Registered number: 00362847

SMITHS MEDICAL INTERNATIONAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 JULY 2019

SMITHS MEDICAL INTERNATIONAL LIMITED

COMPANY INFORMATION

Directors	Ian Harper (resigned 31 August 2018) Louis Jones Nigel Bark Gregory McGrath
Company secretary	Joanne Ede
Registered number	00362847
Registered office	1500 Eureka Park Lower Pemberton Ashford Kent TN25 4BF
Independent auditors	PricewaterhouseCoopers LLP 54 Clarendon Road Watford Hertfordshire WD17 1DU

SMITHS MEDICAL INTERNATIONAL LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE FINANCIAL YEAR ENDED 31 JULY 2019

Introduction

The directors present their Strategic Report on Smiths Medical International Limited for the year ended 31 July 2019.

Business review

The Company's principal activity in the financial year is that of the design, manufacture, distribution and sale of medical devices. There has been no significant change in this activity during the financial year.

The results for the year show a profit before taxation of £20,920,000 (2018: £23,728,000) and turnover of £253,994,000 (2018: £260,796,000). The retained earnings as at 31 July 2019 amounted to £132,179,000 (2018: £210,801,000), the reduction in retained earnings is due to the payment of a dividend of £100,028,000.

The business has seen a decrease in revenue of £6.8m compared to 2018. The key drivers of this decline are a knock on impact of the loss of our CE (Conformité Europèene) marking during 2018 lowering sales into the UK & continental Europe. The company's gross margin has decreased by 1.8%, impacted by product mix and some price erosion. Continued control on administrative expenses resulted, once again, in a small reduction year-on-year.

Net current assets have reduced with a slight reduction in stock, due to sale through of notified body related inventory and focused inventory reducing projects, and reduced debtors due to a repayment in part of the loan to group undertakings, utilised for the payment of dividends in the year. All current assets have been subject to the usual provisioning methodologies

Exceptional items this year include restructuring costs relating to legal expenditure incurred in the separation of Smith Medical from Smiths Group. Disposal of operations relates to disposal of end of life products and the subsequent sale of related customer lists.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Smiths Group plc and are not managed separately. Accordingly, the principal risks and uncertainties of Smiths Group plc, which include those of the Company, are discussed in the Group's annual report, which do not form part of this report.

Financial key performance indicators

The directors of Smiths Group plc manage the Group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of Smiths Medical International Limited. The development, performance and position of the medical division of Smiths Group plc, which includes the Company, is discussed in the Group's annual report which does not form part of this report and can be found at http://www.smiths.com.

This report was approved by the board and signed on its behalf.

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Louis Jones
Director

Date: 5\12\19

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 JULY 2019

The directors present their report and the financial statements for the financial year ended 31 July 2019.

Directors' responsibilities statement

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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 101 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

Principal activity

The Company's principal activity in the financial year is that of the design, manufacture, distribution and sale of medical devices. There has been no significant change in this activity during the financial year.

Results and dividends

The profit for the financial year, after taxation, amounted to £21,406 thousand *(2018 - £24,882 thousand).*

Dividends of £100,028,000 (2018: £nil) were authorised and paid during the year. The Directors do not recommend payment of a dividend for the year ended 31 July 2019 (2018: £nil).

Directors

The directors who served during the financial year were:

Ian Harper (resigned 31 August 2018)
Louis Jones
Nigel Bark
Gregory McGrath

Future developments

It is not envisaged that the Company will initiate any plans to alter its principal activity and will maintain its current level of performance in the forthcoming financial year. .

On 22nd March 2019 it was announced that a demerger is the chosen path for the separation of Smiths Medical from Smiths Group, with this complex process due to complete during the first half of 2020. On 1st July 2019 JehanZeb Noor joined as CEO to continue building a strong, sustainable future for the business.

Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire.

Employee involvement

It is the Company's policy to provide equal opportunities for employment. The Company continues to be actively involved in all aspects of the training and development of young persons, including initiatives designed to ease the transition from school to work.

