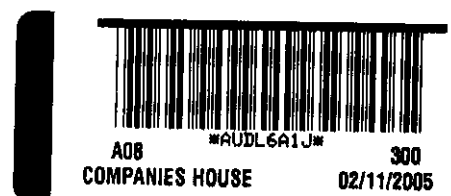


Dechra

Pharmaceuticals PLC

Annual Report and Accounts 2005



Developing Pharmaceuticals
Improving Animal Health

/ Contents

1	Welcome to Dechra	25	Statement of Directors' Responsibilities
2	Chairman's Statement	26	Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC
5	Chief Executive's Review	27	Consolidated Profit and Loss Account
12	Financial Review	28	Balance Sheets
14	Directors and Senior Management	29	Reconciliation of Movements in Shareholders' Funds
16	Directors' Report	30	Consolidated Cash Flow Statement
17	Corporate Governance	31	Notes to the Financial Statements
19	Audit Committee Report	44	Financial History
20	Directors' Remuneration Report	45	Advisers
24	Social, Ethical and Environmental Responsibilities		

Developing Pharmaceuticals
Improving Animal Health

Our Business

**/An emerging pharmaceutical
business, focused on the
veterinary market.**

Our Strategy

**/To continue the development
of our veterinary pharmaceutical
portfolio and increase our
pharmaceutical penetration into
international markets.**

Our Results

	2005 Before exceptional items and goodwill amortisation	2004 Before exceptional items and goodwill amortisation		2005 After exceptional items and goodwill amortisation	2004 After exceptional items and goodwill amortisation	
Turnover	£208.2m	£186.8m	+11%	£208.2m	£186.8m	+11%
Operating profit	£11.0m	£9.2m	+20%	£10.4m	£8.5m	+23%
Profit before tax	£9.4m	£8.1m	+17%	£8.9m	£7.4m	+20%
Earnings per share	13.39p	11.28p	+19%	12.28p	9.97p	+23%
Dividend per share	5.20p	4.70p	+11%	5.20p	4.70p	+11%

/ Welcome to Dechra

/ Welcome to Dechra

Pharmaceuticals

/ Arnolds Veterinary Products

Marketing and development of licensed branded pharmaceuticals to the veterinary profession worldwide. UK market leading supplier of veterinary instruments and equipment.

/ Dales Pharmaceuticals

Licensed manufacturer of human and veterinary pharmaceuticals for Arnolds and third party customers.

/ Dechra Veterinary Products

US sales and marketing business, based in Kansas City, Missouri. DVP promotes and sells specialised endocrine therapies for companion animals to veterinarians throughout North America.

Services

/ National Veterinary Services

UK market leader in the supply of pharmaceuticals and added value services to the veterinary profession, including management information systems and consumer and internet services.

/ NationWide Laboratories

Multi-disciplined independent commercial veterinary laboratory.

/ Cambridge Specialist Laboratory Services

Primary care and secondary referral specialist veterinary immunoassay laboratory.

Michael Redmond

/ Introduction

The last twelve months have seen your Company make significant steps in the development of its own branded veterinary pharmaceutical product portfolio, in increasing its international presence as well as making progress in our Pharmaceuticals and Services Divisions for the longer term. This is reflected in these results for the financial year ended 30 June 2005.

Through our improved service offering and product mix, our Services business increased its gross margin and secured a number of significant new customers during the year.

Productivity and other operational efficiencies improved our manufacturing business' performance with turnover and operating profit substantially higher than the comparable period last year.

Our marketing business also experienced significant growth in its sales of pharmaceuticals including our own branded Vetoryl® Capsules and Felimazole® Tablets.

Our strategic focus continues to be the development of our own veterinary pharmaceutical product portfolio. During the year, we have added a number of new marketing authorisations and have also made positive progress with our planned sales expansion in the USA. This is covered in more detail in the Chief Executive's Review.

/ Financial Highlights

Group turnover increased 11% from £186.8 million to £208.2 million.

Operating profit before exceptional items and goodwill amortisation increased by 20% to £11.0 million (2004: £9.2 million). Profit before tax, calculated on the same basis, improved by 17% to £9.4 million (2004: £8.1 million). Pre-tax profit after exceptional items and goodwill amortisation was up 20% at £8.9 million (2004: £7.4 million).

Adjusted earnings per share (pre-exceptional items and goodwill amortisation) was 13.39 pence (2004: 11.28 pence), a 19% increase over last year. The figure after exceptional items and goodwill amortisation was 12.28 pence (2004: 9.97 pence), an increase of 23%.

Gross margin increased from 13.6% to 14.3% once again reflecting the ongoing improvements in product mix, productivity and operational efficiencies. After product development expenditure of £1.3 million and our initial investment of £0.2 million in our fledgling American operation, Group operating margin increased to 5.27% (2004: 4.92%).

Cash flow remained strong with operating cash flow being 127% of operating profit. Over the last four years through a strong focus on cash management, net debt has significantly reduced from £14.7 million in 2002 to £4.9 million this year (2004: £10.1 million).

Interest cover (before exceptional items and goodwill amortisation) was 7.1 times.

Capital expenditure during the year totalled £2.1 million, which included acquiring the worldwide rights to Thyroxyl Liquid and Thyroxyl Tablets and the marketing authorisations for the Vetivex® Solutions range.

/ Dividend

The Board is recommending a final dividend of 3.50 pence per share. This, together with the interim dividend paid of 1.70 pence per share, makes a total for the year of 5.20 pence per share, an increase of 10.6% over 2004. The total dividend is covered 2.6 times by profit after taxation but before exceptional items and goodwill amortisation.

The final dividend, which is subject to shareholder approval at our Annual General Meeting to be held on Wednesday 19 October 2005, will be paid on 25 November 2005 to shareholders on the Register as at 28 October 2005.

/ People

On behalf of the Board and shareholders, I would like to thank all the Group's employees and the operating management team for their continued focus and dedication which has contributed to this strong performance.

Illustrated on opposing page:

- a** The semi-automated picking system at NVS has an automatic weight checking system, enabling us to deliver more accurately to our customers.
- b** Our manufacturing arm, Dales Pharmaceuticals, has the capacity to manufacture 350 million pill capsules every year.
- c** Dechra provides products and services to almost all of the UK's 3,500 registered veterinary practices.
- d** There are around 9 million cats in the UK, with 33 recognised different breeds.

We welcome all new employees and management to the Group, including Mike Eldred as President of our US operation and Dr. Susan Longhofer. Susan joined the Group at the end of June 2005 as Product Development and Regulatory Affairs Director and has over 16 years industry experience in development and worldwide registration of animal health pharmaceuticals.

/ Current Trading and Prospects

Since the year-end we have successfully launched Thyroxyl Oral Solution and Thyroxyl Tablets in the USA. We are encouraged by the initial interest in the product and, although it is at an early stage, we expect to gain a market presence in the US veterinary endocrine market with this product.

The strategic alliances and development agreements already established in 2005 provide a foundation to build both our licensed veterinary product portfolio and our international presence. These, together with further partnerships being pursued with human pharmaceutical research and veterinary healthcare businesses, create additional opportunities.

Current trading remains in line with management expectations and we remain confident about the year as a whole.

