

322

PHARMAX LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST MARCH 1997



PHARMAX LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 1997

CONTENTS

Notice of Meeting
Directors

PAGE

1	Report of the Directors
3	Statement of directors' responsibilities
4	Report of the auditors
5	Profit and loss account
6	Balance sheet
7	Notes forming part of the financial statements

DIRECTORS

R Hart
W J More
H Solomon (USA)
R Stafford (Republic of Ireland)

SECRETARY AND REGISTERED OFFICE

W J More
Bourne Road
Bexley
Kent DA5 1NX

COMPANY NUMBER

532832

AUDITORS

BDO Stoy Hayward
8 Baker Street
London W1M 1DA

PHARMAX LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at Bourne Road, Bexley, Kent on 25th November 1997 for the following purposes:-

1. To receive the directors' report and audited financial statements for the year ended 31st March, 1997.
2. To elect directors.
3. To re-appoint BDO Stoy Hayward as auditors and to authorise the directors to agree their remuneration for the ensuing year.

By order of the board



W J More

Secretary

Date: 17/11/97

Members entitled to vote at this meeting are entitled to appoint a proxy to attend and, in the event of a poll, vote instead of them. A proxy need not be a member of the Company.

PHARMAX LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 1997

The directors submit their report together with the audited financial statements for the year ended 31st March 1997.

Principal Activity

The principal activities of the Company are the manufacture and distribution of ethical pharmaceutical products.

Review of Business

Sales of the Company's ethical products declined by 2% over the last year due mainly to increased market competition. However, sales of our major antibiotic once again experienced considerable growth, particularly in the field of Cystic Fibrosis.

Sales in our export markets were down on the previous year, but this was mainly due to the timing of shipments to Asia as a result of excess stock levels. The order pattern has now been re-established, and appears to be back to previous levels.

Our operating costs continue to be well controlled but with the Department of Health continuing their freeze on the price of National Health Service products the Company once again experienced an operating loss.

It is anticipated that these difficult market conditions will continue during the coming years and, with the need to maintain our marketing investment in support of our branded promoted products, both sales and profits will continue to be constrained.

Results & Dividends

The profit and loss statement is set out on page 5 and shows the Company's results for the year, together with the retained profits.

No dividend is proposed.

There have been no events since the balance sheet date which materially affect the position of the Company.

PHARMAX LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 1997

(continued)

Directors

The directors of the Company during the year ended 31st March 1997 were:-

R Hart
W J More
H Solomon (USA)
R Stafford (Republic of Ireland)

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

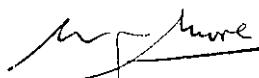
Mr R Hart and Mr R Stafford retire by rotation and, being eligible, offer themselves for re-election

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

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

By order of the board


W J More

Secretary

Date: 17/11/97

PHARMAX LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31ST MARCH 1997

Directors' responsibilities

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;
- 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.

PHARMAX LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF
PHARMAX LIMITED

We have audited the financial statements on pages 5 to 15 which have been prepared under the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and report our opinion to you.

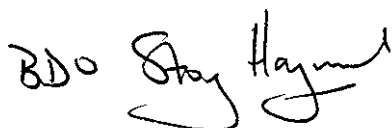
Basis of opinion

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 accuracy 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 as at 31st March 1997 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BDO Stoy Hayward
Chartered Accountants and Registered Auditors
London

Date 17.11.97

PHARMAX LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 1997

	<u>NOTE</u>	<u>1997</u> £	<u>1996</u> £
TURNOVER	2	8,211,533	8,352,400
Cost of Sales		<u>4,462,023</u>	<u>4,500,139</u>
GROSS PROFIT		3,749,510	3,852,261
Distribution Costs		2,752,749	2,720,836
Administrative Expenses		<u>1,674,595</u>	<u>1,762,876</u>
		<u>4,427,344</u>	<u>4,483,712</u>
OPERATING LOSS		(677,834)	(631,451)
Interest receivable	6	<u>384,044</u>	<u>369,932</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(293,790)	(261,519)
Taxation	7	<u>(50,000)</u>	<u>(45,773)</u>
LOSS FOR THE YEAR		<u>(243,790)</u>	<u>(215,746)</u>

STATEMENT OF RETAINED PROFITS

Retained profits at 1st April 1996	7,903,386	8,119,132
Loss for the year	<u>(243,790)</u>	<u>(215,746)</u>
Retained profits at 31st March 1997	<u>7,659,596</u>	<u>7,903,386</u>

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

The notes on pages 7 to 15 form part of these financial statements.

