

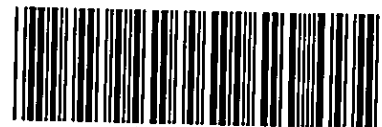
Registered number 04124572

ARROW GENERICS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2011

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ARROW GENERICS LIMITED

COMPANY INFORMATION

DIRECTORS

J SPARROW
P BISARO
D BUCHEN
A MEHTA (Appointed 14 October 2011)

COMPANY SECRETARY

D BUCHEN

COMPANY NUMBER

4124572

REGISTERED OFFICE

930 HIGH ROAD
LONDON
N12 9RT

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Abacus House
Castle Park
Cambridge
CB3 0AN

ARROW GENERICS LIMITED

CONTENTS

	Page
Directors' report	1 – 4
Independent auditors' report	5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8 -19

ARROW GENERICS LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2011

The directors present their report and the audited financial statements for the year ended 31 December 2011

Principal activities

The company's principal activity is the distribution of generic pharmaceutical products

The directors believe that preparing the accounts on a going concern basis is appropriate due to the financial performance of the company and the continued financial support of the immediate parent company, Arrow Group ApS

The directors have received confirmation that the parent company intends to support the company for a period of at least one year after these financial statements are signed

Business review

The UK generic pharmaceutical market environment in which the company trades continues to be fiercely competitive as competition from new entrants on selected products puts pressure on market prices. The company's strategy is to provide an ever increasing range of prescription only medicines in a wide range of therapeutic areas to encourage loyalty through market leading customer services

Key performance indicators

Performance during the year, together with historical trend data is set out in the table below

KPI	2011	2010	Definition, method of calculation and analysis
Growth in sales (%)	20.56%	(2.09%)	Year on year sales growth expressed as a percentage. The increase in sales is due to the launch of 2 key products with revenue exceeding £6.6m in 2011 (nil 2010)
Operating margin (%)	(14.22%)	(6.16%)	Operating margin is the ratio of operating profit, before exceptional items and goodwill amortisation, to sales expressed as a percentage. Operating margin was adversely affected during the year by increase in research and development and licence costs totalling £5.0m (£0.9m 2010) resulting negative margin
Number of lines	186	158	Actual number of product lines available expressed as an average over the 12 month period

The company continued with its successful new product launch strategy backed by its expertise and knowledge in gaining market authorisation for new products. Work continued during the year to bring to market products for future years as soon as patents expired on those products.

Although it is expected that trading conditions will remain very competitive during the next year, the directors believe the company is in a good position to benefit from further timely introductions of new products and so consolidate its position as a major supplier in the generic pharmaceutical market.

DIRECTORS' REPORT

for the year ended 31 December 2011

Principal risks and uncertainties

Inflation in raw materials costs and in the costs of goods and services from suppliers and manufacturers presents risks to future profitability. The rapid reductions (and increases) in commodity prices leads too reductions (and increases) in raw materials.

Raw Material costs are already beginning to respond to the downturn in activity globally. Input costs of some raw materials have already fallen, and the Company expects other supply costs to moderate over the next 12 to 18 months. The cost reductions expected as a result of these market forces will provide the Company with an opportunity to lock in lower unit costs across its portfolio of products.

Arrow Generics production volumes (and therefore revenues) are dependent on the continued performance of Watson Group owned production assets. The Group's production assets are subject to operational risks including equipment or limited plant availability due to plant maintenance or shutdowns.

The Group held production assets are regulated by the UK, EU and USA health authorities and as such have mandatory policies and standards governing all aspects of production. These are supported by quality assurance processes which are applied across its global operations and which are supervised by the Group's professional technical functions.

The UK Government is currently planning to cut NHS costs significantly with proposed savings in the range of £20bn, this will have a knock on effect to the Company's selling prices. There has also been advice to the NHS prescribers to drive the use of the cheapest available prescribing option.

The Company continues to monitor governmental changes which will affect the industry and will plan accordingly, continually reviewing costs and manufacturers ability to provide lower priced products.

The UK Health Authority (MHRA) approves marketing authorisations for each prescription only medicine, sold by the company. Delays in the approval process are often experienced and have a direct affect on the trading results of the company.

The Company continues to monitor performance of the regulatory approval process and adjusts strategy on an ongoing basis to reduce the risk of such delays.

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in interest rates, liquidity risk, credit risk and foreign exchange risk. The company seeks to limit the effects of such risks.

Interest rate risk arises as a consequence of borrowings from fellow subsidiaries and parent companies, the borrowings from which are at variable rates of interest. The company does not use derivative financial instruments to manage interest rate costs and as such no hedge accounting is applied.