Michael Redmond

Chairman
6 September 2005

/“Dechra has made significant steps in the development of its own branded veterinary pharmaceutical product portfolio and in increasing its international presence”

**/“These results
reflect the ongoing
improvement in
market conditions
and further
penetration of our
products and
services within the
veterinary market”**

Ian Page

Introduction

As we indicated in our pre-closed period update, both our Pharmaceuticals and Services Divisions have performed well, building on the good growth achieved last year. These results reflect the on-going improvement in market conditions and further penetration of our products and services within the veterinary market.

Further progress has also been made in the development programme for our own branded licensed veterinary product portfolio for the North American and European companion animal markets.

Product Development

During the year, there have been a number of achievements within the Product Development programme, detailed below:

- The Group continues to make progress on Vetoryl® Capsules in the USA. The safety and efficacy sections have now been submitted, we await guidance from the FDA as to any further trial requirements. Progress on this key product has also been made in the EU with the dossier being submitted for mutual recognition in June 2005. In April 2005, we were granted a range extension for a 30mg capsule that is specifically targeted at small breed dogs. The product was launched in the UK at the end of the financial year being reported on. Additionally, Vetoryl® has been approved for marketing in blister packs of 30 capsules; this will assist in owner compliance as we successfully continue to grow the market.
- Following the granting of an expedited review status for Felimazole® Tablets, the FDA has requested an additional clinical trial to be conducted in the USA. The trial will commence once the protocol has received approval. In November 2004, the Group gained a full EU licence for Felimazole® through the mutual recognition procedure. The product is currently being marketed in Europe through our partner, Janssen Animal Health. A new 2.5mg Felimazole® Tablet, granted a UK licence in November 2004, offers increased flexibility in dosing options. Since its UK market launch in February 2005, we have seen a significant increase in sales.

Illustrated on opposing page:

- a** Approximately 10,000 thoroughbred mares are bred each year in the UK, from a total population of 120,000 commercial horses.
- b** 90% of the world's companion animal market is in North America, Western Europe and Japan.
- c** Companion animals such as rabbits are an increasingly popular choice of pet, with 3 million domestic rabbits in the UK.
- d** Our laboratory business NWL provides diagnostic and clinical pathology services with over 600 test options available.

- A development and marketing contract has been agreed with Vétoquinol, Canada. Vétoquinol will lead the licence applications for Vetoryl® and Felimazole® and will market the products following approval, initially for a period of five years, in the Canadian market.
- In February, the Group was granted a UK marketing authorisation for Ovuplant® implant, whose chemical entity is the intellectual property of the Australian biotechnology company, Peptech Animal Health. Ovuplant® is a controlled-release, synthetic hormone that stimulates ovulation in brood mares and it is used widely by horse breeders in a number of worldwide markets. We have commenced the process for Mutual Recognition to license Ovuplant® in Europe.
- In the last quarter, we launched Urilin® Syrup, our first branded generic product for the treatment of urinary incontinence in dogs. This is the first new entrant in a UK market worth approximately £1.9 million.
- Discussions are also at an advanced stage with a Japanese company to license and market Vetoryl® Capsules within Japan. However, it is important to note that the Japanese authorities will require exhaustive local trials; therefore it will be a number of years before revenues are generated.

Illustrated on opposing page:

- a** With its highly automated site, Dales fill and label 1 million bottles of liquid medication every year.
- b** Dechra has the UK marketing authorisation for Ovuplant®, a controlled-release, synthetic hormone that stimulates ovulation in brood mares.
- c** Sales of own branded veterinary products increased by 19%.
- d** There are 6 million dogs in the UK and 10 million in Japan. However, there are approximately 70 million in one of our target markets, the USA.

Pharmaceuticals Division

This division comprises Arnolds Veterinary Products ("Arnolds®"), Dechra Veterinary Products, USA ("DVP") and Dales Pharmaceuticals ("Dales").

/ Sales & Marketing

Trading within Arnolds® has been very encouraging with strong growth achieved from both pharmaceuticals and instruments.

Sales from our own branded veterinary pharmaceutical portfolio increased by 19% to £11 million with year on year growth in sales of our own developed products Vetoryl® and Felimazole® being 36% and 71% respectively.

During the year, Arnolds renewed its sales and marketing agreement with Intervet in Germany for Equipalazone®, as well as securing a distribution agreement with Orion Pharma in Finland to market Vetoryl® and Felimazole® into the Nordic countries. An agreement with Veterinaria to market Equipalazone®, Vetoryl® and Felimazole® in Switzerland was also signed.

A number of new customers were added to the Arnolds client base. These include Masters International who, under an FDA waiver scheme, distribute Vetoryl® into the American market. The sales to date clearly underpin our confidence in the market opportunity that the US presents the Group once Vetoryl® receives FDA approval.

Instrument and consumables sales continued to be influenced by both competitive pressure and grey imports. Therefore, it has been encouraging to have seen a 12% increase in sales over the period. Some of this growth has been achieved through key distributor relationships, which include Portex, Global Veterinary Products, Technik Technology and 3M.

In April 2005, the Group acquired the licences and goodwill for the Vetivex® range of veterinary licensed infusion fluid products. These products are used to combat dehydration, electrolyte imbalance and metabolic acidosis in companion animals, equine and livestock. The acquisition of this product range has enabled Arnolds to strengthen its position within the critical care and emergency medicine sector. We will continue to build on this position with increased market penetration and further development of the Vetivex® range of products.

Other milestones in the year were the establishment of Arnolds *pdq*, a direct mail business, and an agreement with Zi Medical to distribute unique infusion equipment in the UK.

/ Dechra Veterinary Products — USA

In April 2005, we opened our fledgling US operation based in Kansas City, Missouri.

The US market is the largest veterinary companion animal market in the world, and is some ten times larger than that of the UK. The newly appointed US team have a wealth of experience within the veterinary pharmaceuticals sector which will provide Dechra with the commercial knowledge needed to establish, develop and drive our North American business.

An agreement has been made with Belcher Pharmaceuticals, Inc., a wholly owned subsidiary of GeoPharma, Inc., based in Largo, Florida, USA. Under this agreement, Dechra has exclusive worldwide sales and marketing rights for Belcher's levothyroxine liquid and tablets, which are used to control hypothyroidism in dogs.

Following successful comparative trials for the unique liquid preparation of levothyroxine, the product was launched in the US market in July 2005 under the Dechra brand name Thyroxyl Oral Solution. Distribution agreements have been reached with several national and regional distributors and the initial uptake of the product following its launch has been very encouraging.

The introduction of Thyroxyl Oral Solution and Thyroxyl Tablets into the American market allows us to establish Dechra Veterinary Products in the US veterinary endocrine market ahead of the registration of our own key products.

/ Manufacturing

Dales Pharmaceuticals, our pharmaceutical manufacturing business, produced a strong performance with a 15% increase in turnover, half of which came from the manufacture of our own licensed veterinary products. A significant improvement in operational efficiencies resulted in a strong growth in operating profit.

During the year, we added five new third-party manufacturing customers and also extended existing customer lines through the introduction of six new products.

