

National Veterinary Services Limited

**Directors' report and financial
statements**

Registered number 339801

For the year ended 30 June 2003



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Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2003.

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 do not recommend the payment of a final dividend (2002: £2,000,000). An interim dividend of £7,000,000 was paid during the year making a total dividend for the year of £7,000,000 (2002: £2,000,000).

Business review

On 2 January 2003, the trade and certain assets of the company were sold to 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 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:

	Exercise dates	Expiry date	Number	Exercise price
	2003	2010	70,000	120p
	2005	2012	10,000	153.5p
At start of year			80,000	
Granted during the year	2006	2013	5,000	58.5p
At end of year			85,000	

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)*

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 2003, the company had an average nil days (2002: 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

2 September 2003

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.

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 2003 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

2 September 2003

Profit and loss account
for the year ended 30 June 2003

	<i>Note</i>	2003 £000	2002 £000
Turnover – discontinued activities	<i>1</i>	85,005	159,956
Cost of sales – discontinued activities		(77,612)	(145,312)
Gross profit		7,393	14,644
Distribution costs - discontinued activities		(3,468)	(5,988)
Administrative expenses - discontinued activities		(1,242)	(2,184)
Operating profit – discontinued activities		2,683	6,472
Profit on disposal of business – discontinued activities	<i>3</i>	29,988	-
Profit on ordinary activities before interest		32,671	6,472
Net interest payable	<i>4</i>	(54)	(68)
Profit on ordinary activities before taxation	<i>5</i>	32,617	6,404
Tax on profit on ordinary activities	<i>7</i>	(807)	(1,929)
Profit on ordinary activities after taxation		31,810	4,475
Dividends	<i>8</i>	(7,000)	(2,000)
Retained profit for the financial year	<i>16</i>	24,810	2,475

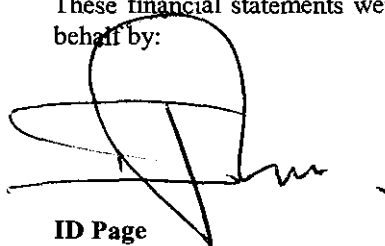
A statement of movements on reserves is given in note 16 to the financial statements.

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

Balance sheet
at 30 June 2003

	Note	2003 £000	2002 £000
Fixed assets			
Tangible assets	9	-	2,038
Current assets			
Stocks	10	-	16,538
Debtors	11	55,156	22,881
Cash at bank and in hand		-	6,405
		<u>55,156</u>	<u>45,824</u>
Creditors: amounts falling due within one year	12	<u>(20,608)</u>	<u>(38,170)</u>
Net current assets		<u>34,548</u>	<u>7,654</u>
Total assets less current liabilities		<u>34,548</u>	<u>9,692</u>
Creditors: amounts falling due after more than one year	13	-	(104)
Net assets		<u>34,548</u>	<u>9,588</u>
Capital and reserves			
Called up share capital	15	1,665	1,515
Profit and loss account	16	32,883	8,073
Total shareholders' funds		<u>34,548</u>	<u>9,588</u>
Shareholders' funds may be analysed as			
Equity interest		34,398	9,588
Non-equity interest		150	-
		<u>34,548</u>	<u>9,588</u>

These financial statements were approved by the board of directors on 2 September 2003 and were signed on its behalf by:



ID Page
Director

Reconciliation of movements in shareholders' funds
for the year ended 30 June 2003

	2003 £000	2002 £000
Profit for the financial year	31,810	4,475
Dividends	(7,000)	(2,000)
Shares issued	150	-
	<hr/>	<hr/>
Net movement in shareholders' funds	24,960	2,475
Shareholders' funds at start of year	9,588	7,113
	<hr/>	<hr/>
Shareholders' funds at end of year	34,548	9,588
	<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.

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".

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:

	2003 Number of employees	2002
Distribution	142	275
Buying, sales and marketing and administration	46	86
	<u>188</u>	<u>361</u>

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	2,537	4,428
Social security costs	196	330
Other pension costs	51	90
	<u>2,784</u>	<u>4,848</u>

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 payable

	2003 £000	2002 £000
Bank overdraft interest	36	33
Finance lease charges	24	35
Interest receivable	(6)	-
	<u>54</u>	<u>68</u>

5 Profit on ordinary activities before taxation

	2003 £000	2002 £000
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Profit on ordinary activities before taxation is stated

after charging

Auditors' remuneration:		
Audit fees	6	13
Depreciation of owned tangible fixed assets	365	694
Depreciation of tangible fixed assets held under finance leases	32	233
Payments under operating leases:		
Hire of plant and machinery	45	-
Other assets	252	377
	<u>695</u>	<u>1,317</u>

Notes (continued)

6 Directors' emoluments

	2003 £000	2002 £000
Directors' emoluments	154	291
Company contributions to money purchase scheme	13	22
	<u>167</u>	<u>313</u>

Included in the figure for directors' emoluments is £Nil (2002: £26,918) 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 £46,000 and company pension contributions of £4,000 were made to a money purchase scheme on his behalf.

