

NORGINE LIMITED AND SUBSIDIARIES
(Registered Number 00215668)

**DIRECTORS' REPORT AND GROUP FINANCIAL
STATEMENTS**

31 DECEMBER 1998



NORGINE LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

The directors present their report and the audited financial statements of the company and the group for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

The group's principal activities during the year were the manufacture and distribution of pharmaceutical products.

FUTURE PROSPECTS

Norgine Limited completed a major expansion of its manufacturing facility in 1998. This resulted in the production of Movicol at the Hengoed site which commenced on schedule. Sales of this new product have exceeded expectation and are expected to grow significantly into 1999 and beyond.

RESULTS AND DIVIDENDS

The group's profit for the financial year was £390,000 (1997 - loss- £13,633). The directors do not recommend the payment of a dividend. The profit for the financial year of £390,000 (1997 - loss - £13,633) has been transferred to reserves.

DIRECTORS AND THEIR INTERESTS

The following served as directors of the company and their interests in the ordinary share capital of the company at the beginning and end of the year are given below:

	<u>31 December 1998</u>	<u>1 January 1998</u>
	Ordinary £1 shares	Ordinary £1 shares
	Number	Number
P M Stein (Chairman)	-	-
P R Harsant (Managing Director)	-	-
J A Heaney (Finance Director)	-	-
W J Horgan (resigned 13 January 1998)	-	-
H A Poulton	-	-
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The parent undertaking is Norgine Europe BV, which is ultimately controlled by Mr PM Stein and his family.

YEAR 2000

The systems and assets of the company are currently being reviewed for Year 2000 compliance. This process is expected to be completed during 1999 at a total anticipated cost of £70,000.

NORGINE LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)

CHARITABLE DONATIONS

During the year the company made charitable donations of £2,781 (1997 - £750).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which 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 those financial statements, the directors are required to:

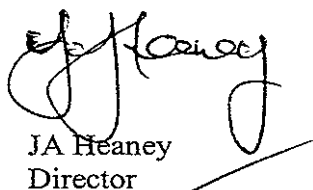
- (1) select suitable accounting policies and apply them consistently;
- (2) make judgements and estimates that are reasonable and prudent;
- (3) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (4) 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

Price Waterhouse resigned on 20 July 1998 and on that date PricewaterhouseCoopers were appointed by the directors to fill the casual vacancy. At the Annual General Meeting the decision of the directors will be ratified by the Board and a resolution concerning the reappointment of PricewaterhouseCoopers will be proposed.

By Order of the Board



JA Heaney
Director

6 April 1999

AUDITORS' REPORT TO THE SHAREHOLDERS OF NORGINE LIMITED AND SUBSIDIARIES

We have audited the financial statements on pages 4 to 33 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 2 of the financial statements. Our responsibilities, as independent auditors, are established primarily by statute, the Auditing Practice Board, and our professional guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

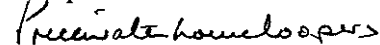
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the group and company at 31 December 1998 and of the profit of the group and company and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

6 April 1999

NORGINE LIMITED AND SUBSIDIARIES

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	<u>Notes</u>	<u>1998</u> £	<u>1997</u> £
TURNOVER - continuing operations	2	17,488,216	15,141,151
Change in stocks of finished goods and work in progress		(107,626)	(32,250)
		<hr/>	<hr/>
		17,380,590	15,108,901
Raw materials and consumables		(4,333,659)	(3,722,475)
Other external charges		(4,834,823)	(4,121,484)
Staff costs	3,22	(4,878,785)	(4,306,923)
Depreciation		(736,733)	(617,387)
Other operating charges		(2,282,980)	(2,154,167)
Other operating income	4	600,021	18,779
		<hr/>	<hr/>
OPERATING PROFIT – continuing operations		913,631	205,244
Interest receivable		23,803	17,840
Interest payable	5	(411,906)	(204,481)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,4	525,528	18,603
Tax on profit on ordinary activities	6	(135,528)	(32,236)
		<hr/>	<hr/>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	18	390,000	(13,633)
		<hr/>	<hr/>

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

The notes on pages 10 to 33 form an integral part of these financial statements.