Employees are regularly provided with a wide range of information concerning the performance and prospects of the business in which they are involved by means of Employee Councils, Information and Consultation forums and other consultative bodies that allow the views of personnel to be taken into account. The Company provides share option schemes to its employees (note 29).

Disabled employees

Disabled people are given full consideration for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditors

Following the signing of these financial statements, the directors will assess who will be appointed as auditors. This is due to the intention to separate Smiths Medical, which this company is part of, from Smiths Group plc.

This report was approved by the board and signed on its behalf.

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Louis Jones
Director

Date: 5\12\19

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMITHS MEDICAL INTERNATIONAL LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Smiths Medical International Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 July 2019; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMITHS MEDICAL INTERNATIONAL LIMITED (CONTINUED)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 July 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMITHS MEDICAL INTERNATIONAL LIMITED (CONTINUED)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Andrew Hodgekins

Andrew Hodgekins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
5 December 2019

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 JULY 2019

	Note	2019 £000	*2018 £000*
Turnover	4	**253,994**	*260,796*
Cost of sales		**(188,149)**	*(188,562)*
Gross profit		**65,845**	*72,234*
Distribution costs		**(15,709)**	*(15,493)*
Administrative expenses		**(29,353)**	*(32,255)*
Exceptional items		**(2,148)**	*(1,232)*
Operating profit	5	**18,635**	*23,254*
Interest receivable and similar income	9	**2,101**	*1,029*
Interest payable and similar expenses	10	**(152)**	*(115)*
Other finance income/(expense)		**336**	*(440)*
Profit before tax		**20,920**	*23,728*
Tax on profit	11	**486**	*1,154*
Profit for the financial year		**21,406**	*24,882*
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss:			
Net fair value (losses)/gains on cash-flow hedges		**(680)**	*4,320*
		(680)	*4,320*
Total comprehensive income for the financial year		**20,726**	*29,202*

The notes on pages 12 to 38 form part of these financial statements.

BALANCE SHEET
AS AT 31 JULY 2019

	Note		2019 £000		2018 £000
Fixed assets					
Goodwill	15		4,867		4,867
			4,867		4,867
Intangible assets	14		2,121		2,371
Tangible assets	16		1,918		2,301
Investments	17		11,898		11,898
			20,804		21,437
Current assets					
Stocks	18	36,005		44,631	
Debtors	19	198,376		265,460	
Cash at bank and in hand	20	659		1,064	
		235,040		311,155	
Creditors: amounts falling due within one year	21	(48,686)		(46,307)	
Net current assets			186,354		264,848
Total assets less current liabilities			207,158		286,285
Creditors: amounts falling due after more than one year	22		(215)		(264)
			206,943		286,021
Provisions for liabilities					
Other provisions	25	(886)		(896)	
			(886)		(896)
Net assets			206,057		285,125

BALANCE SHEET (CONTINUED)
AS AT 31 JULY 2019

	Note	2019 £000	*2018 £000*
Capital and reserves			
Called up share capital	26	**43**	*43*
Share premium account		**71,340**	*71,340*
Hedge reserve		**377**	*1,057*
Capital reserve		**2,118**	*1,884*
Profit and loss account		**132,179**	*210,801*
		206,057	*285,125*

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

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Louis Jones
Director
Date: 5\12\19

The notes on pages 12 to 38 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 JULY 2019

	Called up share capital	Share premium account	Hedge reserve	Capital reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000	£000
At 1 August 2017	43	71,340	(3,263)	1,671	185,919	255,710
Comprehensive income/(expense) for the financial year						
Profit for the financial year	-	-	-	-	24,882	24,882
Fair value movements on cash-flow hedges	-	-	4,320	-	-	4,320
Total comprehensive income for the financial year	-	-	4,320	-	24,882	29,202
Capital contribution	-	-	-	213	-	213
Total transactions with owners	-	-	-	213	-	213
At 31 July 2018	43	71,340	1,057	1,884	210,801	285,125
Comprehensive income for the financial year						
Profit for the financial year	-	-	-	-	21,406	21,406
Fair value movements on cash-flow hedges	-	-	(680)	-	-	(680)
Total comprehensive income for the financial year	-	-	(680)	-	21,406	20,726
Dividends: Equity capital	-	-	-	-	(100,028)	(100,028)
Capital contribution	-	-	-	234	-	234
Total transactions with owners	-	-	-	234	(100,028)	(99,794)
At 31 July 2019	43	71,340	377	2,118	132,179	206,057

The notes on pages 12 to 38 form part of these financial statements.

