

FOREST LABORATORIES UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST MARCH 2008



FOREST LABORATORIES UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH 2008

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DIRECTORS

H Solomon (USA)  
R Stafford (Republic of Ireland)  
D Burke (Republic of Ireland)

SECRETARY AND REGISTERED OFFICE

A Livingstone  
Bourne Road  
Bexley  
Kent DA5 1NX

COMPANY NUMBER

532832

AUDITORS

BDO Stoy Hayward LLP  
2 City Place, Beehive Ring Road  
Gatwick  
RH6 0PA

## FOREST LABORATORIES UK LIMITED

### REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 2008

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The directors submit their report together with the audited financial statements for the year ended 31st March 2008.

#### Principal Activity

The principal activities of the Company are the manufacture and distribution of ethical and over-the-counter pharmaceutical products. The Company also engages in the purchase and sale of product licences.

#### Results & Dividends

The profit and loss statement is set out on page 6 and shows the Company's results for the year, together with the retained profits.

No dividend was paid or proposed.

#### Business Review

Trading for the year was in line with expectations.

The Company has continued to invest in the project to develop a new delivery method for one of our products. Expenditure on this project is nearing completion as we anticipate applying for regulatory approval within the next few months. We received a payment during the year for licencing certain rights to this product and future receipts are dependent upon further milestones being met.

Key performance indicators compared to previous years are as follows:

	<u>2008</u>	<u>2007</u>
	<u>(£000)</u>	<u>(£000)</u>
Turnover	25,338	25,660
Gross Profit	7,841	8,695
Operating Loss	(431)	(2,373)
Interest Received	284	286

The Company continues to operate within a difficult trading environment. The government has taken the opportunity to review the PPRS at its mid-term stage and the replacement scheme is unlikely to be any more favourable to the company than the previous scheme.

During the year ended 31st March 2008 the company announced it would close its operational facility resulting in redundancy for a significant number of employees along with other associated reorganisation costs. All manufacturing is now outsourced and the company is planning to relocate to more suitable premises in early 2009. As a result of these changes, the directors are confident that the long term profitability of the company will be secured.

During the year the Company sold the rights to some of its older products and continues to review its product portfolio in light of current market pressures.

FOREST LABORATORIES UK LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 2008

(continued)

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The Directors consider the Balance Sheet position is still strong despite the investment in Research and Development.

Working capital remains healthy and we do not anticipate the need for additional funding.

Research & Development

Research & Development is primarily focused on maintaining our current marketing authorisations. Over the last few years, however, we have been working on a project to develop a new delivery method for one of our products which we believe will, amongst other benefits, greatly enhance the patients' quality of life.

Risks and Uncertainties

The main financial risks arising from the company's activities are credit risk, interest rate risk, liquidity risk and foreign currency risk. These are monitored by the board of directors and were not considered to be significant at the balance sheet date.

Directors

The directors of the Company during the year ended 31st March 2008 were:-

H Solomon (USA)  
R Stafford (Republic of Ireland)  
D Burke (Republic of Ireland)

None of the directors had any interest in the share capital of the Company during the year or previous year.

Mr R Stafford retires by rotation and, being eligible, offers himself for re-election.

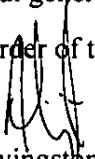
The interests of the directors in the shares of the ultimate parent company are disclosed in the accounts of that company.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the board

  
A Livingstone  
Secretary

Date:

7th January 2009

## FOREST LABORATORIES UK LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31ST MARCH 2008

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#### Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

United Kingdom Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 assume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## FOREST LABORATORIES UK LIMITED

### REPORT OF THE INDEPENDENT AUDITORS

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#### To the shareholders of Forest Laboratories UK Limited

We have audited the financial statements of Forest Laboratories UK Limited for the year ended 31 March 2008 which comprise the profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### *Respective responsibilities of directors and auditors*

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with those financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

#### *Basis of audit opinion*

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

FOREST LABORATORIES UK LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF  
FOREST LABORATORIES UK LIMITED (Continued)

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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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.
- the information given in the Directors' Report is consistent with the financial statements.