The company manages liquidity risk by ensuring sufficient funding facilities are available for at least the next 12 months and enjoys the support of the parent company.

The company is exposed to movements in foreign exchange rates as a result of foreign currency transactions. The company does not hedge against currency risks associated with such transactions.

Going concern

The company has received confirmation from an intermediate parent undertaking, Arrow Group ApS, will provide financial support for at least one year from the date of signing of these financial statements.

ARROW GENERICS LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2011

Research and development activities

The Company continues its policy of research and development, both in house and via third parties, in order to maintain a competitive position in the United Kingdom generic pharmaceuticals market

During the year, expenditure of £210,885 (2010 £48,450) was incurred

Results and dividends

The loss for the year, after taxation, amounted £3,562,498 (2010 £1,291,154) and sales of £34,264,871 (2010 £28,421,948) were achieved

The directors do not recommend the payment of a dividend (2010 £nil)

Directors

The directors who served during the year and until the date of signing the financial statements were

J SPARROW

P BISARO

D BUCHEN

A MEHTA (Appointed 14 October 2011)

Political and charitable donations

The company made no political or charitable donations, or incurred any political expenditure during the year (2010 £nil)

Statement of directors' responsibilities

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 the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 judgements and accounting 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,
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT
for the year ended 31 December 2011

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that

- So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- That each director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

This report was approved by the board and signed on its behalf

A handwritten signature in black ink, appearing to read 'J. Sparrow', with a long, flowing horizontal line extending to the right.

J. SPARROW

Director

03-12-2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ARROW GENERICS LIMITED

We have audited the financial statements of Arrow Generics Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Simon Ormiston (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge

3 December 2012

ARROW GENERICS LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2011

		2011	2010
	Note	£	£
TURNOVER	2	34,264,871	28,421,948
Change in stocks of finished goods and in work in progress		2,635,580	(2,547,338)
Other operating income		2,092	2,756
Consumables		(29,876,062)	(21,829,476)
Other external charges		(10,164,680)	(4,313,585)
Staff costs	5	(1,505,981)	(1,259,870)
Depreciation and amortisation		(229,140)	(225,729)
OPERATING LOSS	3	(4,873,320)	(1,751,294)
Interest receivable	7	5,939	6,809
Interest payable	8	(46,796)	(350)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(4,914,177)	(1,744,835)
Tax on loss on ordinary activities	9	1,351,679	453,681
LOSS FOR THE FINANCIAL YEAR		(3,562,498)	(1,291,154)

All amounts relate to continuing operations

There were no recognised gains or losses for 2011 or 2010 other than those included in the Profit and loss account

The notes on pages 8 to 20 form part of these financial statements

BALANCE SHEET
as at 31 December 2011

		2011		2010	
	Note	£	£	£	£
FIXED ASSETS					
Intangible fixed assets	10		-		120,842
Tangible fixed assets	11		<u>429,411</u>		<u>489,512</u>
			429,411		610,354
CURRENT ASSETS					
Stocks	12	6,467,345		3,831,765	
DEBTORS amounts falling due after more than one year	13	366,000		100,000	
DEBTORS amounts falling due within one year	13	11,586,732		6,621,738	
Cash at bank and in hand		<u>920,532</u>		<u>2,170,930</u>	
		19,340,609		12,724,433	
CREDITORS amounts falling due within one year	14	<u>(8,903,331)</u>		<u>(5,942,716)</u>	
NET CURRENT ASSETS			<u>10,437,278</u>		<u>6,781,717</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>10,866,689</u>		<u>7,392,071</u>
CREDITORS amounts falling due after one year	15		<u>(7,000,000)</u>		<u>-</u>
NET ASSETS			<u>3,866,689</u>		<u>7,392,071</u>
CAPITAL AND RESERVES					
Called up share capital	17		1,000		1,000
Profit and loss account	18		<u>3,865,689</u>		<u>7,391,071</u>
SHAREHOLDERS' FUNDS	19		<u>3,866,689</u>		<u>7,392,071</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 3 December 2012 by



J. SPARROW
Director

The notes on pages 8 to 20 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

1 ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

1.2 CASH FLOW

Under FRS 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.

1.3 GOING CONCERN

The company's business activities are set out in the Business Review section of the Directors' Report on pages 1 to 3. The company participates in centralised treasury arrangements with the other UK subsidiaries, and so shares banking arrangements with these fellow subsidiaries (see Note 20).

