Registered no: 203555

Johnson & Johnson Management Limited

Annual report

for the year ended 3 January 1999

Johnson & Johnson Management Limited

Annual report for the year ended 3 January 1999

Directors and advisers

Directors

I Larracoechea
C R Thorne
V J Dawkins

Secretary and registered office

C R Thorne
Foundation Park
Roxborough Way
Maidenhead
Berkshire SL6 3UG

Auditors

PricewaterhouseCoopers
9 Greyfriars Road
Reading
Berkshire RG1 1JG

Bankers

Barclays Bank Plc
Hamilton Road
Slough Trading Estate
Slough
Berkshire SL1 4SG

Directors' report
for the year ended 3 January 1999

The directors present their report and the audited financial statements for the year ended 3 January 1999.

Principal activities

The principal activities of the group are the manufacture and sale of healthcare products.

Review of business

The consolidated profit and loss account for the year is set out on page 6.

The group recorded a loss for the year of £12,237,000 a significant portion of which is attributable to losses generated within Ortho-Clinical Diagnostics, a subsidiary company. That company has had a programme of investing in research and development that is expected to provide benefits in future years through a new product range launched during the year.

In December 1999 the directors of Ortho-Clinical Diagnostics announced their decision to terminate research and development operations at one site with effect from 30 June 2000. No provision has been made in these accounts for closure costs but the subsequent savings are expected to improve the trading performance of the group.

During the year a subsidiary company, Johnson & Johnson Medical Limited, sold the trade and assets of its Critikon business division to a third party as part of a worldwide disposal by Johnson & Johnson.

During the year the company acquired the remaining minority interest in Johnson & Johnson Sdn Bhd.

As disclosed in note 14 to the financial statements, in August 1999 the group acquired the entire share capital of De Puy International Limited.

The group's plans have been approved and are fully supported by the Johnson & Johnson Group. On this basis the directors consider that both the level of business and the year end financial position remain satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

Dividends

During the year the company paid an interim dividend of £2,075,000.

The directors do not recommend the payment of a further final dividend in respect of the year ended 3 January 1999 (1997: £Nil).

Research and development

The group is heavily committed to research and development activities so as to bring new or improved products onto the healthcare market, thus maintaining its respected position. All research expenditure is written off as it is incurred.

Directors

The directors of the company at 3 January 1999, all of whom had been directors for the whole of the year ended on that date, were as follows:

M S Head
C R Thorne
V J Dawkins

On 1 September 1999 Mr M S Head resigned as a director and Mr I Larracoechea was appointed as a director.

Directors' interests in shares of the company

According to the register required to be kept under Section 325 of the Companies Act 1985, no director had, at any time during the year ended 3 January 1999, any interests in the shares of the company, or any other group company, which are required by Section 324 of the Act to be notified to the company.

Charitable and political contributions

No political contributions were made during the year. Charitable contributions amounted to £6,118,730 (1997: £1,386,270).

Employee involvement

The group is committed to the continued provision and development of employee involvement by an effective communications and consultative framework. Briefing meetings and consultative committees covering broad business areas, pensions, health and safety, quality and employee services are well established and meet regularly.

The current emphasis is on facilitating cross-functional relationships to increase awareness and to build effective teamwork.

The group's policies and practices are regularly reviewed and feedback received from all staff levels.

Disabled persons

The group adopts the policy of giving full and fair consideration to the employment and training of disabled persons, having regard to their particular aptitudes and disabilities.

Year 2000

The Year 2000 issue, which stems from computer programmes written using two digits rather than four to define the applicable year, could result in processing faults on the change of the century, producing a wide range of consequences.

To minimise this risk, the companies in the group completed a programme to identify the main risk areas, assessed the necessary actions required and, where not yet completed, are applying appropriate resources to mitigate the risk.

The costs of any modifications are not expected to be significant and are being written off as incurred. The acquisition of new systems is being capitalised and depreciated in accordance with existing accounting policies.

Euro

The companies in the group are currently assessing the impact of the introduction of the Euro on their businesses. The cost associated with the introduction of the Euro are expected to be immaterial and will be expensed as incurred.

