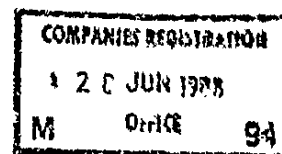


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SANDOZ PRODUCTS LIMITED

DIRECTORS' REPORT AND ACCOUNTS
for the year ended
31 DECEMBER 1987



BinderHamlyn 
CHARTERED ACCOUNTANTS

SANDOZ PRODUCTS LIMITED

REPORT OF THE DIRECTORS

The Directors submit their Annual Report and the Audited Accounts of the Company for the year ended 31 December 1987, to be presented at the Annual General Meeting convened for 6 May 1988.

The principal activity of the Company is the manufacture of Chemical products.

The Directors consider that the position shown by the balance sheet is satisfactory. During the year the business has been further developed with the acquisition on 27 May 1987 of the whole of the issued share capital of Mercury Plastics plc, registered in England, at a cost of £3,748,000. The principal activity of Mercury Plastics plc is the production and sale of granulated dyestuffs for the plastics industry.

	1987 £,000
Profit for financial year	2,000
Dividend proposed	(216)
	<hr/>
Amount transferred to reserves	1,784
Retained profit brought forward	13,071
	<hr/>
Amount available for appropriation	14,855
	<hr/>

The Directors recommend that this sum be carried forward.

The Directors are of the opinion that the Company's land and buildings have a market value in excess of their Balance Sheet value but that the amount of the excess is not significant in relation to the value of the Company's assets as a whole.

Charitable Donations totalling £1,555 have been made during the year.

The Company, in complying with the Disabled Persons (Employment) Act 1944, gives full and fair consideration to applications for employment received from disabled persons, having regard to their particular aptitudes and abilities and wherever possible the Company continues the employment of, and arranges for the appropriate training of, employees who become disabled persons while employed by the Company. Disabled employees are treated no differently from other employees as regards training, career development and promotion opportunities. This policy was operated by the Company, where appropriate, throughout the year.

The Company recognises the importance of keeping employees informed of the progress of the business. During the year employees were regularly provided with information regarding the financial and economic factors affecting the performance of the Company and on other matters of concern to them as employees. Regular consultations take place with employee representatives.

SANIDIZ PRODUCTS LIMITED

REPORT OF THE DIRECTORS Continued

The undermentioned Directors have served throughout the year 1987:

Mr. A.D. Ferns
Dr. R. Schweizer
Dr. H.P. Sigg
Mr. D. Rae Smith, CBE.,MC.

The following changes in the Board of Directors took place during the year 1987:

Sir Richard Powell retired on 1 May 1987, Mr. D.L. Stebbings died on 17 March 1987, Mr. D.C. Wagniere resigned on 1 May 1987, Mr. A. Jetzer resigned on 1 May 1987 and Mr. J.M. Romanes was appointed on 1 November 1987.

Under the Articles of Association, Directors do not retire at the Annual General Meeting.

None of the Directors is interested in any Shares or Debentures of the Company or its immediate holding company.

None of the Directors has or had any interest in any contract or arrangement to which the Company or any Subsidiary is or was a party.

The Auditors, Messrs. Binder Hamlyn, have intimated their willingness to continue in office and a Resolution will be proposed at the Annual General Meeting to re-appoint them as Auditors under Section 384 of the Companies Act 1985.

On behalf of the Board

Secretary

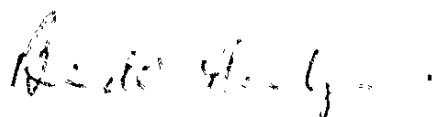
6 May 1988

REPORT OF THE AUDITORS TO THE MEMBERS OF

SANDOZ PRODUCTS LIMITED

We have audited the financial statements on pages 5 to 16 in accordance with approved auditing standards.

In our opinion the financial statements, which have been prepared on the basis of the accounting policies set out in note 1, give a true and fair view of the state of the company's affairs at 31 December 1987 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.



