

National Veterinary Services Limited

**Directors' report and financial
statements**

Registered number 339801

For the year ended 30 June 2002



Contents

Directors' report	1
Statement of directors' responsibilities	3
Independent auditors' report to the members of National Veterinary Services Limited	4
Profit and loss account	5
Balance sheet	6
Reconciliation of movements in shareholders' funds	7
Notes	8

Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2002.

Principal activity

The principal activity of the company during the year was the supply of veterinary medicines and equipment.

Results and dividends

The results for the year are set out on page 5. The directors recommend the payment of a final dividend of £2,000,000 (2001: £1,200,000) making a total dividend of £2,000,000 (2001: £3,200,000) for the year.

Business review

The business has continued to grow strongly during the year with good increases in both turnover and profit.

The company is committed to providing the highest standard of service to its customers and is well placed for further progress.

The Competition Commission Review relating to the supply and dispensing of Prescription Only Veterinary Medicines ("POM's") continues. On 16 April following an initial consultation period, an interim "issues" statement was released. A "proposed remedies" paper is anticipated to be released shortly which is expected to be followed up by a further consultation period, with the resultant findings being published in early 2003. The Company continues to co-operate fully with the enquiry.

Directors and directors' interests

The directors who served during the year were as follows:

SD Evans
 ID Page
 GB Evans (resigned 5 November 2001)
 ETW Torr
 BJ Burston
 MD Roach (appointed 28 January 2002)

None of the directors had any interest in the share capital of the company during the year.

Mr MD Roach participates in the Executive Share Plan of Dechra Pharmaceuticals PLC and has a right to acquire 50,000 ordinary shares in Dechra Pharmaceuticals PLC provided certain performance criteria are met.

Details of the performance criteria are disclosed in the financial statements of Dechra Pharmaceuticals PLC.

At the year end, Mr BJ Burston held 15,500 shares in Dechra Pharmaceuticals PLC, the ultimate parent company.

Mr BJ Burston also had the following share options in Dechra Pharmaceuticals PLC, under an unapproved share option scheme:

	Number	Exercise price	Date from which exercisable	Expiry date
At start of year	70,000	120p	2000	2010
Granted during the year	10,000	153½p	2005	2012
At end of year	80,000			

The other directors were all directors of Dechra Pharmaceuticals PLC, at the year end their interests in the shares of group undertakings are disclosed in the financial statements of that company.

Directors' report *(continued)*

Employees

It is the company's policy to encourage employee involvement as the directors consider that this is essential for the successful running of the business. The company keeps employees informed of performance, developments and progress by way of regular team briefing sessions and notices. The company runs a profit related pay scheme so that all employees can share in the success of the company.

The company gives full consideration to applications for employment from disabled people, where they adequately fulfil the requirements of the job.

Where existing employees become disabled, it is the company's policy whenever practicable to provide continuing employment under the company's terms and conditions and to provide training and career development whenever appropriate.

Suppliers

The company does not adhere to any code of practice regarding the payment of suppliers but seeks to agree the terms of payment with suppliers prior to placing business and it is the company's policy to settle liabilities by the due date. At 30 June 2002, the company had an average 73 days (2001: 80 days) purchases outstanding in creditors.

Auditors

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

By order of the board



SP Whitehouse
Secretary

Unit 4
Jamage Industrial Estate
Talke Pits
Stoke-on-Trent
ST7 1XW

3 September 2002

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a 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 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.



2 Cornwall Street
Birmingham
B3 2DL

Independent auditor's report to the members of National Veterinary Services Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical 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 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 transactions with the company is not disclosed.

Basis of audit 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 the company's affairs as at 30 June 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

3 September 2002

Profit and loss account
for the year ended 30 June 2002

	<i>Note</i>	2002 £000	2001 £000
Turnover	<i>1</i>	159,956	147,906
Cost of sales		(145,312)	(134,112)
Gross profit		14,644	13,794
Distribution costs		(5,988)	(5,752)
Administrative expenses		(2,184)	(2,142)
Operating profit		6,472	5,900
Net interest payable	<i>3</i>	(68)	(107)
Profit on ordinary activities before taxation	<i>4</i>	6,404	5,793
Tax on profit on ordinary activities	<i>6</i>	(1,929)	(1,754)
Profit on ordinary activities after taxation		4,475	4,039
Dividends	<i>7</i>	(2,000)	(3,200)
Retained profit for the financial year	<i>15</i>	2,475	839

A statement of movements on reserves is given in note 15 to the financial statements.

