

STERLING-WINTHROP GROUP LIMITED 190223

DIRECTORS' REPORT AND ACCOUNTS

YEAR ENDED 31 OCTOBER 1988



REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST OCTOBER 1988

DIRECTORS

The directors holding office during the financial year and the years in which they were appointed to the Board were as follows:

Mr E E Barber FCCA FBIM 1969 (Chairman) Resigned 31st May 1988
Mr D R Martin (USA) (Chairman) Appointed 31st May 1988
Dr G Margetts B Pharm MPS MSc MB BS 1976 (Managing)
Lord Porritt GCMG GCVO CBE FRCS LLD 1973
Dr J B Spooner MA MB BChir 1977
Mr V J Underhill FCCA FCT 1977
Mr H R Burrell BA 1986 Resigned 31st July 1988
Mr C W Clarke 1986 Resigned 31st December 1987
Mr J Wood CA 1986
Mr A Warnock-Smith LLB 1986
Mr W M J Grylls MP 1986
Mr J C Stansfield BSc 1987

Since the year end, Dr Margetts resigned as Managing Director on 2nd June 1989 and Mr G D Proctor was appointed Managing Director on 5th June 1989.

There were no material contracts subsisting during or at the end of the financial year in which a director was interested and which require disclosure under Section 317 of the Companies Act 1985. None of the directors held any interest in the shares of the Company during the year.

PRINCIPAL ACTIVITIES OF THE GROUP

The principal activities of the Group and its subsidiaries throughout the year have been the manufacture and marketing of prescription and family medicines, chemicals and chemical intermediates, products for promoting health and hygiene, household and do-it-yourself products and metal printing for industry.

GROUP RESULTS AND ACCOUNTS

The directors submit the audited accounts of the Group and the Company for the year ended 31st October 1988 for the information and interest of shareholders and employees.

Group turnover (comprising the turnover of the domestic businesses and of our continental subsidiaries and exports) was £196.6 million, a decrease of £0.6 million (0.3%) on 1987. In the United Kingdom and the Republic of Ireland (the domestic businesses) sales showed a decline of £8.9 million (6.8%) to £121.1 million reflecting the smaller sales base consequent upon the disposal of certain non-core business in the previous year. Group trading profit was 59% lower than 1987 at £5.9 million

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST OCTOBER 1988

after exceptional provisions of £12.1 million for business restructuring costs. In the year we disposed of certain land and buildings at Chapeltown realising £1.012 million more than the balance sheet value for them and a further £1.036 million on the sale of certain assets to a fellow subsidiary company in Ireland. A number of steps were taken to take advantage of the new relationship with the Kodak businesses in the United Kingdom and seeking synergistic opportunities while continuing to maintain the separate corporate identities and existence of both companies.

Our export business, however, showed an increase over 1987 and sales amounted to £52.9 million (1987 £48.9 million) and after taking into account imports, the Group contributed £37.2 million to the United Kingdom's balance of trade (1987 £34.5 million).

For the Group as a whole, profit on ordinary activities before taxation was lower at £5.1 million than in 1987. The tax charge was lower by £2 million leaving a profit on ordinary activities for the year after tax of £2.5 million compared with £8.5 million for 1987. It was resolved nonetheless to pay a final dividend of £6.6 million on 31st October 1988 (1987 £3.2 million).

FUTURE DEVELOPMENTS

In 1989 it is not expected that any major new prescription medicines will be launched and indeed greater emphasis on generic prescribing is likely further to erode sales and prejudice profit growth. On the other hand, significant strides in sales growth are planned for Sterling Health and together with further rationalisation of its core businesses we anticipate better profitability notwithstanding considerable advertising and promotional investment. The cost savings programmes instituted in the previous year and affecting both factory fixed and group overhead costs will continue to yield benefits. There have been no other material developments affecting the Group which have occurred since 31st October 1988.

CHANGE OF ULTIMATE HOLDING COMPANY

The Company's ultimate holding company became Eastman Kodak Company (USA) on 29th February 1988 when its acquisition of Sterling Drug Inc was completed.

RESEARCH AND DEVELOPMENT

Expenditure on research and development during the year amounted to £10.4 million (1987 £12.8 million), a decrease of 18.75%.

FIXED ASSETS

In 1988 capital investment expenditure of £7.9 million was lower than in 1987 (£9.2 million). The directors have authorised

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST OCTOBER 1988**

further capital expenditure of £3.2 million (1987 £2.7 million) which has not yet been incurred.

EMPLOYMENT POLICIES

The Group seeks to encourage employee involvement in its businesses through a variety of approaches. At the core of these is a flexible system of briefings which encourage feedback from the workforce at every level of management. Such briefings may take different forms according to the local circumstances in which people work, but have the common purpose of providing regular information on the state of the businesses in a format which allows employees to question their immediate managers on any aspect which interests them. These consultations are, of course, additional to the more formal consultative procedures that exist with trade unions and with other specialist committees covering health and safety, pension and recreation.