*BDO Stoy Hayward LLP*

BDO STOY HAYWARD LLP

*Chartered Accountants and Registered Auditors*

Gatwick

Date *21 January 2009.*

FOREST LABORATORIES UK LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2008

	<u>NOTE</u>	<u>2008</u>	<u>2007</u>
TURNOVER	2	25,337,956	25,659,881
Cost of Sales		<u>17,497,081</u>	<u>16,964,952</u>
GROSS PROFIT		7,840,875	8,694,929
Distribution Costs	5,005,022	4,933,873	
Administrative Expenses	<u>5,718,726</u>	<u>6,459,178</u>	
		(10,723,748)	(11,393,051)
Other operating income		<u>2,451,695</u>	<u>325,000</u>
OPERATING LOSS	3	(431,178)	(2,373,122)
Interest Receivable	6	283,907	286,008
Pension finance charges	7	<u>(69,000)</u>	<u>(53,000)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(216,271)	(2,140,114)
Taxation	8	<u>33,000</u>	<u>(147,600)</u>
LOSS FOR THE YEAR	18	<u>(183,271)</u>	<u>(2,287,714)</u>

All amounts relate to continuing activities.

The notes on pages 9 to 22 form part of these financial statements.



FOREST LABORATORIES UK LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31ST MARCH 2008

	<u>2008</u>	<u>2007</u>
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES		
Loss for the financial year	(183,271)	(2,287,714)
Actual return less expected return on pension scheme assets	(1,669,000)	103,000
Experience losses arising on scheme liabilities	(18,000)	(1,496,000)
Change in assumptions underlying the present value of scheme liabilities	1,819,000	88,000
Share based payments	<u>55,896</u>	<u>80,361</u>
TOTAL RECOGNISED GAINS AND LOSSES IN THE YEAR	<u><u>4,625</u></u>	<u><u>(3,512,353)</u></u>
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		
Loss for the financial year	(183,271)	(2,287,714)
Actuarial gain / (loss) on pension scheme	132,000	(1,305,000)
Share based payments	<u>55,896</u>	<u>80,361</u>
NET INCREASE/(DECREASE) IN SHAREHOLDERS' FUNDS	<u>4,625</u>	<u>(3,512,353)</u>
Opening shareholders' funds	<u>1,626,358</u>	<u>5,138,711</u>
CLOSING SHAREHOLDERS' FUNDS	<u><u>1,630,983</u></u>	<u><u>1,626,358</u></u>

The notes on pages 9 to 22 form part of these financial statements.

**FOREST LABORATORIES UK LIMITED**  
**BALANCE SHEET AT 31ST MARCH 2008**

	<u>NOTE</u>	<u>2008</u> £	<u>2007</u> £
<b>FIXED ASSETS</b>			
Tangible assets	9	1,094,350	1,719,495
Intangible assets	10	3,076,267	3,472,625
Investments	11	100	100
		<u>4,170,717</u>	<u>5,192,220</u>
<b>CURRENT ASSETS</b>			
Stocks	12	3,448,371	4,190,255
Debtors	13	5,444,961	5,147,325
Cash at bank		<u>5,298,441</u>	<u>3,276,637</u>
		<u>14,191,773</u>	<u>12,614,217</u>
<b>CREDITORS - amounts falling due within one year</b>	14	<u>12,888,507</u>	<u>11,691,079</u>
<b>NET CURRENT ASSETS</b>		<u>1,303,266</u>	<u>923,138</u>
<b>TOTAL ASSETS less CURRENT LIABILITIES</b>		<u>5,473,983</u>	<u>6,115,358</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
Deferred taxation	15	(60,000)	(93,000)
Pension liability	16	(3,783,000)	(4,396,000)
		<u>1,630,983</u>	<u>1,626,358</u>
<b>CAPITAL and RESERVES</b>			
Called up Share Capital	17	534,938	534,938
<b>RESERVES</b>			
Capital reserve	18	564,662	564,662
Profit and loss account	18	<u>531,383</u>	<u>526,758</u>
		<u>1,096,045</u>	<u>1,091,420</u>
		<u>1,630,983</u>	<u>1,626,358</u>

Approved and authorised for issue by the Board of Directors

R. Stafford

Date:

2/4/09

The notes on pages 9 to 22 form part of these financial statements.