All amounts relate to continuing operations.

Balance sheet
at 30 June 2002

	<i>Note</i>	2002	2001
		£000	Re-stated* £000
Fixed assets			
Tangible assets	8	2,038	2,451
Current assets			
Stocks	9	16,538	14,539
Debtors	10	22,881	22,203
Cash at bank and in hand		6,405	7,386
		45,824	44,128
Creditors: amounts falling due within one year	11	(38,170)	(39,203)
Net current assets		7,654	4,925
Total assets less current liabilities		9,692	7,376
Creditors: amounts falling due after more than one year	12	(104)	(263)
Net assets		9,588	7,113
Capital and reserves			
Called up share capital	14	1,515	1,515
Profit and loss account	15	8,073	5,598
Total equity shareholders' funds		9,588	7,113

* restated on adoption of FRS 19, see note 13.

These financial statements were approved by the board of directors on 3 September 2002 and were signed on its behalf by:


ID Page
Director

Reconciliation of movements in shareholders' funds
for the year ended 30 June 2002

	2002	2001
	£000	Re-stated* £000
Profit for the financial year	4,475	4,039
Dividends	(2,000)	(3,200)
Net movement in shareholders' funds	2,475	839
Shareholders' funds at start of year (restated – see below)	7,113	6,274
Shareholders' funds at end of year	9,588	7,113

The company's reserves at 1 July 2001 were originally £7,010,000 before adding a prior year adjustment of £103,000.

Statement of total recognised gains and losses
for the year ended 30 June 2002

	2002	2001
	£000	£000
Profit for the financial year being total gains and losses relating to the year	4,475	4,039
Prior period adjustment (see note 13)	103	
Total gains and losses since the last annual report	4,578	

* restated on adoption of FRS 19, see note 13.

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. During the year, Financial Reporting Standard 19 "Deferred Tax" became effective for this year's financial statements. For the effects of FRS 19, see note 13.

Basis of preparation

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

Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard No 1 (revised) to prepare a cash flow statement as 100% of the voting rights of the company's shares are controlled by Dechra Pharmaceuticals PLC. The consolidated financial statements of Dechra Pharmaceuticals PLC, which include the company, are publicly available.

Turnover

Turnover represents cash and credit sales excluding value added tax.

Tangible fixed assets and depreciation

Depreciation is calculated so as to write off the gross book value less estimated residual value of tangible fixed assets over their estimated useful lives. The principal rates used are as follows:

Short leasehold property	-	Period of the lease on a straight line basis
Fixtures, fittings and equipment	-	10-33 $\frac{1}{3}$ % on a straight line basis
Motor vehicles	-	25% on a straight line basis

Leased assets

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Rental payments are apportioned between the finance element, which is charged to the profit and loss account and the capital element which reduces the outstanding lease obligations.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred (or accelerated) because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse and is provided in respect of all timing differences which have arisen but not reversed by the balance sheet date except as otherwise required by FRS 19 "Deferred Tax". FRS 19 has been adopted for the first time in these financial statements and comparative figures have been re-stated accordingly (see note 13).

Notes (continued)

1 Accounting policies (continued)

Pensions

The company participates in a defined contribution pension scheme. The amount charged to the profit and loss account represents contributions payable to the scheme in the accounting period.

Related parties

By virtue of the company being a wholly owned subsidiary included in the consolidated financial statements of a larger EU group, the company is exempt under Financial Reporting Standard 8 from disclosing transactions or balances with entities which are part of the group that qualify as related parties.