The Group also employs a variety of regular publications to keep employees informed of developments within the organisation. They include, for example, an annual report to employees providing a summary and analysis of the Group's operations.

The Group has continued its support of the Youth Training Scheme and a number of our trainees are eventually successful in gaining full-time employment. In addition, support has also been given to various educational schemes whereby young people can gain valuable work experience.

It is the policy of the Group that disabled people whether registered disabled or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. In addition, the Group has a long and valued association with the Incorporated Association for Promoting the General Welfare of the Blind.

Employees who become disabled during their working life will be retained in employment whenever possible and will be helped with any necessary rehabilitation and retraining. The Group is prepared to modify procedures or equipment when this is practical so that full use can be made of an individual's ability.

CHARITABLE AND POLITICAL DONATIONS

Donations for charitable and educational purposes in the United Kingdom during the year amounted to £67,056 (1987 £82,894). This included support to the Winthrop Foundation, an educational charitable trust established to promote and advance education and research in medicine, pharmacy and related science amounting to £53,333 in the year.

There were no political donations in 1988.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST OCTOBER 1988

AUDITORS

Pricewaterhouse have offered themselves for re-election as auditors and a resolution for their re-appointment under the provisions of Section 384 Companies Act 1985 will be proposed at the Annual General Meeting.

By Order of the Board

A Warnock-Smith

A Warnock-Smith
Secretary

19th July 1989

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF STERLING-WINTHROP GROUP LIMITED

We have audited the accounts on pages 6 to 24 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group at 31 October 1988 and of the profit and source and application of funds of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Chartered Accountants

19 July 1989

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 OCTOBER 1988

	<u>Notes</u>	<u>1988</u>	<u>1987</u>
		£'000	£'000
TURNOVER	2	196,569	197,194
Cost of sales		(112,541)	(112,993)
GROSS PROFIT		84,028	84,201
Marketing and distribution costs		(40,994)	(42,764)
Research and development costs		(10,433)	(12,785)
Administrative costs		(13,547)	(13,193)
Other operating expense		(970)	(1,054)
Business restructuring costs	3	(12,166)	-
TRADING PROFIT		5,918	14,405
Interest receivable	3	770	642
Interest payable	3	(1,588)	(1,897)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,3	5,100	13,150
Taxation on profit on ordinary activities	7	(2,650)	(4,652)
PROFIT ON ORDINARY ACTIVITIES	20	2,450	8,498
EXTRAORDINARY PROFIT	4	481	570
PROFIT FOR THE FINANCIAL YEAR		2,931	9,068
DIVIDENDS PAID		(6,600)	(3,200)
RETAINED (LOSS)/PROFIT TRANSFERRED TO RESERVES	19	(3,669)	5,868

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

BALANCE SHEET AT 31 OCTOBER 1988

	Notes	1988 £'000	Group 1987 £'000	Company 1988 £'000	Company 1987 £'000
FIXED ASSETS					
Intangible assets	8	8,832	10,843	5,077	5,375
Tangible assets	9	64,361	65,898	60,879	61,900
Investments	10	-	-	14,739	14,739
		<u>73,193</u>	<u>76,741</u>	<u>80,695</u>	<u>82,014</u>
CURRENT ASSETS					
Inventories	11	35,755	37,148	29,073	31,226
Debtors	12	36,318	39,124	30,803	30,527
Cash at bank and in hand		17,012	15,832	11,690	12,888
		<u>89,085</u>	<u>92,104</u>	<u>71,566</u>	<u>74,641</u>
Creditors (amounts falling due within one year)	13	58,961	39,717	62,340	42,163
		<u>30,124</u>	<u>52,387</u>	<u>9,226</u>	<u>32,478</u>
NET CURRENT ASSETS					
		<u>30,124</u>	<u>52,387</u>	<u>9,226</u>	<u>32,478</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		103,317	129,128	89,921	114,492
Creditors (amounts falling due after one year)	14	(12,767)	(29,712)	(7,131)	(23,670)
Provisions for liabilities and charges	17	(8,408)	(13,275)	(7,835)	(12,479)
		<u>82,142</u>	<u>86,141</u>	<u>74,955</u>	<u>78,343</u>
NET ASSETS					
		<u>82,142</u>	<u>86,141</u>	<u>74,955</u>	<u>78,343</u>
CAPITAL AND RESERVES					
Called up share capital	18	5,000	5,000	5,000	5,000
Revaluation reserve	19	7,360	7,753	6,322	6,686
Other reserves	19	67	67	-	-
Profit and loss accounts	19	69,715	73,321	63,633	66,657
		<u>82,142</u>	<u>86,141</u>	<u>74,955</u>	<u>78,343</u>