Directors' responsibilities

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

- Select suitable accounting policies and 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 presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and of the group and 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 of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board

C R Thorne
Director

Report of the auditors to the members of Johnson & Johnson Management Limited

We have audited the financial statements on pages 6 to 26.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described on page 4, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 affairs of the company and the group at 3 January 1999 and of the loss and total recognised losses of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Reading

26 January 2000

Consolidated profit and loss account for the year ended 3 January 1999

	Notes	1998 £'000	1997 £'000
Turnover: group and share of joint venture			
Continuing operations		**587,594**	564,177
Discontinued		**4,863**	-
Total turnover: group and share of joint venture	2	**592,457**	564,177
Less: share of joint venture's turnover		**(8,309)**	(4,529)
Group turnover		**584,148**	559,648
Group operating profit/(loss)			
Continuing operations		**12,829**	1,813
Discontinued		**(366)**	-
Group operating profit	3	**12,463**	1,813
Share of operating loss in joint venture		**(1,092)**	(894)
Total operating profit		**11,371**	919
Profit on sale of operations		**566**	-
Interest receivable and similar income		**3,285**	2,083
Interest payable and similar charges - group	8	**(23,709)**	(19,690)
Interest payable and similar charges - share of joint venture		**(180)**	(33)
Loss on ordinary activities before taxation	5	**(8,667)**	(16,721)
Tax on ordinary activities	9	**(1,826)**	983
Loss on ordinary activities after taxation	11	**(10,493)**	(15,738)
Minority interests		**331**	(947)
Loss attributable to shareholders		**(10,162)**	(16,685)
Dividends	10	**(2,075)**	-
Loss for the financial year	22	**(12,237)**	(16,685)

Statement of group total recognised gains and losses

	1998 £'000	1997 £'000
Loss for the financial year	**(12,237)**	(16,685)
Currency translation differences of opening net investment in foreign subsidiaries	**138**	(1,882)
Currency translation differences of subsidiary company results at average rate	**91**	474
Total recognised losses for the year	**(12,008)**	(18,093)

Note of group historical cost profits and losses

	1998 £'000	1997 £'000
Reported loss on ordinary activities before taxation	**(8,667)**	(16,721)
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	**7**	9
Historical cost loss on ordinary activities before taxation	**(8,660)**	(16,712)
Historical cost result for the year retained after taxation, minority interests and dividends	**(12,230)**	(16,676)

Balance sheets
at 3 January 1999

	Notes	Group		Company	
		1998	1997	**1998**	1997
		£'000	£'000	**£'000**	£'000
Fixed assets					
Intangible assets	12	**6,257**	9,961	-	-
Tangible assets	13	**106,697**	105,512	-	-
Investments	14	-	-	**152,210**	155,381
		112,954	115,473	**152,210**	155,381
Current assets					
Stocks	15	**85,830**	77,760	-	
Debtors	16	**228,162**	252,951	**14,363**	7,916
Cash at bank and in hand		**12,969**	13,691	-	-
		326,961	344,402	**14,363**	7,916
Creditors: amounts falling due within one year	17	**346,503**	354,493	**26,950**	4,790
Net current (liabilities)/assets		**(19,542)**	(10,091)	**(12,587)**	3,126
Total assets less current liabilities		**93,412**	105,382	**139,623**	158,507
Creditors: amounts falling due after more than one year	18	**104,688**	111,647	**95,985**	95,985
Provisions for liabilities and charges	19	**44,660**	35,604	-	-
Net (liabilities)/assets		**(55,936)**	(41,869)	**43,638**	62,522
Capital and reserves					
Called-up share capital	21	**20,667**	20,667	**20,667**	20,667
Share premium account	22	**14,100**	14,100	**14,100**	14,100
Capital reserve		**1**	1	-	-
Revaluation reserve	22	**756**	763	-	2,171
Profit and loss account	22	**(91,295)**	(78,582)	**8,871**	25,584
Equity shareholders' funds		**(55,835)**	(43,115)	**43,574**	62,458
Non-equity shareholders' funds		**64**	64	**64**	64
Total shareholders' funds	23	**(55,771)**	(43,051)	**43,638**	62,522
Minority interests - equity	24	**(165)**	1,182	-	-
		(55,936)	(41,869)	**43,638**	62,522

The financial statements on pages 6 to 26 were approved by the board of directors on 26 January 2000 and were signed on its behalf by:

C R Thorne

C R Thorne
Director

Notes to the financial statements for the year ended 3 January 1999

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the more important group accounting policies, which have been applied consistently, unless otherwise stated, is set out below.

