

Barclay Pharmaceuticals Limited
Directors' Report and Financial Statements
for the 18 months ended 31 December 1997

Registered no: 2770716



Barclay Pharmaceuticals Limited

Annual report for the 18 months ended 31 December 1997

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Directors' report for the 18 months ended 31 December 1997

The directors present their report and the audited financial statements for the 18 months ended 31 December 1997.

Principal activities

The Company's principal activity during the period was the sale and distribution of pharmaceutical and other products.

Review of business and future prospects

During the period the Daniels element of the wholesale business was discontinued. This discontinuation arose as a result of the disposal of the third party wholesale turnover to different parties and the transfer of the residual intra group businesses to AAH Pharmaceuticals, a company wholly owned by the UK group. Disposal of the third party wholesale turnover was a condition imposed by the Monopolies and Mergers Commission when GEHE Invest acquired Lloyds Chemists plc.

The performance of the retained businesses during the period is considered to be satisfactory. It is anticipated that the company will, in the future, work more closely with other group businesses which will have a positive impact on the Company's future prospects.

Results and dividends

The results for the period are set out on page 5. The directors do not recommend the payment of a dividend (1996 : £47,500,000).

Directors and directors' interests

The directors who held office during the period were as follows:

A J Lloyd	resigned 21 January 1997
M A Ward	resigned 21 January 1997 and reappointed 24 April 1997
R G Turner	resigned 21 January 1997
S W Buckell	resigned 30 May 1997
W I Jack	resigned 24 February 1997
C F Wilson	
M D Yorke	resigned 9 July 1997
D A Condliffe	
J Poole	
C P Gee	
J C Fellows	resigned 21 January 1997
M Kidd	resigned 24 July 1997
G A Kershaw	appointed 21 January 1997
S M Meister	appointed 21 January 1997
R C H Vizard	appointed 21 January 1997
M F Wilson	

Except as disclosed below and in note 24 to the financial statements, none of the directors at 31 December 1997 had any interests in the ordinary shares of the Company or was beneficially interested in the issued share capital of any other company in the Group or of the parent undertakings, GEHE AG and Franz Haniel & Cie GmbH, or had any material interest in any contracts with group companies, at any time during the period.

M A Ward was a director of Lloyds Chemists plc, the UK holding company, at the period end and his interests are disclosed in the financial statements of that company.

The interests of the other directors serving at the end of the period, in Lloyds Chemists plc, the ultimate parent undertaking at 30 June 1996, were as follows:

	Ordinary shares of 5p each		Executive share option scheme ordinary shares of 5p each		SAYE share option scheme ordinary shares of 5p each	
	31 December 1997	30 June 1996	31 December 1997	30 June 1996	31 December 1997	30 June 1996
	Number	Number	Number	Number	Number	Number
C F Wilson	-	3,000	-	90,000	-	7,560
D A Condliffe	-	-	-	9,000	-	10,182
J Poole	-	-	-	15,000	-	10,182
C P Gee	-	-	-	8,000	-	-

Employees

The Company has developed and maintained arrangements whereby employees are consulted and provided with information about current activities and progress within the Company and with training to improve the operational efficiency of the Company.

The Company supports the employment of disabled people wherever possible, through recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion, having regard to their particular aptitudes and abilities.

It is Company policy to provide equal employment opportunities without regard to race, religion, sex, national origin or age.

Payment of suppliers

It is the Company's policy that appropriate terms and conditions for its transactions are agreed with suppliers, that payments are made in accordance with these terms, provided that the supplier has also complied with all terms and conditions and that no alterations are made to payment terms without prior agreement. At 31 December 1997 the Company had 57 days purchases outstanding.

Statement of directors' responsibilities

The directors are required by UK Company Law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the 18 months ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

By order of the Board


Secretary
8 June 1998

**Report of the auditors
to the members of Barclay Pharmaceuticals Limited**

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

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

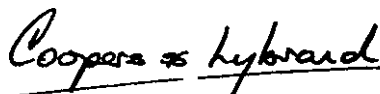
Basis of opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs at 31 December 1997 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors

Birmingham

8 June 1998.

**Profit and loss account
for the 18 months ended 31 December 1997**

	Notes	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
Turnover			
Continuing operations	2	674,696	436,493
Discontinued operations	2	219,959	244,468
		<u>894,655</u>	<u>680,961</u>
Operating profit			
Continuing operations	3	55,070	33,391
Discontinued operations	3	(5,507)	3,394
		<u>49,563</u>	<u>36,785</u>
Profit on ordinary activities before interest			
Interest receivable and similar income	6	15	31
Interest payable	7	(43)	(3,637)
		<u>49,535</u>	<u>33,179</u>
Profit on ordinary activities before taxation	8		
Tax on profit on ordinary activities	9	(18,383)	(9,877)
		<u>31,152</u>	<u>23,302</u>
Profit on ordinary activities after taxation and for the financial period			
Dividends proposed on equity shares	10	-	(47,500)
		<u>31,152</u>	<u>(24,198)</u>
Retained profit for the financial period	20		
		<u>31,152</u>	<u>(24,198)</u>

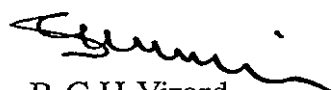
The Company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the period stated above, and their historical cost equivalents.

