DECHRA HOLDINGS LIMITED

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
30 JUNE 1999

REGISTERED NUMBER 3369634

DECHRA HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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DECHRA HOLDINGS LIMITED

Directors' Report

The directors present their second annual report and the audited financial statements for the year ended 30 June 1999.

Principal Activity

The company and its subsidiaries are a veterinary healthcare group engaged in distributing pharmaceuticals, pet foods and related products and manufacturing pharmaceuticals.

Results and Dividends

The results for the year are set out on page 5. The directors do not recommend the payment of a dividend.

Business Review

The Group has had a solid second year of trading and is well placed for future progress.

Directors and Directors' Interests

The directors who served during the year and their interest in the share capital of the company at 30 June 1999 were as follows:-

		B Ordinary Shares of 1p Each	
		1999 Number	1998 Number
P.J. Redfern (Chairman)		-	-
G.B. Evans		47,850	47,850
S.D. Evans		15,950	15,950
I.D. Page		15,950	15,950
E.T.W. Torr		9,602	9,602
S.P. Whitehouse		15,950	15,950
M. Annice		15,950	15,950
C.D. Higham		15,950	15,950
T.K. Bayley	(Resigned 5/3/99)	-	-
N.T. Turner	(Appointed 5/3/99)	-	-

Mr. N.T. Turner had an interest in £14,565 of the unsecured loan stock of the company and 435 A preferred ordinary shares at 30 June 1999 and at the date of his appointment.

Political and Charitable Contributions

The Group made no political or charitable contributions during the year.

Employees

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

The Group 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 Group's policy whenever practicable to provide continuing employment under the company's terms and conditions and to provide training and career development whenever appropriate.

Research and Development

The Group has a structured research and development programme with the aim of identifying and bringing to market new pharmaceutical products. The expenditure on this activity for the year ended 30 June 1999 was £380,000 (1998: £244,000).

Auditors

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

Year 2000

The Group is fully aware of the potential impact of the Year 2000 issue on its computer and other systems.

Critical computer systems have been identified and rectification work carried out. The amended systems have been operational since 31 October 1998.

Non-critical computer systems will be upgraded as necessary by the Year 2000.

A Group wide review has been undertaken of all non-computer systems which may be affected and these will be upgraded as necessary prior to the Year 2000.

The preparedness or otherwise of our key customers and suppliers could have an impact on the Group. We are therefore encouraging our customers and suppliers to take the necessary steps to ensure their own compliance to ensure that any business interuption is minimised.

Work on Year 2000 compliance has been carried out by our in-house computer development team, the costs of which are charged to the profit and loss account. No additional cost, other than the opportunity cost of delayed projects, has been incurred.

By order of the board

S D Evans

S.D. Evans
Secretary

Dechra House
Jamage Industrial Estate
Talke Pits
Stoke-on-Trent
ST7 1XW

17 September 1999

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the Group and of the profit or loss 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 or Group 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 Group 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 Group and to prevent and detect fraud and other irregularities

Report of the Auditors to the Members of Dechra Holdings Limited

We have audited the financial statements on pages 5 to 19.

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 affairs of the company and the Group as at 30 June 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

17 September 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 June 1999

	Note	1999 Before Exceptional Item £'000	1999 Exceptional Item (Note 2) £'000	1999 Total £'000	1998 Total £'000
Turnover					
Continuing operations	2	145,912	-	145,912	137,192
Cost of sales		(131,415)	-	(131,415)	(123,797)
Gross profit		14,497	-	14,497	13,395
Distribution costs		(4,632)	-	(4,632)	(4,523)
Administrative expenses		(3,832)	(248)	(4,080)	(3,370)
Operating profit					
Continuing operations	2, 4	6,033	(248)	5,785	5,502
Net interest payable and similar charges	3	(5,368)	-	(5,368)	(5,425)
Profit on ordinary activities before taxation		665	(248)	417	77
Tax on profit on ordinary activities	7	(323)	77	(246)	(68)
Profit on ordinary activities after taxation and retained profit for the financial		342	(171)	171	9

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

During the year ended 30 June 1999 there were no recognised gains or losses other than the profit for the financial period.

