

## Contents

<b>Business Review</b>		<b>Financial Statements</b>	
02	Chairman's Statement	36	Consolidated Income Statement
04	Chief Executive's Statement	37	Consolidated Statement of Comprehensive Income
06	Operating Review: Bepak Division	38	Consolidated Balance Sheet
12	Operating Review: King Systems Division	39	Consolidated Statement of Changes in Shareholders' Equity
16	Finance Review	40	Consolidated Cash Flow Statement
18	Corporate Responsibility Review	41	Company Balance Sheet
		42	Company Statement of Changes in Shareholders' Equity
		43	Company Cash Flow Statement
		44	Notes to the Accounts
		85	Independent Auditors' Report to the members of Consort Medical plc
		86	Five-Year Summary
		87	Company Information
		88	Financial Calendar

## Our Divisions

Bepak is a leading drug delivery device company which currently focuses on the respiratory and autoinjector markets.

King Systems is a leading US manufacturer of medical devices to establish and maintain airways.

# Chairman's Statement

**Peter Fellner**  
Chairman

We are laying the foundations for growth by investing our strong cash flow in additional innovation, product development and targeting of new markets



I am pleased to report that Consort Medical has delivered robust results for the last financial year. The strong cash flows and balance sheet have enabled the Group to withstand the global economic recession in good shape, to maintain our dividend payment for the full financial year, and also to continue to invest in both organic and acquisitive growth opportunities. In particular, we have been delighted with our acquisition of The Medical House plc ('TMH'), which opens up an important new market for Bepak's unique capabilities.

#### **Resilient performance in a challenging environment**

The Group entered the last financial year facing destocking across its markets, a material price reduction on one of Bepak's key contracts and a weak hospital market in the US for King Systems. In this context, we have been pleased with the resilient financial performance over the last year. Revenues and operating profits (before special items) were broadly flat at £118.6m (2009: £120.3m) and £18.7m (2009: £18.9m) respectively. We were particularly pleased that like-for-like operating profits, excluding the impact of the TMH acquisition, rose by 3% on the back of excellent cost control and the cost reduction programmes put in place. Profit before tax and special items fell by 6% due to lower interest income on our cash balances and an increased non-cash pension charge. Profit after tax but before special items fell by 6% to £12.3m and adjusted earnings per share fell by 6% to 42.5p. Including special items, profit after tax rose by 6% to £8.1m and basic earnings per share rose by 6% to 27.8p.

Bepak's respiratory business performed better than expected. While revenues fell by 5% in challenging conditions to £76.6m, the cost initiatives that we introduced resulted in operating profits (before special items) increasing by 10% to £14.8m. Operating margins increased for a second successive year from 16.6% to 18.2%. There are encouraging signs that markets are improving in 2010, and the Division finished the year strongly.

King Systems also performed robustly in a market which saw declining hospital procedures in 2009. Revenues in dollars rose by 1% to \$65.7m (a 4.5% increase in sterling terms) and would have been higher but for operational challenges in the third quarter which impacted output in that period. Operating profits (before special items) fell by \$1.3m (14.8%) to \$7.2m, which reflects an investment of \$1.7m in R&D, focused in particular on a major product launch for 2010, as well as additional costs to drive the manufacturing transformation programme.

Group cash generation continues to be strong, with an EBITDA of £21.6m (2009: £22.0m), and net debt remains tightly managed at 1.5x EBITDA. The Group refinanced its borrowing facilities until October 2013 and has leverage available to deliver future growth plans.

#### **Organic growth opportunities**

Our strategic review conducted last year identified clear opportunities for organic growth and also areas where operating costs could be further reduced in order to deliver cost leadership in our core markets. I am pleased to report that both divisions have made good progress towards achieving these strategic goals.

The Bepak Division has enjoyed a promising year in bringing new dose counter, valve and device service products closer to commercial launch, with more details provided in the Operating Review. Bepak delivered in full on the first phase of its cost reduction programme last summer and instigated a second phase in April 2010 in order to position the business to successfully retain its mature core programmes and also to remain competitive to win new business.

King Systems has also invested significantly increased sums in an enhanced R&D team. A number of new products will be launched over the next 18 months, with one exciting new product scheduled for launch in late 2010. The transformation programme continues to make good progress. Savings worth \$1m have been achieved and the business is on track to deliver \$5m of annualised savings by April 2012.

#### **Acquisition creates new opportunities**

The two divisions have strong and profitable positions in defensive markets. However, these markets, within both the respiratory and anaesthesia sectors, are relatively mature. We are therefore alert to opportunities to increase our share of the value chain within these sectors, and to utilise the strength of our businesses to expand them into higher growth areas. We were therefore delighted with the successful acquisition of TMH, an AIM-listed developer of autoinjectors and needle-free injectors, in November 2009. In particular, autoinjection of antibody-based products has been identified as a fast-growing market opportunity. We believe that the combination of TMH's technology with Bepak's high-specification manufacturing capability will offer a compelling solution to pharmaceutical customers. The initial reaction of our customers has been very encouraging.

We continue to seek further opportunities to expand the existing Divisions through bolt-on acquisitions that meet our criteria. We also remain keen to add a third division to the Group. We are focused on identifying a business that operates in a growth market with strong intellectual property, and which fits with one or more of our core competencies in design for manufacture and high-volume manufacture of disposable medical devices with full regulatory compliance, or which leverages our current sales channels.

#### **Board change**

Having successfully delivered the TMH acquisition, Paul Boughton left the Group after five years as Group Corporate Development Director. We wish him well in the future.

Finally, I would like to pay tribute to the loyalty and determination of our workforce, who deliver hundreds of millions of products of exceptional quality, which enhance and save lives all over the world. I would also like to thank our shareholders for their continued commitment to, and support for, the Company during a period of significant change.

#### **Peter Fellner**

Chairman  
27 July 2010

# Chief Executive's Statement

**Jonathan Glenn**  
Chief Executive



The organic outlook for the Group is more encouraging than it has been for several years

Consort Medical is a leader in the markets in which it operates and we are very proud that what we do has a direct impact on the lives of millions of people every day. Annually, we produce more than 500 million devices for our customers. All this is done to exacting standards and requires an expertise that has taken years to develop.

Consort Medical has used its good defensive characteristics to weather the global recession in good shape. We continued to increase investment through the downturn in opportunities for organic growth, including a substantial increase in R&D expenditure, and also in optimising our cost base to be a leader in competitive markets. With markets now showing signs of recovery, we believe that we have a platform from which to deliver significant shareholder value.

## **Strategy**

Consort Medical plc is a healthcare company focused on disposable medical device technologies for drug delivery and management of patient airways. Our strategy moving forward is to build and strengthen our core business through new product innovation, increased market reach and higher-value business models. We will diversify the Group into adjacent markets and technologies which leverage our competencies. We will also continue aggressively to manage costs to maintain and increase margins in the current challenging economic environment, while not losing sight of the fact that we must deliver sales growth in order to successfully grow the business and provide an adequate return for our shareholders.

## Management team

The Executive team was completed this year with three important appointments. In November 2009, John Slater joined as Group Legal Counsel and Company Secretary, having previously held similar roles at Celltech plc and Vernalis plc. Nick Higgins joined in January 2010 as Director of Corporate Development. Nick has a wealth of experience of transactions in the healthcare industry, having previously been CEO of Intercytex plc and prior to that Nick spent 11 years as Chief Business Officer of Acambis plc. Finally, Keyvan Djamarani rejoined the Group on 1 May 2010 as Director of Group Operations, with the remit to drive an optimised global manufacturing footprint as the Group grows and wins new business, and to deliver on the transformation programme at King Systems. All three are members of the Group Executive Committee.

## Review of the period

I reported last year that the Group was, along with many other businesses, encountering challenging recessionary conditions, including increased price pressure, a reduction in US surgeries (particularly in elective surgery), and destocking across both divisions. In response, we continued to take cost out of the business, but ensured that we increased our investment where appropriate so that as the markets start to recover we are well positioned to capitalise on new opportunities.

In particular, we laid the foundations for growth by investing our strong cash flow in additional innovation, product development and to targeting new markets. King Systems significantly increased its R&D expenditure in 2009/10, which will increase its rate of new product introduction. Bepak has made encouraging progress with a number of key development programmes and we are confident that they will deliver new opportunities for growth over the next two to three years.

The year ended 30 April 2010 was a successful one in the context of poor market conditions. We have achieved results in line with the market's expectations while successfully maintaining a strong balance sheet, with both cash and borrowing facilities available for investment in growth opportunities. We delivered a 3% increase in like-for-like operating profits before special items for the Group, adjusting for the impact of the TMH acquisition. Even allowing for this important acquisition and other long-term increased investments that have been made, operating profits before special items fell by just 1%. Profits before tax fell by slightly more due to the loss of interest income due to lower rates and an increased non-cash accounting charge relating to our pension deficit.

The Bepak Division increased its operating profit before special items by 5% on revenues that were down by 4%. Within the Division, Bepak Respiratory grew operating profits before special items by 10%. Valve destocking appeared to slow around the end of 2009 and some modest improvement has been experienced in 2010, supplemented by the long-term renewal of a major valve contract in December 2009. Good progress has been made with three new valve programmes. The first dose counter programme has also completed Phase III clinical trials with a major customer and we await the results in the next few months. Device service revenues were down on last year following the first year's impact of a key contract renewal on less favourable terms in February 2009. This was mitigated to some extent by increased volumes of dose counters made for a third party and also accelerated development programmes for two important device programmes, which boosted service income. One further device programme achieved its targets and is currently on hold, pending customer direction as to next steps, while the smallest of the programmes was discontinued having achieved its development goals.

We were delighted to acquire TMH for £16.9m in November 2009. TMH has developed a strong portfolio of autoinjector technologies that can be applied across a wide range of variables, including the delivery of viscous solutions. The autoinjector market is a high-growth market, being driven by the substantial growth in biological drugs coming to market that generally require injection as the means of delivery. Despite its small size, TMH already had three autoinjector programmes in late development for major customers as well as having launched a needle-free injector for Merck Serono. The combination of TMH's development capability with Bepak's high-specification manufacturing skills makes a compelling offering for pharmaceutical customers. The acquisition leverages Bepak's unique capabilities in a fast-growing market place and allows us not only to command a manufacturing margin but also to capture a royalty on final product sales, thus securing a greater share of the value of the end product. TMH has now been fully integrated into Bepak and rebranded as Bepak Injectables. Although the business made a modest loss in the current year, we are encouraged both by the progress in its current product portfolio and by the response of the industry to our new business. It is expected to be accretive in the 2010/11 year as at least one product should be launched to the market.

King Systems made good progress with its manufacturing transformation plan and with an R&D programme which will deliver several new products in the 2010/11 financial year, one of which we believe to have particularly significant market potential. The major reorganisation of the main Noblesville manufacturing facility resulted in a loss of production output in the third quarter. While production returned to high levels in the fourth quarter, we were unable to fully make up for the shortfall. Nevertheless, dollar revenues were up 1% in a market that is believed to have contracted during calendar 2009. Operating profit before special items fell \$1.3m due to the planned investment in increased R&D and in the transformation programme. The programme has delivered annualised savings of around \$1m and is on track to deliver the forecast annualised savings of \$5m by April 2012.

Our business is not just about fiscal strength. The Group takes its corporate responsibilities very seriously. We are proud that our products help so many tens of millions of people around the world and our people are determined that they should have the highest quality products. We seek to be responsible employers and have taken a number of steps to enhance and protect our workforce. We remain committed to our communities and to the environment.

## Looking forward

I am pleased to report that our core markets now appear to have stabilised and should return to modest growth in the coming year, despite the adverse impact of a contractual change with a major customer in Bepak. This will be driven by the delivery of margin improvements in King Systems as the transformation programme comes to fruition and, more importantly, by a series of expected product launches in both divisions that are expected to underpin revenue growth for years to come. The organic outlook for the Group is therefore encouraging, and it is in the context of that backdrop that we continue to seek to inject further growth through selective tactical or strategic acquisitions.

## In summary

We now have the team and the strategy in place to take the business forward to the next stage of its evolution. As a Group we will continue to diversify, building on our solid platform. This will be through a combination of organic innovation, product licensing and acquisition, and company acquisitions.

