

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)
(Company number 190223)

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1996



SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

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SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996

Registered Office: Four New Horizons Court
Harlequin Avenue
Brentford
Middlesex
TW8 9EP

The Directors present their annual report together with the audited accounts for the year ended 31 December 1996.

CHANGE OF NAME

On 15th July 1996 Sterling-Winthrop Group Limited changed its name to SmithKline Beecham (SWG) Limited.

PRINCIPAL ACTIVITY

The principal activity of the Company is the marketing of consumer health medicines through an agency agreement with its parent undertaking, SmithKline Beecham plc. The Directors do not propose to change the nature of the Company in the foreseeable future.

RESULTS AND FINANCIAL STATEMENTS

The Company made a profit on ordinary activities before taxation for the year of £30.8 million (1995: £17.2 million). The Directors do not propose to pay a final dividend (1995: £Nil).

The current year's surplus of £26.6 million was transferred to reserves. (1995: £9.1 million transferred to reserves).

ACQUISITIONS AND DISPOSALS

During February 1996 the company sold two of its investments at book value to its parent company and disposed of two of its investments to another group company for a cash consideration of £28.5 million. The wholly owned non trading subsidiaries were liquidated during the year.

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996
(CONTINUED)

DIRECTORS

The Directors of the Company who served during the year or are now current Directors are as follows:

A.M. Horler

C.A. McClintock (Resigned 26 August 1997)

M.A.R. Venables (Appointed 26 August 1997)

Directors' and Officers' liability insurance, paid by SmithKline Beecham plc, was in place during the year.

None of the directors has a beneficial interest in the shares of the Company, or any other group company, other than SmithKline Beecham plc.

Share Simplification

Prior to the simplification of its share capital on 15 April 1996, SmithKline Beecham plc had two classes of share capital, A Shares and Equity Units. Each Equity Unit comprised one B Share of SmithKline Beecham plc and one participating Preferred Share of SmithKline Beecham Corporation ("SB Corp."). Each A Share ADR represented five A Shares and each Equity Unit ADR represented five Equity Units. On April 15, 1996 the SB Corp Preferred Shares were redeemed in exchange for a payment of US\$0.225 per Preferred Share held (US\$1.125 per Equity Unit ADR). Following this redemption, a capitalisation issue was made to holders of A Shares on the basis of one new A Share for every 52.6285 shares held on 12 April, 1996. Both A Shares and B Shares were then redesignated as a single class of Ordinary Shares. Directors' Interests in A Shares as at 31 December, 1995 have been restated as interests in Ordinary Shares to reflect the capitalisation issue of A shares made as part of simplification.

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996
(Continued)

DIRECTORS (Continued)

The following beneficial interests of the Directors in office at the year end in the shares of the ultimate parent undertaking, SmithKline Beecham plc, have been notified to the Company

	Ord Shares At 31 December	
	<u>1996</u>	<u>1995</u>
A.M. Horler	1,526	1,553
C.A. McClintock	1,333	1,236

	31 December <u>1996</u>	<u>Granted</u>	Options over Ord Shares Exercised/ <u>lapsed</u>	31 December <u>1995</u>
A.M. Horler	36,397	8,412	3,999	31,984
C.A. McClintock	-	-	-	-

Mid-Term Incentive Plans

On 7 June 1996 and 21 November 1996, the Directors acquired interest in shares as follows under the SmithKline Beecham Mid-Term Incentive Plan. These interests are conditional and will in general vest in whole or in part only to the extent that the Company meets certain performance conditions. They have been acquired on a nil price basis and, to the extent they vest, will be exercisable after 1 January 1999, and 1 January 2000 respectively.

	Ord Shares
A.M. Horler	4,200
C.A. McClintock	-

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996
(Continued)

DIRECTORS' RESPONSIBILITIES

The Directors are required by the Companies Act 1985 to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

All accounting standards which they consider to be applicable have been followed, subject to any explanations and material departures disclosed in the notes to the financial statements.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

AUDITORS

The Company has adopted the elective regime permitting it to dispense with the requirement to re-appoint auditors annually. Accordingly, Price Waterhouse, who have indicated their willingness to continue in office, shall be deemed to have been re-appointed annually until such time as notice proposing their removal is received.