1. General Information

The Company's principal activity in the financial year is that of the design, manufacture, distribution and sale of medical devices. There has been no significant change in this activity during the financial year. Smiths Medical International Limited is a private company limited by shares and registered, incorporated and domiciled in England, UK. The registered office address is 1500 Eureka Park, Lower Pemberton, Ashford, Kent, TN25 4BF.

As the Company is an indirectly wholly owned subsidiary of Smiths Group plc which prepares publicly available consolidated group financial statements, the Company has not prepared consolidated financial statements as permitted by Section 400 of the Companies Act 2006.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
  - paragraph 50 of IAS 41 Agriculture
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

2.3 Going concern

These financial statements have been prepared on a going concern basis and under the historical cost convention (as modified to include revaluation of certain financial instruments).

2. Accounting policies (continued)

2.4 Impact of new international reporting standards, amendments and interpretations

IFRS 9

There have been no material impacts on the Company's financial statements as a result of adopting IFRS 9 from 1 August 2018.

IFRS 15

From 1 August 2018, the Company has applied IFRS 15 using the cumulative effect method.

Through assessment on a consistent basis there continues to be no material impact on the Company's financial statements as a result of adopting FRS 15.

2.5 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is pounds sterling (£).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

2. Accounting policies (continued)

2.6 Turnover

Revenue is measured at the fair value of the consideration received, net of trade discounts (including distributor rebates) and sales taxes. Revenue is discounted only where the impact of discounting is material. When the Company enters into complex contracts with multiple, separately identifiable components, the terms of the contract are reviewed to determine whether or not the elements of the contract should be accounted for separately. If a contract is being split into multiple components, the contract revenue is allocated to the different components at the start of the contract. The basis of allocation depends on the substance of the contract. The Company considers relative stand-alone selling prices, contractual prices and relative cost when allocating revenue.

Sale of goods

For established products with simple installation requirements, revenue is recognised when the control of the product is passed to the customer. The point in time that control passes is defined in accordance with the agreed shipping terms and is determined on a case by case basis. The time of despatch or delivery of the goods to the customer is normally the point at which invoicing occurs.

For some generic products which are technically innovative and highly configured, revenue is recognised when the overall performance obligation has been completed, which is often after the customer has completed its acceptance procedures and has assumed control.

Products that are sold under multiple element arrangements, i.e. contracts involving a combination of products and services, are bundled into a single performance obligation unless the customer can benefit from the goods or services either on their own, or together with other resources that are readily available to the customer.

For contracts that pass control of the product to the customer only on completion of installation services, revenue will be recognised upon completion of the installation. An obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision. Rendering of services.

Rendering of services

Revenue from providing services is recognised in the accounting period in which the services are rendered. Services relating to the installation, repair and ongoing maintenance of equipment Services include installation, commissioning, testing, training and product repairs.

For complex installations where the supply of services cannot be separated from the supply of product, revenue is recognised upon acceptance of the combined performance obligation. For services that can be accounted for as a separate performance obligation, revenue is recognised over time, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Where contracts are accounted for under the revenue recognised over time basis the proportion of costs incurred is used to determine the percentage of contract completion.

For fixed-price contracts, revenue will be recognised based upon an assessment of the amount of cost incurred under the contract, compared to the total expected costs that will be incurred under the contract. This calculation will be applied cumulatively with any over/ under recognition being adjusted in the current period.

Invoicing for services will depend on the nature of the service provided with some services charged in advance and others in arrears.

2. Accounting policies (continued)

2.7 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.8 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.9 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.10 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2. Accounting policies (continued)

2.11 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Balance Sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to Statement of Comprehensive Income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the Statement of Comprehensive Income is charged with fair value of goods and services received.