Balance sheet at 31 December 1997

	Notes	31 December 1997		30 June 1996	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	11		2,271		8,469
Investments	12		-		1,053
			<u>2,271</u>		<u>9,522</u>
Current assets					
Stocks	13	39,962		49,669	
Debtors	14	216,420		545,108	
Cash at bank and in hand		53,062		21,646	
		<u>309,444</u>		<u>616,423</u>	
Creditors: amounts falling due within one year	15	(255,006)		(593,814)	
Net current assets			<u>54,438</u>		<u>22,609</u>
Total assets less current liabilities			<u>56,709</u>		<u>32,131</u>
Creditors: amounts falling due after more than one year	16	(5,246)		(11,433)	
Provisions for liabilities and charges	17	-		(387)	
Net assets			<u>51,463</u>		<u>20,311</u>
Capital and reserves					
Called-up share capital	18	25,000		25,000	
Goodwill write off reserve	20	-		(6,620)	
Profit and loss account	20	26,463		1,931	
Total equity shareholders' funds	19	<u>51,463</u>		<u>20,311</u>	

The financial statements on pages 5 to 18 were approved by the board of directors on 8 June 1998 and were signed on its behalf by:


R C H Vizard
Director

Notes to the financial statements for the 18 months ended 31 December 1997

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below:

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified by the revaluation of certain leasehold properties, and in accordance with applicable Accounting Standards.

The Company is exempt from the requirement to produce group accounts by virtue of Section 228 of the Companies Act 1985.

Cash flow statement

The Company is a subsidiary of Franz Haniel & Cie GmbH which is established under the law of a member state of the European Community. Franz Haniel & Cie GmbH publishes consolidated financial statements which includes the results of Barclay Pharmaceuticals Ltd, from the date of acquisition, and consequently, in accordance with Financial Reporting Standard Number 1 (revised), no cash flow statement is included in these financial statements.

Tangible fixed assets

Depreciation is calculated so as to write off the cost of tangible fixed assets over their estimated useful lives. The principal rates used are as follows:

Freehold property	- nil
Short leasehold property	- period of the lease
Motor vehicles	- 25% on a reducing balance basis
Fixtures, fittings and equipment	- 10%-20% on a straight line basis

Where there is a permanent diminution in the value of a property a charge is made to the profit and loss account.

Finance and operating leases

Assets used by the Company which have been funded through finance leases are recorded as tangible fixed assets and are depreciated over their estimated useful lives. Future lease obligations, net of finance charges are included in creditors. Rentals payable are apportioned between the finance element which is charged to the profit and loss account and the capital element which reduces outstanding lease obligations.

All other leases are operating leases and the rental charges are taken to the profit and loss account over the life of the lease.

Goodwill

Goodwill relating to the acquisition of businesses is written off immediately against reserves.

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for accounting and taxation purposes. Accelerated or deferred taxation using the liability method is recognised only to the extent that it is probable that an actual asset or liability will crystallise.

Pension scheme arrangements

The Company is part of the defined contribution pension scheme operated by the Lloyds Chemists Group. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the company to the scheme.

2 Turnover

Turnover represents cash and credit sales made in the United Kingdom excluding value added tax.

3 Reconciliation of turnover to operating profit

	Continuing operations £'000	Discontinued operations £'000	Total £'000
18 months to 31 December 1997			
Turnover	674,696	219,959	894,655
Cost of sales	(576,733)	(205,010)	(781,743)
Gross profit	97,963	14,949	112,912
Distribution costs	(33,042)	(8,078)	(41,120)
Administration expenses	(10,253)	(12,645)	(22,898)
Income from shares in group undertakings	402	781	1,183
Operating profit/(loss) before exceptional items	55,070	(4,993)	50,077
Provision for operations to be discontinued	-	(344)	(344)
Loss on disposal of discontinued operations	-	(170)	(170)
Operating profit/(loss)	55,070	(5,507)	49,563
Year ended 30 June 1996			
	Continuing operations £'000	Discontinued operations £'000	Total £'000
Turnover	436,493	244,468	680,961
Cost of Sales	(381,002)	(229,081)	(610,083)
Gross Profit	55,491	15,387	70,878
Distribution Costs	(21,658)	(10,951)	(32,609)
Administration Expenses	(2,442)	(1,042)	(3,484)
Income from shares in group undertakings	-	2,000	2,000
Operating profit	31,391	5,394	36,785

4 Directors emoluments

	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
Aggregate emoluments	1,125	733
Company pension contributions to money purchase schemes	13	-
Compensation for loss of office	84	18

Retirement benefits are accruing to six directors under defined benefit schemes.

