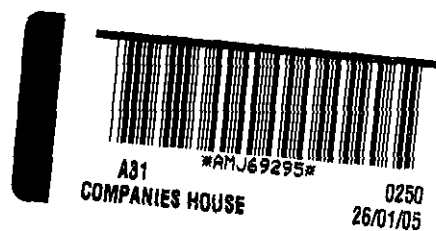


National Veterinary Services Limited

**Directors' report and financial
statements**

Registered number 339801

For the year ended 30 June 2004



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Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2004.

Principal activity

The company did not trade during the year.

Results and dividends

The results for the year are set out on page 5. The directors do not recommend the payment of a final dividend (2003: £Nil). An interim dividend of £32,225,500 (2003: £7,000,000) was paid during the year making a total dividend for the year of £32,225,500 (2003: £7,000,000).

The interim dividend comprised a cash dividend of £7,500 to the Preference Shareholders and a distribution in specie of £32,218,000 to the Ordinary Shareholders. The distribution in specie comprised a loan note issued by Dechra Limited.

Directors and directors' interests

The directors who served during the year were as follows:

SD Evans
 ID Page
 ETW Torr
 BJ Burston
 MD Roach

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

Mr MD Roach participates in the Executive Incentive Plan of Dechra Pharmaceuticals PLC and has a right to acquire 75,000 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.

He is also entitled to acquire 33,692 ordinary shares in Dechra Pharmaceuticals PLC at a price of 39p under the Dechra Pharmaceuticals PLC Save As You Earn Share Option Scheme.

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:

BJ Burston outstanding options:

Exercise dates	Expiry date	Number	Exercise price
2003	2010	70,000	120p
2005	2012	10,000	153.5p
2006	2013	5,000	58.5p
		<hr/>	
		85,000	
		<hr/>	

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

Directors' report *(continued)*

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

7 September 2004

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 auditors' report to the members of National Veterinary Services Limited

We have audited the financial statements on pages 5 to 12.

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

Respective responsibilities of directors and auditors

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 2004 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

7 September 2004

Profit and loss account
for the year ended 30 June 2004

	<i>Note</i>	2004 £000	2003 £000
Turnover – discontinued activities	<i>1</i>	-	85,005
Cost of sales – discontinued activities		-	(77,612)
		<hr/>	<hr/>
Gross profit		-	7,393
Distribution costs - discontinued activities		-	(3,468)
Administrative expenses - discontinued activities		-	(1,242)
		<hr/>	<hr/>
Operating profit – discontinued activities		-	2,683
Profit on disposal of business – discontinued activities	<i>3</i>	-	29,988
		<hr/>	<hr/>
Profit on ordinary activities before interest		-	32,671
Net interest receivable/(payable)	<i>4</i>	13	(54)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	<i>5</i>	13	32,617
Tax on profit on ordinary activities	<i>7</i>	(4)	(807)
		<hr/>	<hr/>
Profit on ordinary activities after taxation		9	31,810
Dividends	<i>8</i>	(32,225)	(7,000)
		<hr/>	<hr/>
Retained (loss)/profit for the financial year	<i>12</i>	(32,216)	24,810
		<hr/>	<hr/>

A statement of movements on reserves is given in note 12 to the financial statements.

There were no recognised gains and losses other than those shown above.

Balance sheet
at 30 June 2004

	<i>Note</i>	2004 £000	2003 £000
Current assets			
Debtors	9	10,145	55,156
Creditors: amounts falling due within one year	10	(7,813)	(20,608)
Net current assets		<u>2,332</u>	<u>34,548</u>
Total assets less current liabilities and net assets		<u>2,332</u>	<u>34,548</u>
Capital and reserves			
Called up share capital	11	1,665	1,665
Profit and loss account	12	667	32,883
Total shareholders' funds		<u>2,332</u>	<u>34,548</u>
Shareholders' funds may be analysed as			
Equity interest		2,182	34,398
Non-equity interest		150	150
		<u>2,332</u>	<u>34,548</u>

These financial statements were approved by the board of directors on 7 September 2004 and were signed on its behalf by:


ID Page
 Director

Reconciliation of movements in shareholders' funds
for the year ended 30 June 2004

	2004 £000	2003 £000
Profit for the financial year	9	31,810
Dividends	(32,225)	(7,000)
Shares issued	-	150
	<hr/>	<hr/>
Net movement in shareholders' funds	(32,216)	24,960
Shareholders' funds at start of year	34,548	9,588
	<hr/>	<hr/>
Shareholders' funds at end of year	2,332	34,548
	<hr/>	<hr/>

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.