In December 2004, an extension to our facility became operational. This has provided additional warehousing creating the opportunity to consolidate all stock onto the same site. As a result we have achieved a significant reduction in external warehousing and transport costs. The additional space has also been utilised to create a new pharmaceutical development laboratory which has been equipped with small scale batch production machinery and analytical equipment. The laboratory will be utilised for our *in-house product development programme* and will also increase our capabilities to third-party customers. Further investment has been made in an additional state-of-the-art capsule filling machine and HPLC laboratory testing equipment.

In order to undertake production of clinical trial products and in accordance with both EU regulatory requirements and new procedures introduced by the Medicines and Healthcare Regulatory Agency, Dales has obtained an Investigational Medicinal Product Manufacturers Licence.

**Developing Pharmaceuticals
Improving Animal Health**

**/“Own branded
veterinary
pharmaceutical
portfolio sales
increased by 19%
with year on year
growth of Vetoryl[®]
and Felimazole[®]
being 36% and 71%
respectively”**

/“Over the next 12 months, we will be improving our central warehousing to allow us to extend the picking line, increase automation and provide new services”

Services Division

This division comprises National Veterinary Services ("NVS@"), Vetcom Systems ("Vetcom@"), NationWide Laboratories ("NWL") and Cambridge Specialist Laboratory Services ("CSLS").

/ Wholesaling and Distribution

Our principal trading business NVS@ benefited from market share gains, including a number of substantial new customers, and from strong market growth, which year on year saw the core veterinary market increase by 9% in value.

Increased productivity, very high service levels and operational efficiencies were achieved in the year under review. There was also an encouraging improvement in gross margin through better buying, additional added-value services, the expansion of the NVS@ own-brand Valu Range of products and the launch of the Vet Remedy range developed specifically for sale to end users in practice waiting rooms.

During the year, NVS@ established a new depot and customer care team in Hamilton, Scotland which has improved our service levels and doubled our market share in this region. Additional depots were also opened in Swanscombe and Hertford which have improved our service levels to the South of England. Our same day delivery fleet was extended, which has allowed us to increase our daily deliveries from 1,604 to 1,710 locations.

Through our daily contact with veterinary practices, we identified the need to implement a regional sales structure, which has proved very effective. It gives us greater local focus allowing us to tailor our services to meet the differing needs of practices around the country.

Over the next 12 months, we will be improving our central warehousing to allow us to extend the picking line, increase automation and provide new services. It will also increase storage capacity as we plan for future projected volumes.

In addition, we are undertaking a major installation of a new computer system to replace the legacy system. This project is expected to go live towards the end of the current financial year.

Overall, NVS@ continues to develop its market position by adding further value to the existing high levels of service and by continued improvements in operational efficiency.

/ Information Technology

In January 2005, the Group established a joint venture partnership with Cam-Dal Computing, providers of bespoke e-commerce solutions. This agreement provides Vetcom Systems, Dechra's I.T. division, with its next generation, cost-effective, multi-user, on-line veterinary practice management system, Vetcom Open.

In addition to the standard management facilities, Vetcom Open provides an effective branch linking solution enabling large multi-site veterinary practices to better manage their businesses. The connectivity also offers the future possibility of NVS@ providing further services to practices such as direct marketing to their clients.

We remain focused on providing our customers with ever improving technology which ensures that they are able to operate progressive, efficient and cost-effective practices.

/ Laboratory Services

Our multi-disciplined independent commercial veterinary laboratories NWL and CSLS are focused on providing diagnostic and clinical pathology services at the highest levels of service to UK veterinary practices.

We have continued to target multi-practice group and corporate accounts and have been successful in securing a number of new practices as customers. In the last quarter of the financial year being reported, we saw a 20% increase over the same period in 2004 as new accounts started to feed through.

We have introduced a number of new services at NWL, including Allervet, a serological test for allergy; Petscreen, a tool for deciding the best chemotherapy to use; two in-clinic clinical records programs which can generate laboratory request forms automatically in the practice; and extended same-day courier routes into Yorkshire, North Wales and Cheshire. At CSLS, new assays have been released for feline pancreatic diseases and cancer diagnosis and therapeutic monitoring.

Our laboratories business has a reputation for clinical excellence within the veterinary profession. NWL became the first commercial veterinary laboratory to gain UKAS accreditation and is at the forefront of UK veterinary diagnostics.

Illustrated on opposing page:

- a** Every day, the semi-automated picking system allows NVS to pick and pack an average of 40,000 lines for next-day delivery across the UK.
- b** Each veterinary practice has its own regional dedicated sales & marketing team to ensure the highest level of service and customer care is achieved.
- c** NVS expanded its own brand Valu range of products and also launched the Vet Remedy range. These have been developed specifically for sales to end users in practice waiting rooms.
- d** NVS has 8 articulated lorries which deliver to a UK network of 8 depots, then over 100 transit vans make over 1,700 daily deliveries to over 2,000 accounts.

Illustrated on opposing page:

- a** At NWL, our experienced laboratory staff ensure strict quality controls, in order to deliver reliable and dependable results to our customers.
- b** Our laboratories business has a reputation for clinical excellence within the veterinary profession. It was the first commercial veterinary laboratory to gain UKAS accreditation and is at the forefront of UK veterinary diagnostics.
- c** New tests introduced by NWL include Allervet, a companion animal allergy testing service and Petscreen, a cancer screening tool to diagnose the best possible chemotherapy treatment.
- d** NWL offers an extensive same-day courier service, which ensures safe handling and reliable delivery of the samples to the laboratory. Results are usually processed and reported the same day as received.

People

At the year-end, the Group employed 696 people. We would like to thank all our staff for their continued support and dedication, which has resulted in producing these results. We would also like to welcome all new personnel to the Group.

At management level, we welcome Mike Eldred and Randel "Chip" Whitlow, who have joined Dechra as President and National Sales Manager of the Group's US operation, Dechra Veterinary Products.

We welcome Susan Longhofer as Director of Product Development and Regulatory Affairs. Susan, a US national who has relocated to the UK, has extensive industry experience in development and worldwide registration of animal health pharmaceuticals. Her knowledge and experience is already proving invaluable in our dealings with the FDA and in the assessment of numerous other product development opportunities.

One of our key priorities at Arnolds was to build a management team that had the experience and drive to deliver the key business growth objectives. In July 2004, Mark Sallin joined as Finance Director, Chris Kingdon joined in November 2004 as Pharmaceutical Sales Director and Gwenda Bason joined in January 2005 as Pharmaceutical Marketing Director. The reorganisation of the management team has allowed Andrew Groom to take up a new role as Instruments Business Director.

Within our laboratories business, Tariq Shah was appointed Sales & Marketing Manager in May 2004, whilst Jamie Whitwam joined in November 2004 as Food Microbiology and Business Development Manager, to head the non-clinical division of NWL.

At Dales, we have taken the opportunity to restructure the senior management team with the appointment of John Reilly as Quality Manager.

Summary

We are pleased with the achievements that have been made in the financial year. All areas of the business are performing well, buoyed by generally improved market conditions.