PHARMAX LIMITED

BALANCE SHEET AT 31ST MARCH 1997

	NOTE	1997 £	1996 £
<u>FIXED ASSETS</u>			
Tangible Assets	8	1,667,409	1,519,213
Investments	9	1,394	1,394
		<u>1,668,803</u>	<u>1,520,607</u>
<u>CURRENT ASSETS</u>			
Stocks	10	988,796	1,320,077
Debtors	11	3,123,405	2,537,888
Cash at bank		<u>4,989,589</u>	<u>5,385,046</u>
		<u>9,101,790</u>	<u>9,243,011</u>
<u>CREDITORS - amounts falling due within one year</u>			
Creditors	12	<u>1,859,397</u>	<u>1,651,632</u>
<u>NET CURRENT ASSETS</u>			
		<u>7,242,393</u>	<u>7,591,379</u>
<u>TOTAL ASSETS less CURRENT LIABILITIES</u>			
		8,911,196	9,111,986
<u>PROVISIONS FOR LIABILITIES AND CHARGES</u>			
Deferred taxation	13	152,000	109,000
		<u>8,759,196</u>	<u>9,002,986</u>
<u>CAPITAL and RESERVES</u>			
Called up Share Capital	14	534,938	534,938
<u>RESERVES</u>			
Capital Reserve		564,662	564,662
Profit and loss account		<u>7,659,596</u>	<u>7,903,386</u>
		<u>8,224,258</u>	<u>8,468,048</u>
		<u>8,759,196</u>	<u>9,002,986</u>

APPROVED by the BOARD OF DIRECTORS

R. Hart

W.J. More

Date: 17/11/97

The notes on pages 7 to 15 form part of these financial statements.

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1997

1. Accounting Policies

(a) Convention

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

(b) 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, realised and unrealised, are included in the Company's trading results.

(c) 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.

(d) Research & Development

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

(e) Deferred Taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that a liability or asset will crystallise.

(f) Tangible Fixed Assets and Depreciation

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

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

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1997

1 Accounting Policies (continued)

(g) 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.

(h) 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 out 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.

(i) Pension Costs

Contributions to the Company's pension scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the Company.

2 Analysis of Turnover

The turnover is attributable mainly to the manufacture and distribution of Ethical Pharmaceuticals.

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

	<u>1997</u>	<u>1996</u>
	£	£
United Kingdom	6,913,113	6,772,775
Republic of Ireland	360,086	423,062
Europe	65,997	32,950
Middle East	211,994	275,756
Asia	347,245	590,866
Canada	188,531	204,234
Other	124,567	52,757
	<u>8,211,533</u>	<u>8,352,400</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1997

3.	<u>Operating Loss</u>	<u>1997</u>	<u>1996</u>
	Operating loss is arrived at after charging:	£	£
	Depreciation	493,724	467,640
	Auditor's remuneration		
	- audit services	21,750	23,350
	- non audit services	8,350	10,361
	Operating leases - plant and machinery	9,874	16,518
	Operating leases - other	270,000	270,000
	And after crediting:		
	Profit on sales of fixed assets	<u>81,208</u>	<u>9,192</u>

4. Employees

The average monthly number of employees within each category was:

	<u>1997</u>	<u>1996</u>
	No	No
Production	65	66
Distribution	66	65
Administrative	31	32
	<u>162</u>	<u>163</u>

The costs incurred in respect of these employees were:

	<u>1997</u>	<u>1996</u>
	£	£
Wages and salaries	3,393,355	3,372,923
Social security costs	294,123	318,607
Other pension costs	463,415	445,532
	<u>4,150,893</u>	<u>4,137,062</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1997

5. Directors' Emoluments

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Aggregate emoluments	<u>189,538</u>	<u>182,774</u>

One director exercised share options during the year. Retirement benefits are accruing to two directors under a defined benefit scheme.