2 Staff numbers and costs

The average number of persons employed during the year, analysed by category, was as follows:

	Number of employees	
	2002	2001
Distribution	275	260
Buying, sales and marketing and administration	86	75
	<hr/> 361	<hr/> 335

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	4,428	4,156
Social security costs	330	319
Other pension costs	90	82
	<hr/> 4,848	<hr/> 4,557

3 Net interest payable

	2002	2001
	£000	£000
Bank overdraft interest	33	65
Finance lease charges	35	42
	<hr/> 68	<hr/> 107

Notes (continued)

4 Profit on ordinary activities before taxation

	2002	2001
	£000	£000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit fees	13	13
Depreciation of owned tangible fixed assets	694	796
Depreciation of tangible fixed assets held under finance leases	233	161
Payments under operating leases:		
Hire of plant and machinery	-	55
Other assets	377	303
	<hr/>	<hr/>

5 Directors' emoluments

	2002	2001
	£000	£000
Directors' emoluments	291	327
Company contributions to money purchase scheme	22	33
	<hr/>	<hr/>
	313	360
	<hr/>	<hr/>

Included in the figure for directors' emoluments is £26,918 (2001: £76,500) which was paid to Arnolds Veterinary Products Limited, a fellow subsidiary undertaking of the company, for the services of the former chief executive.

The emoluments of the highest paid director were £93,388 and company pension contributions of £9,120 were made to a money purchase scheme on his behalf.

	Number
	2002
Members of money purchase pension schemes	6
	<hr/>

Notes (continued)

6 Tax on profit on ordinary activities

	2002 £000	2001 re-stated* £000
<i>(a) Tax charge for year</i>		
Current taxation	1,981	1,763
Adjustments in respect of prior periods	(30)	(9)
Total current tax charge for the year	1,951	1,754
Deferred taxation		
Origination and reversal of timing differences	(41)	(6)
Adjustments in respect of prior periods	19	6
Total deferred tax credit for the year	(22)	-
Tax on profit on ordinary activities	1,929	1,754

* re-stated on adoption of FRS 19, see note 13.

Factors affecting the tax charge for the current period

The current tax charge is higher than the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below:

	2002 £000	2001 £000
Profit on ordinary activities before taxation	6,404	5,793
Current tax charge at 30% (2001: 30%)	1,921	1,738
<i>Effects of:</i>		
Permanent timing differences:		
Depreciation on assets not eligible for tax allowances	17	14
Other	2	5
	19	19
Short term timing differences:		
Excess of depreciation over capital allowances	23	6
Other short term timing differences	18	-
Adjustments to tax charge in respect of previous periods	(30)	(9)
	11	(3)
Total current tax charge (see above)	1,951	1,754

Notes (continued)

7 Dividends

	2002 £000	2001 £000
On ordinary shares of £1 each		
Paid	-	2,000
Proposed	2,000	1,200
	<u>2,000</u>	<u>3,200</u>

8 Tangible fixed assets

	Short leasehold property £000	Fixtures, fittings and equipment £000	Motor Vehicles £000	Total £000
<i>Cost</i>				
At 1 July 2001	351	3,095	2,791	6,237
Additions	18	356	177	551
Disposals	-	-	(396)	(396)
At 30 June 2002	<u>369</u>	<u>3,451</u>	<u>2,572</u>	<u>6,392</u>
<i>Accumulated depreciation</i>				
At 1 July 2001	211	2,234	1,341	3,786
Charge for the year	36	344	547	927
Disposals	-	-	(359)	(359)
At 30 June 2002	<u>247</u>	<u>2,578</u>	<u>1,529</u>	<u>4,354</u>
<i>Net book value</i>				
At 30 June 2002	<u>122</u>	<u>873</u>	<u>1,043</u>	<u>2,038</u>
At 30 June 2001	<u>140</u>	<u>861</u>	<u>1,450</u>	<u>2,451</u>
<i>Leased assets</i>				
At 30 June 2002	-	-	656	656
At 30 June 2001	-	-	798	798

9 Stocks

	2002 £000	2001 £000
Goods for resale	<u>16,538</u>	<u>14,539</u>

Notes (continued)