2.12 Current and deferred taxation

The tax expense for the financial year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2. Accounting policies (continued)

2.13 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

2.14 Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

When a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the company includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination. Changes in the estimated value of contingent consideration arising on business combinations completed as a consequence result in a change in the carrying value of the related goodwill.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit or loss. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. It has been deemed, however, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view. The effect of this departure has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

2.15 Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

2.16 Development costs

The Company is currently undertaking research and development into new products and technologies which will expand and extend its current product ranges, or improve existing products within these ranges.

2.17 Tangible assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2. Accounting policies (continued)

2.17 Tangible assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	- 2%
Short-term leasehold property	- Life of the lease
Plant and machinery	- 10% to 20%
Fixtures and fittings	- 10% to 33%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.18 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.19 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.20 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

The Company always recognises lifetime ECL for trade receivables and amounts due on contracts with customers. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

2. Accounting policies (continued)

2.21 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.22 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.23 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.24 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets and financial liabilities are initially measured at fair value.

Financial assets

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial assets.

Fair value through profit or loss

All of the Company's financial assets other than those which meet the criteria to be measured at amortised cost or fair value through other comprehensive income are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses being recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Debt instruments at amortised cost

2. Accounting policies (continued)

2.24 Financial instruments (continued)

Debt instruments are subsequently measured at amortised cost where they are financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Amortised cost is calculated using the effective interest method and represents the amount measured at initial recognition less repayments of principal plus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Debt instruments at fair value through other comprehensive income

Debt instruments are subsequently measured at fair value through other comprehensive income where they are financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised or at FVOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables and amounts due on contracts with customers. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

Financial liabilities

Fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss, when the financial liability is held for trading, or is designated as at fair value through profit or loss. This designation may be made if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or the financial liability forms part of a group of financial instruments which is managed and its performance is evaluated on a fair value basis, or the financial liability forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at fair value through profit or loss. Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

At amortised cost

Financial liabilities which are neither contingent consideration of an acquirer in a business combination, held for trading, nor designated as at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. This is a method of calculating the

2. Accounting policies (continued)

2.24 Financial instruments (continued)

amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate a shorter period, to the amortised cost of a financial liability.

2.25 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The key estimates and assumptions used in these consolidated financial statements are set out below.

Retirement benefits
The Company is a sponsoring employer for a UK defined benefit pension scheme. After consideration of the terms of the pension scheme trust, the obligations of the Company, the obligations of the principal employer of the scheme and the behaviour of the pension scheme trustees and the principal employer of the scheme; the Company has determined that it is appropriate under IAS 19: Employee benefits to accounts for its participation in this scheme as if it was a defined contribution scheme. The principal employer agrees with the Company's analysis of the Company's obligations, and has recognise the accounting surplus for the whole scheme in its Company financial statements.

Receivables provisions
If the carrying value of any receivable is higher than the fair value, the Company makes provisions writing down the balance to its fair value. The fair value of receivables is considered individually for each customer and incorporates past experience and progress with collecting receivables.
At 31 July 2019 there were provisions of £3,947,000 (2018: £3,356,000) against gross receivables of £27,348,000 (2018: £26,337,000).

Inventory provisions
The calculation of inventory provisions requires judgement by management of the expected value of future sales. If the carrying value of inventory is higher than the expected recoverable value, the Company makes provisions writing inventory down to its net recoverable value. Inventory is initially assessed for impairment by comparing inventory levels to recent utilisation rates and carrying values to historical selling prices. A detailed review is completed for inventory lines identified in the initial assessment considering sales activity, order flow, customer contracts and current selling prices.
At 31 July 2019, there were provisions of £2,086,000 (2018: £1,957,000) against gross inventory of £38,091,000 (2018: £46,588,000).

4. Turnover

The whole of the turnover is attributable to the design, manufacture, distribution and sale of medical devices.