By order of the Board



Director/Secretary, 24/9/1997
A M HORLER

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

AUDITORS' REPORT TO THE MEMBERS OF SMITHKLINE BEECHAM (SWG) LIMITED.

We have audited the financial statements on pages 7 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 5 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1996 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32, London Bridge Street
London SE1 9SY

25 September 1997

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

**PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED 31 DECEMBER 1996**

	Note	Year ended 31 December	
		1996	1995
		£'000	£'000
Turnover	1	32,048	33,982
Cost of Sales		<u>(9,584)</u>	<u>(9,428)</u>
Gross Profit		22,464	24,554
Distribution Costs		(2,528)	(2,784)
Administrative Expenses		<u>(12,626)</u>	<u>(9,201)</u>
Operating Profit	2	7,310	12,569
Profit on the disposal of investments	3	24,933	-
Income from shares in Group undertakings		<u>(3,307)</u>	<u>3,438</u>
Profit on ordinary activities before interest and taxation		28,936	16,007
Interest receivable	4	1,905	1,203
Interest payable and similar charges		<u>-</u>	<u>(1)</u>
Profit on ordinary activities before taxation		30,841	17,209
Tax on profit on ordinary activities	5	<u>(4,273)</u>	<u>(8,064)</u>
Profit on ordinary activities after taxation		<u>26,568</u>	<u>9,145</u>
Retained profit transferred to reserves		<u>26,568</u>	<u>9,145</u>

There were no recognised gains or losses for the period other than those passing through the profit and loss account.

The notes on pages 9 to 15 form an integral part of these accounts.

The operating profits disclosed above relate entirely to continuing operations.

There is no difference between profit on ordinary activities before taxation and the retained profit for the year stated above and the historical cost equivalent.

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

COMPANY BALANCE SHEET

		At 31 DECEMBER	
	Note	1996	1995
		£'000	£'000
Fixed assets			
Tangible assets	7	87	-
Investments	8	<u>-</u>	<u>16,747</u>
		87	16,747
Current assets			
Stock	9	501	-
Debtors	10	59,204	41,624
Cash at bank		<u>3,967</u>	<u>4,398</u>
		63,672	46,022
Creditors: amounts falling due within one year	11	<u>(16,278)</u>	<u>(40,274)</u>
Net current assets		47,394	5,748
Total assets less current liabilities		<u>47,481</u>	<u>22,495</u>
Creditors: amounts falling due after one year	12	<u>-</u>	<u>(1,582)</u>
Net assets		<u>47,481</u>	<u>20,913</u>
Capital and reserves - Equity interests			
Share capital	14	5,000	5,000
Profit and loss account	15	<u>42,481</u>	<u>15,913</u>
Total shareholders' funds	16	<u>47,481</u>	<u>20,913</u>

The notes on pages 9 to 15 form part of these financial statements.

Approved by the Board on 24 September 1997
and signed on their behalf by:



DIRECTOR

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention and comply with all applicable UK Accounting Standards which have been applied consistently.

TURNOVER

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

FOREIGN CURRENCY TRANSLATION

Profits and losses outside the UK are translated to sterling using average rates of exchange for the period. Foreign currency balances are translated to sterling at the rates of exchange ruling at the balance sheet dates.

VACANT PREMISES

Where a commitment exists to lease property surplus to the requirements of the business, provision is made to cover the likely loss that will be incurred over the whole period of the lease.

INVESTMENTS

Investments are held at cost less any provision required for permanent diminution in value.

DEFERRED TAX

Timing differences between profits as computed for taxation purposes and profits as stated in the financial statements are recognised as deferred tax liabilities or assets to the extent that such taxation is expected to be paid or recovered in the foreseeable future with the exception of deferred tax assets relating to pension obligations and post retirement provisions which are recognised in full.