A strong sales performance of the existing product portfolio combined with new business wins provides a solid platform for future growth. In addition, important progress has been made in the following key areas of our strategy:

- Developing the veterinary pharmaceutical product portfolio
- Pursuing international market opportunities (notably in the USA)
- Creating operational efficiencies and
- Assembling a first rate management team across the business

We look forward to the current year with confidence.

/“A strong sales performance of the existing product portfolio combined with new business wins provides a solid platform for future growth”

Simon Evans

Developing Pharmaceuticals Improving Animal Health

/ Introduction

This last financial year has seen the continued excellent progress of the Group. Both of our divisions recorded healthy increases in turnover and improved operating margins. Cash flow was again strong with operating cash flow running at 127% of operating profit.

The profit and cash flows generated from our core operations underpin the investment in the business opportunities described in the Chief Executive's Review.

/ Operating Results

The Group achieved a profit before tax, exceptional items and goodwill amortisation of £9.4 million, an increase of 16.9% compared to last year calculated on the same basis.

The results after exceptional items and goodwill amortisation are summarised on the inside front cover of this Document.

In the year under review, Group turnover increased by 11.4%. This substantial increase was driven by buoyant market conditions and new account wins by our Services Division, together with the continued growth of our key own branded pharmaceutical products.

Gross margin improved from 13.6% to 14.3% reflecting further improvements by our Services Division and the increasing importance of our own branded pharmaceutical products in the sales mix.

Operating costs include a charge of £328,000 in respect of the Executive Incentive Plan in accordance with UITF17 (revised) although there is no cash flow impact on the Group.

Product development expenditure increased from £1.1 million in 2004 to £1.3 million. We also incurred £0.2 million of costs in respect of our fledgling US operation.

Despite the above costs, Group operating margin before exceptional items and goodwill amortisation increased from 4.92% to 5.27%.

/ Net Interest Charge

The interest charge rose due to the full year effect of the five base rate rises between November 2003 and August 2004.

The total interest charge for the year is also affected by the seasonal variations in working capital requirements of the Group which reaches its peak in the period December to February.

Interest cover before exceptional items and goodwill amortisation remained at a healthy 7.1 times.

/ Taxation

The total tax charge on profit before exceptional items and goodwill amortisation was 27.5%, including a net prior year credit of £290,000.

/ Earnings per Share and Dividend

Adjusted earnings per share (before exceptional items and goodwill amortisation) was 13.39p (2004: 11.28p), an increase of 18.7%.

The proposed final dividend is 3.50p, making a total for the year of 5.20p (2004: 4.70p). This represents an increase of 10.6% compared to last year. The total dividend is covered 2.6 times by profit after taxation but before goodwill amortisation.

/ Capital Expenditure

Additions to tangible and intangible fixed assets totalled £2.1 million.

The main investment in tangible fixed assets was a new Enterprise Resource Planning System at National Veterinary Services, our veterinary wholesaling business. This IT system is planned to go live during the new financial year.

During the year, we also acquired two intangible fixed assets as detailed below:

In February 2005, we paid US\$500,000 (£278,000 including associated legal costs) to acquire the worldwide rights to a Levothyroxine liquid and tablets from Belcher Pharmaceuticals, Inc. This product, branded Thyroxyl, has been launched in the USA in July 2005.

In April 2005, we paid £810,000 (with £12,000 legal costs) to acquire the marketing authorisations for the Vetivex® range of products from Gambro Northern Ireland Limited, a division of Gambro BCT, Inc. On acquisition, annualised sales of this product were running at approximately £1 million. As this acquisition was made towards the end of the financial year being reported, it only had a negligible effect on these results. We will, however, see a full year contribution in the 2006 financial year.

Further reference to both these products has been made in the Chief Executive's Review.

/ Cash Flow and Net Debt

An operating cash inflow of £13.2 million (2004: £10.6 million) was achieved for the year which represented a cash conversion rate of 127% (2004: 125%).

During the year, the Group converted £13,160,000 of its overdraft facility into a term loan. This puts the funding of the Group onto a longer term footing in order to support the planned expansion of the Group, particularly in the USA.

Net debt showed a reduction from £10.1 million to £4.9 million.

/ Balance Sheet and Shareholders' Funds

Shareholders' funds increased to £14.5 million reflecting the retained profit for the year and new share issues made on the exercise of various share options.

Working capital decreased from £10.0 million to £8.4 million. Stock turn declined from 11.5 times to 9.5 times due to an increase in stock at NVS which was required to support recent new business gains and the need to manufacture a stock of Vetoryl for FDA stability testing at an FDA compliant contract manufacturer in support of our USA Vetoryl licence application. This Vetoryl stock will be sold out during the financial year ending 30 June 2006.

Trade debtor days showed an improvement from 44 days to 43 days. Trade creditor days were 61 (2004: 53 days).

/ International Financial Reporting Standards ("IFRS")

The results for the financial year ending 30 June 2006 will be reported under IFRS. The comparative figures i.e. these results for the year ended 30 June 2005, will be restated under IFRS. Work on identifying and quantifying the required changes to accounting policies is now substantially complete and a reconciliation statement for the year ended 30 June 2005 will be communicated to shareholders ahead of the interim results for the six months ending 31 December 2005, the first results to be reported under IFRS.

The main impacts of IFRS are summarised below:

Goodwill Amortisation

The impact of IFRS1 and IFRS3 will be that:

- Consolidated goodwill will be frozen at its 30 June 2004 level of £4.385 million but will then be subject to annual impairment review.
- The goodwill charge of £564,000 for the year ended 30 June 2005 will be added back to reported profit and shareholders' funds for the year ended 30 June 2005.

Development Costs

Our current accounting policy is to write off all development expenditure as it is incurred. Under IAS38, development expenditure that meets the recognition criteria must be capitalised.

The principal development activity of the Group is the bringing to market of new pharmaceutical products. Due to the lengthy regulatory process involved, there is inherent uncertainty as to the technical feasibility of development projects. Development costs will therefore only be capitalised once there is reasonable certainty over technical feasibility. Most of the Group's development expenditure is therefore unlikely to fulfil the criteria for capitalisation.

Share Based Payments

Under IFRS2, all share options (including SAYE) are valued at the date of grant and amortised over the vesting period. The Group intends to adopt the exemptions under IFRS1

and IFRS2 whereby only share options issued after 7 November 2002 are fair valued and charged to operating profit.

The impact of IFRS2 on the reported results for 2005 is not expected to be significant.

Other Adjustments

There will be other minor adjustments, principally relating to the spreading of lease incentives over the period of the lease rather than the period to the next rent review.

Deferred Tax

There will be an adjustment to the deferred tax balance, principally relating to the different accounting and tax treatments for share based payments above.

Software

Under IAS38, software costs will be reclassified from tangible fixed assets to intangible fixed assets in the balance sheet.

Dividend

IAS18 requires that the proposed final dividend should not be accrued at the end of the year, being charged to shareholders' funds once approved by shareholders at the AGM.

Conclusion

Taking the above into account, we currently believe that the restatement of the 2005 results under IFRS will show a modest increase of approximately 2% to 3% in adjusted pre-tax profit (before goodwill amortisation) compared to these results reported under UK GAAP.

Reported shareholders' funds will also increase under IFRS due to the write-back of goodwill, the proposed dividend and an increase in the deferred tax asset.

