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INTERNATIONAL CHEMICAL COMPANY LIMITED  
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ACCOUNTS -- 31st OCTOBER, 1978

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS

ARTHUR ANDERSEN & Co.



INTERNATIONAL CHEMICAL COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31st OCTOBER, 1978

The Directors report that:

During the financial year ended 31st October, 1978 the Directors of the Company were Messrs. R.E. Gay, W.F. Laporte, R.F. King, J.C. Ashford, J.W. Culligan, E.C. McGregor and, until 6th October, 1978, D.K. Hitchman. At no time during the year did any Director possess any interest in shares or debentures requiring notification under Section 27 of the Companies Act 1967.

The principal business of the Company has continued throughout the year under review to be the manufacture and sale of proprietary pharmaceutical and toilet products. The subsidiaries Irish Chemical Products Limited and Kolynos (Sales) Limited have not traded during the year.

The net profit of the Company for the year under review, after providing for all expenses, depreciation of assets and United Kingdom and overseas taxation, and after taxation adjustments relating to prior years, amounted to £675,507 as compared with £762,993 for the previous year.

After payment of interim dividends totalling £450,000, the accumulated balance on retained earnings carried forward to the next financial year amounted to £2,932,254 as compared with the balance of £2,706,747 brought forward from the previous year. No final dividend is proposed.

As stated in Note 1c), property, plant and equipment are stated in the accounts at cost less depreciation and Regional Development Grants. In the Directors' opinion, the current value of freehold land and buildings is £1,433,000 on a replacement cost basis (based on the application of "Price Index Numbers for Current Cost Accounting" as published by the Government Central Statistics Office). This valuation has not been incorporated in the accounts as a professional valuation has not been performed.

Consolidated accounts covering the Company's subsidiaries have not been prepared as, in the opinion of the Directors, they would be of no real value to members in view of the insignificant amounts involved. As stated above, neither subsidiary has traded during the year; as at 31st October, 1978, the accumulated balance on retained earnings of Irish Chemical Products Limited was £10,363 and of Kolynos (Sales) Limited was £1,597.

The average number of persons, including Directors, employed by the Company and its subsidiaries in each week of the year under review was 514 and the gross aggregate remuneration, including bonuses, earned during the year by such persons was £1,737,000.

In the course of the year under review the Company and its subsidiaries exported from the United Kingdom goods to the aggregate value of £3,251,955 (1977 - £3,132,821).

Arthur Andersen & Co. have expressed their willingness to continue in office, and a motion will be proposed at the next Annual General Meeting to reappoint them as auditors.

BY ORDER OF THE BOARD,



C.M. Cooke  
Secretary

ARTHUR ANDERSEN & Co.

1 SURREY STREET  
LONDON WC2R 2PS

To the Members of International Chemical Company Limited:

We have examined the balance sheet of INTERNATIONAL CHEMICAL COMPANY LIMITED at 31st October, 1978, and the related statements of profit and loss and retained earnings and changes in financial position for the year ended on that date, prepared on the historical cost basis.

In our opinion, the accompanying accounts give a true and fair view, on the historical cost basis, of the state of affairs of the Company at 31st October, 1978, and of the profit and changes in financial position for the year ended on that date, and comply with the Companies Acts 1948 and 1967.