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENTAL INFORMATION

By Geographical Segment

	Turnover		Profit before interest and taxation		Net Operating Assets	
	1996	1995	1996	1995	1996	1995
	£000's	£000's	£000's	£000's	£000's	£000's
UK	30,855	33,982	29,871	16,007	44,505	18,097
Europe	<u>1,193</u>	<u>-</u>	<u>(935)</u>	<u>-</u>	<u>(991)</u>	<u>-</u>
Total	<u>32,048</u>	<u>33,982</u>	<u>28,936</u>	<u>16,007</u>	<u>43,514</u>	<u>18,097</u>

2. OPERATING PROFIT

Operating profit is stated after charging / (crediting) the following amounts:

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Depreciation	62	-
Foreign exchange transaction losses (net)	89	(93)
Other post retirement benefits (Note 18)	-	(1,207)
Vacant premises	-	(54)
Returns and expiry provision	-	320

3. PROFIT ON DISPOSAL OF INVESTMENTS

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Proceeds of sale of subsidiary companies	28,509	-
Carrying Value	<u>(3,528)</u>	<u>-</u>
Profit on sale	24,981	-
Loss on liquidation of subsidiaries	<u>(48)</u>	<u>-</u>
Net profit on disposal	<u>24,933</u>	<u>-</u>

SMITHKLINE BEECHAM (SWG) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. INTEREST

	<u>1996</u> £'000	<u>1995</u> £'000
Interest receivable from group undertakings	1,287	1,203
Bank interest receivable	<u>618</u>	<u>-</u>
	1,905	1,203
Interest payable:		
Bank interest	<u>-</u>	<u>(1)</u>
Net interest	<u>1,905</u>	<u>1,202</u>

5. TAXATION

	<u>1996</u> £'000	<u>1995</u> £'000
UK Corporation tax calculated at 33% (1995 - 33%)	3,011	5,678
Less: Double Tax Relief	-	(1,134)
Deferred taxation	<u>1,262</u>	<u>3,520</u>
	<u>4,273</u>	<u>8,064</u>

6. DIRECTORS' EMOLUMENTS AND AUDITORS' REMUNERATION

The Directors are employees of and are remunerated for their services by SmithKline Beecham plc, the ultimate parent undertaking. The Directors received no remuneration from the Company during the year (1995: nil). The auditors' remuneration has been borne in the ultimate parent undertaking, SmithKline Beecham plc.

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. TANGIBLE FIXED ASSETS

	£'000
Cost or valuation	
Balance at 1 January 1996	-
Additions	149
Disposals	<u>-</u>
Balance at 31 December 1996	<u>149</u>
Accumulated depreciation	
Balance at 1 January 1996	-
Charge for the year	(62)
Disposals	<u>-</u>
Balance at 31 December 1996	<u>(62)</u>
Net book amounts	
At 31 December 1996	<u>87</u>
At 31 December 1995	<u>-</u>

8. FIXED ASSET INVESTMENTS

	Shares in Subsidiary undertakings £'000
At 1 January 1996	16,747
Additions	-
Sale of investments	(16,747)
At 31 December 1996	<u>-</u>

On 23 February, 1996, the company sold its investments in Laboratories Winthrop S A, a company registered in Belgium and Winthrop GmbH, a company registered in Germany, at cost to SmithKline Beecham plc, its parent company.

On 12 December, 1996, the company sold SmithKline Beecham Investments B V, a company registered in Holland, and Sterling Health Limited, a company registered in Ireland to another group entity resulting in a profit on disposal of £25 million.

The wholly owned non trading subsidiary undertakings were liquidated during the year with a loss on liquidation of £48,000.

