

Ratiopharm (UK) Limited

**Directors' report and financial
statements**

Registered number 2299181

31 December 2005



Contents

| | |
|---|---|
| Directors' report | 1 |
| Statement of directors' responsibilities in respect of the Directors' Report and the financial statements | 3 |
| Independent auditors' report to the members of Ratiopharm (UK) Limited | 4 |
| Profit and loss account | 6 |
| Balance sheet | 7 |
| Notes | 8 |

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The principal activity of the company is the sale of pharmaceutical products.

Business review

The trading results for the year and the company's financial position at the end of the year are shown on pages 6 and 7.

Proposed dividend

An interim cash dividend of £3,500 per share was paid on 21 July 2005 totalling £3,500,000 (2004: £nil). The dividend was effectively paid out of the distributable capital contribution reserve. No final dividend is proposed (2004: £nil).

Directors and directors' interests

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

G Lehmann

G Cole (appointed 1 February 2005)

The interests of the group directors are disclosed in the accounts of the parent company.

Mr Christophe Eith was company secretary during the year.

Political and charitable contributions

The company made charitable donations during the year totalling £3,428 (2004: £2,100) and no political donations (2004: £nil).

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to be 'J. M. Cole', written in a cursive style.

Director

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to 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 enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

Dukes Keep
Marsh Lane
Southampton
SO14 3EX
United Kingdom

Independent auditors' report to the members of Ratiopharm (UK) Limited

We have audited the financial statements of Ratiopharm (UK) Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 1985. 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

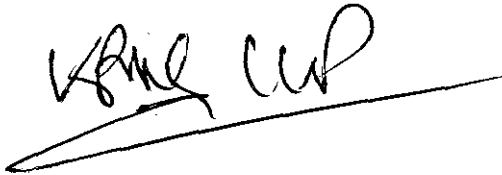
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Independent auditors' report to the members of Ratiopharm (UK) Limited
(continued)

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'KPMG LLP', with a long horizontal line extending from the end of the signature.

KPMG LLP
Chartered Accountants
Registered Auditor

30 October 2006

Profit and loss account
for the year ended 31 December 2005

| | <i>Note</i> | 2005 £ | 2004 £ |
|--|-------------|---------------------|-------------|
| Turnover | <i>1</i> | 13,031,441 | 11,290,293 |
| Cost of sales | | (11,514,927) | (9,428,912) |
| | | <hr/> | <hr/> |
| Gross profit | | 1,516,514 | 1,861,381 |
| Administrative expenses | | (2,677,171) | (2,318,433) |
| | | <hr/> | <hr/> |
| Operating loss | | (1,160,657) | (457,052) |
| Interest receivable and similar income | <i>4</i> | 74,417 | - |
| Interest payable and similar charges | <i>5</i> | (14,660) | (168,591) |
| | | <hr/> | <hr/> |
| Loss on ordinary activities before taxation | <i>2</i> | (1,100,900) | (625,643) |
| Tax on loss on ordinary activities | <i>6</i> | - | - |
| | | <hr/> | <hr/> |
| Loss on ordinary activities after taxation | | (1,100,900) | (625,643) |

The results for the current and prior years all relate to continuing activities.

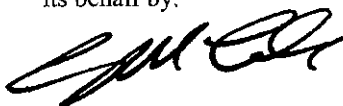
There are no recognised gains or losses other than the loss for the year as reported above.

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

Balance sheet
at 31 December 2005

| | Note | 2005 | 2004 |
|--|------|--------------------|--------------------|
| | | £ | £ |
| Fixed assets | | | |
| Intangible assets | 8 | 102,606 | 121,713 |
| Tangible assets | 9 | 33,821 | 56,365 |
| | | <u>136,427</u> | <u>178,078</u> |
| Current assets | | | |
| Stocks | 10 | 1,502,062 | 1,114,358 |
| Debtors | 11 | 5,255,998 | 3,912,917 |
| Cash at bank and in hand | | 1,174,819 | 464,352 |
| | | <u>7,932,879</u> | <u>5,491,627</u> |
| Creditors: amounts falling due within one year | 12 | <u>(9,422,502)</u> | <u>(2,422,001)</u> |
| Net current (liabilities)/assets | | <u>(1,489,623)</u> | <u>3,069,626</u> |
| Net (liabilities)/assets | | <u>(1,353,196)</u> | <u>3,247,704</u> |
| Capital and reserves | | | |
| Called up share capital | 13 | 1,000 | 1,000 |
| Capital contribution reserve | 14 | - | 6,809,250 |
| Profit and loss account | 14 | (1,354,196) | (3,562,546) |
| (Deficit)/surplus on equity shareholders' funds | | <u>(1,353,196)</u> | <u>3,247,704</u> |

These financial statements were approved by the board of directors on 16 October 2006 and were signed on its behalf by:



G Cole
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

In the financial statements the following new standards have been adopted for the first time:

FRS 21 'Events after the balance sheet date'

FRS 28 'Corresponding amounts'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption.