CHARTERED ACCOUNTANTS

6 May 1988

SANDOZ PRODUCTS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1987

	Notes	1987		1986	
		£,000	£,000	£,000	£,000
Turnover	2		89,147		80,211
(Decrease) increase in stocks of finished goods and work in progress			(117)		1,160
Other operating income			224		178
			<u>89,254</u>		<u>81,549</u>
Less:					
Raw materials and consumables		59,794		57,292	
Other external charges		1,402		1,020	
Other operating charges		12,212		10,492	
Staff costs	4	11,057		10,137	
Interest payable and similar charges	6	821		492	
Depreciation	8	1,660		1,399	
			<u>(86,946)</u>		<u>(80,832)</u>
			2,308		717
Short term interest receivable			75		148
			<u>2,383</u>		<u>865</u>
Profit on ordinary activities before taxation	3		2,383		865
Tax on profit on ordinary activities	7		(383)		(8)
			<u>2,000</u>		<u>857</u>
Profit on ordinary activities after taxation			2,000		857
Extraordinary loss			-		(67)
			<u>2,000</u>		<u>790</u>
Profit for the financial year			2,000		790
Dividend proposed			(216)		(216)
			<u>1,784</u>		<u>574</u>
Amount transferred to reserves	16		1,784		574

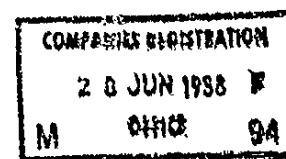
SANDOZ PRODUCTS LIMITED

BALANCE SHEET AT 31 DECEMBER 1987

	Notes	1987		1986	
		£,000	£,000	£,000	£,000
Fixed assets					
Tangible assets	8	18,282		13,226	
Investments	9	3,755		7	
			22,037		13,235
Current assets					
Stocks	10	16,522		14,848	
Debtors	11	13,535		12,686	
Amounts owed by group companies	13a	1,857		1,377	
Cash at bank and in hand		355		208	
		32,269		29,119	
Less creditors (amounts falling due within one year)					
Bank overdrafts		8,646		4,749	
Acceptance credits		3,500		2,000	
Creditors	12	7,443		6,329	
Amounts owed to group companies	13b	6,849		4,818	
		26,438		17,896	
Net current assets			5,831		11,223
Total assets less current liabilities			27,868		24,458
Creditors (amounts falling due after more than one year)					
Loans from ultimate holding company	13c	5,200		5,200	
Obligations under finance leases	14	2,413		787	
			7,613		5,987
Capital and reserves					
Called up share capital	15		5,400		5,400
Profit and loss account	16		14,855		13,071
			27,868		24,458

Signed on behalf of the board

.....)
) Directors



SANDOZ PRODUCTS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 1987

	1987	1986
	£,000	£,000
Funds generated from operations:		
Profit from ordinary activities	2,383	865
Net adjustments to fixed assets	1,660	1,392
Extraordinary items	-	(67)
Total generated from operations	4,043	2,190
Tax paid	(8)	-
Dividends paid	(216)	-
Net funds generated from operations	3,819	2,190
Fixed assets acquired:		
Tangible assets	6,965	2,196
Disposals	(251)	(196)
Investments	3,748	-
	10,462	2,000
Additional working capital:		
Stocks	1,674	589
Debtors	849	2,525
Creditors	(956)	(631)
Inter-group indebtedness	(1,321)	(1,068)
	246	1,415
Total funds applied	10,708	3,415
External finance required	6,889	1,225
External finance:		
Increase in short term borrowing	5,397	1,475
Increase in liquid funds	(147)	(43)
Increase (decrease) in finance leases	1,639	(207)
	6,889	1,225

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

a) Accounts

The accounts are prepared under the historical cost convention.

b) Depreciation

No provision is made for depreciation on freehold land. Other fixed assets are depreciated over their estimated useful lives by equal annual instalments commencing when the asset is brought into use. The estimated range of lives is:

Freehold buildings	20 - 40 years
Leasehold buildings	30 years
Plant and machinery	10 - 14 years
Data processing equipment	3 - 7 years
Mobile plant	5 years
Motor vehicles	3 - 4 years

c) Grants towards capital expenditure

Grants received are deducted from the cost of the relevant asset.

d) Stocks

Stocks are consistently valued at the lower of cost and net realisable value. Cost includes a due proportion of overhead expenses.

e) Research and development

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

f) Foreign exchange

Assets and liabilities denominated in foreign currencies are translated at the relevant rate where there are matching forward contracts or at the rate ruling at the balance sheet date. Transactions in foreign currency are recorded at the rate ruling at the date of the transactions. All differences are taken to the profit and loss account.

SANDOZ PRODUCTS LIMITED

NOTES TO THE ACCOUNTS

ACCOUNTING POLICIES Continued

g) Taxation

No provision is made for deferred taxation as it is considered that no liability will arise in the foreseeable future.

h) Goodwill

Goodwill is written off in the year of acquisition.

i) Leasing transactions

Payments on operating leases are written off when incurred. The gross amount of assets on finance leases is capitalised and written off over the assets useful lives. Finance charges and the outstanding obligations under such leases are calculated using the actuarial method.