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the parent company and all its subsidiaries made up to the end of the financial year. Internal sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes.

Cashflow statement and related parties

The company is a wholly owned subsidiary of Johnson & Johnson and is included in the consolidated financial statements of that company, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1. The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Johnson & Johnson group.

Goodwill and know-how

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. As a result of the application of FRS 10, goodwill arising on consolidation of external acquisitions is capitalised and written off over a period of 20 years. Previously goodwill on consolidation was written off to reserves.

Purchased goodwill is amortised over its useful economic life.

Purchased technical know-how is written off on a straight line basis over the estimated life of the product range to which it relates. Estimated lives range from five to twelve years. The value of purchased technical know-how is subject to adjustment as a result of movements in deferred consideration arising from changes in forecast sales.

Turnover

Turnover, which excludes value-added tax and trade discounts, represents the invoiced value of goods and services supplied.

Research and development

Research and development expenditure, together with the cost of patents and trademarks, is written off as it is incurred.

Associated undertakings

The group's share of the profit/loss of associated undertaking is included in the consolidated profit and loss account, and the group's share of net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertaking concerned, which are prepared to the same accounting reference date.

Tangible fixed assets

Tangible fixed assets are stated at their purchase cost or subsequent valuation. Depreciation is calculated so as to write off the cost or valuation of tangible fixed assets on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Buildings	3%
Plant and equipment	5-20%
Motor vehicles	10-40%
Fixtures and fittings	10-25%

Leasehold property is amortised over the period of the lease. Freehold land is not depreciated.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Finance leases

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership are capitalised in accordance with standard accounting practice. The amount capitalised represents the present value of the minimum lease payments. The corresponding leasing commitments are shown as obligations under finance leases within creditors and the finance costs are spread over the life of the lease.

Lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit. The assets are depreciated over the shorter of the lease term or the estimated useful lives of the assets.

Government grants

Grants that relate to specific capital expenditure are treated as deferred income which is then credited to the profit and loss account over the related asset's useful life.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. The cost of raw materials is ascertained on the first in first out basis. The cost of work in progress and finished goods comprises the cost of direct raw materials and labour, together with the relevant proportion of overheads calculated according to the stage of production reached, based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made where necessary for obsolescent, slow moving and defective stocks.

Taxation

The charge for taxation is based on the results for the year as adjusted for disallowable items.

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.

Deferred consideration

Deferred consideration represents the net present value of the estimated amounts payable for know-how. The annual charge for discounting this consideration is charged to `interest payable and similar charges' in the profit and loss account.

Advertising

Advertising and sales promotion expenditure is charged to the profit and loss account as it is incurred.

Foreign currency translation

The balance sheets of overseas subsidiaries are translated into sterling at the rates ruling at the balance sheet date; profit and loss accounts are translated at the average rates for the year. Differences arising on the translation of the net equity interest in overseas subsidiaries at the beginning of the year, together with differences arising on the profit and loss accounts where average rates differ from the rates ruling at the balance sheet date are dealt with through reserves.

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the company entered into the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. Exchange gains and losses are included in operating results.

Pension costs

The group operates a funded defined benefit pension scheme for UK employees which provides defined benefits for most members and benefits on a defined contribution basis for younger members. The fund is valued every three years by a professionally qualified, independent actuary. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the group benefits from the employees' services. Variations in pension cost are spread over the expected average remaining service lives of current employees.

