagenase Limited

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 19. 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 applicable 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 2004 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, Leeds

28 October 2005

Profit and loss account

for the year ended 31 December 2004

	<i>Notes</i>	<i>2004</i> €000	<i>2003</i> €000
TURNOVER	2	11,069	8,402
OPERATING LOSS	3	(1,229)	(2,183)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,229)	(2,183)
Taxation	6	369	809
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(860)	(1,374)
Dividends	7	-	-
RETAINED LOSS FOR THE YEAR	14	(860)	(1,374)

A statement of the movement on shareholders' funds is set out in note 15.

Statement of total recognised gains and losses

for the year ended 31 December 2004

	<i>2004</i>	<i>2003</i>
	<i>€000</i>	<i>€000</i>
Loss attributable to equity shareholders	(860)	(1,374)
Total recognised losses relating to the year	<u>(860)</u>	<u>(1,374)</u>

Balance sheet

at 31 December 2004

	Notes	2004 €000	2003 €000
FIXED ASSETS			
Intangible assets	8	40,657	43,368
CURRENT ASSETS			
Debtors	9	11,812	10,572
Cash at bank and in hand		1,517	1,344
		<u>13,329</u>	<u>11,916</u>
CREDITORS: amounts falling due within one year	10	53,321	3,010
NET CURRENT (LIABILITIES)/ASSETS		<u>(39,992)</u>	<u>8,906</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		665	52,274
CREDITORS: amounts falling due after more than one year	11	-	51,169
PROVISIONS FOR LIABILITIES AND CHARGES	12	6,510	6,090
		<u>(5,845)</u>	<u>(4,985)</u>
CAPITAL AND RESERVES			
Called up equity share capital	13	2	2
Profit and loss account	14	(5,847)	(4,987)
EQUITY SHAREHOLDERS' FUNDS - DEFICIT	15	<u>(5,845)</u>	<u>(4,985)</u>

Approved by the Board on 27 October 2005


D A Trollope
Director

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.

The accounts have been prepared on a going concern basis. The re-capitalisation, disclosed in note 17 to the accounts, ensures that the company will continue to be able to meet its obligations as they fall due.

The company is not required to produce a cash flow statement under FRS 1 (Revised) as Smith & Nephew plc prepares a consolidated cash flow statement.

Turnover

Turnover comprises sales of products and services supplied by the company at amounts invoiced net of trade discounts and rebates, excluding turnover taxes.

Intangible fixed assets

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired and is capitalised and amortised over the economic life of the business acquired, not exceeding 20 years.

The carrying values of intangibles are reviewed for impairment at the end of the first full financial year following an acquisition and in other periods if significant events or changes in circumstances indicate the carrying value may be impaired.

Deferred taxation

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.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse. These are based on tax rates and laws substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are retranslated at the rate of exchange ruling at the balance sheet date.

Notes to the accounts

at 31 December 2004

2. Turnover

Turnover is attributable to one continuing activity, the manufacture and sale of advanced medical devices.

An analysis of turnover by geographical markets is given below:

	2004 €000	2003 €000
Continental Europe	10,929	8,336
Africa, Asia and Australasia	140	66
	<u>11,069</u>	<u>8,402</u>

3. Operating loss

a) Net operating expenses:

	2004 €000	2003 €000
Turnover	11,069	8,402
Cost of sales	(7,596)	(5,974)
Gross profit	<u>3,473</u>	<u>2,428</u>
Selling and distribution costs	1,991	1,900
Other operating income and expenses	2,711	2,711
	<u>(1,229)</u>	<u>(2,183)</u>

b) Operating loss is stated after charging:

	2004 €000	2003 €000
Amortisation of intangible fixed assets	<u>2,711</u>	<u>2,711</u>

Auditors' remuneration is paid for and disclosed in the accounts of T J Smith & Nephew Limited. No payments were made to the company's auditors for non-audit services (2003 - €Nil).

4. Employees

There are no employees directly attributable to the company. The company utilises the services of employees of T J Smith & Nephew Limited, a fellow subsidiary of Smith & Nephew plc, with a recharge of £nil in the year (2003 £nil).

Notes to the accounts

at 31 December 2004

5. Directors' emoluments

The directors received no remuneration from the company during the year (2003 - €Nil).