## Jonathan Glenn

Chief Executive  
27 July 2010

# Operating Review

## Bespak Division

Bespak manufactures more than 500 million medical devices for patients worldwide every year. It is a leading drug delivery device manufacturer, with many of the world's top pharmaceutical companies as its largest customers. It currently focuses on the respiratory and self-injection markets. In the respiratory sector, it manufactures devices used to treat asthma and Chronic Obstructive Pulmonary Disease (COPD). More than 300 million people worldwide have been diagnosed with these diseases and Bespak devices are now used to deliver around one third of all medication taken for these conditions. In the self-injection market, it manufactures autoinjector devices that allow patients to inject medications safely and conveniently both for chronic conditions or for use in emergencies such as allergic shock reactions. Bespak owns extensive intellectual property (IP) around its core technologies of inhalation valves and autoinjectors.

My dose counter made by Bespak tells me that my inhaler still contains enough medicine

I use a Diskus® device made by Bespak to manage my asthma



My child uses a Bepak injector for his human growth hormone treatment

I carry an asthma reliever with a Bepak valve

My COPD inhaler has a Bepak valve

# Operating Review

## Bespak Division



Bespak is increasing the breadth of its offering in the respiratory market to consolidate its position as a market leader

### Bespak Respiratory – market background Treating asthma and COPD

**Asthma and COPD affect more than 300 million people worldwide. Diagnosis is increasing at around 2% per annum in the developed world but more than 15% per annum in the emerging markets. The treatment of these diseases is long term: often over 60 years for an asthma patient and five to ten years for a COPD patient.**

Two principal device technologies are used to treat asthma/COPD: the pressurised Metered Dose Inhaler ('MDI') or the Dry Powder Inhaler ('DPI'). Around 70% by volume of the market is MDI. The MDI can be broken down into its component pieces: drug, can, actuator and valve. New MDIs will also have a dose counter. The valve is the technical heart of the MDI because it has to withstand pressurised conditions for several years and yet still deliver an identical metered dose from the first to the last use of the inhaler.

Bespak is the world's leading manufacturer of MDI valves, with an estimated market share of 35%. Its valves are used on a wide range of marketed products and are in development with a further 50 trials, including important new primeless valve and emerging market technologies. Bespak additionally manufactures actuators and has a leading technology in the embryonic dose counter market. All its MDI products are proprietary technology with extensive IP protection. Since the products are also cited in clinical trials, there are significant regulatory barriers to entry.

Bespak also works with the world's leading pharmaceutical companies on DPI technologies and has been a major supplier of the GSK Diskus® device over the past decade.

Combined, around a third of the world's asthmatics are believed to use a Bespak device to enjoy continued good health.

## Bespak Cost reduction 2008-10

£4m

## Bespak Division

- Grew operating profits before special items by 5% in difficult markets
- Acquisition of The Medical House plc opens important growth market
- Good progress with development programmes gives confidence for organic growth
- Innovations centre established in Cambridge
- Long-term extension to major valve contract worth £30m
- Cost reduction initiatives deliver increase in operating margins before special items to 18.2%

### Strategy

Bespak is making good progress in delivering the overall Group strategy, reducing costs and increasing efficiency in mature segments of the business, while investing in both organic and acquisitive growth opportunities. Bespak is increasing the breadth of its offering in the respiratory market to consolidate its position as a market leader. This increased offering includes the development of new valve ranges, dose counters and other services. It is also engaged with major pharmaceutical companies to develop new dry powder inhaler (DPI) technologies for mass manufacture. Bespak's exceptional capabilities in high-volume, high-quality manufacturing and pharmaceutical regulatory compliance have to date been focused on the respiratory sector. However, we have now leveraged these skills by diversifying the Division into the adjacent autoinjector market and we continue to look for further opportunities for expansion.

### Review of the year

Bespak performed strongly during 2009/10. Operating profit before special items for the year of £14.1m was 5% up on prior year despite a 4% fall in revenues in difficult markets. Operating margins increased from 16.6% to 18.2% as a result of a range of cost reduction initiatives. The restructuring activities, for which a £2.2m charge was taken as a special item in the current year, delivered savings of £1.7m in the year just ended and will deliver a further £2.2m next year. This is in addition to savings from the continuous improvement programme amounting to an annualised £0.8m. The Integrated Aluminium Components Ltd (IAC) subsidiary that was consolidated last year has been returned to profitability.

Joe Barry, Division Managing Director, significantly strengthened the Bespak management team over the year. Richard Yarwood joined as Commercial Director from Catalent. David Urquhart joined as Commercial Director, Bespak Injectables, when TMH was acquired and continues to drive autoinjector sales. Lyndon Wild has joined as Development Director and Ian Anderson has been recruited from Sagentia plc to lead the Innovations team. These recruitments have significantly increased the experience and capability within the Bespak Division and are key to delivering future growth for the business.

As part of our continued focus on ensuring we act as an environmentally responsible employer, we were pleased that the Bespak Division was awarded the ISO14001 environmental certification in March 2010.

### Bespak Respiratory

In our valve business we maintained market share in our core markets despite slow markets during 2009. We were pleased to renew a major long-term contract worth over £30m with one of our larger customers in December, and to see a modest improvement in overall demand in early 2010. Ongoing innovation is achievable even in a mature market, and we have made good progress on a number of opportunities. The primeless (Easifill) valve has been in Phase III trials with a customer for a systemic therapeutic application, and has been successful. We now anticipate a regulatory filing in 2011 following completion of stability testing. The emerging market valve is on test with a customer and we also have two further valve variants on test with customers for asthma applications: one is expected to file for launch in 2011 and the other in 2012.

The FDA has provided guidance that new drugs delivered by an inhaler should have a dose counter and has recommended retro-fitting of dose counters to existing products. Bespak aims to address this market by offering both its own integrated dose counter (IDC) and/or a manufacturing capability for those customers who may have developed their own solution. We are pleased that we are a supplier of dose counters to GlaxoSmithKline, who have one of the few dose counters currently on the market in volume. Our own IDC has just successfully completed Phase III clinical trials with a customer for a new product, and we anticipate further progress towards commercialisation in the coming year.

Bespak's device services business offers unique design for manufacture and manufacturing capabilities to customers who own their own device technologies. Revenues on marketed products in this segment include the GlaxoSmithKline Diskus® device and the GlaxoSmithKline dose counter, Vectura's Clickhaler and a few smaller programmes. Revenues fell as expected during the period as a result of contractual changes with a major customer, which were announced in February 2009. However, significant progress has been made in the past year in bringing two programmes to an industrialisation phase, including a potentially significant programme that was installed in a bespoke building erected last year. One further programme, having reached a milestone point, is awaiting further guidance from the customer, and one programme was discontinued having achieved its development goal.

# Operating Review

## Bespak Division

### **Bespak Injectables**

Bespak Injectables (incorporating TMH) has also made good progress with its currently marketed products and with its development contracts. The cool.click™2 needle-free injector device for use with Merck Serono's human growth hormone drug Saizen™ was launched in July 2009, immediately prior to TMH's acquisition by Bespak. Revenues have been in line with expectations, although this application will remain a niche compared with the more numerous and more significant autoinjector opportunities. The first Bespak autoinjector programme, for Dr Reddy's Laboratories, is awaiting FDA approval, which may be anticipated from the late summer of 2010. The second major programme, for an unnamed major pharma company, has made good progress and filing is expected towards the end of 2010 for a 2011 launch. The third programme, in collaboration with Catalent for Stallergenes, is making good progress and is expected to file for approval in 2011.

These programmes alone would financially justify the £16.9m purchase price paid for TMH. However, we acquired this business to be a springboard for growth in an exciting market, largely driven by the number of biological drugs in development that will require an autoinjector as the delivery device. By combining the design authority (TMH) with the manufacturing authority (Bespak) that has design for manufacture capability, we believe that Bespak Injectables has a compelling offering for customers. This has been borne out in the positive response we have seen from both former Medical House and Bespak customers since the acquisition. A number of discussions are ongoing with these customers and we are confident that some of these will lead to new contracts for Bespak Injectables.

On acquisition we reported that TMH would be integrated into Bespak, realising synergies of £0.5m per annum. This integration programme was completed around the year end. The costs of the integration were taken partly through normal operating expenses and partly as a special item. The savings will be achieved in full in the 2010/11 financial year. The integration now allows the Bespak Injectables team in Sheffield to have full access to the commercial, technical, regulatory and operational resources of the whole Bespak Division.

### **Bespak Injectables' technology**

The patented ASI™ autoinjector technology developed by TMH combines simplicity with unique advantages. The basic ASI™ autoinjector technology has a relatively small number of components and is believed to be one of the most cost-effective devices to manufacture. The ASI™ autoinjector can be customised to meet a pharma customer's specific requirements in relation to a whole range of variables, such as injection depth, injection speed, needle size, volume of injection, actuation force, etc. The company has gained invaluable experience in developing specific device variants which address the particular challenges of different disease and patient populations, such as those suffering from impaired dexterity. A particular strength is the ability of the ASI™ autoinjector technology to administer highly viscous liquids without damaging the glass syringe inside the device. Many biological drug formulations are particularly viscous.

Over the course of the next year, Bespak Injectables will also launch an 'off the shelf' ASI™ autoinjector, specifically targeted at customers who require a standard device within short timescales, for example with which to conduct trials in advance of final device development. We believe that this will allow Bespak Injectables to align with customers at an earlier development stage, with a consequently greater chance of winning long-term manufacturing and supply business.

Bespak Injectables also owns a patented needle-free injector technology. Needle-free injector devices are only suitable for certain niche applications. The cool.click™2 needle-free device is licensed and supplied to Merck Serono for use with its currently marketed human growth hormone drug.

### **The acquisition rationale**

Bespak had identified that the autoinjector market offered excellent opportunities for growth and fitted the Division's core manufacturing competencies. TMH had excellent technology, but its financial constraints and lack of manufacturing capability deterred a number of customers from engaging with them. The combination of TMH's patented technology and Bespak's financial resilience and manufacturing capability gives the customer a compelling offering. Significant revenue synergies are expected from the acquisition, which was itself financially justified simply through the anticipated launch of the three devices already in development prior to the acquisition. The acquisition means that Bespak Injectables can target not only the royalty and licensing income on intellectual property that underlies the TMH business model, but also win the manufacturing margin for production and supply of the devices.

### **Innovation to drive future growth**

Bespak already has a broad portfolio of organic growth opportunities for both Respiratory and Injectables, but the strategic intent is to expand this further. To that end, we are reallocating modest resources from cost savings and from maturing programmes to support our objective of increasing innovation in new device areas. We have this year established a small innovations group in Cambridge, whose task is the accelerated development of novel concepts for both our existing markets and related areas.

**Bespak**  
Respiratory  
new product  
pipeline

6

**Bespak**  
Injectables  
new product  
pipeline

3

The autoinjector will be the primary delivery device for the new generation of biological drugs

#### Bespak Injectables – market background Autoinjection

**Drugs can be administered by a number of routes, such as oral, topical, inhalation, or injection. Traditionally, injections have been commonly carried out by healthcare professionals, with a relatively small number of self-injection applications, generally for diabetes or for emergency use, such as in response to an allergic reaction. Oral delivery has historically been the most common route for its simplicity and low cost.**

However, the wave of biological drugs that are currently on the market and in development are made from complex compounds that would be broken down by the digestive system if taken orally and which therefore need to be injected. Many of these therapies are designed to treat chronic diseases on a regular basis over a long period of time, such as rheumatoid arthritis, Crohn's Disease and multiple sclerosis. If all these injections were to be administered at hospitals or surgeries, then the sheer number of injections required to treat all sufferers on a regular basis would add significant cost and resource issues for already overburdened healthcare systems, in addition to the very significant inconvenience to the patient.

The solution has been to develop the disposable autoinjector device to allow these new biological drugs to be safely and conveniently administered at home by the patient.

A disposable autoinjector is a pre-loaded single-use device. When the patient presses it against their skin and actuates the device, it inserts the needle, delivers the drug and then retracts the needle safely into the used autoinjector. In this way, the patient never sees the needle and the risk of accidental needlestick injury, and associated disease transmission, is eliminated.