6. Interest Receivable

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Bank interest	382,985	301,883
Building Society interest	1,059	26,705
Interest supplement - Tax repayment	<u>-</u>	<u>41,344</u>
	<u>384,044</u>	<u>369,932</u>

7. Taxation

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Corporation tax	(93,000)	(50,000)
Over provision prior years	-	(7,773)
Transfer to deferred taxation	<u>43,000</u>	<u>12,000</u>
	<u>(50,000)</u>	<u>(45,773)</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1997

8. Tangible Assets

	FURNITURE FIXTURES & FITTINGS	PLANT & MACHINERY	MOTOR VEHICLES	TOTAL
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Cost at 1st April 1996	412,794	2,050,379	1,136,356	3,599,529
Additions during year	13,517	262,048	455,896	731,461
	<u>426,311</u>	<u>2,312,427</u>	<u>1,592,252</u>	<u>4,330,990</u>
Disposals during year	109,445	-	457,708	567,153
Cost at 31st March 1997	<u>316,866</u>	<u>2,312,427</u>	<u>1,134,544</u>	<u>3,763,837</u>
Depreciation at 1st April 1996	321,202	1,211,693	547,421	2,080,316
Provision for the year	47,627	152,477	293,620	493,724
	<u>368,829</u>	<u>1,364,170</u>	<u>841,041</u>	<u>2,574,040</u>
Eliminated on disposals	109,445	-	368,167	477,612
Depreciation at 31st March 1997	<u>259,384</u>	<u>1,364,170</u>	<u>472,874</u>	<u>2,096,428</u>
Net book value at 31st March 1997	<u>57,482</u>	<u>948,257</u>	<u>661,670</u>	<u>1,667,409</u>
Net book value at 31st March 1996	<u>91,592</u>	<u>838,686</u>	<u>588,935</u>	<u>1,519,213</u>

There were no capital commitments at the balance sheet date. (1996 £nil)

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1997

9. Fixed Asset Investments

Subsidiaries and Related Companies

	Percentage of Share <u>Capital held</u>	Unquoted share <u>at cost</u> £
<u>Subsidiary</u>		
Fletcher, Fletcher & Co Ltd	100% ordinary	100
<u>Related Company</u>		
Forest Pharms Limited	50% ordinary	<u>1,294</u>
<u>Net Book Value</u> at 31st March 1997		<u>1,394</u>
<u>Net Book Value</u> at 31st March 1996		<u>1,394</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.

10. <u>Stocks</u>	<u>1997</u> £	<u>1996</u> £
Raw Materials	641,244	813,601
Work in progress	101,938	172,880
Finished goods and goods for resale	<u>245,614</u>	<u>333,596</u>
	<u>988,796</u>	<u>1,320,077</u>

In the opinion of the directors, the above value of stocks is not materially different to replacement cost at 31st March 1997.

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1997

11. Debtors

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Trade debtors	1,812,012	1,531,684
Amounts owed by Group undertakings	65,287	51,061
Prepayments and accrued income	<u>1,246,106</u>	<u>955,143</u>
	<u>3,123,405</u>	<u>2,537,888</u>

All debts fall due for payment within one year.

12. Creditors

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Trade creditors	694,140	545,239
Amounts owed to Group undertakings	15,748	15,748
Other creditors	132,143	187,212
Accruals and deferred income	944,532	876,209
Other Taxation and Social Security	<u>72,834</u>	<u>27,224</u>
	<u>1,859,397</u>	<u>1,651,632</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1997

13. Provisions for Liabilities and Charges

Deferred Taxation

	<u>1997</u>		<u>1996</u>	
	Not Provided	Provided in accounts	Not Provided	Provided in account
	£	£	£	£
Sundry timing difference	-	44,000	-	31,000
Accelerated capital allowances	-	108,000	-	78,000
	<u>0</u>	<u>152,000</u>	<u>0</u>	<u>109,000</u>
Movements in deferred taxation				
Balance at 1st April 1996		109,000		97,000
Transfer from Profit & Loss Account		43,000		12,000
Balance 31st March 1997		<u>152,000</u>		<u>109,000</u>

14. Share Capital

	<u>1997</u>	<u>1996</u>
	£	£
Authorised, issued and fully paid		
21,500 Deferred shares of 10p each	2,150	2,150
2,150 Ordinary shares of 10p each	215	215
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 1000 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 of 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 share would be redeemed at par value.

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1997

15. Commitments under operating leases

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

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Land and buildings		
- expiring after 5 years	270,000	270,000
Plant and machinery		
- expiring between 2 and 5 years	<u>12,206</u>	<u>16,518</u>
	<u>282,206</u>	<u>286,518</u>

The commitment for land and buildings is subject to periodic rent reviews.

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 total pension cost for the year was £463,415 (1996 £445,532). The employer's contribution was 16.1% (1996 16.1%) of an employee's pensionable salary. The pension cost charged to the profit and loss account is such as to spread the cost of pensions over employees' working lives. The pension cost has been based on the latest valuation which was conducted as at 6th April 1994 and was completed allowing for 9% investment return and 8% future salary increases. The next valuation is due during the year 1997.

17. Related Party Transactions

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

18. 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.

19. Parent Company

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