## FOREST LABORATORIES UK LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

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#### 1. Accounting Policies

##### Convention

These financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The principal accounting policies which the directors have adopted consistently within that convention are set out below.

##### Foreign Currency

Foreign currency transactions are translated at the rates ruling when they occurred. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange profits and losses are included in the Company's trading results.

##### Turnover

Turnover is the amount derived from the provision of goods and services falling within the Company's ordinary activities after deduction of trade discounts and value added tax. Turnover is recognised when the risks and rewards of owning the goods has passed to the customer, which is generally on delivery.

##### Research & Development

Research and development expenditure is written off in the year in which it is incurred.

##### Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except for:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the company is anticipated to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

##### Share-based payment

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. There are no market based vesting conditions.

## FOREST LABORATORIES UK LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

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#### 1 Accounting Policies (continued)

##### Tangible Fixed Assets and Depreciation

For all tangible fixed assets, with the exception of freehold land, depreciation is calculated to write down their cost or valuation to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives, which are considered to be:

Freehold Buildings	40 years
Plant and machinery, fixtures and fittings	Up to 10 years
Motor vehicles	Up to 4 years

##### Intangible fixed assets and amortisation

Intangible assets consist of trademarks which are recorded at cost less accumulated amortisation. Amortisation is provided on a straight-line basis over the directors estimate of the useful economic life of 10 years.

##### Patents, Licences and Trade Marks

The normal expenses of maintaining patents, licences and trade marks are charged against the Company's trading results as incurred.

##### Stock and Work in Progress

Stock and work in progress are valued at the lower of cost and net realisable value.

Cost is calculated as follows:-

Raw materials, bought in parts and consumable stores	-	cost of purchase on first in, first out basis
Work in progress and finished goods	-	cost of raw materials and labour together with attributed overheads based on the normal level of activity.

##### Pension Costs

The group operates a defined benefit scheme and FRS 17 "Retirement Benefits" has been adopted in full during the year to 31 March 2008. Under FRS 17 pension scheme assets are measured at fair value and scheme liabilities are valued using a projected unit method, discounted at the current rate of return on high quality corporate bonds. The full service cost of benefits accruing during the year is charged against operating profit. The expected return on scheme assets and the change in the net present value of scheme liabilities are included in other finance charges. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. The scheme deficit is recognised in full in the balance sheet.

## FOREST LABORATORIES UK LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

#### 1 Accounting Policies (continued)

##### Pension Costs (cont'd)

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the company are charged to the profit and loss account or the statement of total recognised gains and losses in accordance with FRS17 'Retirement benefits'.

##### Leased assets

All leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

#### 2. Analysis of Turnover

Turnover is attributable mainly to the manufacture and distribution of Ethical and Over The Counter (OTC) Pharmaceuticals.

Turnover attributable to each of the Company's geographical markets is:-

	<u>2008</u>	<u>2007</u>
	£	£
United Kingdom	21,480,538	21,680,489
Republic of Ireland	1,011,332	961,656
Rest of Europe	1,449,398	1,082,369
Middle East	582,183	526,545
Asia	105,932	414,944
Africa	61,636	27,155
Canada	24,456	372,296
Central and South America	318,809	300,182
Australia and New Zealand	303,672	294,245
	<u>25,337,956</u>	<u>25,659,881</u>

All assets of the company are situated within the United Kingdom, and all trading results are generated from operations within the United Kingdom.

# FOREST LABORATORIES UK LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

3. <u>Operating (Loss)</u>	<u>2008</u>	<u>2007</u>
Operating (loss) is arrived at after charging / (crediting):	<u>£</u>	<u>£</u>
Depreciation	284,235	199,739
Amortisation	496,358	491,360
Impairment loss on plant and machinery	314,774	-
Profit on sale of product rights	(2,451,695)	(325,000)
Research and Development Expenditure	1,967,963	-
Restructuring costs	1,766,559	-
(Profit) / Loss on foreign currency transactions	(57,070)	8,899
Auditor's remuneration		
- audit services	43,700	48,940
- non audit services	3,360	19,530
Operating leases - plant and machinery	12,060	12,618
Operating leases - motor vehicles	64,035	44,773
Share-based payment	<u>55,896</u>	<u>80,361</u>