It is estimated that the disposable autoinjector market is currently worth around £100m. However, with biological drugs currently accounting for more than 40% of the global pharmaceutical development pipeline, this is conservatively expected to grow at more than 15% per annum. Bespak and TMH combined have long-term relationships with many of the world's major pharma companies and the response to the offering of Bespak Injectables has been very positive.

# Operating Review

## King Systems Division

King Systems is a leading US manufacturer of medical devices used by anaesthetists and emergency practitioners to establish, manage and maintain airways: their products are used to save or care for more than 17 million patients every year. Products include anaesthesia circuits, masks, breathing bags, laryngeal tubes and visualisation devices. King Systems is one of the market leaders in the US, serving the market with its own direct sales force. International sales are driven through a growing network of distributors. The business is headquartered near Indianapolis, Indiana and employs more than 500 people. The business is currently implementing a major investment programme to automate key manufacturing processes in order to reduce cost and increase capacity.

King products were used when I had my hip replacement operation

King visualisation devices saved my life during an operation

A King laryngeal tube saved my life when I had a car accident



My child liked choosing a King scented mask before the operation

As an anaesthetist, I insist on using King circuits and masks because of their quality

# Operating Review

## King Systems Division



King Systems has made good progress both in its transformation programme and in increasing its R&D project portfolio

### Market background

#### Anaesthesia products

**King Systems is a leading manufacturer of disposable products used to establish and maintain patient airways. The market is divided into the following segments:**

#### Circuits

Anaesthesia circuits supply the patient with anaesthetic gasses during surgical procedures. Circuits can be two limb (one tube for inhalation and one for exhalation) or single limb (where the inhalation tube runs inside the exhalation tube). King Systems was a leader in launching the single limb circuit and now markets the patented Universal Flex2 product, which offers operational and patient benefits.

#### Masks

Face masks are used widely during surgical procedures, especially when placing a patient under anaesthetic. Despite increased competition both domestically and from abroad, King Systems has been successful in maintaining both market share and premium pricing for its 'Big Blue' mask and range of paediatric masks.

#### Filters

A range of filters are used alongside circuits to conserve heat and moisture and prevent the spread of germs. King Systems has a niche position in the filter market and has recently launched a new HME Filter.

#### Airways

In longer procedures, anaesthetic gasses are supplied to the patient directly into the trachea. Endotracheal tubes pass through the vocal cords, but increasingly for shorter operations, anaesthetists prefer to use supraglottic devices (or laryngeal tubes) which instead supply gasses to the lungs while sealing the oesophagus. These latter devices can also be used in emergency situations to quickly and safely establish an airway. King Systems has launched a Laryngeal Airway Device (LAD) to match the current industry standard,

but has additionally launched the Laryngeal Tube Device (LTD), which offers additional patient benefits and performance.

#### Other

Other products include a wide range of accessories, such as breathing bags. They also include a range of visualisation devices that allow anaesthetists to see where they are placing endotracheal tubes. King Systems has been marketing a disposable visualisation device, the AIRTRAQ<sup>®</sup>, which competes with expensive alternatives costing many times as much.

## King Systems US market share

# 35%

## King Systems Division

- Sales grow 1% in difficult markets
- Investment in R&D tripled, with new product launch scheduled for 2010
- Transformation programme on track and delivers \$1m of savings
- Production issues in third quarter fully resolved and consumption data remains high
- Growth of international footprint, with eight new distributors added

### Strategy

King Systems intends to continue growing revenue by the rapid introduction of new products through the existing sales channels and an increasing focus on supplying an enhanced product portfolio that addresses the specific nuances of different international market places in order to accelerate international sales growth. In order to drive this growth, King Systems will invest in improved and automated manufacturing processes to provide increased capacity with a smaller footprint and at a lower unit cost. Some of these savings will flow directly to the bottom line, with some being invested in increased R&D and marketing spend. Growth is expected over the medium term from three key current areas of the business: breathing circuits and masks, supraglottic airway devices and disposable airway visualisation products and this will be supplemented by selective product, technology and business acquisitions.

### Review of the year

King Systems delivered revenue growth of 1% to \$65.7m in the past year despite a challenging hospital market and operational difficulties in the third quarter. Operating profits before special items fell to \$7.2m, reflecting significant investment in R&D and in the manufacturing transformation programme. Underlying gross margins rose over the period, reflecting a \$1m gain from the early stages of the transformation and \$0.5m from the continuous improvement programme.

The US domestic market endured a difficult calendar year in 2009, with a sharp fall in elective surgeries depressing the entire US hospital market. King Systems performed reasonably well in this context, with consumption data showing 2.9% growth on prior year, although this did not translate fully into revenue due to the operational issues reported on below. The circuit business was particularly encouraging, with a steady conversion of customers to our patented Flex 2 product, improving average selling prices. International revenue recovered strongly from a weak first half, when extensive destocking was experienced, with second half revenues 2% above prior year. Encouraging order intake in early 2010 suggests that there may be a modest improvement in the US hospital market this year.

We reported in March 2010 that during the third quarter a reorganisation of plant processes and equipment layout at the main Noblesville facility had caused some disruption and loss of production while additional air handling equipment was installed on the circuit assembly lines. This loss of production, coupled with low stock levels in the distribution channels, caused a backlog of orders to build up. King Systems responded quickly, adding extra

labour to increase production capacity and where necessary air freighting product direct to customers. However, some revenues were lost into the 2010/11 financial year as a consequence and margins were slightly lower than anticipated during the period of disruption. Production levels have now returned to normal and we are confident that further material disruption is unlikely.

The manufacturing transformation programme has reached the end of its first year on track to deliver \$5m of annualised savings by April 2012 as previously communicated to the market. Savings of \$1m per annum have now been secured. Furthermore, King Systems has been awarded tax abatements worth over \$1m over the next ten years by the City of Noblesville, Indiana. The product range has been rationalised and the main Noblesville facility reorganised in order to improve product flow and prepare for the installation of automated production lines. The main circuit and mask automation lines have been designed and orders placed with capital equipment suppliers. These will be built over the course of this year and will be installed and commissioned in early 2011.

King Systems has also significantly increased its R&D expenditure during 2009/10 as planned, with investment tripling over the year. Encouraging progress has been made in developing a platform product scheduled for launch in late 2010. Further smaller product launches have been made and will be made over the coming months, further adding to the organic sales growth of the Division.

In the past fiscal year, King Systems has initiated a highly focused effort on growing its international business presence; building a solid global management team, a dynamic global distribution network, and a highly marketable global product line. Starting with a two-person team to manage the International Business Segment, King Systems now has Regional Sales Managers in Europe/Africa and Asia, as well as the Americas. This has resulted in the addition of eight new distributors, contributing approximately 20% of King Systems' total revenue in fiscal year 2010. In June we announced that Beijing Gloryway was named King Systems' distributor in China. Beijing Gloryway assisted in the registration process with the Chinese government, and recently received approval to market King Systems products in China.

To support the growth of its existing and future international distribution network, King Systems is rapidly developing sales tools and educational programmes, all designed specifically for the international market segment. Additionally, King Systems has increased its presence at global trade exhibitions and workshops.

# Finance Review

Consort Medical plc had a successful year ended 30 April 2010, exceeding its forecast earnings in challenging markets and successfully acquiring and integrating TMH. The Group operates in defensive markets with resilient end customer demand and it further benefits from a strong balance sheet and cash flows. Nonetheless, no market was completely immune from the severe economic conditions and volumes and margins in some parts of the business came under moderate pressure. We took early action on costs and were therefore able to grow operating margins and increase like-for-like operating profits despite a fall in revenues. These cost reductions have not impacted operational capacity or capability; rather they position us to be more competitive in winning future business in a pharmaceutical market that has become more price aware than in the past. We were also pleased to refinance the Group's facilities in April 2010 for a further three and a half years. While we have had to accept an increase in interest payable due to the change in the lending environment since we last refinanced in 2005, we are pleased that we have increased our facilities, extended our banking covenants, and introduced an additional lender to support future expansion by acquisition or investment.

## Income statement

Revenue from products and services in 2009/10 fell by 1% to £118.6m (2009: £120.3m). The reduction was due mainly to destocking of MDI valves and a reduction in income from a key Bepak contract that was extended on worse terms in February 2009. Bepak revenues fell by 4.3% to £77.7m, a fall of 5% excluding revenue from the TMH acquisition. Revenue in King Systems grew by 4.5% to £41.1m (1.3% at constant exchange rate (CER)).

Operating profit (before special items) fell 1% to £18.7m. TMH contributed a loss of £0.7m following the acquisition, which includes some costs of integration. Like-for-like operating profit before special items and excluding TMH therefore rose by 3% to £19.4m. Bepak contributed an operating profit before special items of £14.1m, up 5% on prior year despite reduced revenues and acquired losses. The operating margin of 18.2% was significantly up from 16.6% last year and 15.1% the year before that. The IAC subsidiary that was consolidated last year turned from making a small loss to a small profit, benefiting from Bepak's excellence in operational efficiency and cost control. King Systems contributed an operating profit before special items of £4.6m, with an operating margin of 11.1% (2009: 13.7%). The lower margin was a result primarily of planned investment in increased R&D and in the transformation programme: gross margins actually rose during the year. We are therefore confident that, although the decline in margins is disappointing, they will rise again as increased volumes and reduced costs feed through in the coming year.

Profit before tax and special items fell by 5.5% to £16.9m (2009: £17.9m), but was at the top end of expectations. The fall in profit was largely driven by the economic environment: finance income fell by £0.6m as the interest we received on our cash deposits fell from an average of 6% in the previous year to less than 1%. At the same time, the non-cash IAS19 pension charge arising from the Company's pension deficit rose by £0.4m as a result of an increasing deficit attributable to the volatile financial markets. Profit before tax of £10.5m was 12.5% down on the prior period (2009: £12.0m).

Profit after tax and special items increased by 6% to £8.1m. Basic earnings per share therefore increased by 6% to 27.8p while adjusted basic earnings per share fell by 6% to 42.5p.

## Taxation

The taxation charge for the year was £2.4m. The underlying tax charge of £4.6m reflects a rate of 27.2% (2009: 27.1%), considerably lower than anticipated after several longstanding tax matters worth around £0.5m were resolved in our favour during the year. We continue to anticipate an increase in the underlying tax rate towards 30% as we have used up losses that were sheltering our US taxable income.

## Dividend

The Board is recommending a final dividend per share of 12.1p (2009: 12.1p) such that the total dividend for the period amounts to 19.1p (2009: 19.1p). The final dividend will be paid on 22 October 2010 to shareholders on the register on 24 September 2010. Dividend cover, based on earnings before special items, was 2.2x (2009: 2.4x). At the 30 April 2010 share price of 365p this represented a yield of 5.2%.

## Special items

Special items of £6.4m included £2.4m of continuing amortisation of intangible assets following the acquisition of King Systems in 2005 and TMH in 2009 and £4.0m relating to the transformation programme, progress on which is described in more detail below.

The transformation programme has already removed over £2.6m of costs from the business, is expected to deliver compelling returns and will position the Group to compete effectively in tougher markets. In total the programme is expected to remove over £7m per annum of cost by April 2012 across both Divisions for a total cash special item of £8.8m. The programme will deliver a wide range of benefits in addition to cost reduction: a capacity increase, improved quality, lower lead times and access to new potential markets for revenue growth. The restructuring charges were higher than previously forecast in the 2009/10 year because some programmes were pulled forward from 2010/11 and because some additional costs were taken in Bepak relating to additional restructuring and the integration of TMH. Overall the three year programme cost has increased by £1.6m but will deliver an additional £2m of savings upon completion.

The timing of expected costs and benefits are shown below:

	Special charge			Recognition period			Cost reduction		
	Cash	Non-cash	Total	08/09	09/10	10/11	09/10	10/11	11/12
<b>Forecast 2009</b>	7.3	0.7	8.0	3.9	1.9	2.2	1.2	3.3	5.3
<b>Latest estimate 2010</b>	8.8	0.8	9.6	3.9	4.0	1.7	2.6	5.0	5.5

### Acquisition of The Medical House plc

In November 2009, Consort Medical plc completed the acquisition of TMH and treated it as a consolidated entity from that date. A number of significant accounting policy changes were made upon acquisition to reflect the more prudent policies of Consort Medical. The impact of these changes on the pre- and post-acquisition accounts of TMH is described in Note 27 to the accounts. In the six months of ownership by Consort Medical, the business made a loss of £0.7m, around half of which relates to integration costs. Although the business generates revenues from milestone payments, service income and from its needle-free injector product, its most significant revenues will be generated from royalties and profit share once the devices in development are launched to the market. With one device awaiting FDA approval, and two further devices expected to launch in 2011, management believe that the business will be accretive in the next financial year, as originally forecast. Now that the business is fully integrated and rebranded as Bepak Injectables, we will continue reporting its revenues separately from the Respiratory business but one consolidated operating profit number will be reported as the two businesses are run by an integrated management team in a single operating segment.

