

532832

PHARMAX LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST MARCH 1999



PHARMAX LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST MARCH 1999

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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 W1M 1DA

## PHARMAX LIMITED

### REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 1999

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The directors submit their report together with the audited financial statements for the year ended 31st March 1999.

#### Principal Activity

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

#### Review of Business

Sales showed a slight increase of 2.4% over the previous year to £9.05M. Sales of our anti-biotic for use in Cystic Fibrosis exceeded £3M for the first time.

February 1999 saw the launch of Syscor MR, a treatment for angina, and we are working to build up sales of this product for the future.

Our export market exceeded £1.5M for the first time this year, an increase of 3% on the previous year.

The Department of Health have imposed a 4.5% price reduction on all prescription medicines from 1st October 1999. This, together with other measures contained in the new PPRS, continue to make trading conditions difficult in this sector.

In order to simplify the Group structure, it was decided to transfer the business of Pharmax Healthcare Limited to Pharmax Limited from 31st March 1999.

#### 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.

#### Year 2000

The Group is currently finalising arrangements for replacing its main computer system before 31st December 1999. Not all the costs of addressing the year 2000 issue have yet been incurred, however, the total costs are not anticipated to be significant.

PHARMAX LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH 1999  
(continued)

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Directors

The directors of the Company during the year ended 31st March 1999 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.

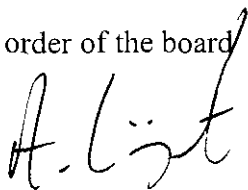
Mr R Stafford retires by rotation and, being eligible, offers himself for re-election.

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

Auditors

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: 12 JANUARY 2000

## PHARMAX LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31ST MARCH 1999

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#### 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

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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 1999 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward

BDO Stoy Hayward  
Chartered Accountants and Registered Auditors  
London  
Date 12 JANUARY 2000

PHARMAX LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 1999

	<u>NOTE</u>	<u>1999</u> <u>£</u>	<u>1998</u> <u>£</u>
TURNOVER	2	9,047,496	8,932,263
Cost of Sales		<u>5,010,002</u>	<u>4,920,893</u>
GROSS PROFIT		4,037,494	4,011,370
Distribution Costs		2,822,016	2,918,873
Administrative Expenses		<u>1,783,823</u>	<u>1,864,154</u>
		<u>4,605,839</u>	<u>4,783,027</u>
OPERATING LOSS		(568,345)	(771,657)
Interest Receivable	6	<u>478,211</u>	<u>490,040</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(90,134)	(281,617)
Taxation	7	<u>(8,961)</u>	<u>(63,000)</u>
LOSS FOR THE YEAR		<u><u>(81,173)</u></u>	<u><u>(218,617)</u></u>

STATEMENT OF RETAINED PROFITS

Retained profits at 1st April	7,440,979	7,659,596
Loss for the year	<u>(81,173)</u>	<u>(218,617)</u>
Retained profits at 31st March	<u><u>7,359,806</u></u>	<u><u>7,440,979</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 1999

	<u>NOTE</u>	<u>1999</u> £	<u>1998</u> £
<u>FIXED ASSETS</u>			
Tangible Assets	8	2,168,066	1,604,295
Investments	9	1,394	1,394
		<u>2,169,460</u>	<u>1,605,689</u>
<u>CURRENT ASSETS</u>			
Stocks	10	3,136,279	2,087,060
Debtors	11	4,815,274	4,131,426
Cash at bank		10,341,964	3,234,453
		<u>18,293,517</u>	<u>9,452,939</u>
<u>CREDITORS - amounts falling</u> <u>due within one year</u>	12	<u>11,897,571</u>	<u>2,394,049</u>
<u>NET CURRENT ASSETS</u>		<u>6,395,946</u>	<u>7,058,890</u>
<u>TOTAL ASSETS less CURRENT</u> <u>LIABILITIES</u>		8,565,406	8,664,579
<u>PROVISIONS FOR LIABILITIES</u> <u>AND CHARGES</u>			
Deferred Taxation	13	106,000	124,000
		<u>8,459,406</u>	<u>8,540,579</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		7,359,806	7,440,979
		<u>7,924,468</u>	<u>8,005,641</u>
		<u>8,459,406</u>	<u>8,540,579</u>

APPROVED by the BOARD OF DIRECTORS

R. Stafford

Date: 12 JANUARY 2000

J. Worth

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 1999

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#### 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 1999

#### 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>1999</u>	<u>1998</u>
	<u>£</u>	<u>£</u>
United Kingdom	7,487,233	7,332,726
Republic of Ireland	368,826	440,977
Rest of Europe	210,167	122,849
Middle East	225,371	251,643
Asia	520,242	508,350
Canada	175,697	183,086
Other	59,960	92,632
	<u>9,047,496</u>	<u>8,932,263</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1999

3.	<u>Operating Loss</u>	<u>1999</u>	<u>1998</u>
	Operating loss is arrived at after charging:	<u>£</u>	<u>£</u>
	Depreciation	458,255	504,940
	Auditor's remuneration		
	- audit services	26,256	24,024
	- non audit services	2,338	5,249
	Operating leases - plant and machinery	15,094	19,510
	Operating leases - other	<u>270,000</u>	<u>270,000</u>

4. Employees

The average monthly number of employees within each category was:

	<u>1999</u>	<u>1998</u>
	<u>No</u>	<u>No</u>
Production	69	69
Distribution	56	63
Administrative	29	32
	<u>154</u>	<u>164</u>

The costs incurred in respect of these employees were:

	<u>1999</u>	<u>1998</u>
	<u>£</u>	<u>£</u>
Wages and salaries	3,429,882	3,485,948
Social security costs	293,385	308,874
Other pension costs	518,523	524,896
	<u>4,241,790</u>	<u>4,319,718</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1999

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5. Directors' Emoluments

	<u>1999</u>	<u>1998</u>
	<u>£</u>	<u>£</u>
Aggregate emoluments	<u>79,524</u>	<u>196,022</u>

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

6. Interest Receivable

	<u>1999</u>	<u>1998</u>
	<u>£</u>	<u>£</u>
Bank interest	478,155	489,595
Building Society interest	56	445
	<u>478,211</u>	<u>490,040</u>

7. Taxation

	<u>1999</u>	<u>1998</u>
	<u>£</u>	<u>£</u>
Corporation tax	7,039	(35,000)
Transfer from deferred taxation	<u>(16,000)</u>	<u>(28,000)</u>
	<u>(8,961)</u>	<u>(63,000)</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1999

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 1998	-	347,858	2,455,698	1,149,952	3,953,508
Additions during year	-	2,856	160,654	248,068	411,578
Group Transfer	1,754,855	-	-	12,278	1,767,133
	<u>1,754,855</u>	<u>350,714</u>	<u>2,616,352</u>	<u>1,410,298</u>	<u>6,132,219</u>
Disposals during year	-	-	-	1,318,393	1,318,393
Cost at 31st March 1999	<u>1,754,855</u>	<u>350,714</u>	<u>2,616,352</u>	<u>91,905</u>	<u>4,813,826</u>
Depreciation at 1st April 1998	-	294,996	1,543,822	510,395	2,349,213
Provision for the year	-	5,185	199,688	253,382	458,255
Group Transfer	539,052	-	-	10,897	549,949
	<u>539,052</u>	<u>300,181</u>	<u>1,743,510</u>	<u>774,674</u>	<u>3,357,417</u>
Eliminated on disposals	-	-	-	711,657	711,657
Depreciation at 31st March 1999	<u>539,052</u>	<u>300,181</u>	<u>1,743,510</u>	<u>63,017</u>	<u>2,645,760</u>
Net book value at 31st March 1999	<u>1,215,803</u>	<u>50,533</u>	<u>872,842</u>	<u>28,888</u>	<u>2,168,066</u>
Net book value at 31st March 1998	<u>-</u>	<u>52,862</u>	<u>911,876</u>	<u>639,557</u>	<u>1,604,295</u>

There were no capital commitments at the balance sheet date. (1998 £nil)

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1999

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9. Fixed Asset Investments

Subsidiaries and Related Companies

	Percentage of Share <u>Capital held</u>	Unquoted shares <u>at cost</u> £
<u>Subsidiary</u>		
Fletcher, Fletcher & Co Ltd	100% ordinary	100
<u>Related Company</u>		
Forest Pharms Limited	50% ordinary	1,294
<u>Net Book Value at 31st March 1999</u>		<u>1,394</u>
<u>Net Book Value at 31st March 1998</u>		<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>1999</u> £	<u>1998</u> £
Raw Materials	1,198,320	1,488,099
Work in progress	382,907	243,428
Finished goods and goods for resale	<u>1,555,052</u>	<u>355,533</u>
	<u>3,136,279</u>	<u>2,087,060</u>

In the opinion of the directors, the above value of stocks is not materially different to replacement cost at 31st March 1999.

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1999

11. Debtors

	<u>1999</u>	<u>1998</u>
	<u>£</u>	<u>£</u>
Trade debtors	4,316,980	2,011,170
Amounts owed by Group undertakings	59,912	1,437,376
Prepayments and accrued income	272,910	682,880
Other Taxation and Social Security	<u>165,472</u>	<u>-</u>
	<u>4,815,274</u>	<u>4,131,426</u>

All debts fall due for payment within one year.

12. Creditors

	<u>1999</u>	<u>1998</u>
	<u>£</u>	<u>£</u>
Trade creditors	1,158,536	909,238
Amounts owed to Group undertakings	8,513,054	15,748
Corporation Tax	353,165	-
Other creditors	375,856	272,435
Accruals and deferred income	1,496,960	1,149,396
Other Taxation and Social Security	<u>-</u>	<u>47,232</u>
	<u>11,897,571</u>	<u>2,394,049</u>

PHARMAX LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 1999

13. Provisions for Liabilities and Charges  
Deferred Taxation

	<u>1999</u>		<u>1998</u>	
	Not Provided	Provided in accounts	Not Provided	Provided in accounts
	£	£	£	£
Sundry timing difference	-	6,500	-	30,000
Accelerated capital allowances	-	99,500	-	94,000
Related to freehold land and buildings	155,000	-	-	-
	<u>155,000</u>	<u>106,000</u>	<u>-</u>	<u>124,000</u>
Movements in deferred taxation				
Balance at 1st April 1998		124,000		152,000
Transfer to Profit & Loss Account		(18,000)		(28,000)
Balance 31st March 1999		<u>106,000</u>		<u>124,000</u>

14. Share Capital

	<u>1999</u>	<u>1998</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 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 1999

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15. Commitments under operating leases

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

	<u>1999</u>	<u>1998</u>
	<u>£</u>	<u>£</u>
Land and buildings		
- expiring after 5 years	-	270,000
Plant and machinery		
- expiring between 2 and 5 years	<u>12,541</u>	<u>19,841</u>
	<u>12,541</u>	<u>289,841</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 £518,523 (1998 £524,896). The employer's contribution was 16.1% (1998 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 1997 and was completed allowing for 8.5% investment returns and 7% future salary increases.

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.