Analysis of turnover by country of destination:

	2019 £000	*2018 £000*
United Kingdom	**27,555**	*27,857*
Rest of Europe	**100,137**	*112,703*
Rest of the world	**126,302**	*120,236*
	253,994	*260,796*

5. Operating profit

The operating profit is stated after charging/(crediting):

	2019 £000	*2018 £000*
Research & development charged as an expense	**3,534**	*3,161*
Depreciation of tangible fixed assets	**808**	*758*
Amortisation of intangible assets, including goodwill	**642**	*790*
Exchange differences	**(46)**	*886*
Defined contribution pension cost	**1,844**	*1,720*

6. Auditors' remuneration

	2019 £000	*2018 £000*
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**136**	*149*

Fees payable to the Company's auditor and its associates in respect of:

All other services	**57**	*54*
	57	*54*

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2019 £000	*2018 £000*
Wages and salaries	**21,458**	*20,590*
Social security costs	**2,232**	*2,078*
Other pension costs	**1,844**	*1,720*
	25,534	*24,388*

The average monthly number of employees, including the directors, during the financial year was as follows:

	2019 No.	*2018 No.*
UK	**384**	*410*
Overseas	**148**	*151*
	532	*561*

8. Directors' remuneration

	2019 £000	*2018 £000*
Directors' emoluments	**588**	*771*
Company contributions to defined contribution pension schemes	**61**	*79*
	649	*850*

During the financial year retirement benefits were accruing to 3 directors *(2018 - 5)* in respect of defined contribution pension schemes.

The highest paid director received remuneration of £222 thousand *(2018 - £235 thousand)*.

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £26 thousand *(2018 - £26 thousand)*.

9. Interest receivable and similar income

	2019 £000	2018 £000
Interest receivable from group companies	2,097	1,026
Other interest receivable	4	3
	2,101	1,029

10. Interest payable and similar expenses

	2019 £000	2018 £000
Bank interest payable	42	39
Other loan interest payable	110	76
	152	115

11. Tax on profit

	2019 £000	2018 £000
Corporation tax		
Current tax on profits for the year	(88)	(76)
Adjustments in respect of previous periods	(12)	20
	(100)	(56)
Total current tax	(100)	(56)
Deferred tax		
Origination and reversal of timing differences	(386)	(1,098)
Total deferred tax	(386)	(1,098)
Total taxation (credit)	(486)	(1,154)

11. Tax on profit (continued)

Factors affecting tax credit for the financial year

The tax assessed for the financial year is lower than *(2018 - lower than)* the standard rate of corporation tax in the UK of 19.00% *(2018 - 19.00%)*. The differences are explained below:

	2019 £000	*2018 £000*
Profit before tax	**20,920**	*23,728*
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)	3,975	*4,508*
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	54	*46*
Capital allowances for financial year in excess of depreciation	(93)	*-*
Adjustments to tax charge in respect of prior periods	(12)	*20*
Non-taxable income	(190)	*(620)*
Adjustment in research and development tax credit leading to a decrease in the tax charge	(109)	*(76)*
Group relief received for no consideration	(4,111)	*(5,032)*
Total tax credit for the financial year	**(486)**	*(1,154)*

At 31 July 2019 the Company had deferred tax assets of £6,002,304 (2018: £5,616,468) relating to capital allowances, £5,918,548 and other items £83,756.

The value of these assets is reviewed regularly and is dependent on the ability to recover them against forecast UK taxable profits of the tax group.

Factors that may affect future tax charges

Smiths Group does not require UK companies to compensate the surrendering company for the receipt of group relief. As a result, no payments or receipts in respect of group relief have been accrued in the current or prior year, and no payments or receipts will be recognised in future years if other group companies have losses available to surrender.

The UK government has cut the Corporation Tax rate to 17% for the 2019/20 tax year. If the Company pays tax in the future, and these rates are still in force, the Company will benefit from lower tax payments.

12. Dividends

	2019 £000	*2018 £000*
Ordinary dividends paid	100,000	-
Preference dividends paid	28	-
	100,028	-

13. Exceptional items

	2019 £000	*2018 £000*
Restructuring costs	1,122	-
Loss on disposal of customer list	1,026	-
Expense from transitional services provided to CooperSurgical	-	*1,232*
	2,148	*1,232*

Restructuring costs this year relate to legal expenditure incurred in the separation of Smith Medical from Smiths Group.

Disposal of operations relates to disposal of end of life products and the subsequent sale of related customer lists.