2 Turnover

The group's turnover and profit before taxation are derived solely from the manufacture and sale of healthcare products, and all the group's net assets are likewise employed. The geographical analysis of turnover, profit before taxation and net assets is as follows:

	1998		1997	
Turnover: group and share of joint venture	**Sales by origin**	**Sales by Destination**	Sales by Origin	Sales by Destination
	£'000	**£'000**	£'000	£'000
Geographical segment				
United Kingdom - group	**533,128**	**323,306**	503,398	298,851
United Kingdom - share in joint venture	**8,309**	**8,309**	4,529	4,529
Europe	**21,801**	**167,688**	21,355	166,221
Rest of world	**29,219**	**93,154**	34,895	94,576
	592,457	**592,457**	564,177	564,177

Loss before taxation

	1998	1997
	£'000	£'000
Geographical segment		
United Kingdom	**6,643**	(5,969)
Europe	**1,478**	2,339
Rest of World	**3,816**	4,549
	11,937	919
Net interest payable	**(20,604)**	(17,640)
	(8,667)	(16,721)

Net liabilities

	1998	1997
	£'000	£'000
Geographical segment		
United Kingdom	**(62,634)**	(48,013)
Europe	**547**	2,757
Rest of World	**6,151**	3,387
	(55,936)	(41,869)

3 Total group operating profit/(loss)

	Continuing 1998 £'000	Discontinued 1998 £'000	Total 1998 £'000	Total 1997 £'000
Group turnover	579,285	4,863	584,148	559,648
Change in stocks of finished goods and work in progress	16,420	(1,791)	14,629	(2,429)
Other operating income	5,838	-	5,838	6,505
Raw materials and consumables	(299,973)	(2,540)	(302,513)	(276,267)
Other external charges	(18,777)	(97)	(18,874)	(15,733)
Staff costs (see note 7)	(112,137)	(519)	(112,656)	(110,925)
Depreciation of tangible fixed assets	(23,747)	(54)	(23,801)	(20,398)
Other operating charges	(134,080)	(228)	(134,308)	(138,588)
Group operating profit/(loss)	12,829	(366)	12,463	1,813

4 Exceptional items

	1998 £'000	1997 £'000
Profit on sale of operations	566	-

During the year one of the group's subsidiaries, Johnson & Johnson Medical Limited, sold the trade and assets of its Critikon business division to a third party as part of a worldwide disposal by Johnson & Johnson.

5 Loss on ordinary activities before taxation

	1998 £'000	1997 £'000
Loss on ordinary activities before taxation is stated after crediting:		
Profit on disposal of tangible fixed assets	31	15
Gain on foreign exchange	662	-
And after charging:		
Depreciation charge for the year:		
Intangible fixed assets	879	2,588
Tangible owned fixed assets	23,346	20,398
Tangible fixed assets held under finance leases	455	366
Research and development expenditure	19,242	20,878
Auditors' remuneration	217	255
Hire of plant and machinery - operating leases	3,779	3,591
Hire of other assets – operating leases	3,688	3,878
Directors' emoluments (see note 6)	306	303
Loss on foreign exchange	118	455

Remuneration of the auditors for provision of non-audit services was £459,000 (1997: £1,410,000). The audit fee for the company is borne by a subsidiary undertaking (1997: £8,000).

6 Directors' emoluments

The remuneration paid to the directors of Johnson & Johnson Management Limited was:

	1998	1997
	£	£
Aggregate emoluments and benefits	**306,327**	302,755

Retirement benefits are accruing to two directors (1997: 2) under the group's defined benefit pension scheme.

Highest paid director

	1998	1997
	£	£
Aggregate emoluments and benefits	**205,529**	190,153
Defined benefit pension scheme		
Accrued pension at end of year	**14,670**	9,484

Retirement benefits are accruing to two directors (1997: 2) under the group's defined benefit pension scheme.

7 Employee information

The average monthly number of persons (including executive directors) employed by the group during the year was:

	1998	1997
	Number	Number
Production and distribution	**3,140**	3,272
Selling and marketing	**995**	914
Administration	**408**	371
Research and development	**155**	162
	4,698	4,719

Employment costs of all employees included above:

	1998	1997
	£'000	£'000
Gross wages and salaries	**96,197**	95,246
Employer's national insurance and state pension contributions	**7,850**	7,691
Employer's pension contributions under the group pension scheme (see note 20)	**8,609**	7,988
	112,656	110,925

8 Interest payable and similar charges

	1998 £'000	1997 £'000
On loans from group undertakings	**11,412**	10,287
On loans wholly repayable within 5 years, not by instalments	**10,805**	7,953
On finance leases	**82**	64
Interest on deferred consideration (see note 18)	**1,410**	1,386
	23,709	19,690

