

PHARMAX LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST MARCH 2001



PHARMAX LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2001

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DIRECTORS

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

SECRETARY AND REGISTERED OFFICE

A Livingstone
Bourne Road
Bexley
Kent DA5 1NX

COMPANY NUMBER

532832

AUDITORS

BDO Stoy Hayward
8 Baker Street
London W1U 3LL

PHARMAX LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 2001

The directors submit their report together with the audited financial statements for the year ended 31st March 2001.

Principal Activity

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

Review of Business

Turnover recovered well this year, 5.5% ahead of the previous year, even allowing for a full year's impact of the 4.5% price reduction imposed on our prescription medicines.

This year we launched a lifestyle product, Oleomed. Sales have been disappointing in spite of our promotional efforts and this has been the prime element in reporting a net loss after tax.

In December 2000 we took the decision to disband the part of our sales force that promotes our products direct to General Practitioners. Whilst this did not have any significant effect on this year's results, the full effect should be evident in next year's trading statement.

We continue in our efforts to seek new products to expand our portfolio and to develop our existing range further.

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.

Land and Buildings

In the opinion of the directors there is no material difference between the market value and the book value of land and buildings.

PHARMAX LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 2001
(continued)

Directors

The directors of the Company during the year ended 31st March 2001 were:-

H Solomon (USA)
R Stafford (Republic of Ireland)
J Worth
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 H Solomon 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

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



A Livingstone
Secretary

Date: 9th January 2002

PHARMAX LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31ST MARCH 2001

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; 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.

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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 United Kingdom Accounting Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 the 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 transactions with the company 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.

Basis of opinion

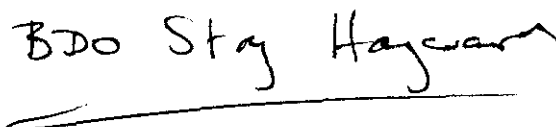
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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 as at 31st March 2001 and of the Company's 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: 9 January 2002

PHARMAX LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2001

	<u>NOTE</u>	<u>2001</u> £	<u>2000</u> £
TURNOVER	2	20,467,144	19,393,379
Cost of Sales		<u>14,138,776</u>	<u>12,928,074</u>
GROSS PROFIT		6,328,368	6,465,305
Distribution Costs	5,375,783	4,216,644	
Administrative Expenses	<u>2,249,424</u>	<u>2,402,597</u>	
		<u>7,625,207</u>	<u>6,619,241</u>
OPERATING LOSS		(1,296,839)	(153,936)
Interest Receivable	6	<u>546,322</u>	<u>551,910</u>
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(750,517)	397,974
Taxation	7	<u>147,000</u>	<u>(180,000)</u>
(LOSS) / PROFIT FOR THE YEAR		<u><u>(603,517)</u></u>	<u><u>217,974</u></u>

STATEMENT OF RETAINED PROFITS

Retained profits at 1st April	7,577,780	7,359,806
(Loss) / Profit for the year	<u>(603,517)</u>	<u>217,974</u>
Retained profits at 31st March	<u><u>6,974,263</u></u>	<u><u>7,577,780</u></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 2001

	<u>NOTE</u>	<u>2001</u> £	<u>2000</u> £
<u>FIXED ASSETS</u>			
Tangible Assets	8	2,017,900	2,127,016
Investments	9	1,394	1,394
		<u>2,019,294</u>	<u>2,128,410</u>
<u>CURRENT ASSETS</u>			
Stocks	10	3,330,317	3,546,717
Debtors	11	4,438,116	4,055,265
Cash at bank		8,374,873	10,027,951
		<u>16,143,306</u>	<u>17,629,933</u>
<u>CREDITORS - amounts falling</u>			
<u>due within one year</u>	12	<u>10,029,737</u>	<u>11,004,963</u>
<u>NET CURRENT ASSETS</u>			
		<u>6,113,569</u>	<u>6,624,970</u>
<u>TOTAL ASSETS less CURRENT</u>			
<u>LIABILITIES</u>		8,132,863	8,753,380
<u>PROVISIONS FOR LIABILITIES</u>			
<u>AND CHARGES</u>			
Deferred Taxation	13	59,000	76,000
		<u>8,073,863</u>	<u>8,677,380</u>
<u>CAPITAL and RESERVES</u>			
Called up Share Capital	14		
Equity		215	215
Non-equity		534,723	534,723
<u>RESERVES</u>			
Capital Reserve		564,662	564,662
Profit and loss account		6,974,263	7,577,780
		<u>7,538,925</u>	<u>8,142,442</u>
		<u>8,073,863</u>	<u>8,677,380</u>