Approved by the directors on 19th July 1989

Directors:

VJ Underhill
A Warnock-Smith

VJ Underhill
A Warnock-Smith

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

GROUP STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 OCTOBER 1988

	<u>1988</u> £'000	<u>1987</u> £'000
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	5,100	13,150
Adjustment for items not involving the movement of funds		
Reduction in Revaluation Reserve	(123)	-
Translation Adjustment	(170)	(126)
Depreciation after grant transfer	7,118	8,249
Amortisation of goodwill	1,719	904
Increase/(decrease) in deferred income	1,742	81
(Profit)/loss on sale of tangible assets	(1,027)	170
Loss on disposal of intangible assets	17	-
	<hr/>	<hr/>
TOTAL FUNDS GENERATED FROM OPERATIONS	14,376	22,428
FUNDS FROM OTHER SOURCES		
Decrease/(increase) in working capital (Note 24)	13,229	(5,071)
Regional development grants	188	39
(Decrease)/increase in future lease obligation	(1,058)	295
Proceeds from the sale of fixed assets	2,585	617
Net proceeds from the sale of businesses	540	2,910
Issue of profit participation rights by Winthrop GmbH	-	4,039
	<hr/>	<hr/>
	29,860	25,257
APPLICATION OF FUNDS		
Dividends paid	(6,600)	(3,200)
Tax paid	(7,344)	(1,205)
Purchase of tangible assets	(7,894)	(9,158)
Purchase of intangible assets	(48)	(5,794)
Repayment of loans from group companies	(5,814)	(17,741)
	<hr/>	<hr/>
	(27,700)	(37,098)
DECREASE/(INCREASE) IN NET INDEBTEDNESS		
	<u>2,160</u>	<u>(11,841)</u>
INCREASE/(DECREASE) IN NET LIQUID FUNDS		
(Decrease)/increase in cash and bank balances	1,180	2,651
Decrease/(increase) in bank overdrafts	985	1,450
Decrease/(increase) in unsecured loans	(5)	(15,942)
	<hr/>	<hr/>
	<u>2,160</u>	<u>(11,841)</u>

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988

1 ACCOUNTING POLICIES

(1) Composition of the group and basis of consolidation

The group accounts consolidate the accounts, as at 31 October 1988, of the company and its subsidiaries, the principal of which are listed in note 10. Profit on sales to fellow subsidiaries in continental Europe is deferred until the goods are sold by those companies to third parties. The accounts have been prepared under the historical cost convention as modified by the revaluation of certain land and buildings.

(2) Goodwill, trade marks and know-how

Goodwill represents the excess of the cost of shares in subsidiary companies over the amount attributed to the fair value of the net assets acquired. Trademarks and know-how relate to certain products acquired during recent years. These are being amortised over 40 years or their appropriate economic lives whichever is shorter.

(3) Turnover

Turnover comprises amounts invoiced to third parties (excluding value added tax) in respect of goods delivered during the year.

(4) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less depreciation. Provision has been made for depreciation on the straight-line method at rates designed to write off the original cost and subsequent revaluation of assets over their useful lives. No depreciation is calculated on freehold land and assets in the course of construction. The maximum lives assumed for depreciating assets are as follows:-

Freehold buildings	40 years
Short leasehold properties	Lease life
Plant and machinery	15 years
Fixtures, fittings and equipment	10 years

(5) Leases

We account for leased assets in accordance with Statement of Standard Accounting Practice number 21.

Leases which are in substance instalment purchases of assets have been capitalised where they meet the finance lease criteria established by Statement of Standard Accounting Practice number 21. The fixed assets and related liability are included in the balance sheet at an appropriately discounted proportion of future lease payments. The fixed assets are

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

1 ACCOUNTING POLICIES (continued)

depreciated over the life of the leases. Rentals are accounted for in the appropriate proportions as repayments and finance charges so as to give a finance charge which is consistent with the outstanding liability.

(6) Inventories

Inventories have been consistently valued at the lower of cost and net realisable value. Cost includes an appropriate portion of manufacturing overhead expenses.

(7) Research and development costs

Research and development costs are charged to the profit and loss account when incurred.

(8) Regional development grants

Regional development grants received and receivable are credited to the regional development grant account and a proportion of the grants, based on depreciation rates of the relevant assets, is credited each year to the profit and loss account.

(9) Pension funding

The company and its UK subsidiaries operate a pension scheme under which contributions by employees and by the companies are held in a trustee administered fund separately from the companies' finances. An Actuarial valuation of the fund is conducted at regular intervals and includes a review of contributions and benefits. Contributions are based upon the latest Actuarial valuation and are accounted for in the profit and loss account as they fall due.