6. Taxation

The tax credit based on the loss for the year comprises:

	2004 €000	2003 €000
Current tax	789	1,612
Deferred tax	(420)	(803)
	<u>369</u>	<u>809</u>

The standard rate of tax for the year based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous year differed from the standard rate as follows:

	2004 €000	2003 €000
Current tax	789	1,612
Loss before tax at 30%	(369)	(655)
	<u>420</u>	<u>957</u>
Capital allowances in excess of depreciation	420	803
Overseas exchange rate differences	-	154
	<u>420</u>	<u>957</u>

7. Dividends

No dividend is proposed for 2004 (2003 - €Nil).

Notes to the accounts

at 31 December 2004

8. Intangible fixed assets

	<i>Goodwill</i> €000
Cost:	
At 1 January 2004 and 31 December 2004	54,212
Amortisation:	
At 1 January 2004	10,844
Provided during the year	2,711
At 31 December 2004	13,555
Net book value:	
At 31 December 2004	40,657
At 31 December 2003	43,368

9. Debtors

	2004 €000	2003 €000
Amounts owed by fellow group undertakings	1,272	883
Other debtors	1,161	1,099
Corporation tax	9,379	8,590
	11,812	10,572

Included in amounts owed by group undertakings are loans of €11,000 that are not receivable within one year (2003 - €11,000).

10. Creditors: amounts falling due within one year

	2004 €000	2003 €000
Trade creditors	402	1,205
Other creditors	52,919	1,805
	53,321	3,010

Included in other creditors is an amount of €51,169,000 (2003 - €Nil) in respect of a loan from a fellow group undertaking that is payable within one year.

Notes to the accounts

at 31 December 2004

11. Creditors: amounts falling due after more than one year

These amounts, which are all owed to fellow group undertakings, are loans of €Nil (2003 - €51,169,000).

12. Provisions for liabilities and charges

	<i>Deferred taxation €000</i>
At 1 January 2004	6,090
Provided during the year	420
At 31 December 2004	<u>6,510</u>

The deferred taxation provision is long term in nature, as is the timing of its utilisation. The provision relates entirely to capital allowances in excess of depreciation.

13. Share capital

	<i>Authorised No.</i>	<i>Allotted, called up, fully paid No.</i>	<i>Authorised €000</i>	<i>Allotted, called up, fully paid €000</i>
Ordinary shares of €1.413 each				
At 31 December 2004 and 2003	3,182	1,591	3	2

14. Profit and loss account

	<i>2004 €000</i>	<i>2003 €000</i>
Balance at 1 January	(4,987)	(3,613)
Loss for the year	(860)	(1,374)
Balance at 31 December	<u>(5,847)</u>	<u>(4,987)</u>

Notes to the accounts

at 31 December 2004

15. Reconciliation of movements in shareholders' funds

	2004 €000	2003 €000
Retained loss for the year	(860)	(1,374)
Opening shareholders' funds - deficit	(4,985)	(3,611)
Closing shareholders' funds - deficit	<u>(5,845)</u>	<u>(4,985)</u>

16. Contingent liabilities

The company, together with Smith & Nephew plc and certain fellow subsidiary undertakings, has entered into guarantees with the National Westminster Bank plc in respect of the net overdrafts of the other parties to the guarantee. At 31 December 2004, Smith & Nephew plc's contingent liability under the guarantee amounted to €24,275,000 (2003 - €Nil).

17. Post balance sheet events

On 21 October 2005 the shares of Smith & Nephew Collagenase Limited were transferred for a consideration of £2 to Smith & Nephew (Overseas) Limited. On the same date, Smith & Nephew Collagenase Limited amended its Articles of association to permit the issue of 25,000,000 €1 shares. These shares were allotted to Smith & Nephew (Overseas) Limited on 21 October 2005 for a consideration of €25,000,000 in cash.

18. Ultimate parent undertaking

The parent undertaking of the group of undertakings for which group accounts are drawn up, and of which the company is a member, is Smith & Nephew plc. Smith & Nephew plc is also the company's ultimate parent company and controlling party. The immediate parent of Smith & Nephew Collagenase Limited is Smith & Nephew Trading Group Limited. Copies of both Smith & Nephew plc's and Smith & Nephew Trading Group Limited's accounts can be obtained from the registered office at 15 Adam Street, London WC2N 6LA.

19. Related party transactions

The company has taken advantage of the exemption conferred by paragraph 3(c) of FRS 8 in not disclosing details of transactions with fellow group companies.