### Balance sheet

The Group continued to maintain a strong balance sheet, with over £16m of cash and net debt (£33.2m) of just 1.5x EBITDA (£21.6m). Gross assets were £173m, up by £16m. The pension deficit increased slightly to £13.3m (2009: £12.1m) and is reviewed separately below. Provisions increased from £4.2m at the beginning of the period to £6.3m at 30 April 2010.

### Cash flow, financing and liquidity

The Group's Divisions are strongly cash-generative. EBITDA was £21.6m (2009: £22.0m) and cash generated from continuing operations was £21.1m (2009: £23.1m). Capital expenditure of £5.9m was slightly below the previous period (2009: £8.4m). The majority of capital expenditure was at King Systems to support the automation programme. Loan repayments totalled £4.4m (2009: £4.2m) and pension deficit payments £2.8m (2009: £1.6m). A substantial portion of the Group's borrowings are currently held in US dollars and qualify as an investment hedge against movements in the King Systems assets which they were used to acquire – hence all gains and losses are taken to exchange reserves within equity. Net debt increased by £14.3m to £33.2m (2009: £18.9m) due to the acquisition of TMH. Term loan repayments and interest are met by US dollar income from King Systems and Bepak.

In April 2010 the Group refinanced its principal facilities with the Royal Bank of Scotland (RBS) and introduced HSBC as the smaller partner in a club of two banks. In order to eliminate the risk of volatile currency movements affecting our headroom, we have split our main facilities into two revolving credit facilities (RCFs) and one term loan in GBP. The first RCF is for \$56m, against which we had drawn \$48m as at 30 April 2010. The second RCF is for £25m, against which nothing had been drawn at year end and which also acted to guarantee the £5.6m of loan notes issued in respect of the acquisition of TMH. The majority of these loan notes were subsequently redeemed in May 2010.

An additional £10m term loan has been established, which will commence amortisation on 1 July 2011. All of these facilities will expire in October 2013. Margins are variable with a cost of between 2% and 3% over LIBOR depending upon the level of net debt prevailing at the time. A non-utilisation fee of half the margin is applicable to unused headroom and arrangement fees of around 1.7% (including advisers' fees) are to be amortised over the next three years. The Group has maintained its existing US dollar term loan of \$5m with RBS, which is being repaid in instalments to finish on 21 December 2010. The Group additionally maintains levels of sterling cash sufficient to meet tax and dividend obligations and to be a reserve in case of an adverse event. These funds are invested with a range of reputable financial institutions approved by the Board.

Gearing at 30 April 2010 was 31% (2009: 20%) and the Group remains comfortably within both its headroom and its covenants. Taking into account the cash balances available, the total headroom at the period end was £42m (2009: £32m).

### Foreign currency

The Group monitors its foreign currency exposures carefully and seeks to mitigate all material transactional exposures. The Group currently has low exposure to movements in the euro and only a modest exposure to US dollar movements. Where necessary we buy or sell forward currency to protect current period transactions. The Group has a translational exposure with its King Systems Division, which is to some extent mitigated by maintaining borrowings in US dollars.

### Pension scheme

Bepak operates a defined benefit pension scheme in the UK that is closed to new employees, who are eligible to join a defined contribution pension scheme. As at 30 April 2010, the deficit was £13.3m compared with £12.1m as at 30 April 2009. The movement was primarily as a result of gross liabilities increasing to £70m due to declining discount rates, offset by a recovery in asset values. The Company continues to contribute £2.9m annually to reduce the deficit.

### Risk management

The Group considers effective risk management to be a high priority. Specific risk management activities are reviewed on pages 22-23 of the Directors' Report. We are pleased to report that the Group incurred no material financial or business losses despite the riskier economic and business environment.

### Toby Woolrych

Group Finance Director  
27 July 2010

# Corporate Responsibility Review

In promoting the success of the Group, the Consort Medical plc Board recognises the importance of the impact its businesses can have on the environment, employees, its customers and the communities in which it operates. To run a responsible and sustainable business we must remain committed to managing these impacts, while also delivering opportunities that can have a positive influence.

Our Corporate Responsibility (CR) Committee, chaired by non-executive director Jim Dick, continues to drive forward our commitments in this area. The Committee is responsible for reviewing and prioritising the Divisions' programme of CR activities to align with the Group's overall business strategy.

We manage our key issues against the four pillars of our Group's CR framework:

## **Community**

– recognition from the communities in which we operate

## **Employees**

– supporting our people

## **Environment**

– managing our environmental impact

## **Ethical standards**

– acting with integrity to achieve the highest ethical standards

In the past 12 months we have made significant progress in a number of areas, and specifically against our 2009/10 objectives. In summary we have:

- Completed an issues identification and prioritisation exercise, helping to define our areas of focus;
- Emphasised the importance of an embedded CR strategy by aligning our issues with business strategy; and
- Developed an employee communication programme, which we are now beginning to deliver.

Key highlights under each of our framework pillars include:

## **Community**

During 2009, Bepak was awarded the Opportunities West Norfolk (O.W.N.) Employer Champion Award. This award was in recognition of the Company's sustained outstanding support given to local schools and colleges. This was a significant achievement for the Division and in the local community. Bepak has also increased the number of its school mentors who provide guidance and support to students from two to six, and continues to support academic awards in local schools. Bepak continues to sponsor the Grand East Anglia Run (GEAR), raising money for a variety of local and national charities.

King Systems has chosen United Way, which supports education and health in the community, as their charity partner. In December 2009, approximately 35% of employees participated in payroll giving. Together with the Company, this raised \$74,977, which substantially exceeded the initial \$49,000 target.

## **Employees**

Management is dedicated to helping employees feel part of the Group and to understand their own role in shaping its success. To achieve this aim the Group rolled out an Internal Communications framework which King Systems implemented in 2009. In 2010 Bepak launched its Employee Communication strategy, which has included an employee newsletter *The Pulse*, and twice yearly all-employee briefings on Company strategy and financial performance from Consort Medical executives and Bepak's MD. Bepak's Operating Board are also now hosting regular lunch and breakfast meetings with employees to discuss issues facing them, and discuss their ideas on how we can continuously improve.

King Systems launched the Values in Practice (VIP) programme, an employee recognition initiative to reward significant employee accomplishments. King Systems also conducted an employee satisfaction survey, and will now instigate a programme of corrective action against any areas of negative feedback.

In addition to these efforts, in early 2010 the Group began the roll-out of its key values. These values capture what is important to the Group and help to define the behaviour of our people. They are: Results Driven, Accountability, Integrity, Customer Focus and Transparency. The next step is to incorporate these values and behaviours into the 2010/11 performance appraisal cycle, with the aim to help employees focus on 'the how' as well as the hard objectives of their roles in the organisation.

## **Environment**

Bepak implemented a Travel to Work Plan to reduce traffic at the King's Lynn site by 20% over the next five years.

During the course of the year Bepak also made a strategic decision to implement ISO14001, which is an internationally recognised management system that helps organisations minimise how their operations negatively affect the environment. The aim is to provide an effective framework to manage and continuously improve the Division's environmental performance. Preparation for the introduction of ISO14001 included a register of all applicable environmental legislation and implementation of control mechanisms to ensure we are in continuous compliance. All Bepak staff attended a briefing outlining the Company's environmental objectives, and each employee's role in meeting those objectives. In March 2010 the King's Lynn site achieved ISO14001.

Waste management remains a continuous focus, specifically efforts to reduce waste in one of Bepak's core processes – injection moulding. In Bepak's leading device product, waste reduction efforts have ensured that above 98% of the raw polymer bought in is actually converted into saleable devices.

Continuous improvement efforts in King Systems have focused on reducing freight damage. This provides savings in transit packaging materials, as well as fuel savings in returning and re-shipping product. Damaged freight is down 50%, with the number of returns down 52%.

We have improved the layout of the facility to increase production and we have improved air handling to reduce levels of methylene chloride in the atmosphere and to improve workplace safety and provide a cleaner working environment.

In October 2009 King Systems received a safety order and notification of penalties (totalling \$191,000) from the local occupational safety and health administration in Indiana, alleging non-compliance in its production facilities with federal and local health and safety standards and requirements. The Company is contesting the order and penalties.

#### **Ethical standards**

Bespak has instigated a review of ethical commitments in supplier contracts and has added an ethical standards section in supplier questionnaires to sit alongside quality and financial stability assessments.

A code of ethics policy has been incorporated into the Employee Handbook of King Systems. It includes a whistleblowing policy outlining a reporting process should an employee identify an ethical situation of concern. A rollout to all employees on the policy took place in May.

If you would like to read more about the ongoing development of our CR strategy then please visit our website – [www.consortmedical.com](http://www.consortmedical.com) – where you will find further information relating to our Group performance and 2010/11 objectives.

# Board of Directors



### 1 Dr Peter Fellner (66)

Chairman

Dr Peter Fellner was appointed Chairman in May 2009, having served as a director since November 2005. He is also Chairman of Vernalis plc, Optos plc, Biotie Therapies Corp. and Astex Therapeutics Ltd. In addition he serves as a director of the global biopharmaceutical company UCB SA and the European biotechnology company, Evotec AG. Dr Fellner previously served as Chairman of Celltech Group plc from 2003 to July 2004, having been CEO from 1990 onwards. Before joining Celltech he was CEO of Roche UK from 1986 to 1990. More recently he served as Chairman of Acambis plc from 2006 until its acquisition by Sanofi Aventis in 2008, and of Premier Research Group plc from 2007 to 2008, when it was acquired by a private-equity backed group. Peter is Chairman of the Nomination Committee.

### 2 Jonathan Glenn (41)

Chief Executive

Jonathan Glenn was appointed Chief Executive in December 2007 and before that had been Group Finance Director since September 2006. Prior to joining Consort Medical plc, Jonathan was global Head of Finance at Celltech Group plc and later Chief Financial Officer of Akubio Ltd, a Cambridge-based developer of instrumentation for the life sciences industry. He is a member of the Institute of Chartered Accountants in England and Wales. Jonathan is a member of the Nomination Committee.

### 3 Toby Woolrych (43)

Group Finance Director

Toby Woolrych was appointed as Group Finance Director in October 2008. He was previously Chief Financial Officer and Chief Operating Officer at Acta SpA, a renewable energy company. Having qualified as a chartered accountant with Arthur Andersen in 1992 he became Finance Director of Medicom International Ltd, a medical publishing company. In 1997, he joined Johnson Matthey plc, initially as Corporate Development Manager and subsequently as Division Finance Director and then Managing Director of a global speciality chemicals business unit.

### 4 George Kennedy CBE (69)

Non-Executive Director

George Kennedy was appointed as a non-executive director in September 2006. He is currently Deputy Chairman of Vernalis plc and Chairman of Eschmann Limited. A former Chairman of Smiths Industries Medical Group, George also served as Chairman of the UKTI Trade Advisory Group for Africa and the Middle East. He is an ex-Chair and current President of the Association of British Healthcare Industries. George was awarded the CBE in 1997 for services to the healthcare industry. George is the Senior Independent Director, Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee.

### 5 Chris Banks (60)

Non-Executive Director

Chris Banks was appointed as a non-executive director in April 2006. He was Finance Director at The BIS Group from 1985 to 1991 and at CMG plc from 1992 to 2000. He is currently Chairman of the Audit Committee and the senior independent director of The Innovation Group plc, a non-executive director of Digital Barriers plc and a trustee of the Barbara Ward Children's Foundation. He is a chartered accountant and a member of the Association of Corporate Treasurers. Chris chairs the Audit Committee and is a member of the Nomination Committee.