NORGINE LIMITED AND SUBSIDIARIES

PARENT COMPANY PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	<u>Notes</u>	<u>1998</u> £	<u>1997</u> £
TURNOVER - continuing operations	2	16,859,217	14,210,993
Change in stocks of finished goods and work in progress		207,065	71,399
		<hr/>	<hr/>
		17,066,282	14,282,392
Raw materials and consumables		(4,736,728)	(3,827,069)
Other external charges		(4,764,663)	(4,447,607)
Staff costs	3,22	(4,341,387)	(3,724,108)
Depreciation		(697,065)	(609,014)
Other operating charges		(1,639,514)	(1,547,658)
Other operating income		82,168	18,204
		<hr/>	<hr/>
OPERATING PROFIT – continuing operations		969,093	145,140
Interest receivable		18,419	16,858
Interest payable	5	(398,192)	(204,212)
		<hr/>	<hr/>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	2,4	589,320	(42,214)
Tax on profit/(loss) on ordinary activities	6	(86,302)	(20,205)
		<hr/>	<hr/>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	18	503,018	(62,419)
		<hr/>	<hr/>

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

The profit/(loss) for the financial year includes all recognised gains and losses in the year.

The notes on pages 10 to 33 form an integral part of these financial statements.

NORGINE LIMITED AND SUBSIDIARIES

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 1998

	<u>Notes</u>	<u>1998</u> £	<u>1997</u> £
Profit/(loss) for the financial year	18	390,000	(13,633)
Currency translation differences on Foreign currency net investments	18	(45,350)	(16,642)
		<hr/>	<hr/>
Total gains and losses relating to the year		<u>344,650</u>	<u>(30,275)</u>

The notes on pages 10 to 33 form an integral part of these financial statements.

NORGINE LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET AT 31 DECEMBER 1998

	Notes	1998	1997
		£	£
FIXED ASSETS			
Intangible assets	7	26,596	53,192
Tangible assets	8	7,307,396	5,666,159
		<u>7,333,992</u>	<u>5,719,351</u>
CURRENT ASSETS			
Stocks	10	1,886,925	1,584,721
Debtors	11	4,493,597	3,503,737
Cash at bank and in hand		283,575	1,071,531
		<u>6,664,097</u>	<u>6,159,989</u>
CREDITORS - Amounts falling due within one year	12	(5,320,562)	(4,428,022)
NET CURRENT ASSETS		<u>1,343,535</u>	<u>1,731,967</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>8,677,527</u>	<u>7,451,318</u>
CREDITORS - Amounts falling due after more than one year	13	(2,621,328)	(1,893,979)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(307,785)	(291,703)
DEFERRED INCOME	16	(446,749)	(308,621)
		<u>5,301,665</u>	<u>4,957,015</u>
CAPITAL AND RESERVES			
Called up share capital	17	1,000,000	1,000,000
Reserves	18	4,301,665	3,957,015
		<u>5,301,665</u>	<u>4,957,015</u>
SHAREHOLDERS' FUNDS	19	<u>5,301,665</u>	<u>4,957,015</u>
APPROVED BY THE BOARD ON 6 APRIL 1999			


J A HEANEY
 DIRECTOR

The notes on pages 10 to 33 form an integral part of these financial statements.

NORGINE LIMITED AND SUBSIDIARIES

COMPANY BALANCE SHEET AT 31 DECEMBER 1998

	Notes	1998	1997
		£	£
FIXED ASSETS			
Intangible assets	7	26,596	53,192
Tangible assets	8	7,207,209	5,627,946
Investments	9	190,157	180,157
		<u>7,423,962</u>	<u>5,861,295</u>
CURRENT ASSETS			
Stocks	10	1,649,128	1,324,123
Debtors	11	5,114,267	4,110,262
Cash at bank and in hand		115,201	943,101
		<u>6,878,596</u>	<u>6,377,486</u>
CREDITORS - Amounts falling due within one year	12	(5,272,990)	(4,559,953)
NET CURRENT ASSETS		<u>1,605,606</u>	<u>1,817,533</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,029,568</u>	<u>7,678,828</u>
CREDITORS - Amounts falling due after more than one year	13	(2,602,861)	(1,893,267)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(575,500)	(575,500)
DEFERRED INCOME	16	(446,749)	(308,621)
		<u>5,404,458</u>	<u>4,901,440</u>
CAPITAL AND RESERVES			
Called up share capital	17	1,000,000	1,000,000
Reserves	18	4,404,458	3,901,440
SHAREHOLDERS' FUNDS	19	<u>5,404,458</u>	<u>4,901,440</u>

APPROVED BY THE BOARD ON 6 APRIL 1999


J. A. HEANEY
DIRECTOR

The notes on pages 10 to 33 form an integral part of these financial statements.