The directors, having assessed the responses of the directors of the company's parent Arrow Group ApS to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Arrow Group ApS, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The company has received confirmation from an intermediate parent undertaking, Arrow Group ApS, will provide financial support for at least one year from the date of signing of these financial statements.

1.4 DEFERRED TAXATION

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse based on the tax rates substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

1.5 FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and Loss account.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

1 ACCOUNTING POLICIES (continued)

1 6 INTANGIBLE FIXED ASSETS AND AMORTISATION

Intangible assets consist of product licences which are shown at cost less amortisation. Intangible assets are amortised through the profit and loss account in equal instalments over the estimated useful life of the assets and relates to external spend only.

Amortisation is provided at the following rates

Product licences	-	33 3% straight line
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1 7 PENSIONS

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

1 8 RESEARCH AND DEVELOPMENT

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

1 9 STOCKS AND WORK IN PROGRESS

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

1 10 TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Leasehold improvements	-	15% straight line
Plant and equipment	-	20% reducing balance
Motor vehicles	-	25% straight line
Office equipment	-	33 33% reducing balance

1 11 TURNOVER

Turnover comprises revenue recognised by the company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts. Turnover is recognised on despatch of goods.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

1 ACCOUNTING POLICIES (continued)

1 12 SHARED BASED COMPENSATION SCHEMES

Watson Pharmaceuticals Inc , the ultimate parent company, has granted restricted stock units to employees of the company. In accordance with UITF 44, where the parent company has the obligation to provide these employees with the stock units, the company has considered these to be equity-settled share based payment transactions. The fair value of these payments was determined at grant date based on the quoted share price of Watson Pharmaceuticals Inc , and expensed on a straight-line basis over the vesting period, based on the company's estimate of the number of shares that would eventually vest.

The share based payment charge is recorded through the profit and loss account with a credit to reserves.

2 TURNOVER

The whole of the turnover is attributable to the manufacture and distribution of generic pharmaceutical products.

A geographical analysis of turnover is as follows:

	2011 £	2010 £
UK	32,911,606	27,015,947
European Union	1,353,265	1,406,001
	<u>34,264,871</u>	<u>28,421,948</u>

3 OPERATING LOSS

The operating loss is stated after charging/(crediting)

	2011 £	2010 £
Amortisation – intangible fixed assets	120,842	161,124
Depreciation of tangible fixed assets		
- owned assets	62,618	53,736
- leased assets	45,680	10,869
Foreign exchange gains	(319,147)	(502,380)
Research and development costs	210,885	48,450
Operating lease costs – land and buildings	22,281	134,663
Loss on disposal of fixed assets	22,281	5,078
	<u>22,281</u>	<u>5,078</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

4 AUDITORS' REMUNERATION

	2011 £	2010 £
Fees payable to the company's auditor for the audit of the company's annual accounts	25,973	27,750
	<u>25,973</u>	<u>27,750</u>

All other costs relating to non-audit services rendered to the company, is borne by another company within the group

5 STAFF COSTS

Staff costs, including directors' remuneration, were as follows

	2011 £	2010 £
Wages and salaries	1,286,528	1,104,447
Social security costs	152,824	125,192
Other pension costs	29,513	30,231
Total before share based payment charge	<u>1,505,981</u>	<u>1,259,870</u>
Share based payments (Note 21)	<u>37,116</u>	<u>15,643</u>
Total	<u>1,5405,981</u>	<u>1,275,513</u>

The average monthly number of employees, including directors, during the year was as follows

	2011 Number	2010 Number
Administration	19	15
Sales	4	4
	<u>23</u>	<u>19</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

6 DIRECTORS' REMUNERATION

	2011	2010
	£	£
Aggregate emoluments	192,750	259,637

During the year retirement benefits were accruing to no (2010: no) director in respect of money purchase pension schemes

Highest paid director

	2011	2010
	£	£
Aggregate emoluments	192,750	134,719

7 INTEREST RECEIVABLE

	2011	2010
	£	£
On loans to group undertakings	5,383	6,397
Other interest receivable	556	412
	5,939	6,809

8 INTEREST PAYABLE

	2011	2010
	£	£
On loans from group undertakings	46,796	-
Other interest payable	-	350
	46,796	350

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

9 TAX ON LOSS ON ORDINARY ACTIVITIES

(a) Tax on loss on ordinary activities

	2011	2010
	£	£
Analysis of tax credit in the year		
Group taxation relief	(1,278,958)	(476,432)
Over provision in respect of prior year group taxation relief	-	(923)
Total current tax (Note 9b)	(1,278,958)	(477,355)
Deferred tax		
Impact of change in tax rate	3,675	2,070
Origination and reversal of timing differences	(15,642)	21,254
Adjustment in respect of prior years	(60,754)	350
Total deferred tax (Note 15)	(72,721)	23,674
Tax on loss on ordinary activities	(1,351,679)	(453,681)