### 6 Jim Dick (57)

Non-Executive Director

Jim Dick was appointed as a non-executive director in April 2006, having served as President of Smith & Nephew plc's Wound Management Division since 1999. He is Chairman of Cat. Zero, a not-for-profit organisation aimed at changing the lives of young people who are not in education, employment or training. He is Pro-Chancellor and also a member of the Council of the University of Hull, a member of the Management Board of the Hull York Medical School and is Chair of the Yorkshire Health Innovation Network. Jim is Chairman of the Corporate Responsibility Committee and a member of the Remuneration, Audit and Nomination Committees.

### 7 Dr William Jenkins (62)

Non-Executive Director

Dr William Jenkins was appointed as a non-executive director in May 2009 and is Principal of William Jenkins Pharma Consulting. He has been advising a wide range of pharma and biotech companies and investment and venture capital firms in the healthcare sector since 1999. Formerly head of Worldwide Clinical and Regulatory Affairs for Novartis Pharma AG and having held similar positions with Ciba Geigy AG and Glaxo, he is a director of BTG plc, Eurand Pharmaceutical Holdings B.V., and Vaximm AG. William is a member of the Nomination Committee and the Remuneration Committee.

# Directors' Report

The directors are pleased to present their annual report on the affairs of the Group, together with the audited financial statements, for the year ended 30 April 2010. The Remuneration Report can be found on pages 26 to 30, the Corporate Governance Report on 31 to 34 and the Corporate Responsibility Review can be found on pages 18 to 19.

The Annual Report has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Group, its directors, employees, agents or advisers, do not accept or assume responsibility to any person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this annual report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this annual report and the Group undertakes no obligation to update these forward-looking statements. Nothing in this annual report should be construed as a profit forecast.

## Principal activities of the Group

The principal activities of the Group are the design, development and manufacture of specialty medical drug delivery devices and services to the pharmaceutical industry and disposable airway management products for critical care settings in hospitals and pre-hospital settings. Our products include metered dose inhalers, dry powder devices, actuators, compliance aids, disposable autoinjectors, needle-free reusable jet injectors, disposable facemasks, breathing circuits and laryngeal tubes.

## Business review

The Group operates through two Divisions: Bepak and King Systems. The Group acquired The Medical House plc on 5 November 2009. This now forms part of the business of the Bepak Division. A review of the Group's business can be found on pages 6 to 15. This review includes a balanced and comprehensive analysis of the development and performance of the business of the Group and a description of the main trends and factors likely to affect the future development, performance or position of the business at the end of the year, using key performance indicators where appropriate.

## Principal risks and uncertainties

The Group has identified the following factors as principal risks to the successful operation of the business and has identified the steps it takes to manage those risks:

### *Reliance upon key customers*

The Group has a degree of reliance on key customers but continues to take steps to diversify its customer base. There are significant barriers to entry in terms of high-volume manufacture in a regulated environment and also in bespoke company intellectual property and know-how. Customers are unable to quickly transfer business between suppliers and are often committed by long-term contracts.

### *Financing risk*

The Group's principal borrowing facilities were renewed in April 2010 jointly with RBS and HSBC. The new facility agreement runs until the end of October 2013 and provides a significant increase in headroom. Further details are provided in the Financial Review and in note 24 to the accounts on net debt.

### *Interest rate risk*

The Group's policy is to convert a portion of its floating rate debt into fixed rate using interest rate swaps (note 28). Interest rates are accordingly not considered to be a material risk to the Group.

### *Supply chain*

The Group works in partnership with key suppliers to manage the risks of delay or interruptions to supply. Commercial risk registers identify key elements of the supply chain and put in place mitigating actions, including additional capacity and strategic stocks, to minimise the risk of delay or interruptions in supply. The Group has a continuity plan in the event of disruption and generally has terms in supplier contracts to ensure continuity of supply. Some products are dual sourced.

### *Liquidity risk*

The Group ensures that its margins are sufficient to exceed normal operating costs and its major operating subsidiaries are cash-generative. The Group generated a net cash inflow from operating activities of £16.0m (2009: £18.1m). The Group also has low borrowing such that interest costs are covered many times over by its operating profits. The Group maintains headroom within its borrowing facilities, a substantial level of cash for immediate expenditure and operates well within its borrowing covenants.

### *Regulatory risk*

The operations of the Group are subject to various regulatory requirements. A strong compliance regime is in force and regular reviews and audits take place, not only by regulatory authorities such as the FDA, but also by customers. The Bepak Division is ISO13485 accredited. The Group considers its long history of operating within a strong regulatory environment as a core competence and has dedicated teams to ensure compliance.

### *Development risk*

The Group is developing a range of products at any time, including novel devices for customers, new anaesthesia products, new valves, autoinjectors and an integrated dose counter, any of which may fail in clinical trials. The Group follows rigorous processes and where possible is developing the technology as a platform for multiple programmes to reduce the exposure to any individual trial. Development and industrialisation of medical devices is regarded as a core competence of the Group. Delay is the more likely outcome of a programme rather than outright failure.

### *Employee retention*

The unexpected departure of key employees could put at risk the business operations. The Group's employment policies and remuneration and benefits packages are designed to attract and retain staff. There is also investment in training and development of staff to this end.

### *Pension risk*

Among the Group's pension schemes is a defined benefit scheme. The liability of the Company under this scheme is subject to risks associated with the value of investments and returns derived from the investments and also from increases in life expectancy. The Company works closely with the trustees of the defined benefit scheme to manage the volatility of liabilities and to spread risk from investments. It also makes regular payments into the scheme to reduce the pension deficit. Changes were made to the benefits provided by the defined benefit scheme for future service with effect from 1 May 2009 (note 22) which will over time reduce future volatility in the scheme.

### **Business continuity**

The Group has a programme of commercial insurance covering key risks such as product liability, product recall and business interruption. The Group has business continuity plans in place.

### **Product development and research investment**

The Group has a programme of continuous investment in its product development activities. During the year, the Group invested £4.4m (2009: £3.5m) in research and development expenditure. Further information on research and development activities is given in the Operating Review on pages 6 to 15.

### **Financial risk management**

The Group's operations expose it to a variety of financial risks.

- Credit risk – the Group has implemented policies that require appropriate credit checks on potential customers before sales over a certain limit are agreed. Credit limits and outstanding receivables are reviewed monthly and action taken if a new risk is identified. The Group has an excellent record on collection of receivables.
- Interest rate risk – the Group is subject to interest rate risk on its revolving bank facility, the terms of which are reviewed by the Board on a regular basis. The Group's policy is to convert a portion of its floating rate debt into fixed rate using interest rate swaps. The impact of a reasonably foreseeable rise in interest rates on existing borrowing would not be material.
- Currency risk – the Group is a sterling denominated Group that receives some of its income in US dollars. It has hedging agreements in place to minimise currency fluctuation.
- Liquidity risk – the Group has strong cash flows and good earnings visibility ensures that its margins are sufficient to exceed normal operating costs and its major operating subsidiaries are cash-generative. Current borrowing levels can comfortably be supported by forecast cash flows.
- Price risk – the Group is not materially exposed to commodity price risk.
- Cash-flow risk – the major operating subsidiaries are cash-generative.

More information on financial instruments is given in note 28 to the accounts.

### **Results and dividends**

The financial key performance indicators are revenue, operating profit, profit before tax and special items, earnings per share (all before special items) and operating cash flow. The Company has delivered solid results on these measures as shown in the Financial Review and Accounts and the divisional Operating Reviews.

The profit before tax for the year ended 30 April 2010 was £10.5m (2009: £12m).

The directors propose a final dividend for the year of 12.1p per share (2009: 12.1p per share) to be paid on 22 October 2010 to shareholders on the register at close of business on 24 September 2010. An interim dividend of 7.0p per share (2009: 7.0p) was paid on 19 February 2010, making a total dividend for the year of 19.1p per share (2009: 19.1p).

### **Post-balance sheet events**

See note 32 for the event affecting the Company and Group since the year end.

### **Future developments**

Details of future developments are set out on pages 6 to 15 of the Operating Review.

### **Directors**

The names of the directors as at the date of this Report, together with brief biographical descriptions, appear on pages 20 to 21.

In accordance with section 992 of the Companies Act 2006, the directors disclose that rules regarding the appointment of directors are contained in the Company's Articles of Association, which may only be amended with shareholder approval in accordance with the relevant legislation. The powers given to the directors are contained in the Articles and include, subject to relevant legislation and authority being given to the directors by shareholders in general meeting, authorisation to the Company to issue and buy back its own shares. The Company annually seeks the authority of shareholders for the exercise by the directors of these powers.

All directors are subject to appointment at the next Annual General Meeting following their appointment and to re-appointment thereafter at intervals of no more than three years in accordance with the Company's Articles of Association. The Articles require that one third of the directors, or the number nearest to one third, are to retire from office by rotation. Accordingly, Mr Glenn and Mr Banks seek re-appointment at the forthcoming Annual General Meeting.

Biographical details of the directors seeking re-appointment are given on page 21. At a meeting of the Board held on 15 June 2010 the Board considered the performance and ability of the directors standing for re-appointment at the forthcoming Annual General Meeting. Each director concerned was considered to be an effective member of the Board and to display the requisite level of commitment. Hence, the Board recommends their re-appointment to shareholders.

Details of the unexpired terms of the service contracts and arrangements of the directors standing for re-appointment can be found in the Remuneration Report on page 28 and in the Corporate Governance Report on page 31.

Mr Boughton resigned as an Executive Director with effect from 10 December 2009.

### **Directors' remuneration**

The Remuneration Report, which includes information regarding directors' service contracts, appointment arrangements and interests in share options, can be found on pages 26 to 30.

### **Directors and their interests**

Details of the interests of the directors and their families in the ordinary share capital of the Company, as required to be disclosed in accordance with Rule 3 of the Disclosure and Transparency Rules of the Financial Services Authority (the 'DTRs'), are given in the Remuneration Report. There were no other changes in the directors' shareholdings between 30 April 2010 and the date of this report.

### **Directors' and officers' liability insurance**

Insurance cover is in force in respect of the personal liabilities which may be incurred by directors and officers of the Group in the course of their service with the Group. There are no other third-party indemnity provisions.

### **Share capital and issue of ordinary shares**

The authorised and issued share capital of the Company is set out in note 25 to the accounts on page 73. No ordinary shares were issued during the year.

# Directors' Report

continued

## Major shareholdings

As at the date of this report, the Company had received notification from the following institutions of their and their clients' interests which represent 3% or more of the voting rights of the issued share capital of the Company (in accordance with Rule 5 of the DTRs). The number of shares and the percentage interests are as disclosed at the date on which the interests were notified to the Company.

Shareholder	Number of shares in which shareholder has an interest	Interest in issued share capital
Schroder Investment Management	5,418,116	18.72%
Artemis Investment Management	1,764,404	6.10%
Montanaro Asset Management	1,732,989	5.99%
M&G Investment Management	1,730,175	5.98%
Aviva Investors Global Services	1,551,930	5.36%
Kaupthing Bank	1,173,532	4.05%
Legal & General Assurance (Pensions Management)	1,126,523	3.89%
BlackRock Group	1,119,855	3.87%

## Payment policy

It is Group policy to agree payment terms individually with suppliers and to abide by these terms subject to satisfactory performance of the relevant transaction. The Group's average creditor payment period at 30 April 2010 was 45 days (2009: 41 days) and that of the Company was 30 days (2009: 30 days).

## Employees

The Group is an equal opportunities employer. It is committed to giving fair and equal treatment to all employees and job applicants in terms of recruitment, pay conditions, promotions, training and all employment matters regardless of their race, sex, ethnic background or religious beliefs, sexual preference or disabilities. An equal opportunities policy is in force. The Group also believes that all employees have a right to work in an environment free from discrimination and bullying.

The Group is committed to maximising the level of employee involvement in its business at all levels. Appropriate training is given to staff and comprehensive learning resources are available to all employees. The performance review system allows employees to discuss career opportunities and development and to review guidance on achieving their goals. In addition, employees are encouraged, through sponsorship or a contribution to costs, to study for job-related qualifications.

The Group is committed to achieving the highest levels of quality. The Bepak Division operates to the internationally recognised medical device standard ISO13485. Staff work within a defined quality system and are trained in 'Good Manufacturing Practice'.