NORGINE LIMITED AND SUBSIDIARIES

GROUP CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £	1997 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	23	1,193,000	1,582,249
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		23,803	17,840
Interest paid		(409,196)	(197,326)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(385,393)	(179,486)
TAXATION			
United Kingdom corporation tax paid		(40,412)	(49,339)
Overseas tax received		1,135	14,531
TOTAL TAX PAID		(39,277)	(34,808)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(1,660,255)	(2,217,495)
Receipt of government grant		200,000	-
Proceeds from sale of tangible fixed assets		-	7,811
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		(1,460,255)	(2,209,684)
FINANCING			
New bank loan obtained		200,000	1,200,000
Repayment of borrowings		(276,216)	(124,009)
Capital element of finance lease payments		(155,891)	(100,903)
Loans from associates		750,280	-
NET CASH INFLOW FROM FINANCING		518,173	975,088
(DECREASE) / INCREASE IN CASH	24	(173,752)	133,359

The notes on pages 10 to 32 form an integral part of these financial statements.

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards under the historical cost convention.

(a) Basis of consolidation

The consolidated accounts of the group incorporate the results of Norgine Limited ("the company") and its subsidiaries, made up to 31 December in each year.

Any goodwill arising from the cost of acquiring a subsidiary company exceeding the fair value of its net assets is written off directly against reserves.

(b) Turnover

Turnover is stated at invoiced value of goods supplied to third parties, after deduction of trade discounts and value added tax.

(c) Intangible fixed assets

Intangible fixed assets are stated at cost less accumulated amortisation.

Amortisation is calculated using the straight line method so as to write down the cost of assets to their residual values over their estimated useful economic lives. The annual rates used are as follows:

Trade licences	4 years
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(d) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated using the straight line method so as to write down the cost of assets to their residual values over their estimated useful economic lives. The annual rates used are as follows:

Freehold buildings	25 - 50 years
Plant and machinery	5 - 20 years
Fixtures, fittings and equipment	4 - 7 years

Freehold land is not depreciated. Assets under construction are not depreciated until the year in which they are brought into use.

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(e) Stocks

Stocks are valued at the lower of cost, which includes an appropriate proportion of overheads, and net realisable value.

(f) Leased assets

Fixed assets acquired under finance leases are recorded in the balance sheet as tangible fixed assets at their equivalent capital value and are depreciated over the shorter of their estimated useful economic lives or the lease term. The corresponding liability is recorded as a creditor and the interest is charged to the profit and loss account on a sum of the digits basis over the primary lease period.

Rental payments on assets held under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(g) Deferred taxation

Deferred taxation is provided at appropriate rates of taxation on differences arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Provision is only made to the extent that there is a reasonable probability that a liability will crystallise in the foreseeable future.

(h) Government grants

Government grants on capital expenditure are released to revenue over the expected useful lives of the relevant assets by equal annual amounts. Grants of a revenue nature are credited to income in the period to which they relate. The amount of grants not yet released is held as deferred income in the balance sheet.

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(i) Foreign currencies

Profits and losses of overseas companies are translated into sterling at the average rates of exchange for the year. Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

Foreign currency transactions during the year are recorded at the exchange rate ruling at the date of the transaction.

The exchange adjustment on translation of the company's investment in capital and reserves of subsidiary companies is dealt with through reserves. All other exchange differences are taken into account in arriving at operating profit.

(j) Research and development

All research and development expenditure is written off to the profit and loss account as incurred.

(k) Pensions

The group operates pension schemes for employees and executive directors. The regular pension cost is charged to the profit and loss account and is based on the expected pension costs spread over the service lives of the employees. Contributions to the pension scheme are paid according to the advice of actuaries based on a tri-annual actuarial valuation of the scheme.

(l) Fixed asset investments

Shares in group undertakings are stated at cost less any provision for permanent diminution in value.

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

2 SEGMENTAL INFORMATION

Turnover and profit on ordinary activities before taxation are derived from one class of business. A geographical split of turnover is given below:

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
UK	7,907,451	6,939,701	7,905,657	6,935,939
Africa	1,794,247	1,749,230	1,175,455	829,834
Australasia	1,620,983	1,980,252	1,620,983	1,980,252
European Community	2,585,867	1,374,132	2,577,454	1,367,132
Rest of Europe	754,370	644,165	754,370	644,165
Rest of the world	2,825,298	2,453,671	2,825,298	2,453,671
	<hr/>	<hr/>	<hr/>	<hr/>
	17,488,216	15,141,151	16,859,217	14,210,993
	<hr/>	<hr/>	<hr/>	<hr/>

3 STAFF COSTS

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Wages and salaries	4,020,327	3,478,499	3,572,491	2,995,857
Social security costs	319,209	291,436	278,292	239,665
Other pension costs (Note 22)	372,528	369,794	326,067	324,183
Other staff costs	166,721	167,194	164,537	164,403
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	4,878,785	4,306,923	4,341,387	3,724,108
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NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

4 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting) the following:

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Auditors' remuneration, including expenses	23,183	22,768	21,000	21,000
Remuneration for non-audit work	8,418	10,639	5,000	7,436
Operating lease and short term rentals - plant and machinery	337,788	298,563	241,281	249,551
Operating lease rentals - land and buildings	276,173	203,939	239,008	182,159
Government grants	(61,872)	(11,873)	(61,872)	(11,873)
Loss on disposal of fixed assets	-	29,984	-	37,192
Depreciation of tangible fixed assets	710,137	590,791	670,469	582,418
Depreciation of intangible assets	26,596	26,596	26,596	26,596
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Included within group other operating income is £516,407 (1997- £Nil) received by Norgine Research Limited from associated companies for the provision of pharmaceutical research and development and fees towards the administrative costs of the company.

5 INTEREST PAYABLE

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Bank loans and overdrafts	287,525	160,706	287,162	160,437
Finance lease interest	116,190	43,775	102,839	43,775
Interest paid to other group companies	8,191	-	8,191	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	411,906	204,481	398,192	204,212
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

6 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

Taxation on the profit/(loss) for the year:

	<u>Group</u>		<u>Company</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
UK corporation tax				
- current year at 31.00% (1997 – 31.25%)	106,000	36,120	82,000	36,110
- over provision in respect of prior years	4,302	(15,905)	4,302	(15,905)
Deferred tax (Note 14)	16,082	494	-	-
Overseas tax	9,144	11,527	-	-
	<u>135,528</u>	<u>32,236</u>	<u>86,302</u>	<u>20,205</u>

7 INTANGIBLE FIXED ASSETS

GROUP AND COMPANY	<u>Trade licences</u>	<u>Other</u>	<u>Total</u>
	£	£	£
COST			
At 1 January 1998 and 31 December 1998	106,383	1	106,384
	<u>106,383</u>	<u>1</u>	<u>106,384</u>
AMORTISATION			
At 1 January 1998	53,192	-	53,192
Charge for year	26,596	-	26,596
	<u>79,788</u>	<u>-</u>	<u>79,788</u>
At 31 December 1998	79,788	-	79,788
	<u>79,788</u>	<u>-</u>	<u>79,788</u>
NET BOOK AMOUNT			
At 31 December 1998	26,595	1	26,596
	<u>26,595</u>	<u>1</u>	<u>26,596</u>
At 31 December 1997	53,191	1	53,192
	<u>53,191</u>	<u>1</u>	<u>53,192</u>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

8 TANGIBLE FIXED ASSETS

GROUP

COST	Freehold land and buildings £	Plant and machinery £	Fixtures, fittings and equipment £	Assets in the course of construction £	Total £
At 1 January 1998	2,921,095	4,134,087	1,667,016	507,076	9,229,274
Exchange adjustments	-	-	(7,520)	-	(7,520)
Additions	889,289	827,774	319,851	319,205	2,356,119
Disposals	-	(10,322)	(2,072)	-	(12,394)
Transfers	502,727	4,349	-	(507,076)	-
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At 31 December 1998	4,313,111	4,955,888	1,977,275	319,205	11,565,479
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ACCUMULATED DEPRECIATION					
At 1 January 1998	516,763	2,016,215	1,030,137	-	3,563,115
Exchange adjustments	-	-	(3,528)	-	(3,528)
Charge for the year	93,017	396,519	220,601	-	710,137
Released on disposals	-	(10,322)	(1,319)	-	(11,641)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	609,780	2,402,412	1,245,891	-	4,258,083
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK AMOUNT					
At 31 December 1998	3,703,331	2,553,476	731,384	319,205	7,307,396
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1997	2,404,332	2,117,872	636,879	507,076	5,666,159
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NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

8 TANGIBLE FIXED ASSETS (CONTINUED)

COMPANY

	Freehold land and buildings £	Plant and machinery £	Fixtures, fittings and equipment £	Assets in the course of construction	Total £
COST					
At 1 January 1998	2,921,095	4,124,599	1,602,285	507,076	9,155,055
Additions	889,289	827,778	213,460	319,205	2,249,732
Disposals	-	(10,322)	-	-	(10,322)
Transfers	502,727	4,349	-	(507,076)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	4,313,111	4,946,404	1,815,745	319,205	11,394,465
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ACCUMULATED DEPRECIATION					
At 1 January 1998	516,763	2,006,901	1,003,445	-	3,527,109
Charge for the year	93,017	396,353	181,099	-	670,469
Released on disposals	-	(10,322)	-	-	(10,322)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	609,780	2,392,932	1,184,544	-	4,187,256
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK AMOUNT					
At 31 December 1998	3,703,331	2,553,472	631,201	319,205	7,207,209
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1997	2,404,332	2,117,698	598,840	507,076	5,627,946
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Included in plant and machinery for the group and company are assets held under finance leases with a net book amount of £942,467 (1997 - £429,608). Depreciation charged on these assets in the year was £120,935 (1997 - £80,396).