APPROVED by the BOARD OF DIRECTORS

R. Stafford

D. Burke
D. Burke

Date: 9th January 2002

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 2001

1. Accounting Policies

(a) 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 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:

Freehold Buildings	40 years
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 2001

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.

(j) 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

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

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

	<u>2001</u>	<u>2000</u>
	£	£
United Kingdom	18,461,739	17,872,115
Republic of Ireland	532,785	405,519
Rest of Europe	218,613	305,045
Middle East	363,049	214,779
Asia	490,452	390,169
Canada	188,408	147,297
Other	212,098	58,455
	<u>20,467,144</u>	<u>19,393,379</u>

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

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2001

3.	<u>Operating Loss</u>	<u>2001</u>	<u>2000</u>
	Operating loss is arrived at after charging:	£	£
	Depreciation	302,538	299,973
	Profit on disposal of fixed assets	2,903	7,488
	Loss on foreign currency transactions	21,811	45,437
	Auditor's remuneration		
	- audit services	19,192	20,000
	- non audit services	3,838	1,562
	Operating leases - plant and machinery	12,868	10,500
	Operating leases - motor vehicles	<u>342,726</u>	<u>326,755</u>

4. Employees

The average monthly number of employees within each category was:

	<u>2001</u>	<u>2000</u>
	<u>No</u>	<u>No</u>
Production	72	69
Distribution	58	69
Administrative	27	28
	<u>157</u>	<u>166</u>

The costs incurred in respect of these employees were:

	<u>2001</u>	<u>2000</u>
	£	£
Wages and salaries	3,766,283	3,747,564
Social security costs	384,379	374,921
Other pension costs	490,455	506,854
Redundancy costs	170,576	-
	<u>4,811,693</u>	<u>4,629,339</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2001

5. Directors' Emoluments

	<u>2001</u>	<u>2000</u>
	<u>£</u>	<u>£</u>
Aggregate emoluments	<u>105,540</u>	<u>80,796</u>

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

6. Interest Receivable

	<u>2001</u>	<u>2000</u>
	<u>£</u>	<u>£</u>
Bank interest	546,322	551,861
Building Society interest	-	49
	<u>546,322</u>	<u>551,910</u>

7. Taxation

	<u>2001</u>	<u>2000</u>
	<u>£</u>	<u>£</u>
Corporation tax	130,000	(210,000)
Transfer from deferred taxation	<u>17,000</u>	<u>30,000</u>
	<u>147,000</u>	<u>(180,000)</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2001

8. Tangible Assets

	FREEHOLD LAND & BUILDINGS	FURNITURE FIXTURES & FITTINGS	PLANT & MACHINERY	MOTOR VEHICLES	TOTAL
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Cost at 1st April 2000	1,754,855	617,444	2,616,707	40,948	5,029,954
Additions during year		46,780	146,642	-	193,422
	<u>1,754,855</u>	<u>664,224</u>	<u>2,763,349</u>	<u>40,948</u>	<u>5,223,376</u>
Disposals during year	-	-	-	-17,218	-17,218
Cost at 31st March 2001	<u>1,754,855</u>	<u>664,224</u>	<u>2,763,349</u>	<u>23,730</u>	<u>5,206,158</u>
Depreciation at 1st April 2000	574,173	405,671	1,888,667	34,427	2,902,938
Provision for the year	35,149	86,757	174,111	6,521	302,538
	<u>609,322</u>	<u>492,428</u>	<u>2,062,778</u>	<u>40,948</u>	<u>3,205,476</u>
Eliminated on disposals	-	-	-	-17,218	-17,218
Depreciation at 31st March 2001	<u>609,322</u>	<u>492,428</u>	<u>2,062,778</u>	<u>23,730</u>	<u>3,188,258</u>
Net book value at 31st March 2001	<u>1,145,533</u>	<u>171,796</u>	<u>700,571</u>	<u>-</u>	<u>2,017,900</u>
Net book value at 31st March 2000	<u>1,180,682</u>	<u>211,773</u>	<u>728,040</u>	<u>6,521</u>	<u>2,127,016</u>