The Group takes a proactive approach to consultation with employees on a variety of work-related issues through the use of consultative forums whose members are elected by staff. Regular briefings are given to staff to keep them informed of matters concerning the business, including financial and economic factors affecting the Group.

The Group operates share option schemes, performance-related bonus schemes and the Company share incentive plan, which employees are encouraged to join.

Information about environmental, social and community matters is set out in the Corporate Responsibility Review on pages 18 and 19.

## Disability policy

The Group gives full and fair consideration to applications for employment from disabled persons. Opportunities also exist for employees of the Group who become disabled to continue in their employment or to be considered for other open positions in the Group.

## Charitable and political contributions

During the year the Group made donations to charitable organisations of £54,758 (2009: £15,304). Of the total, £18,872 (2009: £6,742) was donated to local and educational charities and community development programmes, and £35,886 (2009: £8,562) to healthcare-related charities.

The Company's policy is that no contribution or expenditure is made to or on behalf of any political party. No such contribution or expenditure was made during the year or the prior period.

## Takeover directive

### Significant agreements – change of control

There are a number of significant agreements containing provisions that take effect (including provisions permitting counterparties to terminate agreements) upon a change of control of the Company following a takeover bid. These include both commercial and bank loan facilities agreements. Maintaining strong relationships with all counterparties is an important element in the risk management of the business and to help safeguard the Company's interests to help mitigate against any impact resulting from any change of control of the Company should it occur.

## Share capital and control

Details of the Company's issued share capital are set out on page 73. All of the Company's issued share capital comprises ordinary 10p shares which are fully paid up and rank equally in all respects.

The ordinary shares are listed on the Official List of the London Stock Exchange and on techMARK. In addition, the Company has entered into a Level 1 American Depositary Receipt (ADR) programme with the Bank of New York Mellon, under which the Company's shares are traded on the over-the-counter market in the form of American Depositary Shares (ADS).

No new shares were issued during the year. No new ordinary shares have been allotted under the Company's share option schemes since the end of the year and up to the date of this report.

## Rights attaching to shares

The rights attaching to the Company's ordinary shares, in addition to those conferred by law, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or from the Company Secretary. The holders of ordinary shares are entitled to receive the Company's reports and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights and to participate in any distribution of income or capital.

## Transfers of shares

There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them save where the Company has exercised its rights to suspend their voting rights

or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or where their holder is precluded from exercising voting rights by the Financial Services Authority Listing Rules or the City Code on Takeovers and Mergers.

The directors may refuse to register a transfer of ordinary shares where such transfer documents are not lodged by acceptable means or proof of title is required.

#### **Purchase of own shares**

At the Annual General Meeting on 15 September 2009 shareholders approved a resolution of the Company permitting it to purchase its own shares to a maximum of 2,894,392 ordinary shares. This resolution remains valid until the conclusion of this year's Annual General Meeting. As at 27 July 2010 the directors had not used this authority. A resolution will be proposed at this year's Annual General Meeting to renew this authority.

The Company's share ownership trust purchased 68,893 ordinary 10p shares on 6 April 2010 at a price of 360p each and 65,267 ordinary 10p shares on 9 July 2010 at a price of 380p each.

#### **Issue of shares**

At the 2009 Annual General Meeting, shareholders approved a resolution to give the directors authority to allot shares up to an aggregate nominal value of £955,149. In addition, shareholders approved a resolution giving the directors a limited power to allot shares for cash in other circumstances. These resolutions remain valid until the conclusion of this year's Annual General Meeting. A resolution will be proposed at this year's Annual General Meeting to renew these authorities.

Further explanation of the resolutions will be included with the Notice of Annual General Meeting, which will be circulated to shareholders separately.

#### **Share schemes**

A description of the share schemes operated by the Company is set out in the Remuneration Report on pages 26 to 30.

#### **Disclosure of information to auditors**

In the case of each director, so far as each is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Annual General Meeting**

The 2010 Annual General Meeting of the Company will be held at Breakspear Park, Hemel Hempstead on 15 September 2010 at 2.00pm. Details of the resolutions to be proposed, together with the Notice of Meeting, are being sent to shareholders separately and will be posted on the Company's website.

#### **Corporate Governance**

The main features of the Group's internal controls and risk management systems in relation to the process for preparing consolidated financial statements can be found in the Corporate Governance report on pages 31 to 34. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

#### **Auditors**

PricewaterhouseCoopers LLP are the Company's auditors and a resolution to re-appoint them and to authorise the directors to set their remuneration will be proposed at the Annual General Meeting.

#### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on page 21 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Directors' Report and divisional Operating Reviews found on pages 6 to 15 include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

**John Slater**  
Company Secretary  
27 July 2010

# Remuneration Report

This report covers the year ended 30 April 2010 with comparative figures provided for the period ended 30 April 2009. It has been prepared in compliance with the Listing Rules of the Financial Services Authority and the Companies Act 2006. In accordance with the Companies Act, a resolution to approve the Remuneration Report will be proposed at the Company's AGM. Details of the resolution may be found in the Notice of Meeting accompanying this Annual Report. The vote will be advisory and will be considered carefully by the members of the Remuneration Committee in the formulation and approval of the Company's future remuneration policies.

## Unaudited information

### The role of the Remuneration Committee

The Remuneration Committee, which consists entirely of independent directors, determines and agrees with the Board the framework and policy for the remuneration of the Chairman, the Chief Executive, the executive directors, the Company Secretary and other members of the senior executive management of the Company. It also determines the policy for, and scope of, pension arrangements and approves the design of performance-related pay schemes, sets the targets for such schemes, and approves payments under such schemes.

The Committee reviews the design of all share incentive plans for the approval of the Board and the shareholders. It determines each year whether awards will be made and if so, the overall amount of such awards, the individual awards to be made to executive directors and other senior executives, and the performance targets to be used.

The terms of reference of the Remuneration Committee are published on the Company's website.

### Membership

The Remuneration Committee was chaired by George Kennedy. Jim Dick and Dr William Jenkins (from 6 May 2009) were members of the Remuneration Committee.

No Remuneration Committee member has any day-to-day involvement in the running of the Company.

The Remuneration Committee met four times during the year, attended by all its members in each case. The Chief Executive and the Director of Group Human Resources were invited to attend some or all of the meetings. In addition, Deloitte LLP and Hewitt Associates Limited were engaged to advise the Remuneration Committee with regard to long-term incentive arrangements for executive directors and senior executives. Eversheds LLP also provided legal advice to the Company on its long-term incentive and share option schemes.

### Policy on executive directors' and senior executives' remuneration

The Company's policy on remuneration for executive directors and senior executives is to ensure that the components and overall value of the Company package will:

- Attract and retain executives of the highest quality;
- Motivate them to achieve performance levels consistent with the best interests of the shareholders;
- Reflect annual and long-term performance of the Company as measured against targets set by the Committee; and
- Be appropriate by comparison with the remuneration of other groups of employees within the Company.

During the year the Committee continued to review packages for senior executives. The review was ongoing at the time of finalisation of this Report, and the Committee intends to consult with key shareholders before proposing any changes.

### Components of executive directors' remuneration

#### Base salary

The annual salary of each executive director and senior executive is determined by the Committee and is reviewed with effect from 1 August each year. As part of the annual review, the competitive position of each executive's base salary is assessed against the appropriate market rate. For the 2009 annual review, executive directors were not awarded any increase in base salary.

#### Annual bonus

An annual bonus is payable to the executive directors and senior executives, calculated by reference to the performance of the Company, as measured against targets agreed by the Committee.

For the year ended 30 April 2010, the Chief Executive was entitled to a maximum potential bonus of 100% of base salary. For the Group Finance Director, the maximum potential bonus was 75% of base salary. Bonus entitlement for both directors was determined by reference to the Group's annual financial performance.

For other senior executives maximum bonus potential was 75% of base salary and was determined by reference to a contribution of the Group's annual financial performance and personal objectives. The Committee's policy in respect of bonuses for the 2010/11 financial year is again to base awards on a mix of financial and operating objectives.

#### Long-term incentives

The Company's Long-Term Incentive Plan (LTIP) scheme, introduced in 2005, with the inclusion of guidelines on senior executive shareholding requirements, aligns the interests of senior executives with those of shareholders on a long-term basis. The Company's policy is to:

- reinforce such alignment of interests between senior executives and shareholders by making regular LTIP awards, which are subject to performance conditions based on future financial performance; and
- promote wider employee share ownership through its saving-related share option scheme and share incentive plan.

Since the introduction of the 2005 LTIP, no further awards have been made under any Executive Share Option Schemes.

Executive Directors are expected to accumulate a shareholding equivalent to one times annual salary over a five-year period, and to maintain this level of shareholding. Other senior executives are expected to accumulate a lower level of shareholding over a similar timeframe.

LTIP awards are satisfied in the form of shares, providing a means for senior executives to achieve shareholding goals through the attainment of performance conditions. The scheme confers the award over a number of Consort Medical plc shares which will vest at the end of a three-year performance period, subject to the performance conditions being met.

Under the LTIP scheme structure, the Remuneration Committee is able to grant either Performance shares or share-settled Share Appreciation Rights (SARs) or a mixture of the two:

- Performance shares are a form of share option with an exercise price of nil.
- SARs comprise awards which produce a similar outcome to share options. They give the executive the right to benefit from any increase in the value of a fixed number of shares calculated from the date the SAR is awarded to the date when the SAR is exercised. However, unlike a share option, the executive only receives shares to the value of the aggregate price increase of the shares less any shares withheld to satisfy income tax and National Insurance obligations. This will be the market value of the shares as at the time of exercise less the market value of the shares at the date of the award.
- The Committee expects to maintain an emphasis on Performance share grants. The Remuneration Committee takes professional advice at the time of each grant to re-assess the appropriate value ratio of share grants and SARs.

The maximum aggregate value of Performance shares and SARs that may be granted to executive directors is one times salary in any year.

Performance conditions are imposed on all awards granted under the LTIP. The performance conditions for awards granted during the year are based on Total Shareholder Return (TSR) over a three-year timeframe:

- TSR growth must be at least equal to the mean TSR growth of a specified comparator group of companies for any award to vest.
- For full vesting to occur, TSR growth must be in the upper quartile of the comparator group of companies or must exceed the mean TSR growth of the comparator companies by at least seven percentage points, if this is lower.
- If TSR growth is between these two figures, the proportion of the award which vests will be calculated on a straight-line basis between these two points.

The comparator group constituents have been selected on the basis of the constituents of the FTSE SmallCap Index, excluding investment trusts, finance, property and insurance companies, as at 1 May 2009, as well as the Company and is subject to adjustment by the Committee in certain circumstances.

The Remuneration Committee has discretion to amend the performance conditions in certain circumstances, for example where the performance conditions are determined to be impractical, provided always that the amended conditions are not more difficult to satisfy than the original performance conditions.

In respect of LTIP awards granted in prior years, vesting is subject to the satisfaction of performance conditions comprising a combination of TSR conditions and conditions relating to earnings per share.

#### **2002 Executive Share Option Scheme**

No further awards were made under the 2002 scheme following the adoption of the new LTIP described above. The operation of the scheme has been discontinued except in relation to options already granted at the time of discontinuance.

#### **1996 Executive and Company Share Option schemes**

The operation of the 1996 share option schemes was discontinued except in relation to options already granted at the time of such discontinuance.

#### **Pension and other benefits**

The Company provides executive directors with a Group Personal Pension Plan, which includes the benefit of a life assurance policy. Other customary benefits such as car allowances, health benefits, the Share Incentive Plan and the UK Savings-Related Share Option Scheme (which are available to all eligible UK employees) are made available to executive directors. Benefits in kind are not pensionable. The Committee reviews the individual components and the balance of these components from time to time.

#### **Components of senior executives' remuneration**

There are eight members of the Group Executive Committee, which includes the chief executives of the Bepak and King Systems Divisions. The reward structure of the senior executives is similar to that of the executive directors.

#### **Service contracts**

All executive directors have contracts terminable by the Company on one year's notice and with earlier termination for cause. The policy of the Remuneration Committee is to treat each case on its merits, in accordance with applicable law and any further policy that the Committee may adopt. In the event of early termination other than for cause, the relevant executive director's current salary and contractual benefits would be taken into account in calculating the liability of the Company.