9 Taxation

	1998 £'000	1997 £'000
Current year (credit)/charge		
United Kingdom corporation tax at 31% (1997: 31.5%)		
Current	**(1,767)**	(3,772)
Deferred	**(20)**	334
Overseas tax	**2,625**	2,086
Under/(over) provision in respect of prior years:		
Current	**1,366**	1,196
Deferred	**(101)**	(312)
	2,103	(468)
Share of joint venture tax credit	**(277)**	(515)
Charge/(credit) for the year	**1,826**	(983)

10 Dividends

	1998 £'000	1997 £'000
Equity – ordinary		
Interim paid: 10p (1997: Nil) per £1 share	**2,070**	-
Non-equity - preference		
Paid: 8.25p (1997: Nil) per £1 share	**5**	-
	2,075	-

11 Losses of holding company

Of the loss for the financial year, a deficit of £16,713,000 (1997: deficit of £7,195,000) is dealt with in the accounts of Johnson & Johnson Management Limited. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the company alone.

12 Intangible fixed assets

Group	Goodwill £'000	Know-how £'000	Patents £'000	Total £'000
Cost				
At 29 December 1997	3,397	22,621	1,354	27,372
Additions	2,956	-	-	2,956
Adjustment to deferred consideration	-	(6,225)	-	(6,225)
Transfer from tangible assets	-	-	444	444
At 3 January 1999	**6,353**	**16,396**	**1,798**	**24,547**
Amortisation				
At 29 December 1997	1,062	16,264	85	17,411
Charge for year	516	132	231	879
At 3 January 1999	**1,578**	**16,396**	**316**	**18,290**
Net book value				
At 3 January 1999	**4,775**	**-**	**1,482**	**6,257**
At 28 December 1997	2,335	6,357	1,269	9,961

The company does not have any intangible fixed assets.

13 Tangible fixed assets

Group

	Freehold land and buildings £'000	Leasehold long term £'000	Property short term £'000	Fixtures, fittings, plant and equipment £'000	Plant under construction £'000	Total £'000
Cost or valuation						
At 29 December 1997	26,872	5,581	5,757	148,226	10,298	196,734
Exchange differences	118	17	-	96	(3)	228
Additions	928	1	-	13,843	14,285	29,057
Transfers	1,794	84	1,526	11,944	(15,348)	-
Transfers to intangibles	-	-	-	-	(444)	(444)
Disposals	(22)	(493)	(339)	(12,872)	(615)	(14,341)
At 3 January 1999	**29,690**	**5,190**	**6,944**	**161,237**	**8,173**	**211,234**
Depreciation						
At 29 December 1997	8,878	2,068	4,475	75,801	-	91,222
Exchange differences	79	6	-	41	-	126
Charge for year	1,292	226	377	21,906	-	23,801
Eliminated in respect of disposals	(15)	(92)	(338)	(10,167)	-	(10,612)
Transfers	-	-	-	-	-	-
At 3 January 1999	**10,234**	**2,208**	**4,514**	**87,581**	-	**104,537**
Net book value						
At 3 January 1999	**19,456**	**2,982**	**2,430**	**73,656**	**8,173**	**106,697**
At 28 December 1997	17,994	3,513	1,282	72,425	10,298	105,512

The net book value of tangible fixed assets includes an amount of £1,267,000 (1997:£1,030,000) in respect of assets held under finance leases and hire purchase contracts.

Interests in leasehold land and buildings of a subsidiary were revalued by the directors of that subsidiary in April 1980 based on independent professional valuations on an open market value basis.

If leasehold land and buildings had not been revalued they would have been included at the following amounts:

Group

	Long term Leasehold Property	
	1998	1997
Cost	**4,698**	5,095
Aggregate depreciation based on cost	**2,148**	1,780

The company does not have any tangible fixed assets.

14 Fixed assets investments

The group's investment in the associated undertaking is comprised of the following:

Group

	1998	1997
	£'000	£'000
Share of gross assets	**3,082**	2,404
Share of gross liabilities	**(4,415)**	(2,741)
	(1,333)	(337)
Less: transfer to provisions for liabilities and charges	**1,333**	337
	-	-

The above relates to a 50% ownership of the ordinary share capital of an unlimited company, Johnson and Johnson MSD Consumer Pharmaceuticals which is included in the consolidation on an equity accounting basis.