It should be emphasised that these are accounting adjustments only and have no impact on the economic conditions facing the Group, nor on its cash flows, distributable reserves or prospects.

/ Capital Policy

It is the Company's policy to maintain an appropriate balance between equity financing and debt financing so as to optimise the weighted average cost of capital of the Company but without over-gearing.

/ Treasury Policy

Overall Treasury policy is set by the Board and monitored by the Group Finance Director.

The Company does not speculate on short-term interest rate or exchange rate movements.

The Group seeks to hedge for interest rate risk between 20% and 80% of its outstanding borrowings. Currently, £6.2 million of outstanding loans are subject to a floor and ceiling arrangement whereby the effect of fluctuations in LIBOR rate are limited to between 4.53% and 5.50%.

All finance leases and hire purchase contracts are at fixed rates.

Foreign exchange exposure is hedged naturally as far as possible by matching receipts and payments in the relevant foreign currency. To this end, the Group maintains Euro and US Dollar accounts. Unmatched foreign currency exposure is hedged by the Group Finance Director in accordance with Group policy. The foreign currency exposure relating to the final outstanding milestone payment in respect of the acquisition of the rights to Vetoryl® in North America of US\$3 million (which becomes due once the marketing authorisation is granted by the FDA) has, as far as possible, been hedged by a foreign currency swap option (see note 18).

No borrowings are denominated in foreign currencies.

/ Liquidity Management

The Group's cash position is monitored on a daily basis by the Group Finance Director. The Group has available overdraft and revolving credit facilities from the Bank of Scotland for its day-to-day working capital requirements.

Further information on Financial Instruments is shown in note 18 to the financial statements.

Simon Evans

Group Finance Director
6 September 2005

/Directors and Senior Management

Pictured below from left:
Ed Torr, Ian Page, Simon Evans

Pictured below from left:
Neil Warner, Michael Redmond,
Malcolm Diamond

/Executive Directors

Ian Page **Chief Executive**

Aged 44, Ian joined the Group's principal trading subsidiary NVS at its formation in 1989. He was also part of the MBO in 1997. In 1998, he was appointed Managing Director at NVS. He joined the Board in 1997 and became Group Chief Executive in November 2001. Ian has played a key role in the development of the Group's growth strategy. Prior to joining the Company, he gained extensive knowledge and experience through various positions he held within the pharmaceutical and veterinary arena.

Simon Evans, B.Com, ACA **Group Finance Director**

Aged 41, Simon qualified as a Chartered Accountant in 1988 and spent seven years at KPMG. He joined NVS in 1992 and was appointed Group Finance Director in 1997 following the MBO.

Ed Torr **Development Director**

Aged 45, Ed joined NVS as Sales Director in 1997 and he was appointed Managing Director of Arnolds and Dales in 1998. He relinquished this role in 2003 to focus on his Main Board responsibilities, specifically the strategic development of the Group's licensed veterinary pharmaceutical portfolio in key international territories. Prior to joining the Group, he worked within the animal healthcare sector for a number of companies including ICI, Wellcome and Alfa Laval Agri.

/Non-Executive Directors

Michael Redmond **Non-Executive Chairman**

Aged 61, Michael joined the Group as a Non-Executive Director in April 2001, and was appointed Chairman in July 2002. He has extensive pharmaceutical industry experience having begun his career with Glaxo and through senior positions with Schering Plough Corporation. In 1991, he joined Fisons plc and in 1993 was appointed to the Board as Managing Director of the Group's Pharmaceuticals Division. Michael left Fisons in 1995 following its takeover by RPR. He is also a Non-Executive Director at Synexus Limited. Michael is Chairman of the Nominations Committee.

Malcolm Diamond, MBE **Senior Non-Executive Director**

Aged 56, Malcolm joined the Board in August 2000 and is also Chairman of the Remuneration Committee. He is a Non-Executive Director at the Unicorn AIM VCT 11 Investment Fund, and a Senior Non-Executive Director at Centurion Electronics Group plc. His other directorships include Chairman at CWO Limited, Jacksons Fencing Limited and My Marketing Limited. In addition, Malcolm advises a number of private businesses on their strategic planning, management development programmes and marketing initiatives. Malcolm was previously Chief Executive at Trifast plc, a role he held for 18 years.

Neil Warner, BA, FCA, MCT **Non-Executive Director**

Aged 52, Neil joined the Board in May 2003. He is Finance Director at Chloride Group PLC, a position he has held since 1997. Prior to this, he spent six years at Exel PLC (formerly Ocean Group PLC) where he held a number of senior posts in financial planning, treasury and control. He has also held senior positions in Balfour Beatty PLC (formerly BICC Group plc), Alcoa and PricewaterhouseCoopers. Neil is Chairman of the Audit Committee.

/Senior Management

Mike Annice, BSc (Hons), MR PharmS Managing Director, Dales Pharmaceuticals

Aged 45, Mike graduated from The School of Pharmacy at Aston University in 1980. Prior to joining Dales in 1990 as Site Manager, he worked within the Hospital Pharmacy Service, Glaxo and SSS International (formerly Cupal Pharmaceuticals). He was appointed Technical Director at the time of the Group's MBO. Mike was appointed Managing Director at Dales in March 2002.

Giles Coley, BSc Managing Director, Arnolds Veterinary Products

Aged 43, Giles joined Arnolds in 1999 as Sales & Marketing Manager. He took over the role of Managing Director from Ed Torr in October 2003. Prior to this, Giles spent 14 years with Genus (formerly MMB) in various management roles in agricultural business consultancy. He holds a BSc in Agricultural Technology gained at Harper Adams University.

Mike Eldred, BA, MBA President, US Operations, Dechra Veterinary Products

Aged 35, Mike was appointed in November 2004 to head up the Group's sales and marketing drive in the United States. He has over 12 years' professional experience in the US animal health sector, having held senior positions in business development, sales and operations at Virbac Corporation, and international marketing and operational positions at Fort Dodge Animal Health. Mike began his career with Sanofi Animal Health where he managed the pharmaceutical and biological production planning activities.

Dr Peter Graham BVMS, PhD, CertVR, DipECVCP, MRCVS Managing Director of NationWide Laboratories and Cambridge Specialist Laboratory Services

Aged 37, Peter was appointed Managing Director of NationWide Laboratories and Cambridge Specialist Laboratory Services in 2003. Peter graduated from the University of Glasgow Vet School in 1989, where he remained as Small Animal House Physician and Research Scholar until 1995. During this period he was awarded the RCVS Certificate in Veterinary Radiology and a PhD on the Epidemiology and Management of Canine Diabetes Mellitus. He contributed to the initial commercialisation of biochemistry and endocrinology lab services at the University of Glasgow. Between 1995 and 2002, Peter was Assistant Professor at the world's largest specialist veterinary endocrinology laboratory in Michigan State University, USA, leading it as Section Chief from 2000. He was awarded Diplomate of the European College of Veterinary Clinical Pathologists in 2002.