14. Intangible assets

	Computer software £000	Development £000	Total £000
Cost			
At 1 August 2018	17,334	2,314	19,648
Additions - internal	-	392	392
At 31 July 2019	17,334	2,706	20,040
Amortisation			
At 1 August 2018	16,271	1,006	17,277
Charge for the year	623	19	642
At 31 July 2019	16,894	1,025	17,919
Net book value			
At 31 July 2019	440	1,681	2,121
At 31 July 2018	*1,063*	*1,308*	*2,371*

15. Goodwill

	2019 £000
Cost	
At 1 August 2018	9,392
At 31 July 2019	9,392
Amortisation	
At 1 August 2018	4,525
At 31 July 2019	4,525
Net book value	
At 31 July 2019	4,867
At 31 July 2018	*4,867*
	4,867

The Company accounts for goodwill in accordance with the requirements of IFRS as applied under FRS 101. As a result, IFRS 3 is applied and goodwill is not amortised. Instead an annual impairment test is performed and any required impairment is recognised in the income statement. The non-amortisation of goodwill is a departure from the Company Law requirement that acquired goodwill should be written off over its useful economic life. The Company has adopted this accounting policy for the overriding purpose of giving a true and fair view by preparing its financial statements in accordance with applicable accounting standards, following the process required by Companies Act 2006 in this situation.

It is not possible to quantify the effect of the departure from the Companies Act, because a finite life for the goodwill has not been identified. However, the effect of amortising over a useful life of 20 years would be a charge of £470,000 (2018: £470,000) against operating profit, and a corresponding reduction in the carrying value of goodwill in the balance sheet.

The accumulated amortisation of goodwill was charged before the transition date to FRS 101 of 1 August 2014 when the financial statements were prepared under different accounting standards.

Goodwill is monitored at the Smiths Medical International Limited level by the Company for internal reporting purposes and therefore Smiths Medical International Limited is treated as one cash generating unit. The recoverable amount of the cash generating unit is assessed annually using a value in use model. Value in use is calculated as the net present value of the projected risk-adjusted post-tax cash flows plus a terminal value of the cash generating unit to which the goodwill is allocated. The key assumptions included in the model is the 5 years of specific cash flows, the terminal growth rate of 1.5% and the discount rate of 10.0%. The valuation indicates sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

16. Tangible assets

	Freehold property £000	Short-term leasehold property £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost or valuation					
At 1 August 2018	365	356	3,361	4,744	8,826
Additions	-	-	313	251	564
Disposals	-	-	(788)	-	(788)
At 31 July 2019	365	356	2,886	4,995	8,602
Depreciation					
At 1 August 2018	365	356	2,443	3,361	6,525
Charge for the financial year on owned assets	-	-	289	519	808
Disposals	-	-	(649)	-	(649)
At 31 July 2019	365	356	2,083	3,880	6,684
Net book value					
At 31 July 2019	-	-	803	1,115	1,918
At 31 July 2018	*-*	*-*	*918*	*1,383*	*2,301*

17. Investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 August 2018	**11,898**
At 31 July 2019	**11,898**

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding
01148992 - Pneupac Limited	Ordinary	100%
00995550 - Graseby Medical Limited	Ordinary	100%
03010295 - Medex Medical Limited	Ordinary	100%

All of the above have a registered office address at 1500 Eureka Park, Lower Pemberton, Ashford, Kent, TN25 4BF, and are incorporated in England, UK.

18. Stocks

	2019 £000	*2018 £000*
Raw materials and consumables	**1,870**	*1,868*
Work in progress (goods to be sold)	**368**	*213*
Finished goods and goods for resale	**33,767**	*42,550*
	36,005	*44,631*

Write-down of stocks charged as an expense was £2,378,000 (2018: £536,000).