TURNOVER

	1987 £,000	1986 £,000
Geographical analysis:		
United Kingdom		
Export - Europe	66,454	56,442
Export - others	19,041	20,199
	3,652	3,570
	<u>89,147</u>	<u>80,211</u>

PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after charging:	£,000	£,000
Directors' fees (note 5)	27	40
Auditors' remuneration	23	21
Operating lease rentals:		
Plant and machinery	32	67
Other	211	207
Depreciation on leased assets	253	231
Depreciation on owned assets	1,407	1,168
	<u>1,407</u>	<u>1,168</u>

NOTES TO THE ACCOUNTS

4 STAFF COSTS

	1987 £,000	1986 £,000
Wages and salaries		
Social security costs	9,747	8,990
Other pension costs	727	663
	583	484
	<u>11,057</u>	<u>10,137</u>

The average number of persons employed by the company was 799 (1986 798) split into the following categories:

	Number	Number
Manufacturing and distribution	318	317
Marketing and research	403	396
Administration	78	85

The remuneration, excluding pension contributions for higher paid employees, fell within the following bands:-

	Number	Number
£30,001 - £35,000	4	-
£35,001 - £40,000	-	5
£40,001 - £45,000	5	-
£45,001 - £50,000	1	1

5 DIRECTORS' FEES

	1987 £,000	1986 £,000
Chairman and highest paid director	<u>5</u>	<u>5</u>

The number of other directors whose fees were in the following band are:-

	Number	Number
£0 - £5,000	8	7

NOTES TO THE ACCOUNTS

6 INTEREST PAYABLE AND SIMILAR CHARGES

	1987 £,000	1986 £,000
Loans from ultimate holding company		
Debenture interest		
Loan stock interest	80	80
Loan from fellow subsidiary	140	140
Bank borrowing	96	-
Finance leasing	439	194
	66	78
	<u>521</u>	<u>492</u>

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	£,000	£,000
U.K. corporation tax at 35% (1986 36.25%)	625	40
Group relief	100	-
ACT previously written off	(342)	(32)
	<u>383</u>	<u>8</u>

If full provision was made for deferred taxation the charge on the profit on ordinary activities for the year would have been adjusted by:

	1987 £,000	1986 £,000
Accelerated capital allowances	114	25
Other timing differences	(72)	25
Utilisation of losses forward	-	178
Utilisation of ACT previously written off	342	-
	<u>384</u>	<u>228</u>
Prior year adjustments	(52)	(532)
	<u>332</u>	<u>(304)</u>

The potential liability for deferred tax calculated at the rate applicable for the financial year is:

	1987 £,000	1986 £,000
Capital allowances	3,420	3,197
Other timing differences	(221)	12
	<u>3,199</u>	<u>3,209</u>
Less advance corporation tax recoverable	-	(342)
	<u>3,199</u>	<u>2,867</u>
Chargeable gains rolled over	187	161
	<u>3,386</u>	<u>3,028</u>

NOTE TO THE ACCOUNTS

TANGIBLE FIXED ASSETS

Cost	Freehold land and buildings £,000	Short term leasehold buildings £,000	Plant & machinery £,000	Motor vehicles £,000	Payments on account and assets in course of construction £,000	Total £,000
At 1 January 1987	3,458	5,787	10,616	1,383	-	21,244
Additions	2,310	19	1,825	654	2,157	6,965
Disposals	-	-	(102)	(620)	-	(722)
At 31 December 1987	5,768	5,806	12,339	1,417	2,157	27,487
Depreciation						
At 1 January 1987	2,193	393	4,810	620	-	8,016
Charge	76	202	1,030	352	-	1,660
Disposals	-	-	(81)	(390)	-	(471)
At 31 December 1987	2,269	595	5,759	582	-	9,205
Net book value at 31 December 1987	3,499	5,211	6,580	835	2,157	18,282
Net book value at 31 December 1986	1,265	5,394	5,806	763	-	13,228

Included in tangible fixed assets are the following:

a) Freehold land and buildings

Land at £2,396,000 (1986 £86,000) on which no depreciation is provided.

b) Capitalized interest

Leasehold buildings £97,000 (1986 £97,000).

Payments on account and assets in the course of construction £42,000 (1986 £nil).

c) Capitalised finance leases with a net book value at 31 December 1987 of £3,093,000 (1986 £1,363,000).

d) Included in the above figures for cost and depreciation are assets amounting to £2,909,000 (1986 £2,800,000) which are fully depreciated and are still in use.