13th December, 1978

*Arthur Andersen & Co.*

INTERNATIONAL CHEMICAL COMPANY LIMITED

BALANCE SHEET -- 31st OCTOBER, 1978

	<u>1978</u>	<u>1977</u>
<b>CURRENT ASSETS:</b>		
Cash	£ 487,196	£ 301,839
Accounts receivable and prepaid expenses	2,851,425	2,552,714
Short-term loan to holding company (Notes 7 and 8)	650,000	1,400,000
Short-term loan to fellow-sub subsidiary company (Note 8)	50,000	150,000
Inventories (Notes 1 and 3)	1,121,155	905,095
	<u>5,159,776</u>	<u>5,309,648</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	1,702,415	1,430,800
Due to subsidiary companies (Note 7)	35,366	36,879
Due to holding and fellow-sub subsidiary companies (Notes 7 and 8)	348,204	862,313
Taxation (Note 2)	737,246	853,390
	<u>2,823,231</u>	<u>3,183,382</u>
Net current assets	2,336,545	2,126,266
INVESTMENT IN SUBSIDIARY COMPANIES (Note 7)	25,191	25,191
GOODWILL (Note 1)	137,017	137,017
PROPERTY, PLANT AND EQUIPMENT, net (Notes 1 and 4)	1,099,571	1,079,343
	<u>£3,598,324</u>	<u>£3,367,817</u>
Representing-		
<b>SHAREHOLDERS' INVESTMENT:</b>		
Share capital-		
75,000 ordinary shares of £1 each, authorised, issued and fully-paid	£ 75,000	£ 75,000
Capital reserve	241,070	241,070
Retained earnings (Note 8)	2,932,254	2,706,747
	<u>3,248,324</u>	<u>3,022,817</u>
DEFERRED TAXATION (Notes 1 and 2)	350,000	345,000
	<u>£3,598,324</u>	<u>£3,367,817</u>

The accompanying notes to accounts are an integral part of this balance sheet.

*Handwritten signature: Vankar*  
*Handwritten signature: Chandra*

INTERNATIONAL CHEMICAL COMPANY LIMITED

STATEMENT OF PROFIT AND LOSS AND RETAINED EARNINGS

FOR THE YEAR ENDED 31st OCTOBER, 1978

	<u>1978</u>	<u>1977</u>
NET SALES (Note 1)	£11,552,881	£11,039,959
COST OF SALES AND EXPENSES (Note 5)	10,132,370	9,531,587
Profit before tax	1,420,511	1,508,372
CORPORATION TAX (Note 2)	745,004	745,379
Net profit	675,507	762,993
RETAINED EARNINGS, beginning of year	2,706,747	2,569,254
DIVIDENDS PAID	(450,000)	(625,500)
RETAINED EARNINGS, end of year (Note 8)	<u>£ 2,932,254</u>	<u>£ 2,706,747</u>

The accompanying notes to accounts are an integral part of this statement.

INTERNATIONAL CHEMICAL COMPANY LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED 31st OCTOBER, 1978

	<u>1978</u>	<u>1977</u>
<b>SOURCES OF FUNDS:</b>		
Net profit	£675,507	£762,993
Add items not involving current flow of funds-		
Depreciation	156,601	137,111
Increase in deferred taxation	5,000	7,000
	<u>          </u>	<u>          </u>
Total funds provided from operations	837,108	907,104
Net book value of plant and equipment retired	38,434	30,450
	<u>          </u>	<u>          </u>
	£875,542	£937,554
	<u>          </u>	<u>          </u>
<b>USES OF FUNDS:</b>		
Dividends paid	£450,000	£625,500
Purchase of property, plant and equipment	215,263	206,115
Increase in working capital, as shown below	210,279	105,939
	<u>          </u>	<u>          </u>
	£875,542	£937,554
	<u>          </u>	<u>          </u>
<b>INCREASE IN WORKING CAPITAL:</b>		
Increase in accounts receivable and prepaid expenses	£298,711	£485,917
Decrease in short-term loan to holding company	(750,000)	-
Decrease in short-term loan to fellow-subsubsidiary company	(100,000)	-
Increase in inventories	216,060	304,842
Increase in accounts payable and accrued expenses	(271,615)	(192,693)
Decrease in amounts due to subsidiary companies	1,513	-
(Increase) decrease in amounts due to holding and fellow-subsubsidiary companies	514,109	(616,880)
Decrease in taxation	116,144	148,549
Movement in net liquid funds-		
Increase (decrease) in cash	185,357	(23,796)
	<u>          </u>	<u>          </u>
	£210,279	£105,939
	<u>          </u>	<u>          </u>

The accompanying notes to accounts are an integral part of this statement.