### 4. Employees

The average monthly number of employees within each category was:

	<u>2008</u>	<u>2007</u>
	<u>No</u>	<u>No</u>
Production	60	64
Distribution	39	40
Administrative	28	29
	<u>127</u>	<u>133</u>

The costs incurred in respect of these employees were:

	<u>2008</u>	<u>2007</u>
	<u>£</u>	<u>£</u>
Wages and salaries	3,822,788	3,752,060
Social security costs	450,745	454,113
Other pension costs	855,359	330,000
	<u>5,128,892</u>	<u>4,536,173</u>

### 5. Directors' Emoluments

	<u>2008</u>	<u>2007</u>
	<u>£</u>	<u>£</u>
Aggregate emoluments	<u>-</u>	<u>33,122</u>

Retirement benefits accrued to one director under a defined benefit scheme during 2007.

# FOREST LABORATORIES UK LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

### 6. Interest Receivable

	<u>2008</u>	<u>2007</u> £
Bank interest	<u>283,907</u>	<u>286,008</u>

### 7. Pension finance charges

	<u>2008</u> £	<u>2007</u>
Expected return on pension scheme assets	645,000	527,000
Interest on pension scheme liabilities	(714,000)	(580,000)
	<u>(69,000)</u>	<u>(53,000)</u>

### 8. Tax on loss on ordinary activities

	<u>2008</u> £	<u>2007</u> £
Analysis of tax charge:		
UK corporation tax Current Year	-	138,000
Deferred tax (note 15)	<u>(33,000)</u>	<u>9,600</u>
Tax charge on loss on ordinary activities	<u>(33,000)</u>	<u>147,600</u>
Factors affecting the UK tax charge for the year:	<u>2008</u> £	<u>2007</u> £
Loss on ordinary activities before tax	216,271	2,140,114
Loss on ordinary activities at the standard rate of UK corporation tax at 30% (2006 – 30%)	(64,881)	(642,034)
Effects of:		
Expenses not deductible for tax purposes	13,647	18,000
Capital allowances in (excess of depreciation)/less than depreciation	41,475	(507)
Share option exercise tax deduction	-	(43,868)
Research & Development tax credit	(23,700)	(45,000)
FRS 17 adjustments not allowable for tax	39,600	(191,100)
Other timing differences	76,500	(34,800)
Underprovision in prior years	-	138,000
Tax losses (utilised)/not credited to Profit and Loss account	(82,641)	939,309
Current tax charge for the year	<u>-</u>	<u>138,000</u>

**FOREST LABORATORIES UK LIMITED**

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008**

9. <u>Tangible Assets</u>					
	FREEHOLD LAND & BUILDINGS	FURNITURE FIXTURES & FITTINGS	PLANT & MACHINERY	MOTOR VEHICLES	TOTAL
	£	£	£	£	£
Cost at 1st April 2007	1,758,735	621,061	3,344,941	25,264	5,750,001
Additions during year	-	16,037	7,312	-	23,349
Disposals	-	-	(176,856)	-	(176,856)
Impairment loss	-	-	(2,355,194)	-	(2,355,194)
Cost at 31st March 2008	<u>1,758,735</u>	<u>637,098</u>	<u>820,203</u>	<u>25,264</u>	<u>3,241,300</u>
Depreciation at 1st April 2007	820,636	514,839	2,687,383	7,648	4,030,506
Charge for the year	35,219	54,066	190,990	3,960	284,235
On disposals	-	-	(127,371)	-	(127,371)
Impairment loss	-	-	(2,040,420)	-	(2,040,420)
Depreciation at 31st March 2008	<u>855,855</u>	<u>568,905</u>	<u>710,582</u>	<u>11,608</u>	<u>2,146,950</u>
Net book value at 31st March 2008	<u>902,880</u>	<u>68,193</u>	<u>109,621</u>	<u>13,656</u>	<u>1,094,350</u>
Net book value at 31st March 2007	<u>938,099</u>	<u>106,222</u>	<u>657,558</u>	<u>17,616</u>	<u>1,719,495</u>
10. <u>Intangible Assets</u>					
			<u>Trade Marks</u>		
			<u>2008</u>	<u>2007</u>	
			£	£	
Cost					
At 1st April			5,013,656		5,013,656
Additions			100,000		-
At 31st March			<u>5,113,656</u>		<u>5,013,656</u>
Amortisation					
At 1st April			1,541,031		1,049,671
provided for in year			496,358		491,360
at 31st March			<u>2,037,389</u>		<u>1,541,031</u>
Net book value at 31st March			<u>3,076,267</u>		<u>3,472,625</u>