Certain overseas companies operate their own pension schemes.

(10) Deferred taxation

Provision is made for taxation deferred because of timing differences between profits as computed for taxation purposes and profits as stated in the accounts to the extent that such taxation is expected to be payable in the foreseeable future. Timing differences are due primarily to the excess of tax allowances on fixed assets over the corresponding depreciation charged in the accounts.

The provision for deferred taxation is made at the rate of corporation tax anticipated for the year in which the timing difference is expected to reverse.

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

1 ACCOUNTING POLICIES (continued)

(11) Revaluation reserve

The revaluation reserve represents the accumulated surplus from professional valuations of the group's freehold land and buildings, which were last valued in August 1978, less depreciation on the revaluation surplus accumulated since that date.

(12) Foreign currencies

In individual companies, assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the balance sheet date. Income and expenditure in foreign currencies are translated at the prevailing exchange rates. Exchange differences are dealt with in the profit and loss account.

On consolidation, the profit and loss accounts and balance sheets of overseas subsidiaries are translated into sterling at the average and balance sheet exchange rates respectively. Exchange differences arising on the retranslation of opening net assets and current year earnings are accounted for as a movement on reserves.

2 SEGMENT INFORMATION

	<u>Turnover</u>		<u>Profit on Ordinary Activities before taxation</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
	£'000	£'000	£'000	£'000
Class of business:				
Medicines and chemicals	156,586	145,162	5,210	12,663
Consumer products	25,492	32,931	(1,421)	512
Industrial products	14,491	19,101	1,311	(25)
	<u>196,569</u>	<u>197,194</u>	<u>5,100</u>	<u>13,150</u>
	<u>1988</u>	<u>1987</u>		
	£'000	£'000		
Geographical market:				
United Kingdom and Republic of Ireland	121,119	130,073		
Continental Europe	68,430	61,714		
America	4,890	3,908		
Asia, Africa and Pacific	2,130	1,499		
	<u>196,569</u>	<u>197,194</u>		

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

is stated after the following amounts:

	<u>1988</u> £'000	<u>1987</u> £'000
Staff costs (Notes 5, 6)	44,187	46,093
Depreciation after transfer from regional development grant reserve	7,118	8,249
Amortisation of goodwill (Note 8)	1,719	904
Hire of plant and machinery	922	919
Other operating leases	2,691	3,058
Finance charges in respect of finance leases	307	278
Auditors' remuneration	179	156
Interest payable on bank and other borrowings repayable within 5 years	1,514	488
Interest payable on long-term borrowings	10	13
Interest payable to parent company	64	1,396
	<u>1,588</u>	<u>1,897</u>
Interest receivable on short-term deposits	(770)	(642)
Profit participation in Winthrop GmbH (note 14)	924	270

Exceptional items were as follows:-

Profit on sale of fixed asset	(1,012)	-
Profit on sale of manufacturing business to group company	(1,036)	-
Business restructuring costs	12,166	-

4 EXTRAORDINARY PROFIT

	<u>1988</u> £'000	<u>1987</u> £'000
Profit on disposal of businesses:-		
Industrial and Consumer hygiene	-	709
Carpet Care	540	-
<u>Less:</u> U.K. Corporation Tax thereon	59	139
	<u>481</u>	<u>570</u>

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

5 STAFF NUMBERS AND COSTS

The average number of persons employed by the group during the year was:

	<u>1988</u>	<u>1987</u>
United Kingdom and Republic of Ireland	2,956	3,108
Continental Europe	253	242
	<u>3,209</u>	<u>3,350</u>

The aggregate payroll costs were:

	<u>1988</u>	<u>1987</u>
	<u>£'000</u>	<u>£'000</u>
Wages and salaries	39,605	40,287
Social security costs	3,616	3,594
Other pension costs	966	2,212
	<u>44,187</u>	<u>46,093</u>

6 REMUNERATION OF DIRECTORS AND SENIOR UK EMPLOYEES

	<u>1988</u>	<u>1987</u>
	<u>£'000</u>	<u>£'000</u>

Directors' remuneration included in aggregate payroll costs was as follows:-

Fees	14	12
Salaries and other emoluments	507	552
Compensation for loss of office	498	-
	<u>1,019</u>	<u>564</u>

The remuneration of the Chairman was: E E Barber 78,771 80,390

D R Martin nil -

The remuneration of the highest paid director was: 97,333 95,363

An analysis of remuneration (excluding pension contributions) of other directors and employees earning over £30,000 in the year is as follows:-