BALANCE SHEETS
as at 30 June 1999

		Group		Company	
	Note	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Fixed assets					
Tangible assets	8	2,514	2,529	-	-
Investments	9	-	-	894	894
		2,514	2,529	894	894
Current assets					
Stocks	10	11,702	9,338	-	-
Debtors	11	19,598	17,791	44,105	44,946
Cash at bank and in hand		4,696	4,155	13	133
		35,996	31,284	44,118	45,079
Creditors: amounts falling due within one year	12	(27,940)	(23,326)	(4,942)	(5,883)
Net current assets		8,056	7,958	39,176	39,196
Total assets less current liabilities		10,570	10,487	40,070	40,090
Creditors: amounts falling due after more than one year	12	(39,936)	(40,024)	(39,389)	(39,385)
		(29,366)	(29,537)	681	705
Capital and reserves					
Called up share capital	15	6	6	6	6
Share premium account	16	632	632	632	632
Profit and loss account	16	(30,004)	(30,175)	43	67
Total equity and non-equity shareholders' funds	17	(29,366)	(29,537)	681	705

The financial statements were approved by the Board of Directors on 17 September 1999 and are signed on its behalf by:

G.B. Evans Director

S.D. Evans Director

HISTORICAL COST PROFITS AND LOSSES

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 year ended 30 June 1999.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
At 1 July 1998	(29,537)	-	705	-
Profit/(loss) for the financial period	171	9	(24)	67
Goodwill acquired and written off during the period	-	(30,184)	-	-
Shares issued	-	638	-	638
At 30 June 1999	(29,366)	(29,537)	681	705

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 1999

	Note	1999 £'000	1998 £'000
Net cash inflow from operating activities	19	5,424	6,408
Returns on investment and servicing of finance			
Interest received		16	102
Interest paid		(3,327)	(4,161)
Interest element of finance lease rentals		(37)	(13)
Net cash outflow for returns on investment and servicing of finance		(3,348)	(4,072)
Taxation			
Corporation tax recovered/(paid)		61	(1,300)
Capital expenditure			
Purchase of tangible fixed assets		(253)	(186)
Sale of tangible fixed assets		70	56
Net cash outflow for capital expenditure and financial investment		(183)	(130)
Acquisitions and disposals			
Purchase of subsidiary undertakings	18	-	(45,000)
Cash acquired with subsidiaries	18	-	8,723
Purchase of business	18	(25)	(395)
Net cash outflow for acquisitions and disposals		(25)	(36,672)
Equity dividends paid		-	-
Cash inflow/(outflow) before financing		1,929	(35,766)
Financing			
Issue of ordinary share capital		-	638
Term loans raised		-	24,000
Term loans repaid		(1,000)	(900)
Unsecured loan stock issued		-	16,362
Capital element of finance lease payments		(388)	(179)
Net cash (outflow)/inflow from financing		(1,388)	39,921
Increase in cash in the period		541	4,155
Cash at 30 June 1998		4,155	-
Cash at 30 June 1999		4,696	4,155

Reconciliation of net cash flow to movement in net debt

	Note	1999 £'000	1998 £'000
Increase in cash during the period		541	4,155
Cash inflow from increase in debt and lease finance		-	(40,362)
Debt repayments		1,000	900
Change in net debt resulting from cash flows		1,541	(35,307)
New finance leases		(586)	(668)
Finance leases acquired with subsidiaries		-	(9)
Repayment of finance leases		388	179
Movement in net debt in the period		1,343	(35,805)
Net debt at 1 July 1998	20	(35,805)	-
Net debt at 30 June 1999	20	(34,462)	(35,805)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 1999

1. **Accounting Policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements:

Basis of preparation

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

Consolidation principles

The consolidated financial statements incorporate those of Dechra Holdings Limited and its subsidiary undertakings made up to 30 June.