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.

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".

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.

Notes (continued)

2 Staff numbers and costs

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

	2004	2003
	Number of employees	
Distribution	-	142
Buying, sales and marketing and administration	-	46
	-	188

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	-	2,537
Social security costs	-	196
Other pension costs	-	51
	-	2,784

3 Profit on disposal of business

On 2 January 2003, the trade and certain assets of the company were sold to Dechra Limited, a subsidiary of Dechra Pharmaceuticals PLC. The assets were sold at fair values determined by the directors to be £25,012,000. In accordance with the transfer agreement, consideration of £55,000,000 was received by the company.

There was no tax effect on the disposal proceeds.

4 Net interest (receivable)/payable

	2004	2003
	£000	£000
Bank overdraft interest	-	36
Finance lease charges	-	24
Receivable from group undertakings	(13)	(6)
	(13)	54

5 Profit on ordinary activities before taxation

	2004	2003
	£000	£000

Profit on ordinary activities before taxation is stated

after charging

Auditors' remuneration:		
Audit fees	-	6
Depreciation of owned tangible fixed assets	-	365
Depreciation of tangible fixed assets held under finance leases	-	32
Payments under operating leases:		
Hire of plant and machinery	-	45
Other assets	-	252

Notes (*continued*)

6 Directors' emoluments

	2004 £000	2003 £000
Directors' emoluments	-	154
Company contributions to money purchase scheme	-	13
	<u>-</u>	<u>167</u>
	<u>-</u>	<u>167</u>
	Number 2004	Number 2003
Members of money purchase pension schemes	5	5
	<u>5</u>	<u>5</u>

7 Tax on profit on ordinary activities

Tax charge for the year

	2004 £000	2003 £000
<i>UK corporation tax</i>		
Current taxation	4	819
Adjustments in respect of prior periods	-	(2)
	<u>4</u>	<u>817</u>
Total current tax charge for the year	<u>4</u>	<u>817</u>
<i>Deferred taxation</i>		
Origination and reversal of timing differences	-	(10)
	<u>-</u>	<u>(10)</u>
Total deferred tax credit for the year	<u>-</u>	<u>(10)</u>
Tax on profit on ordinary activities	<u>4</u>	<u>807</u>

Notes (continued)

7 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the current period

The current tax charge is equal to (2003: lower than) the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences in 2003 are explained below:

	2004 £000	2003 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before taxation	13	32,617
Current tax charge at 30% (2003: 30%)	4	9,785
<i>Effects of:</i>		
<i>Permanent differences:</i>		
Profit on disposal of business	-	(8,996)
Depreciation on assets not eligible for tax allowances	-	17
Other	-	3
	-	(8,976)
<i>Short term timing differences:</i>		
Excess of depreciation over capital allowances	-	20
Other short term timing differences	-	(10)
	-	10
Adjustments to tax charge in respect of previous periods	-	(2)
Total current tax charge (see above)	4	817

8 Dividends

	2004 £000	2003 £000
On ordinary shares of £1 each		
Paid	32,218	7,000
On preference shares of £1 each		
Paid	7	-
	32,225	7,000

9 Debtors

	2004 £000	2003 £000
Amounts owed by group undertakings	10,145	55,156

Notes (continued)

10 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Amounts owed to group undertakings	7,809	20,608
Corporation tax	4	-
	<u>7,813</u>	<u>20,608</u>

11 Called up share capital

	2004 £000	2003 £000
<i>Authorised, allotted, called up and fully paid</i>		
1,515,000 ordinary shares of £1 each	1,515	1,515
150,000 fixed rate preference shares of £1 each	150	150
	<u>1,665</u>	<u>1,665</u>

In the event of a dividend being declared the fixed rate preference shares are entitled to a non cumulative dividend of 5% of the paid up amount. The fixed rate preference shares carry all of the voting rights at general meetings of the company.

12 Reserves

	Profit and loss account £000
At 1 July 2003	32,883
Retained loss for the year	(32,216)
At 30 June 2004	<u>667</u>

13 Contingent liabilities

The company guarantees the borrowings of certain other group companies which at 30 June 2004 amounted to £18,564,000 (2003: £24,972,000).

14 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.