INTERNATIONAL CHEMICAL COMPANY LIMITED

NOTES TO ACCOUNTS -- 31st OCTOBER, 1978

1. SUMMARY OF MAJOR ACCOUNTING POLICIES:

a) Historical cost basis-

The accounts have been prepared on the historical cost basis.

b) Inventories-

Inventories include raw materials, work-in-progress, finished goods, packaging materials and sundry stocks, and are valued on a basis which approximates the lower of first-in, first-out cost and net realisable value on an item-by-item basis. Cost includes all costs incurred in bringing the inventory to its present state and condition, including an appropriate proportion of manufacturing overhead and labour.

c) Property, plant and equipment-

Property, plant and equipment are stated at cost less regional development grants and depreciation. Depreciation is provided, on cost less development grants, over the estimated economic lives of the assets on a straight-line basis at the following annual rates-

Freehold buildings	- 2%
Leasehold buildings and equipment	- 10%
Plant, machinery and equipment	- 10%
Furniture and equipment	- 10%-15%

Maintenance and repairs are charged to expense as incurred.

d) Translation of transactions and amounts in foreign currency-

Sales and purchases transacted in foreign currencies are recorded in sterling at actual exchange rates at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the year-end are reported at the rates of exchange prevailing at year-end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss.

e) Deferred taxation-

Deferred tax is computed using the liability method, whereby such tax is determined by applying the rate of tax applicable at the balance sheet date to all the accumulated differences between book and tax income. These differences arise primarily from the effect of depreciation being attributed for tax purposes to periods different from those in which the charge is recorded in the accounts and certain costs and expenses (principally royalties) being deductible for tax only when the amounts are paid or written off.

f) Research and development-

Research and development costs are expensed as they are incurred.



g) Turnover-

Sales are recognised at the time that goods are despatched and are stated net of discounts, freight costs, returns and allowances. Gross sales amounted to £11,775,000 (1977 - £11,293,000).

h) Goodwill-

Goodwill is stated at cost less amounts written off (totalling £5,031). No provision has been made for the amortisation of goodwill.

i) Group accounts-

Group accounts dealing with the subsidiaries (see Note 7) have not been prepared as in the opinion of the Directors they would be of no real value to the members in view of the immaterial amounts involved.

2. TAXATION:

The tax charge is based on the profit for the year subject to tax, and comprises-

	<u>1978</u>	<u>1977</u>
Corporation tax at 52%-		
Current	£750,110	£750,521
Deferred (arising from capital allowances)	5,000	7,000
Less- relief for overseas taxation	(88,784)	(66,555)
	<u>666,326</u>	<u>690,966</u>
Overseas taxation	88,784	66,555
Over-provision in previous year	(10,106)	(12,142)
	<u>£745,004</u>	<u>£745,379</u>
	=====	=====

Deferred taxation comprises-

	<u>1978</u>	<u>1977</u>
Excess of tax written down values of property, plant and equipment over net book values	£392,000	£387,000
Accruals	(42,000)	(42,000)
	<u>£350,000</u>	<u>£345,000</u>
	=====	=====

Current deferred tax assets reported in the accompanying balance sheet as a deduction from the current taxation liability are-

	<u>1978</u>	<u>1977</u>
Royalties payable	£(276,515)	£(526,817)
Other	(7,910)	6,292
	<u>£(284,425)</u>	<u>£(520,525)</u>
	=====	=====

3. INVENTORIES:  
Inventories comprise the following items:-

	1978	1977
Finished goods	£ 375,568	£278,254
Work-in-progress	77,429	105,352
Raw materials	263,558	182,707
Packaging materials and sundry stocks	404,600	338,782
	<u>£1,121,155</u>	<u>£905,095</u>

4. PROPERTY, PLANT AND EQUIPMENT:

a) The movement on property, plant and equipment during the year was as follows:-

	Balance, 31st October, 1977	Additions/ Charge	Retirements	Balance, 31st October, 1978
Cost less Regional Development Grant:-				
Freehold land and buildings	£ 566,127	£ 7,174	£ -	£ 573,301
Leasehold buildings and equipment	34,597	-	62	34,535
Plant and machinery	987,267	203,863	88,346	1,102,784
Furniture and equipment	73,949	4,226	9,285	68,890
	<u>1,661,940</u>	<u>£215,263</u>	<u>£ 97,693</u>	<u>1,779,510</u>
Accumulated depreciation:-				
Freehold land and buildings	141,682	£ 28,602	£ -	170,284
Leasehold buildings and equipment	23,209	1,051	62	24,198
Plant and machinery	362,866	123,124	49,912	436,078
Furniture and equipment	54,840	3,824	9,285	49,379
	<u>582,597</u>	<u>£156,601</u>	<u>£ 59,259</u>	<u>679,939</u>
Net book value	<u>£1,079,343</u>			<u>£1,099,571</u>

b) Contracts have been entered into for capital expenditure not yet incurred of £35,846 (1977 - £27,584).

