Exhibit 2 – Notes from a meeting held on 30 June 20X5 between Gavin Jones and Rebecca Feller, the finance director

Medix Co is a provider of specialised surgical instruments used in medical procedures. The company is owner-managed and has a financial year ending 31 July 20X5. The forecast financial statements for the year ended 31 July 20X5 show operating profit before taxation of $5.5 million (20X4 – $3.8 million), revenue of $61.2 million (20X4 – $62.6 million), and total assets of $55.2 million (20X4 – $38.1 million).

Medix Co has invited our firm to be appointed as auditor for the forthcoming year end. The audit is not going out to tender. Rebecca Feller has been with the company since February 20X5, following the departure of the previous finance director, who is currently taking legal action against Medix Co for unfair dismissal.

Medix Co's main business is the manufacture of surgical instruments which are sold to hospitals and clinics. Due to the increased use of laser surgery in the last four years, demand for traditional metal surgical instruments, which provided 75% of revenue in the year ended 31 July 20X4, has declined rapidly. Medix Co is expanding into the provision of laser surgery equipment, but research and development is at an early stage. The directors feel confident that the laser instruments currently being designed will eventually receive the necessary licence for commercial production, and that the laser product will replace surgical instruments as a leading source of revenue. There is currently one scientist working on the laser equipment, subcontracted by Medix Co on a freelance basis. The building in which the research is being carried out has recently been significantly extended by the construction of a large laboratory, and this cost has been capitalised as an addition of $0.4 million.

A considerable revenue stream is derived from agents who are not employed by Medix Co. The agents earn a commission based on the value of sales they have secured for Medix Co during the year. There are many suppliers into the market and agents are used by all manufacturers as a means of marketing and distributing their products.

The company's manufacturing facility is located in another country, where operating costs are significantly lower. The facility is under the control of a local manager who visits the head office of Medix Co annually for a meeting with senior management. Products are imported via air freight. The overseas plant and equipment is owned by the company and was constructed 12 years ago specifically for the manufacture of metal surgical instruments.

The company has a bank overdraft facility and makes use of the facility most months. A significant bank loan, which will carry a variable interest rate, is currently being negotiated. The terms of the loan will be finalised once the audited financial statements have been viewed by the bank.

In June 20X5 the directors announced plans to discontinue the range of medical consumables supplied to hospital pharmacies. The factory manufacturing these products will close in July 20X5. The forecast financial statements include a provision of $2.4 million for the compensation of redundant employees and a further $1.3 million for the three years unexpired lease term on the factory premises.

Rebecca has requested that a certain audit senior, Kia Nelson, be assigned to the audit team. On further investigation it transpired that Kia Nelson is the sister of Medix Co's financial controller, and has not worked on any similarly-sized clients before.