	Number 2003	Number 2002
Members of money purchase pension schemes	5	5

7 Tax on profit on ordinary activities

Tax charge for the year

	2003 £000	2002 £000
<i>UK corporation tax</i>		
Current taxation	819	1,981
Adjustments in respect of prior periods	(2)	(30)
	<u>817</u>	<u>1,951</u>

Deferred taxation

Origination and reversal of timing differences	(10)	(41)
Adjustments in respect of prior periods	-	19
	<u>(10)</u>	<u>(22)</u>

Tax on profit on ordinary activities

	<u>807</u>	<u>1,929</u>
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Notes (continued)

7 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the current period

The current tax charge is lower than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

	2003 £000	2002 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before taxation	32,617	6,404
Current tax charge at 30% (2002: 30%)	9,785	1,921
<i>Effects of:</i>		
Permanent timing differences:		
Profit on disposal of business	(8,996)	-
Depreciation on assets not eligible for tax allowances	17	17
Other	3	2
	<hr/> (8,976)	<hr/> 19
Short term timing differences:		
Excess of depreciation over capital allowances	20	23
Other short term timing differences	(10)	18
	<hr/> 10	<hr/> 41
Adjustments to tax charge in respect of previous periods	(2)	(30)
	<hr/> (2)	<hr/> (30)
Total current tax charge (see above)	<hr/> 817	<hr/> 1,951

8 Dividends

	2003 £000	2002 £000
On ordinary shares of £1 each		
Paid	7,000	-
Proposed	-	2,000
	<hr/> 7,000	<hr/> 2,000

Notes (continued)

9 Tangible fixed assets

	Short leasehold property	Fixtures, fittings and equipment	Motor Vehicles	Total
	£000	£000	£000	£000
Cost				
At 1 July 2002	369	3,451	2,572	6,392
Additions	18	242	99	359
Disposals	(387)	(3,693)	(2,671)	(6,751)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1 July 2002	247	2,578	1,529	4,354
Charge for the year	18	165	214	397
Disposals	(265)	(2,743)	(1,743)	(4,751)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 30 June 2003	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	122	873	1,043	2,038
	<hr/>	<hr/>	<hr/>	<hr/>
Leased assets				
At 30 June 2003	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	-	-	656	656
	<hr/>	<hr/>	<hr/>	<hr/>

10 Stocks

	2003 £000	2002 £000
Goods for resale	-	16,538
	<hr/>	<hr/>

11 Debtors

	2003 £000	2002 £000
Trade debtors	-	21,570
Amounts owed by group undertakings	55,156	93
Deferred tax	-	125
Other debtors	-	819
Prepayments	-	274
	<hr/>	<hr/>
	55,156	22,881
	<hr/>	<hr/>

Notes (continued)

12 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Obligations under finance leases	-	323
Trade creditors	-	28,961
Amounts owed to group undertakings	20,608	4,144
Other creditors	-	18
Corporation tax	-	1,990
Other taxation and social security	-	589
Accruals and deferred income	-	145
Proposed dividend	-	2,000
	<u>20,608</u>	<u>38,170</u>

13 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Obligations under finance leases	-	104
The obligations under finance leases are repayable as follows:		
Within one year	-	323
In the second to fifth years	-	104
	<u>-</u>	<u>427</u>

14 Provisions for liabilities and charges

	Deferred tax £000
At 1 July 2002	-
Transfer from debtors	(125)
Transfer profit and loss account	(10)
Transfer to Dechra Limited	135
At 30 June 2003	<u>-</u>

The amounts provided for deferred taxation under the liability method at 30% (2002: 30%) are as follows:

	2003 £000	2002 £000
Capital allowances	-	(103)
Short term timing differences	-	(22)
	<u>-</u>	<u>(125)</u>

Notes (continued)

15 Called up share capital

	2003 £000	2002 £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	-
	<hr/> 1,665	<hr/> 1,515
	<hr/> <hr/>	<hr/> <hr/>

On 31 December 2002, the authorised share capital of the company was increased to £1,665,000 by the creation of 150,000 fixed rate preference shares of £1 each for nil premium. On the same day, these shares were allotted to Veneto Limited. 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.

16 Reserves

	Profit and loss account £000
At 1 July 2002	8,073
Retained profit for the year	24,810
	<hr/>
At 30 June 2003	32,883
	<hr/> <hr/>

17 Capital commitments

Contracts placed for capital expenditure not provided for in these financial statements amounted to £Nil (2002: £177,000).

18 Commitments under operating leases

Annual commitments under non-cancellable operating leases at 30 June 2003 are as follows:

	Land and buildings 2003 £000	2002 £000
Operating leases which expire:		
In the second to fifth years inclusive	-	48
Over five years	-	504
	<hr/> -	<hr/> 552
	<hr/> <hr/>	<hr/> <hr/>

On 2 January 2003, the operating lease commitments were transferred to Dechra Limited.

19 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. There were no outstanding contributions at 30 June 2003 (2002: £Nil).

Notes (continued)

20 Contingent liabilities

The company guarantees the borrowings of certain other group companies which at 30 June 2003 amounted to £24,972,000 (2002: £21,011,000).

21 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.