## FOREST LABORATORIES UK LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

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#### 11. Fixed Asset Investments

##### Subsidiaries and Related Companies

The following companies were incorporated in the UK and were dormant at 31st March 2008.

	Unquoted shares at cost £
<u>Subsidiary</u>	
Pharmax Limited	100
Cost at 31st March 2007 and 31st March 2008	<u>100</u>

The Company has taken advantage of the exemption granted under S228 (1) of the Companies Act 1985 from preparing consolidated financial statements being itself a wholly owned subsidiary undertaking.

12. <u>Stocks</u>	<u>2008</u> £	<u>2007</u> £
Raw materials	1,219,752	1,435,268
Work in progress	391,348	297,041
Finished goods and goods for resale	<u>1,837,271</u>	<u>2,457,946</u>
	<u>3,448,371</u>	<u>4,190,255</u>

FOREST LABORATORIES UK LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

13. Debtors

	<u>2008</u>	<u>2007</u>
	<u>£</u>	<u>£</u>
Trade debtors	5,252,330	5,053,832
Prepayments and accrued income	192,631	
Corporation Tax	-	47,399
	<u>5,444,961</u>	<u>5,101,231</u>

All debts fall due for payment within one year.

14. Creditors - Amounts falling due within one year

	<u>2008</u>	<u>2007</u>
	<u>£</u>	<u>£</u>
Trade creditors	709,841	1,533,105
Amounts owed to Group undertakings	9,298,130	8,764,789
Other creditors	262,822	265,358
Accruals and deferred income	2,288,327	962,452
Other Taxation and Social Security	329,387	165,375
	<u>12,888,507</u>	<u>11,691,079</u>

**FOREST LABORATORIES UK LIMITED**

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008**

15. Provisions for Liabilities and Charges  
Deferred Taxation

	<u>2008</u> £	<u>2007</u> £
<b>Provision for deferred tax</b>		
Accelerated capital allowances at 1st April	(93,000)	(83,400)
Transfer to profit and loss account (note 8)	33,000	(9,600)
Provision at 31st March	<u>(60,000)</u>	<u>(93,000)</u>

16. Pension Scheme

The Company operates a defined benefit pension scheme for the majority of its employees who joined the scheme prior to 6th April 1993. Any new entrants to the Company's pension scheme, subsequent to 6th April 1993, joined a money purchase scheme. The assets of the scheme are held in a separate trustee administered fund.

The pension cost relating to this scheme is assessed every three years in accordance with the advice of a qualified actuary using the projected unit method. The most recent formal valuation, at 30th June 2006, indicated that, on the basis of service to date and current salaries, the scheme's assets were sufficient to meet 55% of its liabilities. It was assumed that the investment returns would be 6.6% per annum, that salary increases would average 4.5% per annum and that present and future pensions would increase at the rate of inflation up to a maximum of 5% per annum.

At 31st March 2008 the scheme, which is contracted out of the state scheme, had assets of approximately £8.5m (2007 - £8.7m). Contributions to the scheme by employees and the company have been maintained in accordance with the recommendations of the actuary in his previous valuation. The company has recently reviewed the funding rate in light of the results of the valuation and is committed to pay 16.4% of total pensionable salaries each year until the next valuation. Additionally, the company will pay a minimum of £87,600 per month from January 2008 for ten years in order to reduce the deficit in the scheme.