The prior year deferred tax adjustment mainly relates to losses that were brought forward of £239,037 on which no deferred tax was recognised

(b) Factors affecting current tax credit

The tax assessed on the loss on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are reconciled below

	2011	2010
	£	£
Loss on ordinary activities before tax	(4,914,177)	(1,744,835)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(1,302,257)	(488,554)
Expenses not deductible for tax	6,720	34,163
Capital allowances in excess of depreciation	6,743	(26,421)
Other timing differences	9,836	4,380
Adjustment in respect of prior periods	-	(923)
Total current tax (Note (a))	(1,278,958)	(477,355)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

9 TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

(c) Deferred taxation

Deferred taxation assets recognised in the accounts and the amounts not recognised are as follows

	Recognised		Not recognised	
	2011	2010	2011	2010
	£	£	£	£
Fixed asset timing differences	(21,750)	(16,618)	-	-
Short-term timing differences	(72,218)	(13,455)	-	-
Share based payments	(13,050)	(4,224)	-	-
Total deferred tax asset (Note 16)	(107,018)	(34,297)	-	-

A change in the UK main corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and was effective from 1 April 2011. A further change in the UK main corporation tax to 26% was substantively enacted on 29 March 2011. Accordingly, the profits of the company are taxed at an effective rate of 26.5%.

In addition to the changes in rates of corporation tax disclosed above, a number of further changes to the UK corporation tax system were announced in the March 2012 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was substantively enacted on 3 July 2012. Further reductions to the main rate are proposed to reduce the rate by 1% to 22% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

10 INTANGIBLE FIXED ASSETS

	Product licenses £
COST	
At 1 January and 31 December 2011	483,370
AMORTISATION	
At 1 January 2011	362,528
Charge for the year	120,842
At 31 December 2011	483,370
NET BOOK VALUE	
At 31 December 2011	-
At 31 December 2010	120,842

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011
11 TANGIBLE FIXED ASSETS

	Leasehold improvements £	Plant and equipment £	Office equipment £	Motor vehicles £	Total £
COST					
At 1 January 2011	347,564	419,450	299,081	112,161	1,178,256
Additions	37,206	-	33,272	-	70,478
Disposals	-	-	-	(27,716)	(27,716)
At 31 December 2011	384,770	419,450	332,353	84,445	1,221,018
DEPRECIATION					
At 1 January 2011	85,393	353,950	224,016	25,385	688,744
Charge for the year	45,680	11,830	29,712	21,076	108,298
Disposals	-	-	-	(5,435)	(5,435)
At 31 December 2011	131,073	365,780	253,728	41,026	791,607
NET BOOK VALUE					
At 31 December 2011	253,697	53,670	78,625	43,419	429,411
At 31 December 2010	262,171	65,500	75,065	86,776	489,512

12 STOCKS

	2011 £	2010 £
Finished goods and goods for resale	6,467,345	3,831,765
	6,467,345	3,831,765

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

13 DEBTORS

	2011	2010
	£	£
DUE AFTER MORE THAN ONE YEAR		
Amounts owed by group undertakings	366,000	100,000
	2011	2010
	£	£
DUE WITHIN ONE YEAR		
Trade debtors	9,322,653	5,667,360
Amounts owed by group undertakings	1,847,829	785,968
Other debtors	26,460	26,460
Prepayments and accrued income	282,772	107,653
Deferred tax asset (see Note 16)	107,018	34,297
	11,586,732	6,621,738

14 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011	2010
	£	£
Trade creditors	407,017	1,315,207
Amounts owed to group undertakings	5,433,751	2,614,597
Corporation tax	2,114	2,114
Social security and other taxes	764,889	436,009
Accruals and deferred income	2,295,560	1,574,789
	8,903,331	5,942,716

Amounts owed to group undertakings are unsecured, interest free and repayable on demand

15 CREDITORS AMOUNTS FALLING DUE AFTER ONE YEAR

	2011	2010
	£	£
Amounts owed to group undertakings	7,000,000	-
	7,000,000	-

Amounts owed to group undertakings are repayable upon written notice of at least 12 months. Interest is compounded monthly at 1.5% over the Barclays Bank Plc base rate.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

16. DEFERRED TAX ASSET

	2011 £	2010 £
At 1 January	34,297	57,971
Deferred tax credit/(charge) in profit and loss account	72,721	(23,674)
At 31 December	<u>107,018</u>	<u>34,297</u>