The principal business activity of Johnson and Johnson MSD Consumer Pharmaceuticals is the marketing of consumer pharmaceutical products. Its registered office is at Enterprise House, Station Road, Loudwater, Buckinghamshire.

Company

	Subsidiary companies £'000
Cost at 29 December 1997	155,381
Additions	19,968
Disposals	(17,451)
Write down to net realisable value	(5,688)
Cost at 3 January 1999	**152,210**

The subsidiaries of the company at 3 January 1999 were:

Name of undertaking	Country of Incorporation	Description of shares held	Proportion of nominal value of issued share capital held by Group	Company
Ethicon Limited	Great Britain	Ordinary shares of £1	100%	100%
Johnson & Johnson (Ireland) Limited	Republic of Ireland	Ordinary shares of £1	100%	-
Johnson & Johnson Limited	Great Britain	Ordinary shares of £1	100%	100%
Johnson & Johnson Medical Limited	Great Britain	Ordinary shares of £1	100%	90%
Johnson & Johnson Professional Products Limited	Great Britain	Ordinary shares of £1	100%	100%
Johnson & Johnson Sdn Bhd	Malaysia	Ordinary shares of £1	100%	30%
Neutrogena Limited	Great Britain	Ordinary shares of £1	100%	100%
Ortho-Clinical Diagnostics	Great Britain	Ordinary shares of £1	98%	98%
Johnson & Johnson Investments Limited	Great Britain	Ordinary shares of £1	100%	100%
Cordis (UK) Limited	Great Britain	Ordinary shares of £1	100%	100%

On 12 August 1998 the remaining 30% of Johnson & Johnson Sdn Bhd was acquired by the company. The book and fair value of the net assets acquired was £1,020,000 purchased for £3,976,000 cash, resulting in goodwill of £2,956,000. The purchase has been accounted for as an acquisition.

All the shares held in the above subsidiaries are held directly by the company other than 70% of Johnson & Johnson Sdn Bhd and 100% of Johnson & Johnson (Ireland) Limited, which is owned by Johnson & Johnson Investments Limited, and Johnson & Johnson Medical Limited which is owned by Ethicon Limited.

During the year Cordis (UK) Limited and Johnson & Johnson Professional Products Limited were put into voluntary liquidation.

The principal activities of the other subsidiaries are the manufacture and sale of healthcare products.

All of the above companies operated principally in their country of incorporation or registration.

Johnson & Johnson (Ireland) Limited, which is consolidated into these financial statements, has availed itself of the exemption from filing individual financial statements as set out in Section 17 of the Companies (Amendments) Act 1986 in Ireland.

The company has guaranteed the liabilities (as defined in Section 5(c)(ii) of the Companies (Amendment) Act 1986) in Ireland of Johnson & Johnson (Ireland) Limited for the years ended 28 December 1997 and 3 January 1999.

In August 1999 Ethicon Limited acquired the entire share capital of De Puy International Limited through the issue of 125,000 ordinary £1 shares at a premium of £999 per share, the total consideration being £125,000,000.

15 Stocks

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**13,890**	14,179	-	-
Work in progress	**8,347**	7,921	-	-
Finished goods and goods for resale	**63,593**	55,660	-	-
	85,830	77,760	-	-

16 Debtors

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year:				
Trade debtors	**82,315**	80,942	-	-
Amounts owed by group undertakings:				
Parent company and fellow subsidiary undertakings	**124,989**	146,850	-	-
Subsidiary undertakings	-	-	**9,103**	5,067
Other debtors	**7,187**	6,741	-	-
Deferred taxation	**1,169**	978	-	-
Corporation tax recoverable	**9,854**	11,571	**5,260**	2,849
Prepayments and accrued income	**2,648**	5,869	-	-
	228,162	252,951	**14,363**	7,916

17 Creditors: amounts falling due within one year

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Bank loans and overdrafts	**154,408**	146,579	-	-
Obligations under finance leases	**414**	421	-	-
Trade creditors	**22,539**	22,025	-	-
Amounts owed to group undertakings	**120,249**	132,954	**25,558**	4,463
Corporation tax	**9,814**	14,214	**695**	-
Other taxation and social security	**6,550**	5,604	**391**	-
Other creditors	**5,436**	7,745	-	-
Accruals and deferred income	**24,755**	23,426	**301**	327
Deferred consideration	**2,333**	1,525	-	-
Dividends payable	**5**	-	**5**	-
	346,503	354,493	**26,950**	4,790