A full actuarial valuation of the mixed benefits scheme was carried out at 30th June 2006 and updated at 31st March 2008 by a qualified independent actuary on a FRS 17 basis. The major assumptions used by the actuary were:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Inflation Assumption	3.7%	3.1%	2.9%
Rate of increase in salaries	3.8%	3.2%	3.0%
Rate of increase of pensions in payment	3.6%	3.0%	2.7%
Rate of increase for deferred pensioners	3.7%	3.1%	2.9%
Discount Rate	6.9%	5.4%	4.8%

**FOREST LABORATORIES UK LIMITED**

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008**

**16. Pension Scheme (Continued)**

The assets in the scheme and the expected rate of return at 31st March 2008 were:

	Long- term rate of return expected at 2008	Value at 2008 £	Long- term rate of return expected at 2007	Value at 2007 £	Long- term rate of return expected at 2006	Value at 2006
Equities	7.5%	6,176,000	7.8%	6,432,000	7.0%	7,000,000
Bonds	4.5%	941,000	4.8%	948,000	4.5%	1,800,000
Cash	5.3%	1,416,000	5.3%	1,285,000		600,000
Rebates Due		-		-		100,000
Total market value of assets		8,533,000		8,665,000		9,500,000
Present value of scheme liabilities		(12,316,000)		(13,061,000)		(13,100,000)
Deficit in the scheme		(3,783,000)		(4,396,000)		(3,600,000)
Related deferred tax asset		1,059,240		1,318,800		1,080,000
Net pension liability on a FRS 17 basis		<u>(2,723,760)</u>		<u>(3,077,200)</u>		<u>(2,520,000)</u>

**FOREST LABORATORIES UK LIMITED**

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008**

**16. Pension Scheme (continued)**

*Analysis of amounts charged to operating profit for the pension scheme*

	<u>2008</u>	<u>2007</u>
Current service cost	342,000	330,000
	<u>342,000</u>	<u>330,000</u>

*Analysis of amount charged to interest payable for the pension scheme*

Expected return on the pension scheme assets	645,000	527,000
Interest on pension scheme liabilities	(714,000)	(580,000)
Net loss charged to other finance charges	<u>(69,000)</u>	<u>(53,000)</u>

*Analysis of amounts recognised in the Statement of Total  
Recognised Gains and Losses (STRGL)*

Actual return less expected return on net assets	(1,669,000)	103,000
Experience losses arising on scheme liabilities	(18,000)	(1,496,000)
Changes in assumptions underlying the present value of scheme liabilities	1,819,000	88,000
Net actuarial gain / (loss) recognised	<u>132,000</u>	<u>(1,305,000)</u>

*History of experience (losses) / gains*

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actual return less expected return on pension scheme assets	(1,669,000)	103,000	1,000,000
- As % of year end pension scheme assets	(19.5%)	1.2%	10.5%
Experience losses arising on the scheme liabilities	(18,000)	(1,496,000)	(900,000)
-As % of present value of year end scheme liabilities	(0.1%)	(11.5%)	(6.9%)
Changes in assumptions underlying the present value of the scheme liabilities	1,819,000	88,000	(700,000)
-As % of present value of year end scheme liabilities	14.8%	0.7%	(5.4%)
Actuarial gain / (loss) recognised in the statement of recognised gains and losses	<u>132,000</u>	<u>(1,305,000)</u>	<u>(600,000)</u>
- As % of present value of year end scheme liabilities	1.1%	(10.0%)	(4.6%)

The experience gains and losses are those resulting from the actual performance of the scheme being different from that predicted, for example from changes in economic conditions, from performance of the investment managers who manage the scheme's assets or from changes in the demographic profile of the scheme members.

FOREST LABORATORIES UK LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

16. Pension Scheme (continued)

	<u>2008</u>	<u>2007</u>
Movements in deficit during the year		
Deficit in scheme at beginning of year	(4,396,000)	(3,600,000)
Current service cost	(342,000)	(330,000)
Contributions paid	892,000	892,000
Other finance costs	(69,000)	(53,000)
Actuarial gain / (loss)	132,000	(1,305,000)
Deficit in the scheme at end of year	<u>(3,783,000)</u>	<u>(4,396,000)</u>

17. Share Capital

	<u>2008</u>	<u>2007</u>
	<u>£</u>	<u>£</u>
<u>Equity</u>		
Authorised, issued and fully paid		
2,150 Ordinary shares of 10p each	215	215
21,500 Deferred shares of 10p each	2,150	2,150
12% non-cumulative redeemable preference shares of £1 each	<u>532,573</u>	<u>532,573</u>
	<u>534,938</u>	<u>534,938</u>

Ordinary shareholders have 1,000 votes per share and the right to all profits after payment of the preference dividend. On a winding up, following payment to the Preference Shareholders, Ordinary Shareholders will receive £100 per share and the balance of any assets following payment to Deferred Shareholders.