Dr Susan Longhofer, DVM, MS, DipACVIM Product Development and Regulatory Affairs Director

Aged 47, Susan joined the Group in June 2005. She has 16 years' industry experience in development and worldwide registration of animal health pharmaceuticals having worked for multinational corporations including Virbac Corporation, Heska Corporation and Merck Research Laboratories. Her veterinary degree is from Texas A&M University and her MS is from the University of Wisconsin, Madison. She was awarded Diplomate status in the American College of Veterinary Internal Medicine in 1992. She has a number of Academic and Professional Honors including

/Pictured below:

- a:** Susan Longhofer
with Ed Torr
- b:** Stephen Whitehouse
- c:** Peter Graham
- d:** Mike Annice
- e:** Martin Roach
- f:** Giles Coley
- g:** Mike Eldred

membership on the Board of Directors of the American Heartworm Society and the Executive Council of the American Academy of Veterinary Pharmacology and Therapeutics.

Martin Roach, MBA Managing Director, National Veterinary Services

Aged 53, Martin was appointed Managing Director of National Veterinary Services in 2001. He has, over a number of years, gained extensive experience within distribution and veterinary pharmaceuticals industries throughout Europe and North America. A graduate of Warwick University and with an MBA from Fairleigh Dickinson University, New Jersey, USA, Martin has extensive knowledge of the biotechnology and healthcare sectors. Before joining the Group, he previously held several senior positions within Hill's Pet Nutrition, part of Colgate Palmolive, in Germany and the Nordic countries before being appointed Managing Director of Hill's Pet Nutrition in UK and Ireland in 1997.

/Company Secretary

Stephen Whitehouse, FCCA Company Secretary

Aged 57, Stephen was appointed Company Secretary at the time of the Group's flotation in 2000. He joined Arnolds Veterinary Products in 1989 as Financial Controller and in 1992, he assumed the role of Financial Director at Arnolds, a position he held until 1994, when he became General Manager/Finance Director. Between 1996 and 1998, he also took on the responsibility as Managing Director. He was also a member of the MBO team in 1997. Prior to joining the Group, he worked for 12 years at GKN Sankey and 10 years at British Oxygen.

/Directors' Report

The Directors present their Annual Report and Audited Financial Statements for the year ended 30 June 2005.

/ Principal Activity

The Group manufactures and sells pharmaceuticals and also markets and sells veterinary equipment and related services including computer systems, predominantly to the UK veterinary market, but also to overseas markets. The Company acts as a holding company to all Group subsidiaries.

/ Share Capital

Details of the changes in share capital are shown in note 20 to the financial statements.

/ Results and Dividends

The results for the year and financial position at 30 June 2005 are shown in the consolidated profit and loss account on page 27 and the balance sheet on page 28. The Directors recommend the payment of a final dividend of 3.50p per share which, if approved by shareholders, will be paid on 25 November 2005 to shareholders registered at 28 October 2005. An Interim Dividend of 1.70p per share was paid on 7 April 2005, making a total dividend for the year of 5.20p (2004: 4.70p). The total dividend payment is £2,656,000 (2004: £2,396,000). A retained profit of £3,612,000 (2004: £2,685,000) is transferred to reserves.

/ Business Review and Future Developments

A review of the Group's activities during the year and likely future developments are dealt with in the Chairman's Statement on page 2, the Chief Executive's Review on page 5 and the Financial Review on page 12.

/ Directors

The Directors who held office throughout the year were as follows:

M. Redmond (Chairman)
I.D. Page
S.D. Evans
E.T.W. Torr
M.M. Diamond
N.W. Warner

The interests of the Directors in the share capital of the Company are shown in the remuneration report on pages 20 to 23.

The Company's articles of association require one-third of the Company's Directors to retire by rotation at the annual general meeting and also if they have held office for more than thirty-six months since appointed or last elected.

I.D. Page and N.W. Warner retire by rotation and, being eligible, offer themselves for re-election. Biographical details of the Directors can be found on page 14 of this report and accounts.

/ Political and Charitable Contributions

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

/ Research and Development

The Group has a structured research and development programme with the aim of identifying and bringing to market new pharmaceutical products. Investment in research and development is seen as key to further strengthen the Company's competitive position. The expenditure on this activity for the year ended 30 June 2005 was £1,333,000 (2004: £1,124,000).

/ Employees

The Group has a policy of offering equal opportunities to employees at all levels in respect of conditions of work. Throughout the Group it is the intention of the Directors to provide possible employment opportunities and training for disabled people and employees who become disabled, having due regard to aptitude and abilities. Further details can be found in our Corporate Social Responsibility Statement on page 24.

/ Suppliers

The Company does not follow any code of practice or standard regarding the payment of suppliers but seeks to agree the terms of payment with suppliers prior to the placing of business and it is the Company's policy to settle liabilities by the due date. At 30 June 2005, the Group had an average of 78 days (2004: 75 days) purchases outstanding in creditors. The Company had an average of Nil days (2004: Nil days) purchases outstanding in creditors.

/ Substantial Shareholdings

As at 15 August 2005, the Company is aware of the following material interests representing 3% or more of the issued share capital in the Company.

	No. of Shares	% of Shares Held
Insight Investment	4,566,197	8.93
Schroder Investment Management	4,029,572	7.88
Platinum Fund Managers	2,536,800	4.96
INVESCO Asset Management	2,266,600	4.43
Threadneedle Asset Management	2,266,000	4.43
Barclays Global Investors	2,039,632	3.99
Rathbones	1,918,593	3.75
Legal & General Investment Management	1,792,380	3.51
Credit Suisse Asset Management	1,681,362	3.29

/ International Financial Reporting Standards

With effect from the Group's reporting period beginning on 1 July 2005, the consolidated accounts of the Group must comply with International Financial Reporting Standards (IFRS) adopted for use in the European Union.

/ Impact of transition on consolidated Group financial statements

These statements have been prepared in accordance with applicable UK accounting Standards (UK GAAP).

The areas of impact of conversion to IFRS are discussed in the Financial Review on pages 12 and 13.

/ Auditors

A resolution to reappoint KPMG Audit Plc as auditors is to be proposed at the forthcoming Annual General Meeting.

/ Annual General Meeting

The 2005 Annual General Meeting of the Company will be held at 10.00 am on Wednesday 19 October 2005. Notice of the meeting together with the Annual Report and financial statements are posted to shareholders not less than 23 days prior to the date of the Annual General Meeting. The package sent to shareholders includes a summary of the business to be covered at the Annual General Meeting, where a separate resolution is prepared for each substantive matter. Where a vote is taken on a show of hands, the level of proxies received for and against the resolution and any abstentions are disclosed at the meeting.

In addition to the adoption of the 2004/2005 report and accounts, resolutions dealing with the re-election of Directors and the resolution dealing with the approval of the Directors' remuneration report, there are five other matters which will be considered at the Annual General Meeting. These relate to the reappointment of KPMG Audit Plc as auditors, declaration of the final dividend, the ability for the Directors to unconditionally allot shares up to one-third of the Company's issued share capital plus share option schemes, the disapplication of pre-exemption rights in relation to the previous resolution and to empower the Company to buy back up to 5% of its issued share capital.