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

9 INVESTMENTS - COMPANY ONLY

Investment in subsidiary undertakings at cost:

	£
COST	
At 1 January 1998	228,662
Additions	10,000
	<hr/>
At 31 December 1998	238,662
	<hr/> <hr/>
PROVISION FOR DIMINUTION IN VALUE	
At 1 January 1998 and 31 December 1998	48,505
	<hr/> <hr/>
NET BOOK AMOUNT	
At 31 December 1998	190,157
	<hr/> <hr/>
At 31 December 1997	180,157
	<hr/> <hr/>

During the year the company acquired a 100% interest in Norgine Research Limited.

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

9 INVESTMENTS - COMPANY ONLY (CONTINUED)

Details of the subsidiary undertakings are as follows:

<u>Name of company</u>	<u>Country of incorporation or registration</u>	<u>Class of shares held</u>	<u>Proportion of class held</u>	<u>Nature of Business</u>
FW Ball Limited	England	Ordinary	100%	Dormant
Camden Chemical Company Limited	England	Ordinary & Preference	100%	Dormant
Norgine (Proprietary) Limited	South Africa	Ordinary	100%*	Pharmaceutical Distributor
Evening Primrose Oil Company Limited	England	Ordinary	100%	Vegetable and edible oil products
Norgine Research Limited	England	Ordinary	100%	Pharmaceutical research and development
Norgine Proprietary Limited	Australia	Ordinary	100%	Management services

* held by a subsidiary company

All of the subsidiaries are included in the consolidated group accounts.

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

10 STOCKS

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Raw materials and consumables	743,739	600,743	743,739	490,916
Work in progress	251,151	196,030	251,151	196,030
Finished goods and goods for resale	892,035	787,948	654,238	637,177
	<u>1,886,925</u>	<u>1,584,721</u>	<u>1,649,128</u>	<u>1,324,123</u>

The replacement cost of the company's and group's stocks is not materially different from that stated above.

11 DEBTORS

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Trade debtors	3,537,809	3,094,290	3,091,647	2,912,955
Amounts due from subsidiary undertakings	-	-	1,157,008	806,993
Amounts owed from parent and associated undertakings	672,409	154,961	622,865	154,961
Other debtors	57,816	83,994	19,375	70,862
Prepayments and accrued income	225,563	170,492	223,372	164,491
	<u>4,493,597</u>	<u>3,503,737</u>	<u>5,114,267</u>	<u>4,110,262</u>

Included in amounts due from subsidiary undertakings is a debtor of £427,848 (1997 - £427,848) due after more than one year.

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

12 CREDITORS - Amounts falling due within one year

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Bank overdraft	864,240	1,457,900	767,138	1,457,900
Bank loan (see Note 13)	429,713	276,216	429,713	276,216
Obligations under finance leases (see Note 15)	307,439	110,395	304,114	110,395
Trade creditors	1,907,157	1,460,831	1,711,477	1,377,207
Amounts owed to parent and associated undertakings	337,547	134,879	337,547	134,879
Amounts due to subsidiary undertaking	-	-	315,551	248,375
Taxation and social security	411,070	177,199	380,063	162,963
Other creditors	210,846	55,368	208,651	36,784
Accruals	852,550	755,234	818,736	755,234
	<u>5,320,562</u>	<u>4,428,022</u>	<u>5,272,990</u>	<u>4,559,953</u>

13 CREDITORS - Amounts falling due after more than one year

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Bank loan (see below)	1,232,375	1,462,088	1,232,375	1,462,088
Obligations under finance leases (see Note 15)	677,181	334,252	663,718	334,252
Other creditors	22,815	97,639	17,811	96,927
Amounts owed to parent and associated undertakings	688,957	-	688,957	-
	<u>2,621,328</u>	<u>1,893,979</u>	<u>2,602,861</u>	<u>1,893,267</u>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

13 CREDITORS - Amounts falling due after more than one year (CONTINUED)

Bank loan

The bank loan is repayable over five years by quarterly instalments until 30 June 2003. Interest is charged at 1¾% above the London Interbank Offer Rate. The company has issued a debenture in favour of its bankers charging all the company's fixed and floating assets which are not subject to prior charge. The bankers also hold charges over the freehold property of the company at Hengoed and certain keyman life assurance policies.

Guarantees

The company has entered into cross guarantee arrangements in favour of Barclays Bank in respect of other group undertakings.