4 Directors emoluments (continued)

Emoluments payable to the highest paid director are as follows:

	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
Aggregate emoluments and benefits under long-term incentive schemes	207	83
Company pension contributions to money purchase schemes	10	-

A J Lloyd, M A Ward, R G Turner and J C Fellows were directors of Lloyds Chemists plc, the immediate UK holding company at the period end and their emoluments and pension information are disclosed in the financial statements of that company.

S W Buckell, G A Kershaw, S M Meister and R C H Vizard performed no management services for the C and accordingly no emoluments are disclosed for them within these accounts.

The directors remunerated by the Company are members of the immediate UK holding company pension scheme, details of which are disclosed in the financial statements of that company.

5 Employee information

The average number of persons employed by the Company during the period, analysed by category, was as follows:

	18 months ended 31 December 1997 Number	Year ended 30 June 1996 Number
Administration	176	218
Selling and distribution	1,267	1,631
	<u>1,443</u>	<u>1,849</u>

The aggregate payroll costs of these persons were as follows:

	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
Wages and salaries	25,673	20,407
Social security costs	2,085	1,622
Other pension costs	117	116
	<u>27,875</u>	<u>22,145</u>

6 Interest receivable and similar income

	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
Bank interest	1	31
Other interest	14	-
	<u>15</u>	<u>31</u>

7 Interest payable

	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
On bank loans and overdrafts	-	3,588
Finance lease charges	43	49
	<u>43</u>	<u>3,637</u>

8 Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging the following:

	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
Loss on sale of fixed assets	32	-
Depreciation of fixed assets held under hire purchase agreements	8	117
Depreciation of owned tangible fixed assets	2,894	2,265
Permanent diminution in value of tangible fixed assets	3,452	-
Permanent diminution in value of investments	1,053	-
Payments under operating leases:		
Land and buildings	3,401	2,205
Plant and machinery	1,065	89
Other assets	962	465
Auditors' remuneration	82	141
	<u></u>	<u></u>

9 Tax on profit on ordinary activities

Taxation based on the profit for the period is as follows:

	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
UK Corporation tax at 31% (1996: 33%)	19,415	10,048
Deferred taxation (note 17)	(1,032)	(171)
	<u>18,383</u>	<u>9,877</u>

10 Dividends

	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
Equity shares:		
Final proposed (1997: £Nil 1996: £1.90 per share)	-	47,500
	<u>-</u>	<u>47,500</u>

11 Tangible fixed assets

	Freehold land and buildings £'000	Short leasehold properties £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost or valuation					
At 1 July 1996	150	2,052	2,418	10,354	14,974
Additions	-	21	434	613	1,068
Intra-group transfers	-	(76)	(155)	(638)	(869)
Disposals	-	(57)	(778)	(195)	(1,030)
Permanent diminution	(150)	(440)	(1,340)	(4,466)	(6,396)
At 31 December 1997	-	1,500	579	5,668	7,747
Depreciation					
At 1 July 1996	-	575	1,213	4,717	6,505
Charge for the period	-	460	330	2,112	2,902
Intra-group transfers	-	(15)	(82)	(251)	(348)
Disposals	-	(15)	(548)	(76)	(639)
Permanent diminution	-	(73)	(772)	(2,099)	(2,944)
At 31 December 1997	-	932	141	4,403	5,476
Net book value					
At 31 December 1997	-	568	438	1,265	2,271
Net book value					
At 30 June 1996	150	1,477	1,205	5,637	8,469
Net book value of assets held under finance leases	-	-	2	-	2

During the period, the useful economic lives of assets were reviewed and as a consequence a charge of £3,452,000 was made to the profit and loss account in respect of the permanent diminution in values of certain assets.

12 Investments

	1997 £'000	1996 £'000
Shares in subsidiary undertakings		
Cost at beginning of period	1,053	1,053
Provision for permanent diminution in value	(1,053)	-
Net book value at end of period	-	1,053

During the period, the carrying value of investments was reviewed and as a consequence a charge of £1,053,000 was made to the profit and loss account in respect of the permanent diminution in value of the assets.