10 Debtors

	2002	2001
	£000	Re-stated* £000
Trade debtors	21,570	21,301
Amounts owed by group undertakings	93	2
Deferred tax	125	103
Other debtors	819	724
Prepayments	274	73
	<u>22,881</u>	<u>22,203</u>

11 Creditors: amounts falling due within one year

	2002	2001
	£000	£000
Obligations under finance leases	323	400
Trade creditors	28,961	29,439
Amounts owed to group undertakings	4,144	5,109
Other creditors	18	11
Corporation tax	1,990	1,765
Other taxation and social security	589	1,137
Accruals and deferred income	145	142
Proposed dividend	2,000	1,200
	<u>38,170</u>	<u>39,203</u>

12 Creditors: amounts falling due after more than one year

	2002	2001
	£000	£000
Obligations under finance leases	104	263
The obligations under finance leases are repayable as follows:		
Within one year	323	400
In the second to fifth years	104	263
	<u>427</u>	<u>663</u>

* re-stated on adoption of FRS 19, see note 13

Notes (continued)

13 Provisions for liabilities and charges

Deferred tax £000

At 1 July 2001 as previously reported
 Prior period adjustment

-
 (103)

At 1 July 2001 as re-stated
 Transfer to profit and loss account
 Deferred tax transferred to debtors

(103)
 (22)
 125

At 30 June 2002

-

The amounts provided for deferred taxation under the liability method at 30% (2001: 30%) are as follows:

	2002 £000	2001 re-stated* £000
Capital allowances	(103)	(82)
Short term timing differences	(22)	(21)
	<u>(125)</u>	<u>(103)</u>

* re-stated on adoption of FRS 13, see note 13.

Prior year adjustment

As a result of the company's adoption of FRS 19 "Deferred Tax" full provision is now made for deferred taxation on all timing differences which have arisen but not reversed at the balance sheet date except as follows:

- (i) deferred tax is not recognised on the difference between fair values and book values on non-monetary assets arising on acquisition where there is a binding agreement to sell the asset and the gain or loss expected to arise has been recognised;
- (ii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

The effect of the prior year adjustment was to increase profit after tax by £22,000 (2001: £Nil) and increase net assets by £125,000 (2001: £103,000).

14 Called up share capital

	2002 £000	2001 £000
Authorised, allotted, called up and fully paid 1,515,000 ordinary shares of £1 each	<u>1,515</u>	<u>1,515</u>

Notes (continued)

15 Reserves

	Profit and loss account Re-stated* £000
At 1 July 2001 as previously reported	5,495
Prior year adjustment (see note 13)	103
	<hr/>
At 1 July 2001 (as re-stated)	5,598
Retained profit for the year	2,475
	<hr/>
At 30 June 2002	8,073
	<hr/>

* re-stated on adoption of FRS 19, see note 13.

16 Capital commitments

Contracts placed for capital expenditure not provided for in these financial statements amounted to £177,000 (2001: £66,000).

17 Commitments under operating leases

Annual commitments under non-cancellable operating leases at 30 June 2002 are as follows:

	Land and buildings	
	2002 £000	2001 £000
Operating leases which expire:		
In the second to fifth years inclusive	48	44
Over five years	504	269
	<hr/>	<hr/>
	552	313
	<hr/>	<hr/>

18 Pensions

The company participates in the defined contribution pension scheme of the Dechra Pharmaceuticals PLC Group which is constituted as an independently administered fund with the assets held separately from those of the Dechra Pharmaceuticals Group. The pension charge in respect of the scheme comprises the contributions payable.

19 Contingent liabilities

The company guarantees the borrowings of certain other group companies which at 30 June 2002 amounted to £21,011,000 (2001: £15,396,000).

20 Ultimate holding company

The ultimate holding company at the year end is Dechra Pharmaceuticals PLC, which is registered in England and Wales. The results of the company for the year are included within the group financial statements of Dechra Pharmaceuticals PLC but are not included within any other group financial statements.

Copies of the group financial statements of Dechra Pharmaceuticals PLC may be obtained from Dechra House, Jamage Industrial Estate, Talke Pits, Stoke-on-Trent, ST7 1XW.