NOTES TO THE ACCOUNTS

1 INVESTMENTS

	1987 £,000	1986 £,000
Shares in group companies	<u>3,755</u>	<u>7</u>

On 27 May 1987 the company acquired the whole of the issued share capital of Mercury Plastics plc, registered in England, at a cost of £3,748,000. The principal activity of Mercury Plastics plc is the production and sale of granulated dyestuffs for the plastics industry.

The company also owns 13,332 shares of the 20,000 issued shares of IR £1 each of Sandoz Products (Ireland) Limited, registered in the Republic of Ireland - the principal activity being the distribution of chemical products. The balance of the shares is held by the ultimate holding company.

The company owns the whole of the issued share capital of three other companies registered in England, none of which is trading.

The company does not prepare consolidated accounts as it is a wholly owned subsidiary of a company incorporated in Great Britain.

10 STOCKS

	1987 £,000	1986 £,000
Raw materials and consumables	3,815	2,024
Work in progress	1,274	1,457
Finished goods and goods for resale	<u>11,433</u>	<u>11,367</u>
	<u>16,522</u>	<u>14,848</u>

11 DEBTORS

	1987 £,000	1986 £,000
Trade debtors	12,484	11,385
Other debtors	632	1,072
Prepayments and accrued income	<u>419</u>	<u>229</u>
	<u>13,535</u>	<u>12,686</u>

AMCOZ PRODUCTS LIMITED

NOTES TO THE ACCOUNTS

12 CREDITORS (AMOUNTS DUE WITHIN ONE YEAR)

	1987 £,000	1986 £,000
Trade creditors		
Other creditors	4,493	3,977
Corporation tax	1,952	1,513
Other taxes and social security	153	8
Obligations under finance leases	271	270
Dividend proposed	358	345
	216	216
	<u>7,443</u>	<u>6,329</u>

13 INTER-GROUP INDEBTEDNESS

	£,000	£,000
a) Amounts owed by group companies		
Owing by holding company	109	-
Owing by subsidiaries	798	357
Owing by fellow subsidiaries	950	1,020
	<u>1,857</u>	<u>1,377</u>
b) Amounts owed to group companies		
Owing to ultimate holding company	4,285	4,033
Owing to holding company	-	30
Owing to fellow subsidiaries	2,564	755
	<u>6,849</u>	<u>4,818</u>
c) Loans from ultimate holding company		
10% irredeemable unsecured debentures	800	800
10% unsecured loan stock	1,400	1,400
Interest free irredeemable unsecured debentures	3,000	3,000
	<u>5,200</u>	<u>5,200</u>

SANDOZ PRODUCTS LIMITED

NOTES TO THE ACCOUNTS

14 OBLIGATIONS UNDER FINANCE LEASES

	1987 £,000	1986 £,000
Instalments due within two to five years	1,500	
Instalments due after five years	2,919	858
		-
Interest payable	4,419 (2,006)	858 (71)
	<u>2,413</u>	<u>787</u>

Net obligations under finance leases amounting to £2,000,000 are secured by a charge over certain of the freehold land and buildings.

15 CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	1987 £,000	1986 £,000	1987 £,000	1986 £,000
Ordinary shares of £1 each	<u>6,000</u>	<u>6,000</u>	<u>5,400</u>	<u>5,400</u>

16 PROFIT AND LOSS ACCOUNT

	£,000
Balance at 1 January 1987	13,071
Retained profit for the year	1,784
	<u>14,855</u>

17 CAPITAL EXPENDITURE

	1987 £,000	1986 £,000
Authorised: Contracted	3,984	430
Not contracted	1,805	596
	<u>5,789</u>	<u>1,026</u>

18 CONTINGENT LIABILITIES

During the year a customer intimated that they are considering a claim against the company. The directors are of the opinion that no liability will arise.

SANDOZ PRODUCTS LIMITED

NOTES TO THE ACCOUNTS

19 FINANCIAL COMMITMENTS

Operating leases:

During 1988 the company is committed to pay £75,000 under operating leases which expire as follows:

Date of lease expiry:	Property £,000	Other £,000
Within one year	31	20
Two to five years	11	-
Over five years	13	-
	<u>55</u>	<u>20</u>

Pension arrangements:

The company operates a self administered contributory pension scheme. The actuarial report as at 5 April 1986 indicated that the fund was able to meet all its prospective commitments in respect of service already rendered.

20 ULTIMATE HOLDING COMPANY

The directors regard Sandoz Ltd., incorporated in Switzerland, as the ultimate holding company.

21 APPROVAL OF ACCOUNTS

These accounts were approved at a directors' meeting held on 6 May 1988.