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. STOCK

	<u>1996</u> £'000	<u>1995</u> £'000
Finished goods	<u>501</u>	-

10. DEBTORS

	<u>1996</u> £'000	<u>1995</u> £'000
Trade debtors	5,008	6,696
Amounts owed by other group undertakings	53,507	31,175
Other debtors	377	1,079
Prepayments and accrued income	-	1,100
Deferred tax	<u>312</u>	<u>1,574</u>
	<u>59,204</u>	<u>41,624</u>

Included in the above are amounts falling due after one year as follows:

	<u>1996</u> £'000	<u>1995</u> £'000
Deferred tax	<u>-</u>	<u>426</u>

11. CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

	<u>1996</u> £'000	<u>1995</u> £'000
Trade creditors	1,981	4,478
Amounts owed to parent undertakings	5,055	11,047
Amounts owed to subsidiary undertakings	-	13,159
Amounts owed to other group undertakings	1,641	7
Corporation tax	6,123	6,900
Other creditors	1,478	4,557
Accruals and deferred income	<u>-</u>	<u>126</u>
	<u>16,278</u>	<u>40,274</u>

12. CREDITORS (AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR)

	<u>1996</u> £'000	<u>1995</u> £'000
Other Creditors	<u>-</u>	<u>1,582</u>

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. DEFERRED TAXATION

Deferred taxation assets

	<u>1996</u> £'000	<u>1995</u> £'000
At 1 January 1996	1,574	5,094
Charge to Profit and Loss Account	<u>(1,262)</u>	<u>(3,520)</u>
At 31 December 1996	<u>312</u>	<u>1,574</u>

Deferred taxation arises from the following differences:

Pension accruals	-	1,121
Vacant premises provision	<u>312</u>	<u>453</u>
	<u>312</u>	<u>1,574</u>

There is no deferred taxation asset of liability unprovided for in the Company.

14. CALLED UP SHARE CAPITAL

	<u>1996</u> £'000	<u>1995</u> £'000
Authorised Issued and fully paid 5,000,000 £1 Ordinary Shares	<u>5,000</u>	<u>5,000</u>

15. RESERVES

	Profit and loss account reserve £'000
At 1 January 1996	15,913
Retained profit for the year	<u>26,568</u>
At 31 December 1996	<u>42,481</u>

16. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1996</u> £'000	<u>1995</u> £'000
Profit for the year	26,568	9,145
Dividends	<u>-</u>	<u>-</u>
Net additions to shareholders' funds	26,568	9,145
Opening shareholders funds	<u>20,913</u>	<u>11,768</u>
Closing shareholders funds	<u>47,481</u>	<u>20,913</u>

SMITHKLINE BEECHAM (SWG) LIMITED
(Formerly Sterling-Winthrop Group Limited)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PENSIONS

Following the acquisition of SmithKline Beecham (SWG) Limited by SmithKline Beecham plc the pension plan operated by the Company, the Sterling-Winthrop Group Pension Plan (The Plan), had no active members by 31 December 1995 and the trustees agreed to merge the Plan with the SmithKline Beecham Pension Plan. This was completed on 31 January 1996. As a result of the actuarial valuation a contribution of £3.4 million was deemed to be due at the end of 1995 and had been provided for. This amount was paid in August 1996.

18. OTHER POST-RETIREMENT BENEFITS

The Company has previously provided private medical insurance to certain employees with long service on retirement.

The liability to provide such medical insurance was taken on by SmithKline Beecham plc with effect from April 1995 and thus all post retirement benefit provisions have been released in 1996.

19. CASHFLOW STATEMENTS

A cashflow statement has been included in the consolidated financial statements of SmithKline Beecham plc, the ultimate parent undertaking. The Company is therefore exempt from the requirement to produce a cashflow statement.

20. CONTINGENCIES

The Company, together with fellow group Undertakings has entered into a Group Banking Arrangement with the Company's principal bankers. The Bank holds the right to pay and apply funds from any account of the Company to settle any indebtedness to the Bank of any other party to this agreement.

21. GROUP ACCOUNTS

The Company is a wholly owned subsidiary of the ultimate parent company and as such has taken advantage of the exemption from preparing group accounts under s.228 of the Companies Act 1985.

22. ULTIMATE PARENT UNDERTAKING

SmithKline Beecham plc, a public limited company registered in England and Wales, is the Company's ultimate parent undertaking. The largest and smallest group of undertakings for which group accounts are prepared, and which include the results of SmithKline Beecham (SWG) Limited, are the consolidated accounts of SmithKline Beecham plc. Copies of the consolidated accounts can be obtained from New Horizons Court, Great West Road, Brentford, Middlesex, TW8 9EP.