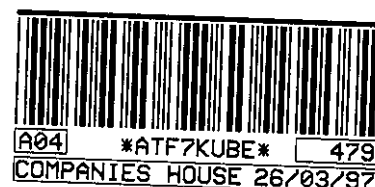


Dales Pharmaceuticals Limited

Directors' report and financial statements

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Dales Pharmaceuticals Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 1996.

Principal activity

The company's principal activity is the manufacture of veterinary and human pharmaceutical products.

Results and dividends

The results for the year are set out on page 5. The directors do not recommend the payment of a dividend (1995: £Nil). The retained profit of £477,000 (1995: £534,000) is transferred to reserves.

Directors and directors' interests

The directors who held office during the year were as follows:

AJ Lloyd
MA Ward
RG Turner
SW Buckell
GB Evans
SP Whitehouse
JC Fellows (appointed 3 July 1995)

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

AJ Lloyd, MA Ward, RG Turner and JC Fellows were directors of Lloyds Chemists plc, the ultimate holding company at the year end and their interests are disclosed in the financial statements of that company.

The interests of the other directors in office at the end of the year, in Lloyds Chemists plc, were as follows:

	Preference shares of 5p each		SAYE Share Option Scheme Ordinary shares of 5p each		Executive Share Option Scheme Ordinary shares of 5p each		Ordinary shares of 5p each	
	1996	1995	1996	1995	1996	1995	1996	1995
SW Buckell	608	608	7,560	7,560	57,000	119,800	5,796	5,621
GB Evans	-	-	-	-	17,000	12,000	-	-
SP Whitehouse	-	-	-	-	7,000	4,000	-	-

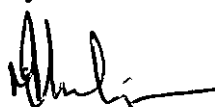
Dales Pharmaceuticals Limited

Directors' report *(continued)*

Directors and directors' interests *(continued)*

On 14 November 1995 GB Evans and SP Whitehouse were granted options to subscribe for 5,000 and 3,000 ordinary shares respectively.

By order of the board



MN Ebrahimjee
Secretary

Britannia House
Centurion Park
Tamworth
STAFFORDSHIRE
B77 5PZ

3 December 1996

Dales Pharmaceuticals Limited

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditors set out on page 4, describes the responsibilities of the directors in relation to these financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss for the year.

The directors consider that in preparing the financial statements set out on pages 5 to 13, the Company has used appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. All applicable accounting standards have been followed and the financial statements have been prepared on a going concern basis.

The directors are responsible for ensuring that the Company maintains adequate accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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

Auditors' report to the members of Dales Pharmaceuticals Limited

We have audited the financial statements on pages 5 to 13.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 mis-statement, 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 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

3 December 1996

Dales Pharmaceuticals Limited

Profit and loss account for the year ended 30 June 1996

	<i>Note</i>	Continuing operations	
		1996 £'000	1995 £'000
Turnover	<i>1</i>	2,922	2,932
Cost of sales		(1,912)	(1,841)
		<hr/>	<hr/>
Gross profit		1,010	1,091
Distribution costs		(55)	(77)
Administrative expenses		(201)	(176)
		<hr/>	<hr/>
Operating profit		754	838
Interest payable	<i>3</i>	(38)	(38)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	<i>4</i>	716	800
Tax on profit on ordinary activities	<i>5</i>	(239)	(266)
		<hr/>	<hr/>
Profit on ordinary activities after taxation and retained profit for the financial year	<i>12</i>	477	534
		<hr/>	<hr/>

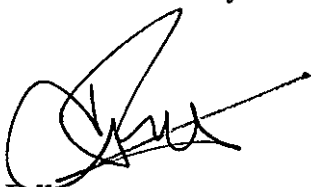
A statement of movements on reserves is given in note 12 to the financial statements.

Dales Pharmaceuticals Limited

Balance sheet at 30 June 1996

	Note	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	6	499	278
Current assets			
Stocks	7	900	552
Debtors	8	1,854	2,194
Cash at bank and in hand		226	53
		<u>2,980</u>	<u>2,799</u>
Creditors: amounts falling due within one year	9	<u>(1,052)</u>	<u>(1,131)</u>
Net current assets		<u>1,928</u>	<u>1,668</u>
Total assets less current liabilities		<u>2,427</u>	<u>1,946</u>
Provisions for liabilities and charges	10	<u>(40)</u>	<u>(36)</u>
Net assets		<u>2,387</u>	<u>1,910</u>
Capital and reserves			
Called up share capital	11	300	300
Profit and loss account	12	2,087	1,610
Total equity shareholders' funds		<u>2,387</u>	<u>1,910</u>

These financial statements were approved by the board of directors on 3 December 1996 and were signed on its behalf by:


JC Fellows
Director

Dales Pharmaceuticals Limited

Statement of total recognised gains and losses *for the year ended 30 June 1996*

During the year ended 30 June 1996, there were no recognised gains or losses other than the profit for the financial year of £477,000 (1995: £534,000).

Historical cost profits and losses *for the year ended 30 June 1996*

There is no difference between the historical cost profit on ordinary activities before taxation and that reported in the profit and loss account for the years ended 30 June 1996 and 30 June 1995.

Reconciliation of movements in shareholders' funds *for the year ended 30 June 1996*

	1996 £'000	1995 £'000
Profit for the year after taxation	477	534
Shareholders' funds at 1 July 1995	1,910	1,376
	<hr/>	<hr/>
Shareholders' funds at 30 June 1996	2,387	1,910
	<hr/>	<hr/>

Dales Pharmaceuticals Limited

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.

