

CHEMINEX LABORATORIES LIMITED

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED**

31 December 1997

Registered No: 836820



CHEMINEX LABORATORIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 December 1997

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

1. Principal activity

The principal activity of the company is the manufacture and distribution of veterinary pharmaceutical products.

The profit and loss account for the period is set out on page 4.

2. Review of business and future developments

The company increased its turnover by 15 % overall in 1997. Exports grew by 11% and United Kingdom and Ireland turnover increased by 22%. Gross margins declined due to the change in the mix of business and increases in other operational expenses has led to a 7.5% fall in operating profit.

The refurbishment of a newly purchased warehouse facility and offices to accommodate sales and marketing activities was ongoing throughout the year and is due for completion in early 1998.

Both the level of business and the year end financial position were satisfactory. The directors expect the level of activity to increase in 1998.

3. Dividends

The directors do not recommend payment of a dividend

4. Directors

The directors of the company at 31 December 1997, and throughout the financial year were as follows:-

R.A. Vandenhende
K.T. Krzywicki
J.G. Lee
W.D. Wilson

(Chairman)

CHEMINEX LABORATORIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 December 1997

5. Property Values

In the view of the directors there was no significant difference between market value and book value of property at 31st December 1997.

6. 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 during the year any interest in shares of group companies which are required to be notified to the company.

7. Charitable and political contributions

The company made no charitable or political contributions during the year.

8. Statement of Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year 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 year 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

9. Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July, following which Coopers & Lybrand resigned and the directors appointed the new firm, Pricewaterhousecoopers, as auditors.

By order of the board:

C L Thompson

 (Secretary)

Date:

.....16.9.98.....

CHEMINEX LABORATORIES LIMITED

THE REPORT OF THE AUDITORS

TO THE MEMBERS OF

CHEMINEX LABORATORIES LIMITED

We have audited the financial statements on pages 4 to 18, which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 6 to 8.

Respective responsibilities of directors and auditors

As described on page 2 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.

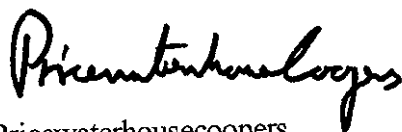
Basis of opinion

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 mis-statement, 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 at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Pricewaterhousecoopers
Chartered Accountants and Registered Auditors
Leicester

Date: 21st Sept 1998

CHEMINEX LABORATORIES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR TO 31 December 1997

		1997 £	1996 £
Turnover	(Notes 1(d) & 2)	12,021,184	10,471,603
Change in stocks of finished goods and work in progress		533,273	(237,661)
Other operating income	(Note 3)	53,100	26,535
Raw materials and consumables		(9,230,335)	(7,275,477)
Other external charges		(369,530)	(20,899)
Staff costs	(Note 4)	(539,550)	(471,066)
Depreciation of tangible fixed assets	(Note 7)	(360,845)	(303,472)
Release of government grant	(Note 14)	13,571	13,571
Other operating charges	(Note 6)	(424,164)	(370,944)
OPERATING PROFIT		1,696,704	1,832,190
Other interest receivable and similar income		26,880	28,998
Interest payable and similar charges	(Note 8)	(291,248)	(266,524)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,432,336	1,594,664
Deferred tax provision	(Notes 1(e) & 15)	4,659	(53,000)
Tax on profit on ordinary activities	(Note 9)	(416,277)	(478,205)
PROFIT AFTER TAX	(Note 17)	<u>£ 1,020,718</u>	<u>£ 1,063,459</u>

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

All items dealt with in arriving at operating profit relate to continuing activities.

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.

CHEMINEX LABORATORIES LIMITED

BALANCE SHEET AS AT 31 December 1997

		1997 £	1996 £
<u>Fixed Assets</u>			
Tangible assets	(Note 7)	5,881,563	5,803,495
<u>Current Assets</u>			
Stocks	(Note 10)	3,219,794	1,480,265
Debtors	(Note 11)	2,061,752	2,440,057
Cash at bank and in hand		500,372	861,021
		<u>5,781,918</u>	<u>4,781,343</u>
<u>Creditors</u>			
Amounts falling due within one year	(Note 12)	3,586,797	3,708,332
		<u>2,195,121</u>	<u>1,073,011</u>
NET CURRENT ASSETS			
TOTAL ASSETS LESS CURRENT LIABILITIES		8,076,684	6,876,506
<u>Creditors</u>			
Amounts falling due after more than one year	(Note 13)	2,533,881	2,349,762
Provisions for liabilities and charges	(Note 15)	456,341	461,000
		<u>£ 5,086,462</u>	<u>£ 4,065,744</u>
NET ASSETS			
<u>Capital and reserves</u>			
Called up share capital	(Note 16)	215,583	215,583
Revaluation reserve	(Note 7)	195,000	195,000
Profit and loss account	(Note 17)	4,675,879	3,655,161
		<u>£ 5,086,462</u>	<u>£ 4,065,744</u>
EQUITY SHAREHOLDERS' FUNDS	(Note 18)		

The financial statements on pages 4 to 18 were approved by the Board of Directors, and were signed on its behalf by:

J.G. Lee



(Director)

Date: 16.9.98.