Deferred Shareholders have one vote per share, no rights to share in the profits, and on a winding up, repayment of the amount paid up following payment to the preference shareholders and £100 per Ordinary Share.

Preference Shareholders have one vote per share and in a winding up, surplus assets remaining after payment of liabilities shall first be applied to repaying the paid up amount on their shares. The shares were issued on 26th May 1978 and can be redeemed only at the Company's option. The Company must give three months written notice of redemption. The shares would be redeemed at par value.

FOREST LABORATORIES UK LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

18. Reserves

	Non-distributable reserve	Profit and loss account
Balance at 1st April 2007	564,662	526,758
Loss for the financial year	-	(183,271)
Share based payment	-	55,896
Other net recognised gains and losses	-	132,000
Balance at 31st March 2008	<u>564,662</u>	<u>531,383</u>

19. Share-based payment

The group adopted FRS 20 'Share-based Payment during the year ended 31st March 2007. Prior to this no amounts were reflected in respect of share-based payments.

For 2008, the impact of share-based payments is a net charge to income of £55,896 (2007 £80,361). The expense has been included in the administrative expenses line of the income statement. There was no impact on Net Assets.

Senior managers and certain other members of staff participate in an equity settled share option scheme operated by the parent company, Forest Laboratories Inc whose shares are listed on the New York Stock Exchange. The options vest over a 6 year period (2007: 5) from the date of grant and will lapse if not exercised within six years from the date of grant. In addition, the options will lapse 3 months after an individual leaves the company's employment. There are no market-based vesting conditions.

The following assumptions were used in determining the fair values of stock options using the Black-Scholes model:

	<u>2008</u>	<u>2007</u>
Expected dividend yield	0%	0%
Expected stock price volatility	35.15%	29.63%
Risk-free interest rate	4.20%	4.80%
Expected life of options (years)	<u>6</u>	<u>5</u>

The share-based remuneration expense (note 3) comprises:

	<u>2008</u>	<u>2007</u>
Equity-settled schemes	<u>55,896</u>	<u>80,361</u>

FOREST LABORATORIES UK LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2008

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20. Commitments under operating leases

The Company's annual commitments under non cancellable operating leases is as follows:-

	<u>2008</u>	<u>2007</u>
	<u>£</u>	<u>£</u>
Plant and machinery		
- expiring between 2 and 5 years	<u>5,636</u>	<u>12,060</u>
	<u>5,636</u>	<u>12,060</u>

21. Related party transactions

The Company has taken advantage of the exemption allowed by FRS8 Related Party Transactions not to disclose any transactions or balances with entities which have 90% or more voting rights controlled within the Group.

During the year the Company traded with a distributor in Ireland, Ocean Healthcare Ltd, 50% of whose shares were owned by a member of the close family of one of the Company's directors. The transactions have been carried out at arm's length.

	<u>2008</u>	<u>2007</u>
Sales during the year	332,772	359,933
Due from Ocean Healthcare at 31st March	217,905	256,456
Provision for doubtful debts	<u>11,387</u>	<u>-</u>

22. Cash Flow Statement

The Company has taken advantage of the exemption allowed under Financial Reporting Standard 1 "Cash Flow Statements" not to produce a cash flow statement, as it is a wholly owned subsidiary of Pharmax Holding Limited. A Group cash flow statement is included in the financial statements of Pharmax Holding Limited, the United Kingdom parent company. Copies of the consolidated financial statements of Pharmax Holding Limited are available from Companies House.

23. Parent Company

The Company's ultimate parent company is Forest Laboratories Inc., a company incorporated in the USA.