The deferred tax asset is made up as follows

	2011 £	2010 £
Accelerated depreciation	21,750	16,618
Other timing differences	85,268	17,679
	<u>107,018</u>	<u>34,297</u>

17. SHARE CAPITAL

	2011 £	2010 £
ALLOTTED, CALLED UP AND FULLY PAID		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

18. PROFIT AND LOSS ACCOUNT

	Profit and loss account £
At 1 January 2011	7,391,071
Loss in the financial year	(3,562,498)
Share based compensation charge	37,116
At 31 December 2011	<u>3,865,689</u>

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2011 £	2010 £
Opening shareholders' funds	7,392,071	8,667,582
Loss in the financial year	(3,562,498)	(1,291,154)
Share based compensation charge	37,116	15,643
Closing shareholders' funds	<u>3,866,689</u>	<u>7,392,071</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

20 CONTINGENT LIABILITIES

There is a group composite accounting scheme in relation to the current bank accounts of the following UK group companies

- Arrow Generics Limited
- Arrow No 7 Limited
- Breath Limited
- Cairnstores Limited
- Bowmed Limited

The composite scheme is a cross guarantee held by Barclays Bank plc whereby the composite bank balances can be offset to a maximum of the overdraft limit of £2,000,000 which is secured against trade debtors

At the year end the net balance of all the participants to the scheme amounted to a bank balance of £5,328,184 (2010 £2,388,635)

Arrow Generics Limited has guaranteed the bank borrowings of fellow subsidiaries (as listed above) and at 31 December 2011 the net liability amounted to £Nil (2010 £162,363)

21 SHARE BASED COMPENSATION SCHEMES

Watson Pharmaceuticals, Inc (the ultimate parent company) operates a number of share based compensation schemes for employees of the group, including the 'Restricted Stock Plan' in which employees of Arrow Generics Limited participate

This programme offers participants the opportunity to earn shares of the group over time, rather than options that give participants the right to purchase shares at a set price. For employees of the group the vesting terms of the restricted stock awards are that 50% of the awards will vest after two years, and the remaining 50% will vest four years after the grant date

The fair value of the awards granted is based on the share price on the grant date. The total share based compensation cost is recognised over the vesting period of the awards in accordance with FRS 20. In line with the vesting conditions of the awards, half of the total cost is recognised over the two year period from the grant date, with the remaining cost being recognised over the four year period from the grant date. Details of the grants during the year are set out below

Grant date	03-Mar-11
Share price at grant date	\$57.09
Exercise price	Nil
Number of employees	1
Shares granted	2,156
Vesting period	2 - 4 years
Fair value per RSU	\$57.09

Grant date	18-Aug-11
Share price at grant date	\$64.29
Exercise price	Nil
Number of employees	1
Shares granted	233
Vesting period	2 - 4 years
Fair value per RSU	\$64.29

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

21 SHARE BASED COMPENSATION SCHEMES (continued)

Details of the outstanding awards at 31 December 2011 are set out below

	2011		2010	
	Number	Weighted average share price	Number	Weighted average share price
Outstanding at 1 January	3,100	\$40.59	-	-
Granted 2 July 2010	-	-	3,100	\$40.59
Forfeited	(1,300)	\$40.59	-	-
Granted 3 March 2011	2,156	\$57.09	-	-
Granted 18 August 2011	233	\$64.29	-	-
	<u>4,189</u>		<u>3,100</u>	
Outstanding 31 December				

During the year the share based compensation cost recognised in the profit and loss account in respect of these awards was £37,116 (2010 £15,643)

22 PENSION COMMITMENTS

The company participates in a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge for the year represents contributions payable by the company to the fund and amounted to £29,513 (2010 £30,231).

There are no outstanding or prepaid contributions at the year-end (2010 £nil)

23 OPERATING LEASE COMMITMENTS

At 31 December 2011 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings	
	2011	2010
Expiry date	£	£
After more than 5 years	<u>261,122</u>	<u>261,122</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011

24 RELATED PARTY TRANSACTIONS

As the company is a wholly owned subsidiary of Arrow Group ApS, the company has taken advantage of the exemption contained within FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the Watson Pharmaceuticals, Inc group

25 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent company is Arrow Group ApS, a company incorporated in Denmark

The ultimate parent undertaking and controlling party is Watson Pharmaceuticals, Inc , a company incorporated in the United States of America

Watson Pharmaceuticals, Inc is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2011. A copy of these financial statements can be obtained from 311 Bonnie Circle, Corona, California, USA