By order of the Board

S.P. Whitehouse
Company Secretary
Dechra Pharmaceuticals PLC
6 September 2005

/ Corporate Governance

/ Revised Combined Code

The Board recognises its accountability to shareholders and is committed to maintaining high standards of corporate governance. In the opinion of the Directors, the Company has complied throughout the period under review with Section 1 of the July 2003 FRC Combined Code on Corporate Governance (the Combined Code) in all aspects apart from the membership of Board Committees, the details of which are set out below.

/ Application of the principles of the Combined Code

The following report details how the Company has applied the principles of Section 1 of the Combined Code to its activities. Section 1 of the Combined Code sets out the main and supporting principles of good governance for companies, which is split into the sections detailed below.

/ Board of Directors

The details of the Board of Directors are shown on page 14 and in the Directors' Report on page 16. There is a clear division of responsibilities between the Chairman and Chief Executive. The Chairman leads the Board and the Chief Executive is responsible for the management of the Company, implementing policies and strategies determined by the Board. The Board consists of the Non-Executive Chairman, two other Non-Executive Directors and three Executive Directors (including the Chief Executive). The Board considers M.M. Diamond to be the Senior Independent Director.

The Board considers that all the Non-Executive Directors are independent of management and free of any business or other relationship which could materially interfere with the exercise of their independent judgement, and are not dependent on the Company for their primary source of income or paid by the Company in any capacity other than as a Non-Executive Director. In addition, no Non-Executive Director has previously been a senior manager of the Company, and has not participated in the Company's incentive bonus scheme or pension scheme.

M. Redmond was considered by the Board to be independent at the date of his appointment as Chairman.

On appointment, the Directors are required to seek election at the first AGM following appointment. At least two members of the Board are required to retire from office by rotation at the Annual General Meeting subject to all Directors having submitted themselves for re-election every three years.

/ Conduct of Board Meetings

The Board normally has eleven Board Meetings per annum including two meetings where the full year and half year results are dealt with. Strategy meetings are convened as required with a minimum of one meeting per year. In addition, the Board has three standing committees — the Audit, Remuneration and Nominations committees, the details of which are shown on pages 17 and 18.

The Board has reserved to itself powers relating to matters that it considers significant to the Group's business, operational and financial risks. These include the approval of corporate policies, strategy, plans and budgets, acquisitions and disposals of companies or businesses, major investment and financial decisions; appointments to the Board; and major management or organisational changes.

At all Board meetings an agenda is established reflecting the Directors' responsibilities. This comprises reports from the Chief Executive, Finance Director, Development Director and Operating Company Directors, reports on the performance of the business, major items of strategic planning, investments and significant policy issues. The Board considers at least annually the strategic plans of the Group and individual businesses. Periodically, the Directors receive presentations from management concerning key areas of the Group's operations.

Attendance at meetings was as follows:

Name	Board (12 meetings)	Audit (2 meetings)	Remuneration (4 meetings)	Nomination (1 meeting)
Michael Redmond	12	2	4	1
Malcolm Diamond	10	1	4	1
Neil Warner	10	2	3	1
Ian Page	12	N/A	N/A	N/A
Simon Evans	12	N/A	N/A	N/A
Ed Torr	12	N/A	N/A	N/A

Note N/A denotes that the Director is not a member of this committee, but may attend by invitation of the committee.

Full year and interim results are reviewed by the Audit Committee and the Board and approved prior to publication. Other price sensitive information may be published only with the approval of the Board.

Each Director is entitled on request to receive information to enable him to make informed judgements and adequately discharge his duties. In addition, all Directors have access to the advice and services of the Company Secretary and senior managers generally, and may take independent professional advice at the Company's expense in connection with their duties. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Board has developed a process of reviewing its own effectiveness and the effectiveness of the Board committees. This is based on a combination of written reviews by individual Directors, discussion with the Chairman and review by the Board as a whole. As part of this process the Board considers the performance of individual Directors. This process has been undertaken during the year.

All newly appointed Directors receive an induction programme to the Company including corporate governance training and background to the Company. All Directors are encouraged to keep up to date on all matters relevant to the Group and attend briefings and seminars as appropriate.

/ Board Committees

The Board has three standing committees — the Audit, Remuneration and Nominations Committees. The Board has reviewed membership of these committees and has confirmed its view that it is appropriate that all the Non-Executives should participate as members of these committees, so that they are fully involved in monitoring the governance issues affecting the Company, including Executive remuneration, succession planning and risk management. There is therefore no provision for fixed periods of membership of the committees nor is the Chairman of the Board excluded from membership as recommended by the Combined Code. The Board considers that the Chairman should continue his membership of the Audit, Remuneration and Nominations Committees in that he has a wide experience and knowledge gained through his directorships with other companies.

The Board has delegated specific responsibilities to the committees, as described below. The terms of reference of the Audit, Remuneration and Nomination Committees are available on the Company's website and on request to the Company Secretary.

The Audit Committee

The Audit Committee comprises N.W. Warner (Chairman), M. Redmond, and M.M. Diamond. The activities of the Audit Committee are shown in the Audit Committee Report on page 19.

The Audit Committee met twice during the year, the attendance record being shown in the table of attendance above.

The Remuneration Committee

The Remuneration Committee comprises M.M. Diamond (Chairman), M. Redmond, and N.W. Warner.

The Remuneration Committee met four times during the year, the attendance record being shown in the table of attendance above. The terms of reference for the Remuneration Committee include the following responsibilities:

- To develop the remuneration strategies that drive performance.
- To provide levels of reward which reflect that performance both for Executive Directors and designated senior managers.
- To approve terms and conditions, bonus schemes, pensions and related matters.

A report on the remuneration of Directors appears on pages 20 to 23.

The Nominations Committee

The Nominations Committee comprises M. Redmond (Chairman), M.M. Diamond, and N.W. Warner.

The Nominations Committee normally meets once a year. The terms of reference of the Nominations Committee include the following responsibilities:

- To oversee the plans for management succession.
- To recommend appointments to the Board.
- To evaluate the effectiveness of the Non-Executive Directors.
- To consider the structure, size and composition of the Board generally.

/ Internal Control

The Directors are responsible for the Group's system of internal control, and for reviewing its effectiveness. The system of internal control aims to safeguard the Company's assets, ensure that proper accounting records are maintained, ensure compliance with statutory and regulatory requirements and ensure the effectiveness and efficiency of operations including the assessment and management of risk. A system of internal control is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance, particularly against material misstatement or loss.

The Group has a well-established framework of internal financial and operational control for identifying, evaluating and managing the risks faced by the Group. This framework has been in place throughout the year under review, and has continued up to the date of approval of the annual report.

In complying with the Internal Control requirements of the Combined Code, the Directors have taken guidance from the Institute of Chartered Accountants in England and Wales publication "Internal Control: Guidance for Directors on the Combined Code" ("the Turnbull Guidance"). As a result, the Board prepares and updates a quarterly thorough review of relevant risk areas and systems of internal control. The review is structured by business area and key risk strategy and is based upon a summary of information prepared and reviewed by divisional management on an on-going basis. The current review was prepared to 30 June 2005.