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR 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:-

a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention, modified by the revaluation of certain fixed assets.

b) Tangible Fixed Assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation has been calculated on a straight line basis by reference to the expected useful lives of the assets as follows:

Freehold and leasehold buildings	2%
Plant and machinery	3% - 20%
Motor vehicles	21% - 25%
Films	25% - 33%

Investment properties

In accordance with SSAP 19, (i) investment properties are revalued on a regular basis and the aggregate surplus or deficit is transferred to a revaluation reserve, and (ii) no depreciation or amortisation is provided in respect of freehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, as these properties are not held for consumption but for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view. If this departure from the Act had not been made the profit for the period would have been reduced by depreciation on the revalued properties of £4,563 (1996: £4,563).

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

1. PRINCIPAL ACCOUNTING POLICIES (continued)

c) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value: net realisable value is the price at which stocks can be realised in the normal course of business after allowing for the costs of realisation. In general, cost is determined on a first in first out basis, and includes transport and handling costs. In the case of manufactured products, cost includes all direct production labour and production overheads. Where necessary, provision is made for obsolete, slow moving and defective stocks.

d) Turnover

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

e) Deferred taxation

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.

f) Pensions

The company administers two pension schemes. The first is a defined contribution pension scheme set up for eligible employees prior to the acquisition of Cheminex Laboratories Limited by Pharmacia & Upjohn Limited. The second scheme is a group defined benefit pension scheme operated by Pharmacia & Upjohn Limited which is contracted out of the state scheme and was made available to all other employees after the acquisition of Cheminex Laboratories Limited by Pharmacia & Upjohn Limited.

Payments made to the defined contribution scheme are charged in the period to which they relate. The company ceased funding additional members to this scheme on 1 December 1992. All existing members have elected to transfer to the defined benefit scheme.

Contributions and pension costs for the group defined benefit scheme are based on pension costs across the group as a whole. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular costs are spread over the expected remaining working lifetime of members of the scheme after making suitable allowances for future withdrawals.

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

1. PRINCIPAL ACCOUNTING POLICIES (continued)

g) Assets and liabilities in foreign currencies

Monetary assets and liabilities in foreign currencies are translated to sterling at the rate prevailing at the year end. Gains and losses on exchange are credited or charged to the profit and loss account as they arise.

h) Government Grants

Grants which relate to specific capital expenditure are treated as deferred income and credited to the profit and loss account over the related assets anticipated useful lives.

i) Cash flow statement

The financial statements do not include a cash flow statement, because the company is a subsidiary of Pharmacia & Upjohn Limited which has informed the company of its intention to prepare a consolidated cash flow statement, including the cash flows of the company, in its 1997 accounts, in accordance with Financial Reporting Standard No.1.

2. TURNOVER

	1997 £	1996 £
<u>Geographical analysis</u>		
UK and Republic of Ireland	4,052,932	3,295,535
Europe (E.C.)	7,873,396	7,069,771
Europe (Other)	13,452	3,197
Asia	61,159	76,061
Africa	20,245	27,039
	<u>12,021,184</u>	<u>10,471,603</u>

3. OTHER OPERATING INCOME

	1997 £	1996 £
Laboratory Analysis services	-	323
Rents Received	53,100	19,514
Profit on sale of Tangible Fixed Assets	-	3,644
Rates Rebate Prior Year	-	3,054
	<u>53,100</u>	<u>26,535</u>

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

4.	<u>EMPLOYEE INFORMATION</u>	1997	1996
	The average number of persons employed by the company during the year is as follows:		
	<u>By Activity</u>		
	Production	10	11
	Selling and distribution	8	5
	Administration	8	8
	Total	<u>26</u>	<u>24</u>
	 <u>Staff costs (for the above persons)</u>	 £	 £
	Wages and salaries	467,271	413,072
	Social security costs	38,564	33,654
	Other pension and life costs (Note 1(f))	33,715	24,340
		<u>539,550</u>	<u>471,066</u>
5.	<u>DIRECTORS' EMOLUMENTS</u>		
	The directors received no emoluments for the year ended 31st December 1997.		
6.	<u>OTHER OPERATING CHARGES</u>	1997	1996
		£	£
	Other operating charges include the following:		
	Loss on disposal of tangible fixed Assets	1,668	---
	Auditors' remuneration including expenses	<u>6,500</u>	<u>5,000</u>

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

7. TANGIBLE FIXED ASSETS

The historical cost of the factory and office premises at 7 Godwin Road, Corby, amounting to £215,000, has been adjusted to £410,000 via the Revaluation Reserve, in accordance with the valuation carried out by William H Brown, Chartered Surveyors, as at 16th July 1991. The difference between the depreciation charge on the revalued amount and the original cost amounts to £3,900 (1996: £3,900).