The short term borrowings and bank overdrafts of Johnson & Johnson Sdn Bhd, Malaysia, amounting to £1,938,000 (1997: £2,153,000), are unsecured and bear interest rates ranging from 6.00% to 18.00% per annum (1997: 8.05 to 16.0% per annum). Other bank loans and overdrafts are not secured but are part of a group arrangement made by the ultimate holding company Johnson & Johnson.

18 Creditors: amounts falling due after more than one year

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Obligations under finance leases	**853**	609	-	-
Other creditors	**771**	960	-	-
Amounts owed to group undertakings	**95,985**	95,985	**95,985**	95,985
Accruals and deferred income	**330**	653	-	-
Deferred consideration	**6,749**	13,440	-	-
	104,688	111,647	**95,985**	95,985

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Deferred consideration				
At 28 December 1997	**14,965**	19,161	-	-
Interest payable (note 8)	**1,410**	1,386	-	-
Amounts paid during the year	**(1,068)**	(1,748)	-	-
Adjustment arising from changes in forecast sales	**(6,225)**	(3,834)	-	-
	9,082	14,965		
Less: amount falling due within one year (note 17)	**(2,333)**	(1,525)	-	-
At 3 January 1998	**6,749**	13,440	-	-

The liability for deferred consideration is assessed each year. Deferred consideration reflects management's best estimate of the net present value of amounts payable based on current sales forecasts. The amount of deferred consideration falling due after more than 5 years is £Nil (1997: £Nil).

Finance leases

The future minimum lease payments to which the group is committed under finance leases are as follows:

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
In one year or less	**414**	421	-	-
Between two and five years	**853**	609	-	-
	1,267	1,030	-	-

19 Provisions for liabilities and charges

Group	Deferred Taxation (see below) £'000	Pension obligations (Note 20) £'000	Other £'000	Total £'000
At 29 December 1997	272	34,995	337	35,604
Transferred from profit and loss account	52	7,999	-	8,051
Transfer from investment in joint venture	-	-	996	996
Exchange differences	9	-	-	9
At 3 January 1999	**333**	**42,994**	**1,333**	**44,660**

A deferred tax asset of £1,169,000 (1997: £978,000) has been included in the balance sheet.

Deferred taxation

Deferred taxation provided in the financial statements, and the potential liability for which no provision has been made, are as follows:

Group	**Amount provided**		**Amount unprovided**	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Tax effect of timing differences because of:				
Excess of capital allowances	**8,484**	8,170	**(618)**	579
Other	**(9,320)**	(8,876)	**(6,315)**	(12,990)
	(836)	(706)	**(6,933)**	(12,411)

The company has no deferred tax or potential liability for deferred tax.

20 Pension arrangements

The Group operates a funded plan for UK employees which provides benefits on a defined contribution basis for members under 35. At age 35 members have the option to move onto a defined benefit scale. The Group also operates a small supplementary arrangement for directors. The assets of the plan are administered by trustees and are held in a separate fund.

The pension cost and funding arrangements relating to the UK schemes are assessed in accordance with the advice of an independent qualified actuary using the Projected Unit Method. The cost of providing future benefits, and variations in pension cost, are spread over the expected service lives of current employees.

The latest funding valuation was as at 1 April 1996. It was assumed that investment returns would be 8.5% per annum and that salary increases (including promotion) would average 6.5% per annum. Assets were valued by using a modified 3 year rolling average approach. At that date this value of assets was sufficient to cover 136.5% of the benefits that had accrued to members after allowing for expected future increases in earnings. The market value of the assets for the entire Plan was £200,765,000 on 1 April 1996.

The accounting basis differs from the funding basis in that allowance is made for the possibility of the trustees granting discretionary pension increases in the future. For accounting purposes it was assumed that investment returns would average 9½%, salary increases 7½% and pension increases, on the excess over Guaranteed Minimum Pensions, 5%. On the accounting basis the scheme is 117% funded.

The total pension cost charged for the year in these financial statements amounted to £8,609,000 (1997: £7,988,000).