	<u>1988</u>		<u>1987</u>	
	<u>Number of</u>	<u>Number of</u>	<u>Number of</u>	<u>Number of</u>
	<u>directors</u>	<u>employees</u>	<u>directors</u>	<u>employees</u>
£ 0 - £ 5,000	1	-	-	-
£ 5,001 - £10,000	-	-	-	-
£10,001 - £15,000	1	-	2	-
£15,001 - £20,000	1	-	-	-
£20,001 - £25,000	1	-	-	-
£25,001 - £30,000	-	-	-	-
£30,001 - £35,000	-	17	-	9
£35,001 - £40,000	1	13	-	12
£40,001 - £45,000	-	9	-	7
£45,001 - £50,000	-	2	2	7
£50,001 - £55,000	2	1	1	2
£55,001 - £60,000	-	4	1	3
£60,001 - £65,000	-	-	2	-
£65,001 - £70,000	2	-	-	1

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

7 TAXATION

	<u>1988</u> £'000	<u>1987</u> £'000
Based on the profit for the year:		
United Kingdom corporation tax at 35%	6,263	4,912
Prior year adjustments	127	(158)
Relief for overseas tax	(341)	(585)
	<u>6,049</u>	<u>4,169</u>
Deferred taxation (Note 17)	(4,763)	(1,068)
Overseas tax	1,364	1,551
	<u><u>2,650</u></u>	<u><u>4,652</u></u>

The deferred taxation charge for the year reflects a full deferral for all timing differences on the liability method including the differences attributable to accelerated capital allowances.

8 INTANGIBLE ASSETS

	<u>Trademarks</u> £'000	<u>Goodwill</u> £'000	<u>Know-how</u> £'000	<u>Total</u> £'000
<u>Group</u>				
<u>Cost</u>				
At 1 November 1987	6,160	6,502	1,300	13,962
Exchange Adjustments	(358)	-	-	(358)
Additions	48	-	-	48
Disposals	(17)	-	-	(17)
At 31 October 1988	<u>5,833</u>	<u>6,502</u>	<u>1,300</u>	<u>13,635</u>
<u>Depreciation</u>				
At 1 November 1987	649	2,253	217	3,119
Exchange Adjustments	(35)	-	-	(35)
Additions	1,426	163	130	1,719
Disposals	-	-	-	-
At 31 October 1988	<u>2,040</u>	<u>2,416</u>	<u>347</u>	<u>4,803</u>
Net book amount at 31 October 1988	<u><u>3,793</u></u>	<u><u>4,086</u></u>	<u><u>953</u></u>	<u><u>8,832</u></u>
Net book amount at 31 October 1987	<u><u>5,511</u></u>	<u><u>4,249</u></u>	<u><u>1,083</u></u>	<u><u>10,843</u></u>

NOTES TO THE ACCOUNTS -- 31 OCTOBER 1988 (continued)

8 INTANGIBLE ASSETS (Continued)

<u>Company</u>	<u>Trademarks</u> £'000	<u>Goodwill</u> £'000	<u>Know-how</u> £'000	<u>Total</u> £'000
<u>Cost</u>				
At 1 November 1987 and 31 October 1988	73	6,482	1,300	7,855
	—	—	—	—
<u>Depreciation</u>				
At 1 November 1987	15	2,248	217	2,480
Additions	6	162	130	298
	—	—	—	—
At 31 October 1988	21	2,410	347	2,778
	—	—	—	—
Net book amount at 31 October 1988	52	4,072	953	5,077
	==	==	==	==
Net book amount at 31 October 1987	58	4,234	1,083	5,375
	==	==	==	==

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

9 TANGIBLE ASSETS

	Freehold land and buildings £'000	Short leasehold properties £'000	Plant and machinery £'000	Fixtures fittings and equipment £'000	Total £'000
<u>GROUP</u>					
<u>Cost or valuation</u>					
At 1 November 1987	40,924	5,006	60,767	6,914	113,611
Exchange Adjustments	-	(5)	(22)	(71)	(98)
Additions	493	189	6,034	1,178	7,894
Reclassifications	79	-	(507)	428	-
Retirements	(430)	(794)	(2,489)	(414)	(4,127)
At 31 October 1988	<u>41,066</u>	<u>4,396</u>	<u>63,783</u>	<u>8,035</u>	<u>117,280</u>
<u>Comprising:-</u>					
Valuation at 31 August 1978	17,433				17,433
Cost of owned assets	23,633	3,316	62,605	7,225	96,779
Cost of leased assets	-	1,080	1,178	810	3,068
	<u>41,066</u>	<u>4,396</u>	<u>63,783</u>	<u>8,035</u>	<u>117,280</u>
<u>Depreciation</u>					
At 1 November 1987	9,669	1,401	32,669	3,974	47,713
Exchange Adjustments	-	-	(16)	(44)	(60)
Charge for the year	1,421	188	5,216	1,010	7,835
Reclassifications	-	-	15	(15)	-
Retirements	(147)	(355)	(1,720)	(347)	(2,569)
At 31 October 1988	<u>10,943</u>	<u>1,234</u>	<u>36,164</u>	<u>4,578</u>	<u>52,919</u>
Net book amount at 31 October 1988	<u>30,123</u>	<u>3,162</u>	<u>27,619</u>	<u>3,457</u>	<u>64,361</u>
Net book amount at 31 October 1987	<u>31,255</u>	<u>3,605</u>	<u>28,098</u>	<u>2,940</u>	<u>65,898</u>
Net book amount at historical cost:					
At 31 October 1988	<u>22,763</u>	<u>3,162</u>	<u>27,619</u>	<u>3,457</u>	<u>57,001</u>
At 31 October 1987	<u>23,502</u>	<u>3,605</u>	<u>28,098</u>	<u>2,940</u>	<u>58,145</u>