Investment properties are included at their original cost which the directors believe is reflective of current market value. If investment properties had been depreciated they would have been included at the following amounts:

	Investment Properties	
	1997 £	1996 £
Cost	228,145	228,145
Aggregate depreciation based on cost	9,126	4,563
Net book value based on cost	<u>219,019</u>	<u>223,582</u>

Details of the tangible fixed assets are shown on the next page.

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 1997

7. TANGIBLE FIXED ASSETS

	Freehold Land & Buildings £	Leasehold Land & Buildings £	Investment Property £	Plant and Equipment £	Motor Vehicles £	Payments on account £	Total £
<u>Cost or valuation</u>							
At 1st January 1997	3,341,062	394,999	228,145	2,437,585	68,315	292,493	6,762,599
Additions	171,287	107,519	-	164,780	-	(292,493)	443,586
Transfers	146,246	146,247	-	-	(12,107)	-	-
Disposals	-	-	-	-	-	-	(12,107)
At 31 December 1997	3,658,595	648,765	228,145	2,602,365	56,208	-	7,194,078
<u>Depreciation</u>							
At 1 st January 1997	207,670	2,133	-	733,708	15,593	-	959,104
Charge for year	67,001	8,894	-	270,993	13,957	-	360,845
Disposals	-	-	-	-	(7,434)	-	(7,434)
At 31 December 1997	274,671	11,027	-	1,004,701	22,116	-	1,312,515
Net book value At 31 December 1997	3,383,924	637,738	228,145	1,597,664	34,092	-	5,881,563
Net book value At 31 December 1996	3,133,392	392,866	228,145	1,703,877	52,722	292,493	5,803,495

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

8. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £	1996 £
On bank loans and overdrafts	307	126
On loan from Parent Company	290,941	266,398
	<u>291,248</u>	<u>266,524</u>

9. TAXATION

The charge for taxation is made up as follows:

	1997 £	1996 £
U.K. Corporation Tax at 31.5% (1996: 33%)	439,429	480,000
Over provision in respect of prior years	(23,152)	(1,795)
	<u>416,277</u>	<u>478,205</u>

10. STOCKS

	1997 £	1996 £
Raw materials and consumables	1,900,918	694,662
Work in progress	308,848	-
Finished goods and goods for resale	1,010,028	785,603
	<u>3,219,794</u>	<u>1,480,265</u>

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

11. DEBTORS

	1997 £	1996 £
<i>Amounts falling due within 1 year</i>		
Trade debtors	482,779	680,263
Amounts owed by parent and fellow subsidiaries	1,416,675	1,684,724
Other debtors	-	309
Prepayments and accrued income	39,923	17,969
Value Added Tax	122,375	56,792
	<u>2,061,752</u>	<u>2,440,057</u>

12. CREDITORS

	1997 £	1996 £
<i>Amounts falling due within 1 year</i>		
Bank loan and overdraft	40,593	5,185
Trade creditors	702,170	674,832
Amounts owed to parent and fellow subsidiaries (see note 13)	2,213,500	2,426,694
Taxation and social security	458,201	494,295
Accruals and deferred income	172,333	107,326
	<u>3,586,797</u>	<u>3,708,332</u>

13. CREDITORS

	1997 £	1996 £
<i>Amounts falling due after more than 1 year</i>		
Amounts owed to parent and fellow subsidiaries	2,497,690	2,300,000
Deferred Income	36,191	49,762
	<u>2,533,881</u>	<u>2,349,762</u>

The Parent Company loaned to Cheminex Laboratories Limited a sum of £3,600,000 on the 1st October 1993. The loan is repayable by 36 equal quarterly instalments which started on the 31st December 1994. Interest charged will be fixed each quarter at 1% above the National Westminster Bank Plc bank rate on the first day of each quarter.

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

13. CREDITORS (continued)

The Parent Company converted further intercompany payables of £997,690 into a loan on the 26th November 1997. The loan is repayable by 9 equal quarterly instalments which start on the 28th February 1998 and a final instalment of £97,690. Interest is charged on the balance and will be fixed each quarter at 1% above the Barclays Bank Plc bank rate on the first day of each quarter.