Analysis of maturity of debt

The bank borrowings of the group and company fall due for repayment as follows:

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
In one year or less, or on demand	1,293,953	1,734,116	1,196,851	1,734,116
Between one and two years	444,234	429,713	444,234	429,713
Between two and five years	788,141	1,032,375	788,141	1,032,375
	<hr/>	<hr/>	<hr/>	<hr/>
	2,526,328	3,196,204	2,429,226	3,196,204
	<hr/>	<hr/>	<hr/>	<hr/>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

14 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred tax is provided to the extent that a liability is expected to crystallise in the foreseeable future and comprises:

GROUP

	Provided		Unprovided	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Accelerated capital allowances	107,785	141,203	473,500	487,500
Other short term timing differences	-	(49,500)	-	-
	<u>107,785</u>	<u>91,703</u>	<u>473,500</u>	<u>487,500</u>
	<u><u>107,785</u></u>	<u><u>91,703</u></u>	<u><u>473,500</u></u>	<u><u>487,500</u></u>

COMPANY

	Provided		Unprovided	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Accelerated capital allowances	89,500	139,000	473,500	487,500
Other short term timing differences	-	(49,500)	-	-
	<u>89,500</u>	<u>89,500</u>	<u>473,500</u>	<u>487,500</u>
	<u><u>89,500</u></u>	<u><u>89,500</u></u>	<u><u>473,500</u></u>	<u><u>487,500</u></u>

Movements on the deferred tax provision during the year were as follows:

	Group		Company	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Brought forward	91,703	91,209	89,500	89,500
Profit and loss account (Note 6)	16,082	494	-	-
	<u>107,785</u>	<u>91,703</u>	<u>89,500</u>	<u>89,500</u>
	<u><u>107,785</u></u>	<u><u>91,703</u></u>	<u><u>89,500</u></u>	<u><u>89,500</u></u>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

14 PROVISIONS FOR LIABILITIES AND CHARGES

Other provisions - company and group

	<u>1998</u> £	<u>1997</u> £
Provision for lease on property	200,000	200,000
	<u> </u>	<u> </u>

Other provisions - company only

	<u>1998</u> £	<u>1997</u> £
Provision for net liabilities arising in subsidiary undertaking	286,000	286,000
	<u> </u>	<u> </u>

15 LEASE OBLIGATIONS

	<u>Group</u> <u>1998</u> £	<u>1997</u> £	<u>Company</u> <u>1998</u> £	<u>1997</u> £
(a) Finance leases due:				
Within one year	382,198	151,508	377,507	151,508
Between one and five years	778,351	383,029	764,061	383,029
	<u>1,160,549</u>	<u>534,537</u>	<u>1,141,568</u>	<u>534,537</u>
Finance charges	(175,929)	(89,890)	(173,736)	(89,890)
	<u>984,620</u>	<u>444,647</u>	<u>967,832</u>	<u>444,647</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Falling due within one year (Note 12)	307,439	110,395	304,114	110,395
Falling due after more than one year (Note 13)	677,181	334,252	663,718	334,252
	<u>984,620</u>	<u>444,647</u>	<u>967,832</u>	<u>444,647</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

15 LEASE OBLIGATIONS (CONTINUED)

(b) Operating leases

The group is committed to pay the following total amounts in respect of operating leases:

	<u>1998</u> £	<u>1997</u> £
Plant, machinery and software:		
Within one year	364,330	146,537
Between one and five years	472,444	92,414
	<hr/>	<hr/>
	836,774	238,951
	<hr/>	<hr/>
	<u>1998</u> £	<u>1997</u> £
Land and buildings		
Within one year	215,772	203,939
Between one and five years	720,962	798,013
In more than five years	200,000	250,000
	<hr/>	<hr/>
	1,136,734	1,251,952
	<hr/>	<hr/>
The amounts payable in respect of the next year are:		
	<u>Plant and machinery</u> £	<u>Land and buildings</u> £
Annual commitments where leases expire:		
Between one year and five years	364,330	-
In more than five years	-	215,772
	<hr/>	<hr/>
	364,330	215,772
	<hr/>	<hr/>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

16 DEFERRED INCOME

	Group and Company	
	<u>1998</u>	<u>1997</u>
	£	£
Government grants:		
Brought forward at 1 January	308,621	320,494
Released to profit and loss account	(61,872)	(11,873)
Received in year	200,000	-
	<hr/>	<hr/>
Carried forward at 31 December	446,749	308,621
	<hr/>	<hr/>

17 CALLED UP SHARE CAPITAL - GROUP AND COMPANY

	<u>1998</u>	<u>1997</u>
	£	£
Authorised:		
Ordinary shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>
Issued, allotted and fully paid:		
Ordinary shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>

18 RESERVES

	<u>Capital</u>	<u>Revenue</u>	<u>Total</u>
GROUP	£	£	£
Brought forward at 1 January 1998	18,934	3,938,081	3,957,015
Exchange adjustment on net worth of overseas subsidiaries	-	(45,350)	(45,350)
Profit for the financial year	-	390,000	390,000
	<hr/>	<hr/>	<hr/>
Carried forward at 31 December 1998	18,934	4,282,731	4,301,665
	<hr/>	<hr/>	<hr/>

The cumulative amount of goodwill written off to the profit and loss accounts reserve is £123,427 (1997 - £123,427).