The Company owns interests in:

	Ordinary Shares	Country of Incorporation	Nature of Operations
Illingworth Healthfoods Limited	100%	England	Dormant
John Hamilton (Pharmaceuticals) Limited	100%	Scotland	Distribution

13 Stocks

	1997 £'000	1996 £'000
Goods for resale	39,962	49,669

14 Debtors

	1997 £'000	1996 £'000
Trade debtors	22,752	36,013
Amounts owed by parent undertaking and fellow subsidiaries	179,439	503,299
Amounts owed by fellow group companies	3,256	-
Other debtors	383	159
Deferred tax (note 17)	645	-
Prepayments	9,945	5,637
	216,420	545,108

15 Creditors: amounts falling due within one year

	1997 £'000	1996 £'000
Obligations under finance leases	-	356
Trade creditors	64,754	136,778
Amounts owed to parent undertaking and fellow subsidiaries	152,041	387,739
Amounts owed to fellow group companies	1,104	-
Corporation tax	25,527	13,044
Other taxation and social security	1,986	3,650
Other creditors	3,481	1,372
Accruals and deferred income	6,113	3,375
Proposed dividend	-	47,500
	<u>255,006</u>	<u>593,814</u>

16 Creditors: amounts falling due after more than one year

	1997 £'000	1996 £'000
Obligations under finance leases	-	76
Amounts owed to parent undertaking and fellow subsidiaries	5,246	11,357
	<u>5,246</u>	<u>11,433</u>
The obligations under finance leases are repayable as follows:		
Within one year	-	356
Between two and five years	-	76
	<u>-</u>	<u>432</u>

17 Provisions for liabilities and charges

	Deferred taxation £'000
At 1 July 1996	387
Transfer to profit and loss account (note 9)	(1,032)
At 31 December 1997	<u>(645)</u>

17 Provisions for liabilities and charges (cont'd)

The (asset)/liability recognised for (accelerated)/deferred taxation and the amounts unprovided of the total potential liability calculated at 31%, are as follows:

	Amount recognised		Amount not recognised	
	31 December 1997 £'000	30 June 1996 £'000	31 December 1997 £'000	30 June 1996 £'000
Accelerated capital allowances	-	450	-	-
Short term timing differences	(645)	(63)	-	-
Chargeable gains rolled over	-	-	-	211
	<u>(645)</u>	<u>387</u>	<u>-</u>	<u>211</u>

The deferred taxation amount of 31 December 1997 is included within debtors.

18 Called up share capital

	1997 £'000	1996 £'000
Authorised, allotted, called up and fully paid 25,000,000 ordinary shares of £1 each	<u>25,000</u>	<u>25,000</u>

19 Reconciliation of movements in shareholders' funds

	18 months ended 31 December 1997 £'000	Year ended 30 June 1996 £'000
Profit for the year after taxation	31,152	23,302
Dividends proposed	-	(47,500)
Net movement in shareholders' funds	<u>31,152</u>	<u>(24,198)</u>
Opening shareholders' funds	20,311	44,509
Closing shareholders' funds	<u>51,463</u>	<u>20,311</u>

20 Reserves

	Goodwill write-off reserve £'000	Profit and loss account £'000
At 1 July 1996	(6,620)	1,931
Profit for the period	-	31,152
Transfer	6,620	(6,620)
At 31 December 1997	-	26,463

21 Commitments under operating leases

	Land and buildings		Other assets	
	31 December 1997 £'000	30 June 1996 £'000	31 December 1997 £'000	30 June 1996 £'000
Expiring within one year	356	392	92	148
Expiring between two and five years inclusive	812	170	1,109	580
Expiring in over five years	1,190	1,504	-	-
	<u>2,358</u>	<u>2,066</u>	<u>1,201</u>	<u>728</u>

22 Capital commitments

Contracts placed for capital expenditure so far as not provided for in these financial statements amounted to £Nil (1996: £25,000).

23 Contingent liabilities

The Company guarantees the borrowings of other group undertakings which at 31 December 1997 amounted to £Nil (1996: £Nil).

24 Related party transactions

During the period, the Company occupied two warehouse units owned by The Croft Pension Fund, the beneficiaries of which include Mr A J Lloyd together with his dependents. The aggregate annual rental of these units is £165,000. The rentals in respect of all the above leases were determined on an arms length basis and future rent reviews will be similarly determined.

With this exception, no director of the Company was materially interested in any contact or arrangements subsisting during or at the end of the period within the Company.

The Company has taken advantage of the exemption granted under paragraph 3(c) of Financial Reporting Standard 8, and has not disclosed any transactions with other group companies.

25 Ultimate holding company

The ultimate parent undertaking and controlling party is Franz Haniel & Cie GmbH, a company incorporated in Germany, by virtue of its majority shareholding in GEHE AG and its consolidation of the GEHE AG Group results into its own consolidated financial statements.

Consolidated financial statements for the largest group of undertakings are prepared by Franz Haniel & Cie GmbH and may be obtained from Franz Haniel Platz 1, D47119 Duisburg, Ruhrort, Germany.

Consolidated accounts for the smallest group of companies are prepared by GEHE AG, a company incorporated in Germany, and may be obtained from Neckartalstrasse 155, Postfach 500426, 70334 Stuttgart, trt, 26Germany.