	1997 £	1996 £
<i>Amounts owed to parent and fellow subsidiaries</i>		
<i>Repayable as follows:-</i>		
In one year or less, or on demand	2,213,500	2,426,694
Between one and two years	800,000	400,000
Between two and five years	1,697,690	1,600,000
In five years or more	-	300,000
	<u>4,711,190</u>	<u>4,726,694</u>

14. DEFERRED INCOME

Deferred Income represents a Regional Selective Assistance Grant from the Dept. of Trade and Industry. It will be credited to income over 7 years in line with the asset life. Income has been allocated between short and long term creditors as follows:-

	1997 £	1996 £
Amount due within one year	13,571	13,571
Amount due after more than one year	36,191	49,762
	<u>49,762</u>	<u>63,333</u>
<u>Government grants</u>	£	£
At 1st January 1997	63,333	76,904
Amortisation in the year	(13,571)	(13,571)
	<u>49,762</u>	<u>63,333</u>
At 31 December 1997	<u>49,762</u>	<u>63,333</u>

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

15. DEFERRED TAX

	Amount Provided		Amount Unprovided	
	1997	1996	1997	1996
Tax effect of timing differences:				
Excess of tax allowances over depreciation	484,523	491,000	-	-
Other timing differences	(28,182)	(30,000)	-	-
In relation to revalued properties	-	-	47,400	50,000
	456,341	461,000	47,400	50,000
At 1st January 1997			461,000	
Profit and Loss account:				
Current Year			23,303	
Prior Year (due to change in tax rate)			(27,962)	
At 31st December 1997			456,341	

16. <u>CALLED UP SHARE CAPITAL</u>	1997 £	1996 £
Authorised:		
220,000 ordinary shares of £1 each	220,000	220,000
Issued, called up and fully paid:		
215,583 ordinary shares of £1 each	215,583	215,583

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

17. PROFIT AND LOSS ACCOUNT

	1997 £	1996 £
At 1 January 1997	3,655,161	2,591,702
Retained profit for the year	1,020,718	1,063,459
At 31 December 1997	<u>4,675,879</u>	<u>3,655,161</u>

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
Profit for the year	1,020,718	1,063,459
Opening shareholders' funds	4,065,744	3,002,285
Closing shareholders' funds	<u>5,086,462</u>	<u>4,065,744</u>

19. CAPITAL COMMITMENTS

There are commitments for the purchase of fixed assets as follows:

	1997 £	1996 £
Approved by the directors and contracted for	-	128,227
Approved by the directors, but not contracted for	-	167,768
	<u> </u>	<u> </u>

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

20. CONTINGENT LIABILITIES

The company has provided guarantees of £20,000 in respect of deferred payment of Customs duties.

The company had no other contingent liabilities as at 31st December 1997.

21. PENSION PLANS

The company participates in two pension schemes. One scheme is based on defined contributions and the other has defined benefits.

Defined Contribution Scheme

The defined contributions scheme is funded by contributions of 3% of salary payable by the employer. Contributions paid and charged during the period amounted to £ nil (1996 - nil).

Defined Benefit Scheme

The company participates in a group pension scheme operated by Pharmacia & Upjohn Limited. The pension scheme is of the defined benefit type and its assets are held in a separate trustee administered fund. The fund is valued every three years by a professionally qualified independent actuary, the rates of contributions payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. The latest actuarial assessment of the scheme was at 1 September 1994. Particulars of the valuation are contained in the accounts of Pharmacia & Upjohn Limited.

The total pension cost for the company was £27,191 (1996 - £16,986).

A provision of £70,064 (1996- £42,873) is included in creditors, this being unpaid contributions at the year end.

CHEMINEX LABORATORIES LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 December 1997

22. RELATED PARTY TRANSACTIONS

The company has under the provisions of FRS 8 'Related Party Disclosures' taken the exemption from the requirement to disclose all transactions with other group companies, on the basis that the company is a wholly owned subsidiary whose parent produces consolidated financial statements which are publicly available.

23. IMMEDIATE AND ULTIMATE PARENT COMPANIES

The directors regard Pharmacia & Upjohn Limited, a company registered in England and Wales, as the immediate parent company. According to the register kept by the company, Pharmacia & Upjohn Limited has a 100% interest in the equity capital of Cheminex Laboratories Limited at 31 December 1997. Copies of the parent's consolidated financial statements may be obtained from the company's registered office. The directors regard Pharmacia & Upjohn Inc, a company registered in the United States of America, as the ultimate parent company and hence controlling party.

Copies of the parent Company's annual accounts can be obtained by contacting the Company Pharmacia & Upjohn Limited, Fleming Way, Crawley, West Sussex, RH10 2LZ.