FRS 28 'Corresponding amounts' had had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

In addition, the adoption of FRS 21 has had no effect on the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from the business are capitalised at cost. These are costs incurred on the acquisition of certain licences to allow the company to sell pharmaceutical drugs held under patent.

The costs capitalised are amortised to nil by equal annual instalments over their useful economic lives, as estimated by the directors.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

| | | |
|---------------------|---|-----------------|
| Fixtures & fittings | - | 15.0% per annum |
| Office Equipment | - | 33.3% per annum |

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents contributions payable to the scheme in respect of the accounting period.

Notes (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the sale of pharmaceutical products which arose wholly within the United Kingdom. All turnover and profit before taxation are derived from this activity.

Going concern

The company relies on the continuing support of Ratiopharm International GmbH, its immediate parent company. Ratiopharm International GmbH has indicated its intentions to support the company for the foreseeable future. As a result the financial statements have been prepared on the going concern basis.

2 Loss on ordinary activities before taxation

| | 2005 £ | 2004 £ |
|--|-------------|-------------|
| <i>Loss on ordinary activities before taxation is stated after charging:</i> | | |
| Auditors' remuneration: | | |
| Audit | 13,000 | 20,000 |
| Depreciation and other amounts written off tangible fixed assets | 31,038 | 7,047 |
| Amortisation of intangible fixed assets | - | 22,868 |
| Hire of plant and machinery – rentals payable under operating leases | 39,071 | 38,431 |
| Hire of other assets – operating leases | 18,306 | 14,656 |
| Foreign exchange losses / (gains) | 40,906 | (8,627) |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes (continued)

3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

| | Number of employees | |
|----------------|---------------------|-----------|
| | 2005 | 2004 |
| Management | 1 | 1 |
| Sales | 4 | 3 |
| Administration | 8 | 10 |
| | <u>13</u> | <u>14</u> |

The aggregate payroll costs of these persons were as follows:

| | 2005 £ | 2004 £ |
|-------------------------------|----------------|----------------|
| Wages and salaries | 567,655 | 498,854 |
| Social security costs | 61,355 | 58,110 |
| Other pension costs (note 17) | 15,977 | 14,009 |
| | <u>644,987</u> | <u>570,973</u> |

Remuneration of directors

| | 2005 £ | 2004 £ |
|---|-----------|-----------|
| Directors' emoluments as executives | 94,500 | 95,719 |
| Company contributions to personal pension plans | 6,188 | 3,090 |
| | <u></u> | <u></u> |

Retirement benefits are accruing to the following number of directors under:

| | 2005 | 2004 |
|------------------------|---------|---------|
| Personal pension plans | - | - |
| | <u></u> | <u></u> |

4 Interest receivable and similar income

| | 2005 £ | 2004 £ |
|--|-----------|-----------|
| On amounts due from group undertakings | 74,417 | - |
| | <u></u> | <u></u> |

Notes (continued)

5 Interest payable and similar charges

| | 2005 £ | 2004 £ |
|--|---------------|-----------|
| On amounts owed to group undertakings | 13,912 | 168,591 |
| On bank overdraft | 748 | - |
| | <hr/> | <hr/> |
| Total interest payable and similar charges | 14,660 | 168,591 |
| | <hr/> | <hr/> |

6 Taxation

Analysis of tax charge

| | 2005 £ | 2004 £ |
|------------------------------------|-----------|-----------|
| Current tax | - | - |
| Deferred tax | - | - |
| | <hr/> | <hr/> |
| Tax on loss on ordinary activities | - | - |
| | <hr/> | <hr/> |

| | 2005 £ | 2004 £ |
|--|-------------|-----------|
| <i>Factors affecting the tax charge for the current year</i> | | |
| <i>Current tax reconciliation</i> | | |
| Loss on ordinary activities before tax | (1,100,900) | (625,643) |
| | <hr/> | <hr/> |
| Current tax at 30% (2004: 30 %) | (330,270) | (187,693) |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 50,000 | 52,654 |
| Depreciation for period in excess of capital allowances | 10,000 | 10,523 |
| Current year tax losses not recognised as an asset | 270,270 | 124,516 |
| | <hr/> | <hr/> |
| Total current tax charge | - | - |
| | <hr/> | <hr/> |

7 Dividend

| | 2005 £ | 2004 £ |
|---|-----------|-----------|
| Interim cash dividend of £3,500 per share | 3,500,000 | - |
| | <hr/> | <hr/> |

The company had sufficient distributable reserves within the meaning of section 263 of the Companies Act 1985 when the dividend was paid on 21 July 2005.