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

18 RESERVES (CONTINUED)

COMPANY	<u>1998</u> £
Brought forward at 1 January 1998	3,901,440
Profit for the financial year	503,018
	<hr/>
Carried forward at 31 December 1998	4,404,458
	<hr/> <hr/>

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group <u>1998</u> £	<u>1997</u> £	Company <u>1998</u> £	<u>1997</u> £
Profit/(loss) for the financial year	390,000	(13,633)	503,018	(62,419)
Exchange difference on translation	(45,350)	(16,642)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net (reduction in)/addition to shareholders' funds	344,650	(30,275)	503,018	(62,419)
Opening shareholders' funds	4,957,015	4,987,290	4,901,440	4,963,859
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	5,301,665	4,957,015	5,404,458	4,901,440
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Shareholders' funds are entirely attributable to equity shareholders.

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

20 DIRECTORS' EMOLUMENTS - GROUP AND COMPANY

	<u>1998</u> £	<u>1997</u> £
Emoluments	340,444	400,787
Pension contributions	34,507	39,816
Compensation for loss of office	-	104,180
	<hr/>	<hr/>
	374,951	544,783
	<hr/>	<hr/>
Emoluments of the highest paid director are:		
	<u>1998</u> £	<u>1997</u> £
Emoluments	111,855	74,137
Compensation for loss of office	-	104,180
Pension Contributions	11,040	9,140
	<hr/>	<hr/>
	122,895	187,457
	<hr/>	<hr/>

The accrued pension of the highest paid director is £11,467. The number of directors who are members of the group's defined benefit pension scheme at the year end is 4 (1997 - 4).

21 EMPLOYEES - GROUP

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

	<u>1998</u> Number	<u>1997</u> Number
Production	105	84
Sales and distribution	57	40
Administration	41	37
	<hr/>	<hr/>
	203	161
	<hr/>	<hr/>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

22 PENSION COSTS

The company operates a funded defined benefit pension scheme. The overseas undertakings operate defined contribution pension schemes.

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Pension cost charged to profit on ordinary activities	372,528	369,794	326,067	324,183

The charge relating to the company's overseas undertakings is based on local practice which is different from the United Kingdom scheme. It is not practicable to adjust the accounting policy. The United Kingdom pension costs are based on the results of an actuarial valuation carried out as at 1 January 1996 by a qualified actuary. The valuation method adopted was the Partly Projected Unit method in conjunction with a control period of 20 years. The main assumptions were as follows:

Rate of investment return	9.5% pa
Rate of future salary increases	8.0% pa
Rate used for partial salary increases after the end of the control period:	
- to accrued guaranteed minimum pensions	7.0% pa
- to excess benefits over guaranteed minimum pensions	6.0% pa

Mortality is assumed to be in line with standard national tables, all members are assumed to retire at their normal retirement date and no allowance has been made for members exchanging pensions at retirement for tax-free cash sums.

Allowance has been made for replacement of members dying or retiring with new members who are aged 35 on entry to the scheme.

As at 1 January 1996, the market value of the scheme's assets was £5,245,989 excluding assets relating to members' additional voluntary contributions. The scheme was 153% funded on a discontinuance basis, and 144% funded on the basis of the chosen funding target. The surplus on this target was £1,395,000, which is being written off over a 20 year period commencing on the valuation date.

The total agreed contribution rate payable to the scheme for 1996 was 15.5% of pensionable salaries, which is inclusive of members' contributions at the rate of 4% of pensionable salary. This rate is 0.5% of pensionable salaries in excess of the rate strictly required on the chosen funding target.

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

23 NET CASH INFLOW FROM OPERATING ACTIVITIES - GROUP ONLY

	<u>1998</u> £	<u>1997</u> £
Operating profit	913,631	205,244
Depreciation	736,733	617,387
Government grant released	(61,872)	(11,873)
Loss on disposal of tangible fixed assets	753	29,984
Movement in stocks	(302,204)	(72,335)
Movement in debtors	(1,000,139)	45,596
Movement in creditors	926,912	779,012
Exchange difference on translation	(20,814)	(10,766)
	<hr/>	<hr/>
Net cash inflow from operating activities	1,193,000	1,582,249
	<hr/> <hr/>	<hr/> <hr/>

Movements in working capital are stated after excluding movements due to foreign exchange rate changes.