c) Regional Development Grants of £418,491 (1977 - £407,213) have been deducted from the cost of property, plant and equipment. Depreciation is provided on the net cost and, accordingly, the grants are being amortised to income over the lives of the related assets.

5. SUPPLEMENTARY PROFIT AND LOSS INFORMATION:

a) Cost of sales and expenses include the following charges (credits)-

	<u>1978</u>	<u>1977</u>
Depreciation	£156,601	£137,111
Auditors' remuneration	12,500	9,350
Exchange (gain)/loss	(20,763)	3,402
Interest paid	3,936	4,004
Interest receivable (gross)	(96,814)	(152,477)
Dividend received from a subsidiary (net)	-	(987)
	=====	=====

b) Directors' emoluments were as follows-

	<u>1978</u>	<u>1977</u>
Remuneration for management services	£ 98,805	£ 69,346
	=====	=====

The aggregate emoluments above, excluding pension contributions, were paid as follows-

Chairman	£ 20,829	£ 19,339
	=====	=====

Number of other Directors whose emoluments were within the ranges-

£ Nil - £ 2,500	2	2
£ 5,001 - £ 7,500	1	-
£ 7,501 - £10,000	-	4
£10,001 - £12,500	3	-
	===	===

6. LEASE COMMITMENTS:

The Company occupies premises under the terms of a medium-term lease with an annual rental of £43,000. The rental is subject to renegotiation in March, 1980.

7. ULTIMATE HOLDING COMPANY AND SUBSIDIARIES:

The Company's ultimate holding company is American Home Products Corporation, which is incorporated in the State of Delaware, U.S.A.

The Company's subsidiaries are as follows-

a) Kolynos (Sales) Limited, a wholly-owned subsidiary incorporated in England. This company has not traded during the year and the undistributed profits carried forward in its accounts at 31st October, 1978 amounted to £1,597 (1977 - £1,597).

b) Irish Chemical Products Limited, a wholly-owned subsidiary incorporated in the Republic of Ireland. This company has not traded during the year and the undistributed profits carried forward in its accounts at 31st October, 1978, amounted to £10,363 (1977 - £10,966).

8. TRANSACTIONS WITH RELATED PARTIES:

- a) Sales include £583,000 (1977 - £611,000) made to fellow-subsiidiaries.
- b) Purchases include £72,000 (1977 - £164,000) from fellow-subsiidiaries. Cost of sales and expenses include £733,000 (1977 - £718,000) of royalties, administrative charges and technical fees charged by related parties.
- c) The Company has a loan of £650,000 outstanding due from its holding company, American Home Products Corporation. This loan is repayable on demand and has been paid subsequent to year-end. Interest is charged at the Bank of England minimum lending rate. Under the terms of this loan, the Bank of England has restricted dividend payments by requiring that the amount of the loan together with a further sum equivalent to 54% thereof be deducted from funds available for distribution by way of dividends.

A further short-term loan, repayable on demand, of £50,000 is outstanding from a fellow-subsiidiary. Interest is charged at a rate 2% below the Midland Bank base lending rate.

9. PENSION SCHEMES:

The Company maintains pension schemes which cover the majority of employees. The schemes are contributory and are insured with the Legal and General and Irish Life Assurance Societies Limited. In 1978 pension costs (including life insurance) as recorded in the accounts were £104,000 (1977 - £81,000). There are no past service liabilities.

The annexed Reports and Accounts are  
hereby certified to be true copies  
in accordance with Section 127 of the  
Companies Act 1948.

INTERNATIONAL CHEMICAL COMPANY LIMITED

  
Director

  
Secretary