

INTERNATIONAL CHEMICAL COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31st OCTOBER, 1977

The Directors report that:

During the financial year ended 31st October, 1977 the Directors of the Company were Messrs. R.E. Gay, W.F. Laporte, R.F. King, D.K. Hitchman, J.C. Ashford, J.W. Culligan and E.C. McGregor. 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 under review.

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 £762,993 as compared with £770,344 for the previous year.



After payment of interim dividends totalling £625,500, the accumulated balance on retained earnings carried forward to the next financial year amounted to £2,706,747 as compared with the balance of £2,569,254 brought forward from the previous year.

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, 1977, Irish Chemical Products Limited had an accumulated balance on retained earnings of £12,307 and Kolynos (Sales) Limited had an accumulated balance of £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 560 and the gross aggregate remuneration including bonuses earned during the year by such persons was £1,286,000.

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

Signed 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, 1977, 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, 1977, 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.

A handwritten signature in dark ink, appearing to read 'Arthur Andersen & Co.', is written in a cursive style.

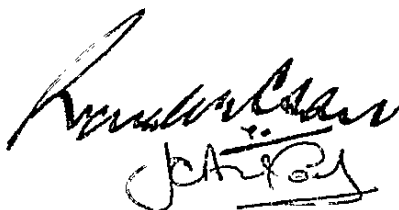
16th December, 1977

INTERNATIONAL CHEMICAL COMPANY LIMITED

BALANCE SHEET --31st OCTOBER, 1977

	<u>1977</u>	<u>1976</u> (Note 7)
CURRENT ASSETS:		
Cash	£ 301,839	£ 325,635
Accounts receivable and prepaid expenses	2,552,714	2,066,797
Short-term loan to holding company (Notes 8 and 9)	1,400,000	1,400,000
Short-term loan to fellow-sub subsidiary (Note 9)	150,000	150,000
Inventories (Notes 1 and 3)	905,095	600,253
Total current assets	----- 5,309,648	----- 4,542,685
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	1,430,800	1,238,107
Due to subsidiaries (Note 8)	36,879	36,879
Due to holding company and fellow- subsidiaries (Notes 8 and 9)	862,313	245,433
Taxation	853,390	1,001,939
Total current liabilities	----- 3,183,382	----- 2,522,358
Net current assets	----- 2,126,266	----- 2,020,327
INVESTMENT IN SUBSIDIARY COMPANIES (Note 8)	25,191	25,191
GOODWILL (Note 1)	137,017	137,017
PROPERTY, PLANT AND EQUIPMENT, net (Notes 1 and 4)	1,079,343	1,040,789
	----- £3,367,817	----- £3,223,324
	=====	=====
Representing-		
SHAREHOLDERS' INVESTMENT:		
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 9)	2,706,747	2,569,254
	----- 3,022,817	----- 2,885,324
DEFERRED TAXATION (Note 1)	345,000	338,000
	----- £3,367,817	----- £3,223,324
	=====	=====

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



INTERNATIONAL CHEMICAL COMPANY LIMITED

STATEMENT OF PROFIT AND LOSS AND RETAINED EARNINGS

FOR THE YEAR ENDED 31st OCTOBER, 1977

	<u>1977</u>	<u>1976</u> (Note 7)
NET SALES (Note 1)	£11,039,959	£9,301,155
COST OF SALES AND EXPENSES (Note 5)	9,531,587	7,659,508
	-----	-----
Profit before tax	1,508,372	1,641,647
CORPORATION TAX (Note 2)	745,379	871,303
	-----	-----
Net profit	762,993	770,344
RETAINED EARNINGS, beginning of year	2,569,254	2,599,160
DIVIDENDS PAID	(625,500)	(800,250)
	-----	-----
RETAINED EARNINGS, end of year	£ 2,706,747	£2,569,254
	=====	=====

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, 1977

	<u>1977</u>	<u>1976</u> (Note 7)
SOURCES OF FUNDS:		
Net profit	£762,993	£770,344
Add items not involving current flow of funds-		
Depreciation	137,111	117,444
Increase in deferred taxation	7,000	24,000
	-----	-----
Total funds provided from operations	907,104	911,788
Net book value of plant and equipment retired	30,450	23,748
	-----	-----
	£937,554	£935,536
	=====	=====
USES OF FUNDS:		
Dividends paid	£625,500	£800,250
Purchase of property, plant and equipment	206,115	192,897
Increase (decrease) in working capital, as shown below	105,939	(57,611)
	-----	-----
	£937,554	£935,536
	=====	=====
INCREASE (DECREASE) IN WORKING CAPITAL:		
Increase in inventories	£304,842	£ 66,060
Increase in accounts receivable and prepaid expenses	485,917	147,909
Increase in accounts payable and accrued expenses	(192,693)	(109,034)
Decrease in amounts due to subsidiaries	-	824
Increase in amounts due to holding company and fellow-subsidiaries	(616,880)	(379,568)
Increase in short-term loan to holding company	-	400,000
(Increase) decrease in taxation	148,549	(218,741)
Movement in net liquid funds-		
Increase (decrease) in cash	(23,796)	34,939
	-----	-----
	£105,939	£(57,611)
	=====	=====