The Group has made a provision of £42,994,000 (1997: £34,995,000), this being the excess of the accumulated pension cost over the amount funded.

In respect of the supplementary scheme and two overseas schemes the amount charged to the profit and loss account is the funded contributions as both the size of the fund and the number of employees in this scheme are small in comparison with the main scheme, and would not significantly change the provision made for the group.

21 Called-up share capital

	1998 £'000	1997 £'000
Authorised		
20,660,000 ordinary shares of £1 each	**20,660**	20,660
90,000 8 ¼% convertible preference shares of £1 each	**90**	90
Allotted, called up and fully paid		
20,602,562 ordinary shares of £1 each	**20,603**	20,603
64,000 8¼% convertible preference shares of £1 each	**64**	64
	20,667	20,667

22 Share premium account and reserves

Group	Share premium account		Revaluation reserve		Profit and loss account	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000	1998 £'000	1997 £'000
At 29 December 1997	**14,100**	14,100	**763**	772	**(78,582)**	(60,498)
Transferred from revaluation reserve to profit and loss account	-	-	**(7)**	(9)	**7**	9
Loss for the year	-	-	-	-	**(12,237)**	(16,685)
Goodwill	-	-	-	-	**(712)**	-
Exchange difference	-	-	-	-	**229**	(1,408)
At 3 January 1999	**14,100**	14,100	**756**	763	**(91,295)**	(78,582)

Company	Share premium account		Revaluation reserve		Profit and loss Account	
	1998	1997	1998	1997	1998	1997
	£'000	£'000	£'000	£'000	£'000	£'000
At 29 December 1997	14,100	14,100	2,171	2,171	25,584	33,196
Loss for the year	-	-	-	-	(16,713)	(7,195)
Goodwill	-	-	-	-	-	(417)
At 3 January 1999	14,100	14,100	2,171	2,171	8,871	25,584

Cumulative goodwill relating to acquisitions made prior to 1998, which has been eliminated against reserves, amounts to £71,555 (1997: £71,555).

Goodwill taken to reserves of £712,000 represents internally generated goodwill from the internal sale and acquisition of a subsidiary undertaking.

23 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Loss for the financial year	(12,237)	(16,685)
Goodwill taken to reserves	(712)	-
Retranslation of opening net investment in foreign subsidiaries	138	(1,882)
Translation of subsidiary companies' results at average rate	91	474
Share issue	-	8,465
Net reduction to shareholders' funds	(12,720)	(9,628)
Opening shareholders' funds	(43,051)	(33,423)
Closing shareholders' funds	(55,771)	(43,051)

24 Minority interest

	1998 £'000	1997 £'000
At 29 December 1997	1,182	2,387
Minority interest acquired	(1,016)	-
Profit and loss account	(331)	947
Exchange differences	-	(484)
Dividends paid on equity shares	-	(1,668)
Equity minority interest at 3 January 1999	(165)	1,182

25 Capital commitments

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**2,603**	3,372	-	-

26 Contingent liabilities

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Forward purchase contracts	**96,488**	62,696	-	-
Guarantees given by bankers to third parties	**6,400**	5,004	-	-
Government grants repayable if certain conditions are not met within 10 years of receipt of the grants	-	51	-	-
Duty deferment guarantee	-	700	-	-
Indemnity performance and tender guarantees	**5**	744	-	-

As disclosed in note 14 the company has given certain guarantees in respect of a subsidiary company.

27 Financial commitments

At 3 January 1999 the group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Leases expiring:				
Within one year	**47**	17	**293**	603
Between two and five years	**394**	285	**956**	1,419
After five years	**2,440**	1,919	**525**	300
	2,881	2,221	**1,774**	2,322

28 Ultimate and immediate parent companies

The directors regard Johnson & Johnson, a company registered in the United States of America, as the ultimate parent company and ultimate controlling party. According to the register kept by the company, JJHC, Inc. has a 100% interest in the equity capital of Johnson & Johnson Management Limited at 3 January 1999 and is the immediate parent company. Copies of the ultimate parent's consolidated financial statements may be obtained from Johnson & Johnson, New Brunswick, New Jersey, United States of America. No intermediate company prepares consolidated financial statements.