19. Debtors

	2019 £000	*2018* *£000*
Due after more than one year		
Deferred tax asset	**5,918**	*5,616*
Financial instruments	**147**	*529*
	6,065	*6,145*
Due within one year		
Trade debtors	**22,949**	*22,648*
Amounts owed by group undertakings	**165,323**	*233,380*
Other debtors	**235**	*255*
Prepayments and accrued income	**820**	*817*
Tax recoverable	**177**	*151*
Deferred taxation	**84**	*-*
Financial instruments	**2,723**	*2,064*
	198,376	*265,460*

Amounts owed by group undertakings are unsecured and payable on demand, and include a loan of £140,001,000 (2018: £225,479,000) bearing interest at 12 month GBP LIBID.

20. Cash at bank and in hand

	2019 £000	*2018* *£000*
Cash at bank and in hand	**659**	*1,064*
	659	*1,064*

21. Creditors: Amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	7,633	5,860
Amounts owed to group undertakings	35,907	36,259
Other taxation and social security	910	807
Other creditors	512	475
Accruals and deferred income	2,125	1,684
Financial instruments	1,599	1,222
	48,686	46,307

Amounts owed to group undertakings are unsecured and payable on demand, and include loans of £15,037,000 (2018: £15,037,000) which are interest free.

22. Creditors: Amounts falling due after more than one year

	2019 £000	2018 £000
Share capital treated as debt	36	36
Financial instruments (after 1 yr)	179	228
	215	264

23. Financial instruments

	2019 £000	*2018 £000*
Financial assets		
Financial assets measured at fair value through profit or loss	3,529	*3,657*
Financial assets that are debt instruments measured at amortised cost	188,592	*256,264*
	192,121	*259,921*
Financial liabilities		
Derivative financial instruments measured at fair value through profit or loss held as part of a trading portfolio	(1,778)	*(1,450)*
Financial liabilities measured at amortised cost	(45,520)	*(43,674)*
	(47,298)	*(45,124)*

Financial assets measured at fair value through profit or loss comprise bank balances and derivatives.

Financial assets that are debt instruments measured at amortised cost comprise trade and intercompany balances and relevant other debtors.

Derivative financial instruments measured at fair value through profit or loss held as part of a trading portfolio comprise foreign exchange contracts.

Financial liabilities measured at amortised cost comprise trade and intercompany creditors and relevant accruals.

24. Deferred taxation

	2019 £000	*2018 £000*
At beginning of year	5,616	*4,518*
Charged to profit or loss	386	*1,098*
At end of year	6,002	*5,616*

24. Deferred taxation (continued)

The deferred tax asset is made up as follows:

	2019 £000	*2018 £000*
Accelerated capital allowances charged to income statement	5,918	*5,616*
Other timing differences	84	*-*
	6,002	*5,616*

At 31 July 2019 the Company had deferred tax assets of £6,002,304 (2018: £5,616,468) relating to capital allowances, calculated at 17% (2018: 17%) in accordance with the Finance Act 2013.

The value of these assets is reviewed regularly and is dependent on the ability to recover them against forecast UK taxable profits of the tax group.

25. Other provisions

	Warranty £000	Property £000	Total £000
At 1 August 2018	78	818	896
Charged to profit or loss	30	-	30
Utilised in financial year	(40)	-	(40)
At 31 July 2019	68	818	886

26. Called up share capital

	2019 £000	*2018* *£000*
Shares classified as equity		
Allotted, called up and fully paid		
43,217 *(2018 - 43,217)* Ordinary shares of £1 each	**43**	*43*

	2019 £000	*2018* *£000*
Shares classified as debt		
Allotted, called up and fully paid		
20,000 *(2018 - 20,000)* Preference shares of €2 each	**36**	*36*

Arrears of preference share dividend amount to £27,500 (€30,800) (2018: £27,500 (€30,800)), covering 10 years.

27. Capital commitments

At 31 July 2019 the Company had capital commitments as follows:

	2019 £000	*2018* *£000*
Committed but not provided for	**157**	*215*
Authorised but not committed	**523**	*523*
	680	*738*

28. Pension commitments

Staff of the Company participated in the Smiths Industries Pension Scheme and the TI Group Pension Scheme, defined benefit pension plans based in the UK. With effect from 1 January 2006, a number of employees of the Company who are members of this scheme became employees of the ultimate parent Company, Smiths Group plc, and now perform their services under contract from that Company. These pension schemes were closed with effect from 31 October 2009. The Company provides a defined contribution pension plan for its employees.