The acquisition method of accounting has been adopted and the results of subsidiary undertakings acquired are included from the date of acquisition.

In accordance with Section 230(4) of the Companies Act 1985, no separate profit and loss account is presented for the company. The loss after taxation dealt with in the accounts of the company was £24,000 (1998: profit of £67,000).

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 cost 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
Fixtures, fittings and equipment	10-33⅓% on a straight line basis
Motor vehicles	25% on a straight line basis

Goodwill

Goodwill relating to the acquisition of companies and businesses up to 30th June 1998 is written off immediately against reserves. This goodwill has been eliminated as a matter of accounting policy and would be charged or credited in the profit and loss account on subsequent disposal of the business to which it related.

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 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. The cost of work in progress and finished goods includes an appropriate proportion of attributable overheads.

Research and Development

Research and development expenditure is written off as it is incurred.

Arrangement fees

Arrangement fees incurred on the raising of loans are written off over the expected life of the relevant loan.

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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystalise. Net debit balances are recognised as assets only to the extent that they are expected to be recovered without replacement by equivalent debit balances.

Pensions

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

The assets of the Scheme are held separately from those of the Group in an independently administered fund.

2. a) **Analysis of turnover by geographical region**

	1999 £'000	1998 £'000
UK	144,194	135,480
Rest of the world	1,718	1,712
	145,912	137,192

b) **Exceptional item**

The exceptional item comprises costs relating to the aborted bid for VDC plc.

3. **Net interest payable and similar charges**

	1999 £'000	1998 £'000
Bank loans and overdrafts	2,522	2,652
Amortisation of arrangement fees	369	369
Other loans	2,454	2,495
Finance charges payable on finance leases and hire purchase contracts	37	13
Total Interest payable	5,382	5,529
Bank deposit and other interest receivable	(14)	(104)
Net Interest payable and similar charges	5,368	5,425

4. **Profit on ordinary activities before taxation**
is stated after charging/(crediting):

	1999 £'000	1998 £'000
Research and development	380	244
Depreciation of owned assets	416	715
Depreciation of assets held under finance leases	440	56
Profit on disposal of tangible fixed assets	(66)	(33)
Operating lease rentals:		
land and buildings	434	402
plant and machinery	157	148
Audit fees	39	36
Other payments to the auditors for non-audit services	123	75

In addition, payments to the auditors of £nil (1998: £428,000) are included within cost of investment in subsidiaries.

5. **Remuneration of Directors**

	1999 £'000	1998 £'000
Directors' emoluments	477	449
Company contributions to money purchase scheme	46	38
	523	487

The emoluments of the highest paid director were £101,823 (1998: £100,734), and company pension contributions of £11,040 (1998: £10,080) were made to a money purchase scheme on his behalf.

Number of directors who are:

	1999 Number	1998 Number
Members of money purchase pension schemes	7	7

6. **Employees**

The monthly average number of staff employed by the Group, which includes directors, were:

	1999 Number	1998 Number
Wholesale	273	254
Manufacturing	94	89
	367	343

The costs incurred in respect of these employees were:

	1999 £'000	1998 £'000
Wages and salaries	4,523	3,996
Social security costs	379	332
Other pension costs	107	84
	5,009	4,412

7. Tax on profit on ordinary activities

The tax charge based on the profit on ordinary activities for the year comprises:

	1999 £'000	1998 £'000
UK Corporation tax charge at 30.75% (1998: 31%)	291	340
Deferred taxation	(15)	(272)
Under provision in prior year	(30)	-
	246	68