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

9 TANGIBLE ASSETS (continued)

	Freehold land and <u>buildings</u> £'000	Short leasehold <u>properties</u> £'000	Plant and <u>machinery</u> £'000	Fixtures fittings and <u>equipment</u> £'000	<u>Total</u> £'000
<u>COMPANY</u>					
<u>Cost or valuation</u>					
At 1 November 1987	38,934	4,427	57,445	5,232	106,038
Additions	494	118	5,841	1,036	7,489
Reclassifications	79	-	(507)	428	-
Retirements	(430)	(271)	(2,374)	(388)	(3,463)
At 31 October 1988	<u>39,077</u>	<u>4,274</u>	<u>60,405</u>	<u>6,308</u>	<u>110,064</u>
<u>Comprising:-</u>					
Valuation at 31 August 1978	15,580				15,580
Cost of owned assets	23,497	3,194	59,372	5,498	91,561
Cost of leased assets	-	1,080	1,033	810	2,923
	<u>39,077</u>	<u>4,274</u>	<u>60,405</u>	<u>6,308</u>	<u>110,064</u>
<u>Depreciation</u>					
At 1 November 1987	9,249	1,142	30,742	3,005	44,138
Charge for the year	1,374	176	4,934	817	7,301
Reclassifications	-	-	15	(15)	-
Retirements	(147)	(140)	(1,638)	(329)	(2,254)
At 31 October 1988	<u>10,476</u>	<u>1,178</u>	<u>34,053</u>	<u>3,478</u>	<u>49,185</u>
Net book amount at 31 October 1988	<u>28,601</u>	<u>3,096</u>	<u>26,352</u>	<u>2,830</u>	<u>60,879</u>
Net book amount at 31 October 1987	<u>29,685</u>	<u>3,285</u>	<u>26,703</u>	<u>2,227</u>	<u>61,900</u>
Net book amount at historical cost: At 31 October 1988	<u>22,279</u>	<u>3,096</u>	<u>26,352</u>	<u>2,830</u>	<u>54,557</u>
At 31 October 1987	<u>22,999</u>	<u>3,285</u>	<u>26,703</u>	<u>2,227</u>	<u>55,214</u>

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

10 INVESTMENTS

Company shares in subsidiaries at cost:-	<u>1988</u> £'000	<u>1987</u> £'000
At 1 November 1987	14,777	15,088
Permanent diminution in value	-	(311)
	<u>14,777</u>	<u>14,777</u>
Provisions for diminution in value:		
At 1 November 1987	38	49
Additions	-	-
Reductions	-	(11)
	<u>38</u>	<u>38</u>
Net book amount at 31 October 1988	<u>14,739</u>	<u>14,739</u>

Sterling-Winthrop Group Limited owns either directly or indirectly all the shares of the subsidiaries, the principal of which are listed below:-

	Country of Incorporation if other than the <u>United Kingdom</u>
Tyneside Printers Limited	
Sterling Organics Limited	
Sterling-Winthrop Ireland Limited	Republic of Ireland
Sterling-Winthrop Continental Limited:-	
Laboratoires Winthrop SA	Belgium
Sterling-Winthrop AS	Denmark
Sterling-Winthrop OY	Finland
Winthrop GmbH	Germany
Sterling-Winthrop BV	Holland
Sterling-Winthrop AS	Norway
Sterling-Winthrop AB	Sweden
Sterling Chapeltown Ltd (dormant)	

The company has other wholly owned non-trading subsidiaries.

The principal activity of the subsidiaries is the marketing of medicines, health and hygiene products, and do-it-yourself products, with the exception of Tyneside Printers Limited and Sterling Organics Limited whose principal activity is respectively metal printing and the manufacture and marketing of chemicals.

In the opinion of the directors, the aggregate value of the company's investments in its subsidiaries is not less than the amount at which they are stated in the accounts.