24 RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

	<u>1998</u> £	<u>1997</u> £
Decrease/(increase) in cash in the year	(173,752)	133,359
Cash flow from net debt	(518,173)	(975,088)
	<hr/>	<hr/>
	(691,925)	(841,729)
Inception of new finance leases	(695,864)	(311,013)
Exchange difference on translation	(20,544)	(5,877)
	<hr/>	<hr/>
	(1,408,333)	(1,158,619)
Net debt at 1 January	(2,569,320)	(1,410,701)
	<hr/>	<hr/>
Net debt at 31 December	(3,977,653)	(2,569,320)
	<hr/> <hr/>	<hr/> <hr/>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

25 ANALYSIS OF NET DEBT

	<u>Cash</u> £	<u>Overdraft</u> £	<u>Loan</u> <u>due in</u> <u>one year</u> £	<u>Loans</u> <u>due after</u> <u>one year</u> £	<u>Finance</u> <u>Leases</u> £	<u>Total</u> £
As at 1 January 1998	1,071,531	(1,457,900)	(276,216)	(1,462,088)	(444,647)	(2,569,320)
Cashflow	(767,412)	593,660	(214,820)	(459,244)	155,891	(691,925)
Inception of new finance leases	-	-	-	-	(695,864)	(695,864)
Exchange difference	(20,544)	-	-	-	-	(20,544)
As at 31 December 1998	283,575	(864,240)	(491,036)	(1,921,332)	(984,620)	(3,977,653)
As at 1 January 1997	196,962	(710,813)	(124,009)	(538,304)	(234,537)	(1,410,701)
Cashflow	880,446	(747,087)	(152,207)	(923,784)	100,903	(841,729)
Inception of new finance leases	-	-	-	-	(311,013)	(311,013)
Exchange difference	(5,877)	-	-	-	-	(5,877)
As at 31 December 1997	1,071,531	(1,457,900)	(276,216)	(1,462,088)	(444,647)	(2,569,320)

26 CAPITAL COMMITMENTS

At 31 December 1998, the company had the following capital commitments:

	£
Authorised and contract placed	30,000
Authorised but contract not placed	2,891

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

27 CONTINGENT LIABILITIES

The group's bankers hold the following bonds on behalf of the group:

Camden (Pty) Limited	200,000 South African Rand
Robert and Jennifer Fittzell	20,917 Australian Dollars
EEC Intervention Board	£10,000
Her Majesty's Customs and Excise	£60,000

In addition the company has in 1998 entered into a guarantee with IBM France Financement SA in respect of a loan undertaken between IBM France Financement SA and Norgine Pharma SA. The capital value of the loan outstanding at 31 December 1998 is £243,267.

The company has also entered into a guarantee on behalf of its subsidiary Norgine Proprietary Limited in respect of indebtedness on loan facilities.

28 ULTIMATE CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS

The parent company of the group is Norgine Europe BV, a company registered in the Netherlands. Ultimate control rests with Mr Peter Stein and members of his family.

The value of transactions which have occurred between this group and other companies under the common control of the ultimate controlling party are given below:

	<u>1998</u> £	<u>1997</u> £
Purchases of goods	996,662	817,664
Sales of goods	1,891,215	731,748
	<u> </u>	<u> </u>

At the end of the year the aggregate balances held with such parties is:

	<u>1998</u> £	<u>1997</u> £
Debtors	672,409	154,961
Creditors	(1,026,504)	(134,879)
	<u> </u>	<u> </u>

NORGINE LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 1998 (CONTINUED)

28 ULTIMATE CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

The related parties of this group are companies in which ultimate control rests with Mr Peter Stein and members of his family. The names of the related parties are:

Norgine BV Netherlands
Norgine GmbH Germany
Norgine BV Belgium
Norgine AG Switzerland
Marpha Pharma - Agentur Germany
Norgine S.A
Norgine Pharma S.A.
Norgine Vlinor AG
Norgine Inc
Norgine Italy
Norgine Spain

Memo

To: / Location: Tony Hemus / Bristol, Great George Street
From: / Location: Huw Davies-Evans / Cardiff, Churchill House
Date: 18 May 1999
Subject: Norgine accounts

Dear Tony,

Please find enclosed Norgine and subsidiaries accounts for signing. Give me a call if you wish to discuss.

Regards