The principal contractual benefits provided in addition to salary are car allowance, pension and life assurance. Annual bonuses and long-term incentives are discretionary and dealt with in accordance with the rules of the applicable schemes.

#### **Specific contracts**

Mr Glenn's contract is dated 26 July 2006 and can be terminated by the Company giving one year's notice and by Mr Glenn on six months' notice.

Mr Woolrych's contract is dated 24 June 2008 and can be terminated by the Company giving one year's notice and by Mr Woolrych on six months' notice.

There are no other provisions for compensation payable on early termination of the above contracts.

#### **External appointments**

With the specific approval of the Board in each case, executive directors may accept external appointments as non-executive directors of other companies. None of the executive directors hold any external appointments. The directors are entitled to keep the fees from external appointments.

#### **Policy on non-executive directors' remuneration**

The Board is responsible for determining the policy on remuneration of non-executive directors. The Company aims to attract non-executive directors who, through their experience, can further the interests of the Company and make an effective contribution to its strategic development. The Board's policy for the forthcoming and subsequent years is to provide fees at a level commensurate with Consort Medical plc's size. The Board does not grant share options to non-executive directors. It seeks to encourage non-executive directors to hold shares in the Company, in accordance with legal and regulatory requirements. The level of fees is determined by the Board after taking into account appropriate advice.

# Remuneration Report

continued

## Components of non-executive directors' remuneration

Non-executive directors receive fees paid monthly or quarterly. Their travel and other reasonable expenses incurred in the course of performing their duties are reimbursed.

## Terms of appointment of non-executive directors

The non-executive directors have appointment letters, the terms of which recognise that their appointments are subject to the Company's Articles of Association and their service is at the discretion of the shareholders. Their appointment letters indicate their expected time commitment and requires that they have sufficient time to meet what is expected of them. All non-executive directors submit themselves for election at the Annual General Meeting following their appointment and subsequently at intervals of no more than three years. The appointment letters for all non-executive directors, including the Chairman, provide for an initial three-year period of service, and may thereafter be renewed for further three-year terms, subject to the usual rights of removal by shareholders and termination under the Companies Act 2006 and the Articles of Association.

The table below shows the effective dates and expiry dates of the non-executive directors of the Company:

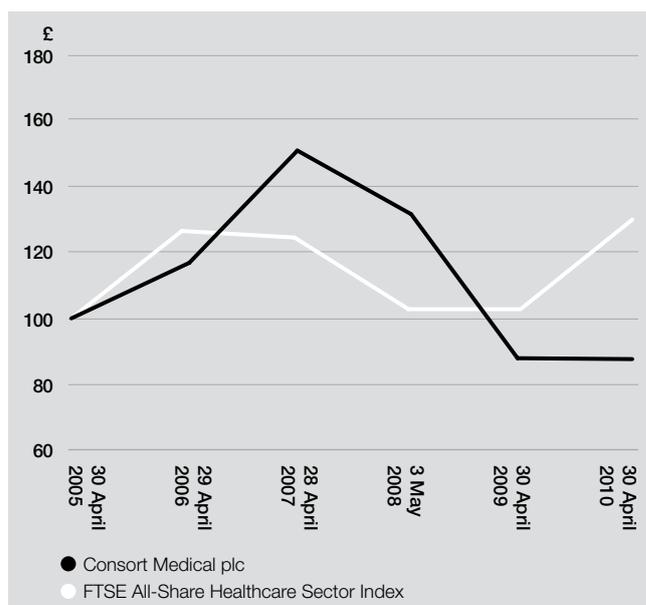
Name	Effective date of appointment	Expiry of appointment
P. Fellner	14 November 2005	14 November 2011
J. Dick	11 April 2006	11 April 2012
C. Banks	26 April 2006	26 April 2012
G. Kennedy	28 September 2006	28 September 2012
W. Jenkins	6 May 2009	6 May 2012

## Consort Medical plc TSR

The graph below shows the growth in value of a hypothetical £100 invested in Consort Medical plc ordinary shares on 30 April 2005 over five years compared with £100 invested in the FTSE All-Share Healthcare Sector over the same period. It is considered that the FTSE All-Share Healthcare Sector is the appropriate benchmark group since it comprises an index of similar companies to Consort Medical plc.

## Total Shareholder Return

Source: Thomson Reuters



This graph shows the value, by 30 April 2010, of £100 invested in Consort Medical on 30 April 2005 compared with that of £100 invested in the FTSE All-Share Healthcare Sector Index. The other points plotted are the values at intervening financial year-ends.

## Audited information

### Remuneration of directors

	Salary and fees £000	Pension allowance/ contributions £000	Other benefits <sup>1</sup> £000	2009 bonus £000	Severance payment £000	2010 Total £000	2009 Total £000
<b>Executive</b>							
J. Glenn	330	58	15	330	–	733	594
T. Woolych	200	35	13	150	–	398	204
P. Boughton <sup>2</sup>	133	23	10	100	285	551	351
<b>Non-Executive</b>							
P. Fellner (Chairman)	120	–	–	–	–	120	43
W. Jenkins	35	–	–	–	–	35	–
C. Banks	40	–	–	–	–	40	39
J. Dick	40	–	–	–	–	40	38
G. Kennedy	50	–	–	–	–	50	34
J. Robinson (resigned 30 April 2009)	–	–	–	–	–	–	132
<b>Total</b>	<b>948</b>	<b>116</b>	<b>38</b>	<b>580</b>	<b>285</b>	<b>1,967</b>	<b>1,435</b>

<sup>1</sup> Other benefits include car allowance, fuel, medical and life insurance.

<sup>2</sup> Mr Boughton resigned as a director on 10 December 2009.

### Directors' benefits

Mr Robinson's services were provided via a service company to which the Company paid fees.

## Directors' incentives

Name	Plan Type	Outstanding awards as at 1 May 2009	Awarded during the year	Lapsed during the year	Outstanding awards as at 30 April 2010 <sup>1</sup>	Market price at award	Expiry date
J. Glenn	2005 LTIP	26,000 performance shares	–	26,000 performance shares	–	£6.15	September 2009
	2005 LTIP	23,500 performance shares	–	–	23,500 performance shares <sup>2</sup>	£6.61	August 2010
	2005 LTIP	52,083 performance shares	–	–	52,083 performance shares	£5.375	August 2011
	2005 LTIP	–	77,647 performance shares	–	77,647 performance shares	£4.25	October 2012
T. Woolrych	2005 LTIP	37,789 performance shares	–	–	37,789 performance shares	£5.23	October 2011
	2005 LTIP	–	47,059 performance shares	–	47,059 performance shares	£4.25	October 2012
P. Boughton <sup>3</sup>	2005 LTIP	28,000 performance shares	–	28,000 performance shares	–	£6.20	July 2009
	2005 LTIP	25,000 performance shares	–	5,292 performance shares	19,708 performance shares <sup>2</sup>	£6.61	August 2010
	2005 LTIP	34,722 performance shares	–	18,296 performance shares	16,426 performance shares	£5.375	August 2011

<sup>1</sup> or date of resignation, if earlier.

<sup>2</sup> These awards have subsequently lapsed due to failure to meet the performance condition.

<sup>3</sup> Mr Boughton resigned as a director on 10 December 2009.

The closing price of the shares at 30 April 2010 was 365p (30 April 2009: 390p). The highest and lowest middle market prices during the year were 435p and 347p respectively.

At 30 April 2010 there were 70,670 shares in the Company's share ownership trust (2009: 1,777).

# Remuneration Report

continued

## Directors' Interests

The beneficial interests of the directors (including the beneficial interests of their spouses, civil partners, children and step children) in the ordinary shares of the Company on 30 April 2010, or at date of resignation if earlier, are shown below:

Name	Shares		Performance Shares/SARs/SAYE	
	2010	2009	2010	2009
J. Glenn	11,896	10,742	153,230 performance shares 2,369 SAYE	101,583 performance shares 1,718 SAYE
T. Woolrych	13,849	6,945	84,848 performance shares 2,369 SAYE	37,789 performance shares –
P. Boughton <sup>1</sup>	9,955	29,296	36,134 performance shares –	87,722 performance shares 1,541 SAYE
P. Fellner (Chairman)	4,000	4,000	–	–
W. Jenkins	–	–	–	–
C. Banks	25,000	15,000	–	–
J. Dick	12,500	7,500	–	–
G. Kennedy	2,000	2,000	–	–

<sup>1</sup>Mr Boughton resigned as a director on 10 December 2009.

SAYE = Save As You Earn employee share option scheme. These options are not subject to performance conditions as this is an all-employee share scheme governed by specific tax legislation.

Since 30 April 2010, no directors have acquired interests in the ordinary shares of the Company.

None of the directors had a material interest at any time during the period in any contract of significance, other than a service contract, with the Company or any of its subsidiaries.

The Remuneration Report was approved by the Board and signed on its behalf.

### George Kennedy

Chairman of the Remuneration Committee

27 July 2010

## The Combined Code

The Group is committed to practising good corporate governance of its affairs as part of its management of relationships with its shareholders and other stakeholders. The Group seeks to uphold and to report on compliance in accordance with best practice in corporate governance.

## Compliance Statement

The directors are satisfied that the Group has complied with the provisions set out in section 1 of the Combined Code on Corporate Governance published in June 2008 (available from [www.frc.org](http://www.frc.org)) and was compliant throughout the financial year under review. During the current financial year, the Board will continue to assess its practices to ensure compliance with the Combined Code on an ongoing basis and will continue to monitor any changes required to be made to further develop and enhance its governance policies.

The Board is committed to establishing and maintaining high standards of corporate governance. Its policy is to appoint directors with appropriate skills who have sufficient time to carry out their duties adequately. The Board provides opportunities through site visits and regular access to senior management to permit directors to familiarise themselves with the Company and the markets in which it operates.

## The Board

### *The Board's composition*

As of 30 April 2010 the Board of the Company consisted of the Chairman, two executive directors and four non-executive directors. The profiles of the Board members are set out on pages 20 and 21. No individual or group of individuals dominates the Board's decision-making process. The non-executive directors occupy, or have occupied, senior positions in industry. Together they constitute a valuable body of relevant industry experience and expertise.

### *The role of the Board*

Individual members of the Board have equal responsibility for the overall stewardship, management and performance of the Group and for the approval of its long-term objectives and strategic plans.

### *Division of responsibilities*

There is a clear division of responsibilities between the role of the Chairman and that of the Chief Executive of the Company and the roles are clearly set out in writing and reviewed by the Board. The primary responsibility of the Chairman is to lead and manage the Board and to promote high standards of corporate governance, and that of the Chief Executive is to manage the business of the Group.

### *The Chairman*

Peter Fellner was appointed non-executive Chairman of the Company with effect from 1 May 2009. The Chairman is responsible for leading and managing the Board. He works closely with the Chief Executive on developing Group strategy, and provides general advice and support as well as participating in the dialogue between the Company and its major shareholders. His other significant commitments are listed in his biography on page 21.

### *The Chief Executive*

Jonathan Glenn is the Company's Chief Executive. His principal responsibility is to manage the Group's business and to lead the senior management team to ensure that the Company meets its objectives.

## *The Senior Independent Director*

George Kennedy was appointed the Senior Independent Director with effect from 1 May 2009. The Senior Independent Director is responsible for chairing meetings of the non-executive directors where the Chairman is not present and is available to meet with shareholders.

## The non-executive directors

### *Independence*

Each of the non-executive directors (Peter Fellner, Jim Dick, George Kennedy, Chris Banks and William Jenkins) are free from any relationship with the executive management of the Company and are free from any business or other relationship that could affect or appear to affect the exercise of their independent judgement. The Board considers that all of the Company's non-executive directors are independent directors, in both character and judgement, in accordance with the recommendations of the Combined Code.

### *Terms of appointment*

All non-executive directors are appointed for an initial term of three years subject to satisfactory performance. After this time they may serve additional three-year terms following review by the Board. Further details of their terms and conditions are summarised in the Remuneration Report on pages 26 to 30 and the terms and conditions of appointment of the non-executive directors are available on the Company's website.

### *Meetings of non-executive directors*

Led by the Senior Independent Director, the non-executive directors meet informally, without the Chairman being present, principally to appraise the Chairman's performance and to review his remuneration. The Chairman holds meetings at least annually with the non-executive directors without the executive directors present.