The company is a wholly owned subsidiary of Lloyds Chemists plc which is established under the law of a member state of the European Community. Lloyds Chemists plc publishes consolidated financial statements including a consolidated cash flow statement which includes the results of Dales Pharmaceuticals Limited, and consequently, in accordance with Financial Reporting Standard Number 1, no cash flow statement is included in these financial statements.

Turnover

Turnover represents cash and credit sales excluding value added tax. All sales are made in the United Kingdom.

Depreciation and amortisation of tangible fixed assets

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

Short leasehold buildings	Period of lease or appropriate shorter period
Fixtures, fittings and equipment	10-20% on a straight line basis
Motor vehicles	25% on a straight line basis

Leased assets

All leases are operating leases and the rental charges are taken to the profit and loss account over the life of the lease.

Stocks

Stocks are valued at the lower of cost and net realisable value. The cost of work in progress and finished goods includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Pensions

Pension costs are charged to the profit and loss account over the expected service lives of participating employees.

Dales Pharmaceuticals Limited

Notes (continued)

2 Staff numbers and costs

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

	1996 Number	1995 Number
Production and quality control	41	34
Administration	5	4
	<hr/> 46	<hr/> 38

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	459	396
Social security costs	33	31
Other pension costs	15	11
	<hr/> 507	<hr/> 438

3 Interest payable

	1996 £'000	1995 £'000
Bank overdraft interest	<hr/> 38	<hr/> 38

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following:

	1996 £'000	1995 £'000
Depreciation of tangible fixed assets	56	46
Auditors' remuneration	2	3
Operating lease rentals:		
Land and buildings	77	-
Other	14	13
Directors' emoluments	-	-
	<hr/>	<hr/>

Dales Pharmaceuticals Limited

Notes (continued)

5 Tax on profit on ordinary activities

	1996 £'000	1995 £'000
Corporation tax at 33% (1995: 33%)	235	260
Deferred taxation	4	6
	<u>239</u>	<u>266</u>

6 Tangible fixed assets

	Short leasehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 July 1995	-	790	16	806
Additions	196	81	-	277
Disposals	-	-	(8)	(8)
	<u>196</u>	<u>871</u>	<u>8</u>	<u>1,075</u>
At 30 June 1996				
Depreciation				
At 1 July 1995	-	512	16	528
Charge for the year	7	49	-	56
Disposals	-	-	(8)	(8)
	<u>7</u>	<u>561</u>	<u>8</u>	<u>576</u>
At 30 June 1996				
Net book value				
At 30 June 1996	<u>189</u>	<u>310</u>	<u>-</u>	<u>499</u>
At 30 June 1995	<u>-</u>	<u>278</u>	<u>-</u>	<u>278</u>

7 Stocks

	1996 £'000	1995 £'000
Raw materials	819	441
Work in progress	54	78
Finished goods	27	33
	<u>900</u>	<u>552</u>

Dales Pharmaceuticals Limited

Notes (continued)

8 Debtors

	1996 £'000	1995 £'000
Trade debtors	56	66
Amounts owed by parent undertakings and fellow subsidiary undertakings	1,704	2,050
Other debtors	28	34
Prepayments and accrued income	66	44
	<u>1,854</u>	<u>2,194</u>

9 Creditors: amounts falling due within one year

	1996 £'000	1995 £'000
Trade creditors	228	231
Amounts owed to parent undertakings and fellow subsidiary undertakings	466	550
Corporation tax	235	259
Accruals and deferred income	123	91
	<u>1,052</u>	<u>1,131</u>

10 Provisions for liabilities and charges

	Deferred taxation £'000
At 1 July 1995	36
Transfer from profit and loss account	4
	<u>40</u>
At 30 June 1996	40

The amount provided for deferred taxation, which represents a full provision calculated under the liability method at 33%, is set out below:

	1996 £'000	1995 £'000
Accelerated capital allowances	<u>40</u>	<u>36</u>

Dales Pharmaceuticals Limited

Notes (continued)

11 Called up share capital

	1996 £'000	1995 £'000
Authorised:		
500,000 ordinary shares of £1 each	500	500
Allotted, called up, and fully paid:		
300,000 ordinary shares of £1 each	300	300

12 Reserves

	Profit and loss account £'000
At 1 July 1995	1,610
Profit for the financial year	477
At 30 June 1996	2,087

13 Commitments under operating leases

The annual commitments under non-cancellable leases are:

	1996 £'000	1995 £'000
Other operating assets		
Expiring between one and five years	14	14
Expiring after five years	77	-
	91	14

14 Capital commitments

The company had no capital commitments at 30 June 1996 (1995: £Nil).

15 Pensions

The company participates in two principal pension schemes both of which are funded and constituted as independently administered funds with their assets being held separately from those of the group.

The Lloyds Chemists plc Retirement Benefit Scheme is a defined contribution scheme. The pension charge in respect of this scheme comprises the contributions payable in respect of the accounting period.

The Macarthy Group Pension Scheme is a defined benefit scheme. Contributions payable to the scheme are determined by a qualified actuary on the basis of triennial valuations and are charged to the profit and loss account over the anticipated service lives of current participating employees. The most recent valuation of the Macarthy Group Pension Scheme was carried out on 6 April 1995. Details of the scheme are set out in the Lloyds Chemists plc group financial statements.

Dales Pharmaceuticals Limited

Notes *(continued)*

16 **Contingent liabilities**

The company guarantees certain of the borrowings of other group companies which, at 30 June 1996, amounted to £Nil (1995: £Nil).

17 **Ultimate holding company**

The ultimate holding company is Lloyds Chemists plc, which is registered in England and Wales.

The results of the company are included within the group financial statements of Lloyds Chemists plc but are not included within any other group financial statements.

Copies of the group financial statements may be obtained from Britannia House, Centurion Park, Tamworth, Staffordshire, B77 5PZ.