8. Tangible fixed assets

	Freehold Land and Buildings £'000	Short Lease Hold Land and Buildings £'000	Motor Vehicles £'000	Plant and Fixtures £'000	Total £'000
Group					
Cost					
At 1 July 1998	13	249	994	1,799	3,055
Additions	-	-	510	335	845
Disposals	-	-	(249)	-	(249)
At 30 June 1999	13	249	1,255	2,134	3,651
Depreciation					
At 1 July 1998	-	34	49	443	526
Disposals	-	-	(245)	-	(245)
Charge for the year	-	32	390	434	856
At 30 June 1999	-	66	194	877	1,137
Net book value					
at 30 June 1999	13	183	1,061	1,257	2,514
at 30 June 1998	13	215	945	1,356	2,529
Leased assets					
Net book value of assets held under finance leases	-	-	787	36	823

	1999 £'000	1998 £'000
Capital commitments		
Contracted for	-	64

9. **Fixed asset investments**

	Shares in Subsidiary Undertakings £'000
Company	
At 30 June 1999 and 30 June 1998	894

A list of subsidiary undertakings is given in note 22.

10. **Stocks**

Group	1999 £'000	1998 £'000
Raw material and consumables	560	362
Work in progress	21	69
Finished goods and goods for resale	11,121	8,907
	11,702	9,338

11. **Debtors**

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Trade debtors	18,727	16,584	-	-
Amounts owed by subsidiary undertakings	-	-	42,455	43,215
Group relief receivable	-	-	1,645	1,440
Other debtors	657	930	5	281
Prepayments and accrued income	214	277	-	10
	19,598	17,791	44,105	44,946

Other debtors includes amounts falling due after more than one year of £nil (1998: £203,000) in respect of the Group and £nil (1998: £262,000) in respect of the Company.

12. **Creditors**

	Falling Due Within One Year			
	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Bank loans	2,000	1,000	2,000	1,000
Hire purchase and finance leases	429	219	-	-
Trade creditors	23,020	19,620	-	-
Amounts due to subsidiary undertakings	-	-	2,279	4,386
Other creditors	187	245	-	-
Corporation tax	321	217	-	-
Other taxation and social security	669	1,046	-	-
Accruals and deferred income	1,054	799	663	497
Deferred consideration	260	180	-	-
	27,940	23,326	4,942	5,883

	Falling Due After More Than One Year			
	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Bank loans	19,881	21,662	19,881	21,662
Unsecured loan stock	16,212	16,063	16,212	16,063
Hire purchase and finance leases	267	279	-	-
Accruals and deferred income	3,296	1,660	3,296	1,660
Deferred consideration	280	360	-	-
	39,936	40,024	39,389	39,385

13. Borrowings

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Bank loans due after more than one year				
Aggregate bank loan instalments repayable				
between one and two years	3,000	2,000	3,000	2,000
between two and five years	11,100	10,100	11,100	10,100
in five years or more	6,000	10,000	6,000	10,000
	20,100	22,100	20,100	22,100
Arrangement fees netted off	(219)	(438)	(219)	(438)
	19,881	21,662	19,881	21,662
Obligations under finance leases due after more than one year				
Due between one and two years	267	279	-	-
Unsecured loan stock due after more than one year				
Due in five years or more	16,362	16,362	16,362	16,362
Arrangement fees netted off	(150)	(299)	(150)	(299)
	16,212	16,063	16,212	16,063
Total	36,360	38,004	36,093	37,725

The company has entered into an interest rate swap agreement which fixes the interest rates on the bank loans for four years from 24 June 1997.

14. Provisions for liabilities and charges

	Deferred Tax	
	Group	Company
	£'000	£'000
At 1 July 1998	(203)	(262)
Transfer to profit and loss account	203	262
At 30 June 1999	-	-

The net debit balance of deferred taxation at 30 June 1998 is shown within other debtors.

The amounts provided for deferred taxation, which represents a full provision under the liability method at 30% (1998:31%), are as follows:

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Capital allowances	31	65	-	-
Short term timing differences	(31)	(268)	-	(262)
	-	(203)	-	(262)

15. **Called up share capital**

	B Ordinary shares of 1p each		A Preferred ordinary shares of 1p each	
	£'000	No.	£'000	No.
At 1 July 1998 and 30 June 1999	1	150,000	5	488,298
Authorised share capital at 1 July 1998 and 30 June 1999	£1,500	150,000	£5,114	511,449

The A preferred ordinary shares carry a right to a fixed dividend of 8p per share and a participating dividend of up to 45.9% of profit after tax commencing in the year ending 30 June 2003 provided that the company has sufficient distributable reserves.