Our wholly owned subsidiary Sterling-Winthrop Ireland Limited has availed itself of the exemption from the provisions of section 7 of the Irish Companies (Amendment) Act 1986 (filing of financial statements) pursuant to section 17 of that Act.

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

11. INVENTORIES

	<u>Group</u>		<u>Company</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
	£'000	£'000	£'000	£'000
Raw materials	7,413	8,041	6,431	6,950
Work in progress	7,951	8,358	7,570	7,658
Finished goods	20,391	20,749	15,072	16,618
	<u>35,755</u>	<u>37,148</u>	<u>29,073</u>	<u>31,226</u>

12. DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
	£'000	£'000	£'000	£'000
Trade debtors	22,034	24,054	11,247	13,651
Amounts owed by subsidiaries	-	-	7,912	6,355
Amounts owed by fellow subsidiaries	11,796	10,708	10,009	6,683
Other debtors	1,000	2,025	696	1,820
Prepayments and accrued income	1,488	2,337	939	2,018
	<u>36,318</u>	<u>39,124</u>	<u>30,803</u>	<u>30,527</u>

13. CREDITORS (amounts falling due within one year)

	<u>Group</u>		<u>Company</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
	£'000	£'000	£'000	£'000
Bank overdrafts	7	992	-	2,182
Trade creditors	6,881	6,084	5,430	4,391
Loans due to parent company	-	5,814	-	5,814
Amounts owed to subsidiaries	-	-	14,524	14,505
Amounts owed to fellow subsidiaries	3,314	7,302	303	754
Corporation tax	4,644	5,099	2,388	2,668
Taxation and social security	1,867	2,332	1,102	1,762
Other creditors	947	553	442	469
Accruals and deferred income	24,735	10,886	21,622	9,011
Future lease obligations	630	655	593	607
Unsecured Loans (Note 16)	15,936	-	15,936	-
	<u>58,961</u>	<u>39,717</u>	<u>62,340</u>	<u>42,163</u>

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

14 CREDITORS (amounts falling due after one year)

	<u>Group</u>		<u>Company</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
	£'000	£'000	£'000	£'000
Loan due to parent company	3,796	4,039	-	-
Unsecured loans (Note 16)	114	16,045	-	15,936
Corporation tax payable 1.12.89	3,670	3,159	2,536	1,930
Future lease obligations				
- payable within 1 to 5 years	748	1,434	700	1,312
- payable after 5 years	525	872	525	581
Deferred income	3,620	4,163	3,370	3,911
Pension obligations	294	-	-	-
	<u>12,767</u>	<u>29,712</u>	<u>7,131</u>	<u>23,670</u>

The loan due to the parent company, Sterling Drug Inc., represents the consideration of DM 12 million for profit participation rights issued on 1st July 1987 by Winthrop GmbH.

This sum was used in the acquisition of the Schwarzhaupt range of proprietary products in order to broaden the company's business base.

Sterling Drug Inc. receive remuneration of 42% of the commercial profit of Winthrop GmbH after deduction of an administration fee of 5 percent. The profit participation rights cannot be terminated before 31st October 1997 by either party. Redemption will be at par.

15 REGIONAL DEVELOPMENT GRANTS

Included in deferred income (Notes 13 and 14 above)

	<u>Group</u>	<u>Company</u>
	£'000	£'000
At 1 November 1987	4,852	4567
Exchange Adjustment	(1)	-
Grants receivable on fixed assets during the year	<u>188</u>	<u>150</u>
	5,039	4,717
Less: Credited to profit and loss account against depreciation	<u>(717)</u>	<u>(681)</u>
At 31 October 1988	<u>4,322</u>	<u>4,036</u>

16 UNSECURED LOANS

	<u>Group</u>		<u>Company</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
	£'000	£'000	£'000	£'000
Repayable within one year	15,936	-	15,936	-
Repayable within one to five years	-	15,936	-	15,936
Repayable after five years	<u>114</u>	<u>109</u>	<u>-</u>	<u>-</u>
	<u>16,050</u>	<u>16,045</u>	<u>15,936</u>	<u>15,936</u>

Rates of interest varied during 1988 between 7.9% and 9.5%.

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

17 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred Taxation

	<u>Group</u>		<u>Company</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
	£'000	£'000	£'000	£'000
At 1 November 1987	13,275	14,359	12,479	13,592
Transfers (from) to current taxation	9	(6)	(3)	(17)
Currency adjustment	(9)	(10)	-	-
Other transfers	(104)	-	-	-
Credit to profit and loss account (Note 7)	(4,763)	(1,068)	(4,641)	(1,096)
At 31 October 1988	<u>8,408</u>	<u>13,275</u>	<u>7,835</u>	<u>12,479</u>

Deferred taxation results from the following timing differences:-

Accelerated capital allowances	13,671	14,291	13,137	13,713
Other	(5,263)	(1,016)	(5,302)	(1,234)
	<u>8,408</u>	<u>13,275</u>	<u>7,835</u>	<u>12,479</u>

The amount of deferred taxation shown above represents a full provision at 31 October 1988 and has been calculated for the most part at 35% except for timing differences on certain overseas subsidiaries.