The assets of the Smiths Industries Pension Scheme are held in a separate trustee-administered fund and the pensions costs are assessed in accordance with the advice of independent, professionally-qualified actuaries. Further details of these pension plans, the actuarial assumptions used and the latest actuarial valuations can be found in the consolidated financial statements of Smiths Group plc for the year ended 31 July 2019.

The Company has no pension cost in respect of the defined benefit pension plans because the Company contributions are set with respect to the current service period only and the schemes are closed. The Company has accounted for these plans as if the scheme was a defined contribution scheme, because of the basis on which its contributions are assessed. In 2020 the Company does not expect to make any payments in respect of the defined benefit pension plans.
The total expense recognised in the income statement in respect of defined contribution pensions was £1,844,000 (2018: £1,720,000). At 31 July 2019 £nil (2018: £nil) was due to the scheme.

29. Share based compensation

Company employees participate in share schemes and plans that the ultimate parent company, Smiths Group plc operates for the benefit of employees. All entitlements under the schemes relate to the shares of Smiths Group plc. The Company recognises a charge for the benefit of the employee services realised, and a capital contribution from the Group because the Group does not charge the Company for the costs of these options. The nature of the schemes and plans is set out below:

Smiths Group share option schemes

Long Term Incentive Plan (LTIP)
The LTIP is a share plan under which an award over a capped number of shares will vest after the end of the three year performance period if performance conditions are met. LTIP awards are made to selected senior executives, and have performance conditions relating to underlying operating profit growth, ROCE and operating cash conversion.

Smiths Group Sharesave Scheme (SAYE)
The SAYE scheme is an HM Revenue & Customs approved all employee savings related share option scheme which is open to all UK employees. Participants enter into a contract to save a fixed amount per month of up to £500 in aggregate for three or five years and are granted an option over shares at a fixed option price, set at a discount to market price at the date of invitation to participate. The number of shares are determined by the monthly amount saved and the bonus paid on maturity of the savings contract. Options granted under the SAYE scheme are not subject to any performance conditions.

Smiths Excellence Plan (SEP)
The SEP is a share plan under which an award over a capped number of shares will vest after two years, depending on performance on the operational objectives during the first year and continued employment with the Group. There is no retesting of performance, however the Remuneration Committee has discretion to adjust vesting rates if material misstatements in reported performance are subsequently identified and awards are subject to clawback provisions in the event of mis-conduct.

Range of exercise prices and remaining contractual life
Options outstanding under LTIP schemes at 31 July 2019 have an exercise price of £0.00 (2018: £0.00), with a weighted average remaining contractual life of 1.4 years (2018: 1.0 years).
Options outstanding under SEP schemes at 31 July 2019 have an exercise price of £0.00 (2018: £0.00), with a weighted average remaining contractual life of 1.1 years (2018: 0.9 year).
Options outstanding under SAYE schemes at 31 July 2019 had exercise prices between £8.66 and £13.00 (2018: £8.11 and £13.00), with a weighted average contractual life of 2.3 years (2018: 2.3 years).

Options were exercised on an irregular basis during the period. The average closing share price over the financial year was 1,479.21p (2018: 1,589.60p).

Cost of share based payment arrangements
Included within staff costs is an expense arising from share based payment transactions of £234,000 (2018: £213,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2019

30. Commitments under operating leases

At 31 July 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £000	*2018* *£000*
Not later than 1 year	**1,794**	*1,709*
Later than 1 year and not later than 5 years	**4,167**	*2,840*
Later than 5 years	**563**	-
	6,524	*4,549*

31. Controlling party

For the year ended 31 July 2019, Smiths Medical International Limited was a wholly owned subsidiary of Smiths Medical Group Limited.

The ultimate parent undertaking and controlling party is Smiths Group plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Smiths Group plc is incorporated in the United Kingdom and registered in England and Wales.

The annual report and financial statements of Smiths Group plc may be obtained from the Company Secretary, Smiths Group plc, 4th Floor, 11-12 St James's Square, London, SW1Y 4LB.