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

INTERNATIONAL CHEMICAL COMPANY LIMITED

NOTES TO ACCOUNTS -- 31st OCTOBER, 1977

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 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 date of the transaction. 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 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 incurred or written off. Current deferred tax items are reported in the accompanying balance sheet under the current liability, taxation.

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 £11,293,000 (1976 - £9,476,000).

h) Goodwill-

No provision has been made for the amortisation of goodwill.

i) Group accounts-

Group accounts dealing with the subsidiaries (see Note 8) 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>1977</u>	<u>1976</u>
Corporation tax at 52%-		
Current	£750,521	£845,942
Deferred (arising from capital allowances)	7,000	24,000
Less- relief for overseas taxation	(66,555)	(56,619)
	<u>690,966</u>	<u>813,323</u>
Overseas taxation	66,555	57,090
(Over-)/under-provision in previous year	(12,142)	890
	<u>£745,379</u>	<u>£871,303</u>
	=====	=====

4. INVENTORIES:
Inventories comprise the following items-

	1977	1976
Finished goods	£278,254	£215,930
Work-in-progress	105,352	41,228
Raw materials	182,707	136,094
Packaging materials and sundry stocks	338,782	207,001
	-----	-----
	£905,095	£600,253
	=====	=====

4. PROPERTY, PLANT AND EQUIPMENT:

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

	Balance, 31st October, 1976	Additions/ Charge	Retirements	Balance, 31st October, 1977
Cost less Regional Development Grant-				
Freehold land and buildings	£ 555,450	£ 10,677	£ -	£ 566,127
Leasehold buildings and equipment	34,597	-	-	34,597
Plant and machinery	872,465	183,974	69,172	987,267
Furniture and equipment	62,680	11,464	195	73,949
	-----	-----	-----	-----
	1,525,192	£206,115	£69,367	1,661,940
	=====	=====	=====	=====
Accumulated depreciation-				
Freehold land and buildings	113,942	£ 27,740	£ -	141,682
Leasehold buildings and equipment	22,079	1,130	-	23,209
Plant and machinery	298,795	102,806	38,735	362,866
Furniture and equipment	49,587	5,435	182	54,840
	-----	-----	-----	-----
	484,403	£137,111	£38,917	582,597
	=====	=====	=====	=====
Net book value	£1,040,789			£1,079,343
	=====			=====

b) Contracts have been entered into for capital expenditure not yet incurred of £27,584 (1976 - £102,665).

c) Regional Development Grants of £407,213 (1976 - £376,673) 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-

	<u>1977</u>	<u>1976</u>
Depreciation	£137,111	£117,444
Auditors' remuneration	9,350	10,000
Interest paid	4,004	110
Interest receivable (gross)	152,477	134,480
Dividend (proposed in 1975) received from a subsidiary (net)	987	-
	=====	=====

b) Directors' emoluments were as follows-

Remuneration for management services	£ 69,346	£ 63,804
	=====	=====

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

Chairman	£ 19,339	£ 17,083
	=====	=====

Number of other Directors whose
emoluments were within the ranges-

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

6. LEASE COMMITMENTS:

The Company occupies premises under the terms of a lease with an annual rental of £43,000. The above lease expires in 1978 but the Company has the option of renewing the lease for a further ten year period.

7. COMPARATIVE FIGURES:

The accounts for the year ended 31st October, 1976, were examined and reported on without qualification by chartered accountants other than Arthur Andersen & Co.

8. 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, 1977 amounted to £1,597 (1976 - £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 profit carried forward in its accounts (as yet unaudited) at 31st October, 1977, amounted to £12,307 (1976 - £13,937).

9. TRANSACTIONS WITH RELATED PARTIES:

a) Sales include £611,000 (1976 - £381,000) made to fellow-subsiidiaries.

b) Purchases include £164,000 (1976 - £85,000) from fellow-subsiidiaries. Cost of sales and expenses include £718,000 (1976 - £614,000) of royalties, administrative charges and technical fees charged by related parties.

c) The Company has a loan of £1,400,000 outstanding to its holding company, American Home Products Corporation. This loan is repayable on demand and consequently is classified under current assets. 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 £150,000 has been made to a fellow-subsiidiary. Interest is charged at a rate 2% below the Midland Bank base lending rate.