Notes (continued)

8 Intangible fixed assets

| | Licences |
|----------------------------|-----------------|
| | £ |
| Cost | |
| At beginning of year | 192,106 |
| Additions | 34,365 |
| Disposals | (123,865) |
| | <hr/> |
| At end of year | 102,606 |
| | <hr/> |
| Amortisation | |
| At beginning of year | 70,393 |
| Charge for year | - |
| Disposals | (70,393) |
| | <hr/> |
| At end of year | - |
| | <hr/> |
| Net book value | |
| At 31 December 2005 | 102,606 |
| | <hr/> |
| At 31 December 2004 | 121,713 |
| | <hr/> |

9 Tangible fixed assets

| | Fixtures, fittings and equipment |
|----------------------------|---|
| | £ |
| Cost | |
| At beginning of year | 117,806 |
| Additions | 8,494 |
| | <hr/> |
| At end of year | 126,300 |
| | <hr/> |
| Depreciation | |
| At beginning of year | 61,441 |
| Charge for year | 31,038 |
| | <hr/> |
| At end of year | 92,479 |
| | <hr/> |
| Net book value | |
| At 31 December 2005 | 33,821 |
| | <hr/> |
| At 31 December 2004 | 56,365 |
| | <hr/> |

Notes (continued)

10 Stocks

| | 2005 £ | 2004 £ |
|-------------------------------------|-----------|-----------|
| Finished goods and goods for resale | 1,502,062 | 1,114,358 |

11 Debtors

| | 2005 £ | 2004 £ |
|------------------------------------|------------------|------------------|
| Trade debtors | 5,147,741 | 1,007,402 |
| Amounts owed by group undertakings | 3,837 | 2,322,114 |
| Other debtors | 75,096 | 459,518 |
| Prepayments and accrued income | 29,324 | 123,883 |
| | <u>5,255,998</u> | <u>3,912,917</u> |

12 Creditors: amounts falling due within one year

| | 2005 £ | 2004 £ |
|------------------------------------|------------------|------------------|
| Trade creditors | 1,183,855 | 383,469 |
| Amounts owed to group undertakings | 6,816,058 | 1,398,091 |
| Taxation and social security | 587,375 | 414,898 |
| Other creditors | - | 6,413 |
| Accruals and deferred income | 835,214 | 219,130 |
| | <u>9,422,502</u> | <u>2,422,001</u> |

13 Called up share capital

| | 2005 £ | 2004 £ |
|---|-----------|-----------|
| <i>Authorised</i> | | |
| Ordinary shares of £1 each | 1,000 | 1,000 |
| <i>Allotted, called up and fully paid</i> | | |
| Ordinary shares of £1 each | 1,000 | 1,000 |

Notes (continued)

14 Reserves

| | Profit and loss account | Capital contribution reserve |
|--|----------------------------|------------------------------------|
| | £ | £ |
| Balance at 1 January | (3,562,546) | 6,809,250 |
| Loss on ordinary activities after taxation | (1,100,900) | - |
| Dividend | (3,500,000) | - |
| Transfer | 6,809,250 | (6,809,250) |
| | <hr/> | <hr/> |
| Balance at 31 December | (1,354,196) | - |
| | <hr/> | <hr/> |

The capital contribution reserve consisted of capital contributions made by the company's immediate parent undertaking, Ratiopharm International GmbH. The balance on the capital contribution reserve of £6,809,250 was transferred to the Profit and Loss account in order to effect the dividend payment of £3,500,000 on 21 July 2005 (note 7).

15 Reconciliation of movements in shareholders' funds

| | 2005 £ | 2004 £ |
|-------------------------------|--------------------|------------------|
| Balance at 1 January | 3,247,704 | 473,347 |
| Loss for the year | (1,100,900) | (625,643) |
| | <hr/> | <hr/> |
| | 2,146,804 | (152,296) |
| Capital contribution | - | 3,400,000 |
| Dividend | (3,500,000) | - |
| | <hr/> | <hr/> |
| Balance at 31 December | (1,353,196) | 3,247,704 |
| | <hr/> | <hr/> |

16 Commitments

The company had no contracted capital commitments at the end of the year (2004: £Nil).

Annual commitments under non-cancellable operating leases were as follows:

| | 2005 | | 2004 | |
|--|-----------------------|--------|-----------------------|--------|
| | Land and buildings | Other | Land and buildings | Other |
| | £ | £ | £ | £ |
| Operating leases which expire: | | | | |
| Within one year | 19,220 | 34,368 | - | 30,043 |
| In the second to fifth years inclusive | - | 37,632 | 14,656 | 27,824 |
| Over five years | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 19,220 | 72,000 | 14,656 | 57,867 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Notes *(continued)*

17 Pensions

The company has an arrangement by which it contributes to employees' personal pension schemes. The pension charge for the year represents contributions payable by the company to these schemes and amounted to £15,977 (2004: £14,009). At 31 December 2005 there were no pension contributions outstanding (2004: £6,413).

18 Related party disclosures

As the company is a wholly owned subsidiary of Merckle GmbH, the company has taken advantage of the exemption contained in FRS 8 and has, therefore, not disclosed transactions or balances with entities which form part of the group headed by Merckle GmbH. The consolidated financial statements of Merck GmbH, within which this company is included, can be obtained from the address given in note 19 below.

19 Ultimate parent undertaking

The company's immediate parent undertaking is Ratiopharm International GmbH, a company incorporated in Germany.

The ultimate parent undertaking is Merckle GmbH, a company incorporated in Germany. The consolidated financial statements of this group are available to the public and may be obtained from Ludwig-Merckle-Strasse 3, 89143 Blaubeuren, Germany.