There were no capital commitments at the balance sheet date. (2000 £nil)

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2001

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 2001		<u>1,394</u>
<u>Net Book Value</u> at 31st March 2000		<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>2001</u> £	<u>2000</u> £
Raw Materials	1,300,779	1,116,106
Work in progress	433,125	410,364
Finished goods and goods for resale	<u>1,596,413</u>	<u>2,020,247</u>
	<u>3,330,317</u>	<u>3,546,717</u>

In the opinion of the directors, the above value of stocks is not materially different to replacement cost at 31st March 2001.

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2001

11. Debtors

	<u>2001</u>	<u>2000</u>
	<u>£</u>	<u>£</u>
Trade debtors	3,627,101	3,489,886
Amounts owed from Group undertakings	-	14,211
Prepayments and accrued income	594,833	551,168
Corporation Tax	<u>216,182</u>	<u>-</u>
	<u>4,438,116</u>	<u>4,055,265</u>

All debts fall due for payment within one year.

12. Creditors - Amounts falling due within one year

	<u>2001</u>	<u>2000</u>
	<u>£</u>	<u>£</u>
Trade creditors	807,307	746,420
Amounts owed to Group undertakings	8,236,847	8,509,379
Corporation Tax	-	182,902
Other creditors	218,222	352,889
Accruals and deferred income	581,706	1,107,303
Other Taxation and Social Security	<u>185,655</u>	<u>106,070</u>
	<u>10,029,737</u>	<u>11,004,963</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2001

13. Provisions for Liabilities and Charges
Deferred Taxation

	<u>2001</u>		<u>2000</u>	
	Not Provided	Provided in accounts	Not Provided	Provided in accounts
	£	£	£	£
Accelerated capital allowances	-	59,000	-	76,000
Related to freehold land and buildings	157,000	-	156,000	-
	<u>157,000</u>	<u>59,000</u>	<u>156,000</u>	<u>76,000</u>
Movements in deferred taxation				
Balance at 1st April 2000		76,000		106,000
Transfer to Profit & Loss Account		(17,000)		(30,000)
Balance 31st March 2001		<u>59,000</u>		<u>76,000</u>

14. Share Capital

	<u>2001</u>	<u>2000</u>
	£	£
<u>Equity</u>		
Authorised, issued and fully paid		
21,500 Deferred shares of 10p each	2,150	2,150
<u>Non-Equity</u>		
2,150 Ordinary shares of 10p each	215	215
12% non-cumulative redeemable preference shares of £1 each	532,573	532,573
	<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 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 shares would be redeemed at par value.

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2001

15. Commitments under operating leases

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

	<u>2001</u>	<u>2000</u>
	<u>£</u>	<u>£</u>
Plant and machinery		
- expiring between 2 and 5 years	<u>1,762</u>	<u>10,500</u>
	<u>1,762</u>	<u>10,500</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 total pension cost for the year was £490,455 (2000 £506,854). The employer's contribution was 16.1% (2000 - 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 30th June 2000 and was completed allowing for 7% investment returns and 5.5% future salary increases. The next valuation is due as at 30th June 2003.

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. Copies of the consolidated financial statements of Pharmax Holding Limited are available from Companies House.

19. Parent Company

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