### *Appointment of non-executive directors*

Non-executive directors are appointed to the Board following a formal, rigorous and transparent process, usually involving external recruitment agencies, to select appropriate individuals who have a depth of relevant experience, thus ensuring that the selected candidates will be capable of making a considerable contribution to the Board. This process is monitored by the Nomination Committee.

## The operation of the Board

### *Delegated authorities*

The Board has the authority for ensuring that the Group is appropriately managed and achieves the strategic objectives it sets. To achieve this, the Board reserves certain matters for its own determination including matters relating to Group strategy, approval of interim and annual financial results, dividend policy, major capital expenditure, treasury policy, risk management and the effectiveness of the systems of internal control.

The Board performs its responsibilities through an annual programme of meetings, and by continuous monitoring of the performance of the Group as a whole. The Board also delegates the discharge of a number of its responsibilities to committees, and matters not listed above are usually delegated to management. The Board's terms of reference and the full schedule of matters reserved to the Board are published on the Company's website.

# Corporate Governance

continued

The various matters delegated by the Board to management include:

- maintaining systems that continually identify and evaluate significant risks affecting strategies that apply to management's areas of the business;
- identification and evaluation of significant risks to management's business area, together with the design of mitigating controls; and
- reviewing and monitoring internal control systems.

## **Board meetings and attendance**

The Board has nine scheduled meetings per year, with other meetings convened for specific matters, some of which are delegated to committees, as appropriate. The attendance of each of the directors, whether in person or by telephone, at the scheduled Board and committee meetings where appropriate, is shown below:

Name	Board meetings (Total 9)	Nomination Committee meetings (Total 3)	Remuneration Committee meetings (Total 4)	Audit Committee meetings (Total 3)
P. Fellner	9	3	–	–
C. Banks	9	3	–	3
J. Dick	9	3	4	3
W. Jenkins	9	3	4	–
G. Kennedy	9	3	4	3
P. Boughton*	5	–	–	–
J. Glenn	9	3	–	–
T. Woolych	9	–	–	–

\*Mr Boughton resigned as a director on 10 December 2009

Board members are provided with appropriate documentation in advance of each Board and committee meeting. Senior executives below Board level are invited to attend Board meetings periodically for the purpose of making presentations on their areas of responsibility. In addition to formal Board meetings, the Chairman and Chief Executive meet frequently and make regular contact with other Board members. The Board and the senior executives meet formally once during each period to discuss corporate strategy.

## **Independent professional advice**

The Board has approved a procedure whereby directors may consult the Company's advisers and, if necessary, take independent professional advice at the Company's expense, although not in respect of a director's personal interests. Before seeking advice, the director concerned must notify the Chairman, or in his absence, the Senior Independent Director. No such advice was sought by any director during the year.

## **Company Secretary**

Board members have access to the Company Secretary who attends all Board meetings and committee meetings. The appointment and removal of the Company Secretary is subject to the approval of the Board. During the year Robert Allnutt resigned and John Slater was appointed as Company Secretary.

## **Election and re-election of directors**

The Company's Articles of Association require a certain number of directors to retire and resubmit themselves for re-election each year. Any director appointed during the year is subject to election by shareholders at the first Annual General Meeting after his appointment. The number is made up initially from those directors who have not retired from office at the two preceding Annual General Meetings. Where this number is less than a third of all directors, those who have been longest in office since their last appointment or reappointment make the number up to one third. As between those who became appointed or were last appointed on the same day, those to retire are to be determined by lot.

## **Board effectiveness**

### **Induction and professional development**

Upon joining the Board, newly appointed directors receive induction comprising background information on the operation and activities of the Group, the role of the Board and those matters reserved for the Board's decision, responsibilities of, and membership of, Board committees and the latest financial information on the Group. They are also encouraged to visit the sites at which the Group operates and are invited to meetings with relevant members of senior management. The directors are kept apprised of developments in legal, regulatory and financial matters affecting the Group from the Group Finance Director, the Company Secretary, the Group's external auditors and advisers.

### **Performance evaluation**

An evaluation of the Board is normally carried out each year in respect of each Board member and each Board committee. A Board evaluation was carried out during the year ended 30 April 2010 following a rigorous and formal examination requiring completion of a questionnaire relating to the performance of the Board and its committees and with regard to compliance with the Combined Code and Turnbull Guidance. There was generally a positive response which indicates that the Board and its committees are operating in an effective manner and that the Board provided the effective leadership and control required for a listed company. The Board will continue to review its effectiveness in the year ahead.

## **Board committees**

The Board has the three main committees listed below. The current terms of reference of each committee may be obtained from the Company's website.

### **Remuneration Committee**

During the year members of this committee were George Kennedy (Chairman), Jim Dick and William Jenkins (who joined the Committee with effect from 6 May 2009). The Chairman is invited to attend all meetings, but does not attend any part of any meeting at which his own service contract is discussed. The Chief Executive attends by invitation where appropriate except where his own remuneration is being considered.

The Remuneration Committee is primarily responsible for determining the structure, components including pension rights and compensation payments and level of the remuneration packages of the Chairman, the executive directors and designated members of the senior management team. Details of the role of the Remuneration Committee and attendance of Committee members are set out on page 26. The Remuneration Committee met four times during this year.

#### **Nomination Committee**

Members during the year were Peter Fellner (Chairman), Chris Banks, Jim Dick, Jonathan Glenn, George Kennedy and William Jenkins (who joined the Committee with effect from 6 May 2009).

The Nomination Committee is primarily responsible for reviewing the membership of the Board and identifying suitable candidates for appointment and reappointment as directors. In addition, the Board has delegated responsibility to the Nomination Committee for ensuring that succession planning both at Board and senior management level is undertaken. The inclusion of the Chief Executive in the membership of the Nomination Committee ensures that a balanced view is taken regarding the needs of the Group as a whole.

The Nomination Committee met three times during the year. Details of attendance of Committee members are set out on page 32.

#### **Audit Committee**

The Audit Committee is comprised entirely of independent non-executive directors. Members during the year have been Chris Banks (Chairman), Jim Dick and George Kennedy. Chris Banks is the individual who the Board considers has recent and relevant financial experience and is a chartered accountant.

The external auditors' lead partner and the Group Finance Director attend each meeting as requested by the Committee. The Board considers that the membership of the Committee as a whole has recent and relevant financial experience properly to discharge its functions.

The Audit Committee met three times during the year. The meetings were attended by all members. At each meeting the members of the Committee took the opportunity of meeting the external auditors without management being present.

The Audit Committee is responsible for reviewing on behalf of the Board the Group's financial and reporting practices and disclosures, reviewing the integrity of the financial statements, the Group's system of internal controls, the work of the external auditors and Group compliance with financial policies, laws and regulations. Audit Committee Terms of Reference may be obtained from the Company's website.

The annual and half-yearly financial reports are reviewed by the Committee through a process which includes discussion with the Group Finance Director and the external auditors. The external auditors prepare reports to the Committee on significant accounting policies and issues and judgements applied in the preparation of the financial reports. The Audit Committee gives its recommendation to the Board concerning the adoption and publication of all financial reports to shareholders.

In addition to the Board, the Audit Committee has conducted its annual review of the system of internal controls based on a review of significant risks identified, internal reviews, external audits and reports from management.

#### **Non-audit services**

In accordance with its policy on non-audit services provided by the Company's auditors, the Committee reviews and approves the award of any such work. The Audit Committee refers to the Board for approval of any work comprising non-audit services where the fees for such work will represent more than 25% of the annual audit fee.

#### **Auditor independence**

The Audit Committee keeps under review the scope and results of the external audit work, its cost and the independence and objectivity of the auditors. The independent auditors operate procedures to safeguard against the possibility that their objectivity and independence could be compromised. This includes the use of quality review partners, a technical review board (where appropriate) and annual independence review procedures. The auditors are required to rotate the lead audit partner to the Group every five years. The Committee has considered the re-appointment of the auditors of the Group and recommended to the Board that PricewaterhouseCoopers LLP be proposed for re-appointment, having noted the scope and results of their work in relation to this year's audit as well as their objectivity and independence. The Board endorsed this recommendation.

#### **Internal audit**

The Committee has considered whether there is a need for an internal audit function within the Group and has concluded that no internal audit function is immediately required. In reaching its conclusion, the Committee considered the size and structure of the Group and its finance function as well as the procedures, controls and mechanisms designed to monitor and control risk within the Group. The Committee also took into account the fact that the business operates within a highly regulated industry.

#### **Whistle-blowing**

The Audit Committee has reviewed and approved the internal procedures whereby employees can raise concerns about possible financial or other irregularities. The policy gives guidance on the type of matters that staff may wish to disclose, and a means of doing so via an independent organisation in the event that any staff member feels that he or she cannot make a disclosure via the usual management channels.

The Company is committed to the highest standards of openness, integrity and accountability. The Group operates a whistle-blowing policy so that employees can report confidentially any matter giving rise to concerns about the operation of the Group's business.

# Corporate Governance

continued

## Other committees

### *The Executive Committee*

This Committee is responsible for the executive management of the Group. It comprises the Chief Executive, the Group Finance Director, the Company Secretary/General Counsel, the general managers of the Group's businesses, the Director of Human Resources and the Director of Corporate Development. This Committee meets monthly to review and make decisions on operational matters not reserved for Board decisions.

### *The Corporate Responsibility Committee*

The Corporate Responsibility ('CR') Committee is responsible for reviewing and prioritising the Group's Corporate Responsibility activities, further details of which can be found in the Corporate Responsibility Review on pages 18 and 19 of this report. The Committee is chaired by non-executive director Jim Dick. Other members include executives responsible for the Bepak and King Systems Divisions and the HR Director. The Company Secretary acts as Secretary to the Committee.

## Internal controls review

The Board acknowledges that it is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute assurance against material misstatement or loss. The Board has received regular reports on areas of any significant risk and on related internal controls including progress on improvements in internal controls at the King Systems Division identified as necessary following a review by Deloitte last year. The Board reviews the framework of internal controls annually and has reviewed the effectiveness of its internal systems of control as they have been operated within the year in accordance with the Turnbull Guidance (2005).

The review covers all material controls including financial, operational, compliance and risk management systems.

## Risk assessment

There is an ongoing internal process for identifying, evaluating and managing significant risks faced by the Company that is regularly reviewed first by the Executive Committee and then by the Board. This process has been in place throughout the year and up to the date of this report and accords with the Turnbull Guidance. The Executive Committee carries out a business risk assessment exercise to identify the key risks and establish means of monitoring and controlling risk. The Company's strategic plan is reviewed annually at an off-site meeting involving the Board and the Executive Committee. An annual budget is prepared by each of the operating Divisions of the Company and this is consolidated into a Group Plan, which is reviewed and approved by the Board.

## Control procedures

Progress against budget is monitored at operating business and Group levels throughout the Company via monthly reporting of actual financial performance against budget and prior period actual results. The Executive Committee also reviews monthly the key measures of operating performance.

The Group has clear authority limits deriving from the list of matters reserved for decision by the Board, including capital expenditure approval procedures.

## Relations with shareholders

The Board regards relationships with shareholders as very important and it aims to encourage open dialogue with them through regular meetings with the Group's institutional shareholders, including regular meetings following the announcement of the Company's interim and annual results. In particular, shareholders may meet with any new non-executive director if they wish. Meetings are also held at other times with institutional investors and other shareholders at their request. The Chairman ensures that views expressed at these meetings are reported to the Board as a whole. The Company's brokers also attend Board meetings at the request of the Chairman to provide feedback on shareholder opinion.

The Senior Independent Director is available to meet with shareholders as required.

All shareholders have the opportunity of discussing the Group's performance and development at the Annual General Meeting, which provides a forum for shareholders to raise issues with the Board. Members of the Remuneration, Nomination, Audit and Corporate Responsibility Committees will also be available at the Annual General Meeting so that shareholders may discuss any queries they may have.

## Takeover directive

Information about the Takeover Directive is set out in the Directors' Report on page 24.

## Financial reporting

The directors' responsibility for preparing the accounts is set out in the Directors' Report on page 25.

## Going concern

The directors have a reasonable expectation that the Group and the parent company have adequate resources to continue in operational existence for the foreseeable future and have therefore adopted the going concern basis in preparing the accounts.