18 SHARE CAPITAL

	<u>Group and Company</u>	
	<u>1988</u>	<u>1987</u>
	£'000	£'000
Authorised, issued and fully paid 5,000,000 ordinary shares of £1 each	5,000	5,000

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

19 RESERVES

	Revaluation reserve	Inflation reserve	Overseas statutory reserve	Profit and loss account	Group £'000 Total
At 1 November 1987	7,753	62,826	67	10,495	81,141
Prior year adjustment	-	(62,826)	-	62,826	-
As restated	<u>7,753</u>	<u>-</u>	<u>67</u>	<u>73,321</u>	<u>81,141</u>
Exchange adjustment	-	-	-	(207)	(207)
Retained loss for the year	-	-	-	(3,669)	(3,669)
Transfers between reserve categories	(270)	-	-	270	-
Disposal	(123)	-	-	-	(123)
At 31 October 1988	<u>7,360</u>	<u>-</u>	<u>67</u>	<u>69,715</u>	<u>77,142</u>

					Company £'000
At 1 November 1987	6,686	60,972	-	5,685	73,343
Prior Year Adjustment	-	(60,972)	-	60,972	-
	<u>6,686</u>	<u>-</u>	<u>-</u>	<u>66,657</u>	<u>73,343</u>
Retained loss for the year	-	-	-	(3,265)	(3,265)
Transfers between reserve categories	(241)	-	-	241	-
Disposal	(123)	-	-	-	(123)
At 31 October 1988	<u>6,322</u>	<u>-</u>	<u>-</u>	<u>63,633</u>	<u>69,955</u>

Prior year adjustment

The prior year adjustment represents the effect of a change in the accounting policy for providing for the increase in the estimated replacement cost of the net assets of the group other than land and buildings. The Directors now consider this policy inappropriate.

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

20 PROFIT AND LOSS ACCOUNT

Sterling-Winthrop Group Limited has not presented its own profit and loss account as permitted by Section 228(7) of the Companies Act 1985. The amount of the group profit for the financial year dealt with in the accounts of Sterling-Winthrop Group Limited is £3.3 million before dividend.

21 CAPITAL COMMITMENTS

	<u>Group</u>		<u>Company</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
	£'000	£'000	£'000	£'000
Contracted for, but not yet provided	1,619	1,316	1,374	1,028
Authorised by directors, but not contracted for	1,604	1,358	1,531	1,267
	<u>3,223</u>	<u>2,674</u>	<u>2,905</u>	<u>2,295</u>

22 OPERATING LEASE COMMITMENTS

Group

	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
	<u>Buildings</u>	<u>Buildings</u>	<u>Other</u>	<u>Other</u>
	£'000	£'000	£'000	£'000
Annual rentals payable where commitment expires:-				
- within 1 year	46	13	1,605	1,876
- between 1 year and 5 years	155	226	496	400
- after 5 years	2,041	1,137	-	-
	<u>2,242</u>	<u>1,376</u>	<u>2,101</u>	<u>2,276</u>

Company

	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
	<u>Buildings</u>	<u>Buildings</u>	<u>Other</u>	<u>Other</u>
	£'000	£'000	£'000	£'000
Annual rentals payable where commitment expires:-				
- within 1 year	6	13	1,576	1,836
- between 1 year and 5 years	-	69	88	31
- after 5 years	2,041	1,137	-	-
	<u>2,047</u>	<u>1,219</u>	<u>1,664</u>	<u>1,867</u>

STERLING-WINTHROP GROUP LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS - 31 OCTOBER 1988 (continued)

23 PENSIONS

The actuarial valuation of the Sterling-Winthrop Group pension fund at 5 April 1988 showed a surplus. It is planned to fund increases for pensions in course of payment and some improvements in anticipated benefits for members in service from 1 April 1988. Company contributions were reduced to nil. Employee contributions continue at 3%.

24 DECREASE/(INCREASE) IN WORKING CAPITAL

	<u>1988</u> £'000	<u>1987</u> £'000
Decrease/(Increase) in inventory	1,393	(1,520)
(Increase)/Decrease in debtors	2,806	(1,965)
Increase in accruals and deferred income	12,094	1,344
Increase in pension obligation	190	-
(Decrease) in miscellaneous creditors	(3,254)	(2,930)
	<u>13,229</u>	<u>(5,071)</u>

25 HOLDING COMPANY

The ultimate holding company at 31 October 1988 was Eastman Kodak Company, incorporated in the United States of America.