The B ordinary shares carry a right to a fixed dividend of 8p per share commencing in the year ending 30 June 2003 provided the company has sufficient distributable reserves after payment of the fixed and participating dividends on the A preferred ordinary shares.

Any dividends declared over and above these rights are allocated pro rata to all ordinary shareholders.

On 24 June 1997 warrants to subscribe to A preferred ordinary shares representing 3.5% of the entire issued share capital of the company at a price of 1p per share were granted. The warrants can only be exercised on the sale or flotation of the company.

16. **Reserves**

	Share Premium Account £'000	Profit and Loss Account £'000
Group		
At 1 July 1998	632	(30,175)
Retained profit for the year	-	171
At 30 June 1999	632	(30,004)
Company		
At 1 July 1998	632	67
Retained loss for the year	-	(24)
At 30 June 1999	632	43

17. Total equity and non-equity shareholders' funds

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Attributable to equity interests	(29,854)	(30,025)	193	217
Attributable to non-equity interests	488	488	488	488
	(29,366)	(29,537)	681	705

18. Acquisitions

	1998 Book and Fair Value £'000
Tangible fixed assets	2,462
Stock	9,786
Debtors	15,344
Cash at bank and in hand	8,723
Creditors	(20,470)
Provisions for liabilities and charges	(69)
	15,776
Goodwill	30,184
	45,960
Satisfied by:	
Cash paid	44,602
Costs of acquisition:	
- paid during period	793
- accrued	25
	45,420
Deferred consideration	540
	45,960

The deferred consideration is payable in three annual instalments, commencing on 1 July 1999, dependent on the performance of the business during that period.

The cumulative amount of goodwill written off to reserves at 30 June 1999 was £30,184,000 (1998: £30,184,000).

19. **Reconciliation of operating profit to operating cash flow**

	1999 £'000	1998 £'000
Operating profit	5,785	5,502
Depreciation	856	771
Profit on disposal of tangible fixed assets	(66)	(33)
(Increase)/decrease in stocks	(2,364)	448
Increase in debtors	(2,012)	(2,242)
Increase in creditors	3,225	1,962
Net cash inflow from operating activities	5,424	6,408

20. **Analysis of net debt**

	At 1 July 1998 £'000	Cash inflow/ (outflow) £'000	Other Non Cash Changes £'000	At 30 June 1999 £'000
Cash in hand and bank	4,155	541	-	4,696
Debt due after one year	(38,462)	-	2,000	(36,462)
Debt due within one year	(1,000)	1,000	(2,000)	(2,000)
Finance leases	(498)	388	(586)	(696)
	(35,805)	1,929	(586)	(34,462)

Major non-cash transactions:
During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £586,000 (1998: £668,000).

21. **Other financial commitments**

	1999		1998	
	Land and Buildings £'000	Other Assets £'000	Land and Buildings £'000	Other Assets £'000
At 30 June 1999 the Group has the following commitments payable within one year under operating leases expiring:				
within one year	-	26	-	20
between one and two years	-	75	-	46
between two and five years	-	6	-	88
in five years or more	423	-	424	-
	423	107	424	154

22. **Subsidiary undertakings**

The subsidiary undertakings of the Company, all of which are wholly owned, are:

Company	Country of Operation	Country of Incorporation and Registration	Principal Activity
National Veterinary Supplies Limited*	UK	England	Wholesale of veterinary products
Arnolds Veterinary Products Limited*	UK and Export	England	Agency distribution of veterinary pharmaceuticals, instruments and equipment
Dales Pharmaceuticals Limited*	UK	England	Manufacture of pharmaceuticals
Veneto Limited	UK	England	Holding company

* Owned indirectly.