The Group's key systems of internal control include:

Business Plans

Business plans provide a framework from which annual budgets and forecasts are agreed with each business unit, including financial and strategic targets against which business performance is monitored. The plans are reviewed by executive management, and then by the Board for ultimate approval. Actual performance during the year is monitored monthly against budget, forecast and previous year. Full year forecasts are updated at regular intervals during the year based on trended historical data and realistic forecasts.

Investment Approval

The Group has clear requirements for the approval and control of expenditure. Strategic investment decisions involving both capital and revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the Board. Operating expenditure is controlled within each business with approval levels for such expenditure determined by the individual businesses.

Management Structure

Executive management are responsible for the identification, evaluation and management of the significant risks applicable to their business areas. The risks are assessed on a periodic basis and may be associated with a variety of internal and external sources.

The Company and its business units operate control procedures designed to ensure complete and accurate accounting of financial transactions and to limit the loss of assets due to fraud. Measures taken include physical controls, segregation of duties in key areas, and internal reviews and checks.

Key functions such as tax, treasury, insurance, legal and personnel are controlled centrally.

/ Risk Control

Responsibility for monitoring the Group's system of internal control rests with the Board. It is assisted by the Audit Committee, which reviews the interim and annual reports provided to shareholders, the audit process and the systems of internal control and risk management, the latter by way of consideration of the Board's updated progress report and action plan regarding internal controls.

Whilst the Board recognises this does not constitute an internal audit function, it believes that due to the size of the Group this review provides sufficient comfort as to the controls in place. The Audit Committee reviews the requirement for an internal audit function annually.

The Board has reviewed the effectiveness of the Group's internal control systems for the period from 1 July 2004 to the date of approval of the financial statements and has included quarterly business risk reviews and quarterly internal control reporting.

The Board reviews the operation and effectiveness of its control assessment on a regular basis.

External Audit

The external auditors are engaged to express an opinion on the Company's Annual Report and Accounts. They independently and objectively review the management's reporting of the Group's consolidated results and financial position. In addition, they review the systems of internal control and the data contained in the Annual Report and Accounts to the level necessary for expressing their audit opinion.

/ Investor Relations

A rolling programme of meetings between institutional shareholders and Executive Directors is held throughout the year, in addition to the annual and interim results presentations and the Annual General Meeting, to foster mutual understanding of objectives. M. Redmond (Chairman) attended a number of the annual results presentations. Such meetings are conducted so as to ensure protection of share price sensitive information that has not already been made generally available to the Company's shareholders. Similar guidelines also apply to communications between the Company and parties such as financial analysts, brokers and the press. The Company also organises site visits on a periodic basis.

All members of the Board usually attend the Annual General Meeting. The Chairmen of the Audit Committee, Remuneration Committee and Nominations Committee will normally be available to answer shareholders' questions at that Meeting.

Notice of the Meeting, together with the Annual Report and financial statements, is posted to shareholders not fewer than 23 days prior to the date of the Annual General Meeting. The information sent to shareholders includes a summary of the business to be covered at the Annual General Meeting, where a separate resolution is prepared for each substantive matter. Where a vote is taken on a show of hands, the level of proxies received for and against the resolution and any abstentions are disclosed at the Meeting.

At the Annual General Meeting there is an opportunity, following the formal business, for informal communications between investors and Directors.

/ Going Concern

After consideration of budgets and other financial information, the Directors are satisfied that the Group is in a sound financial position with adequate resources to continue in operation for the foreseeable future. For this reason, the Group's financial statements have been prepared on the basis that the Group is a going concern.

/ Audit Committee Report

/ Committee Membership

The members of the Audit Committee are currently:

Neil Warner (Chairman of the Audit Committee)

Michael Redmond (Chairman of the Company)

Malcolm Diamond (Senior Non-Executive Director)

The Audit Committee considers that Neil Warner has recent and relevant financial experience gained through his position as Finance Director of Chloride Group PLC.

Attendance at the meetings by the Committee members is detailed within the Corporate Governance report on page 17.

/ Committee Meetings and Responsibilities

The Audit Committee met twice during the year ended 30 June 2005. The external auditors attend meetings of the Committee other than when their appointment or performance is being reviewed. The Chief Executive, Group Finance Director and other senior finance staff attend as appropriate.

The performance, cost and independence of the external auditors is reviewed annually by the Audit Committee, together with a review of the level of service provided by the external auditors to the Group.

The Audit Committee has discussions at least once a year with the auditors without management being present.

The scope of the year's audit is discussed in advance by the Audit Committee. Audit fees are reviewed and approved by the Audit Committee. Professional rules require rotation of the Group Audit Engagement Director. This rotation will take place in the forthcoming accounting period.

The annual appointment of the auditors by our shareholders at the Annual General Meeting is a fundamental safeguard, but beyond this controls are in place to ensure that additional work performed by the auditors is appropriate and subject to proper review as discussed below.

The Main responsibilities of the Audit Committee are set out in the written terms of reference and are:

- To monitor the integrity of the financial statements of the Company, reviewing the annual and interim reports in detail to ensure they present a balanced assessment of the Company's position and prospects which is understandable to shareholders and potential investors.
- To review the effectiveness of the Company's internal controls and risk management systems as described on page 18 and, in conjunction with the auditors, consider the accounting policies adopted by the Company.
- To review the Company's whistle-blowing arrangements.
- To oversee the relationship with the external auditors. The Committee makes recommendations to the Board on the appointment of the external auditors, approves their remuneration, monitors their independence and objectivity, and monitors the effectiveness of the audit process and sets the policy for non-audit work.
- To make recommendations to the Board on the requirement for an internal audit function.

Given the systems of internal control discussed on page 18, and due to the present size of the Group, the Audit Committee currently believes that an internal audit function is not required.

/ Auditor Independence

With respect to non-audit assignments undertaken by the external auditors, the Company has developed a policy to ensure that the provision of such services does not impair their independence or objectivity. When considering the use of the external auditors to undertake non-audit work, the Chief Executive and Group Finance Director do at all times give consideration to the provisions of the Smith report with regard to the preservation of independence.

The Chief Executive and the Group Finance Director have authority to commission the external auditors to undertake non-audit work where there is a specific project with a cost not exceeding £25,000 and total non-audit fees in any year do not exceed £80,000. This work has to be reported to the Audit Committee at the meeting where the Annual Report is considered. If the cost is expected to exceed the established levels then the prior approval of the Audit Committee is required before the work is commissioned. In all cases, other potential providers are adequately considered.

The external auditors annually confirm their policies on ensuring audit independence and provide the Committee with a report on their own audit quality procedures.

/ Effectiveness Review

During the year, the Committee reviewed its own effectiveness through a process led by the Committee Chairman. The results of the review were advised to the Committee and the Board.

Based on the Committee's review of the performance of the external auditors and on the planning and execution of the annual audit, the Committee has recommended to the Board that a resolution to reappoint KPMG Audit Plc be proposed at the forthcoming Annual General Meeting.

N.W. Warner

Chairman — Audit Committee

6 September 2005

/Directors' Remuneration Report

This Report is presented in accordance with Schedule B of the Combined Code annexed to the listing rules of the FSA and the Directors' Remuneration Report Regulations 2002 ("the regulations"). The regulations require the Company's auditors to report on certain "auditable" information required to be included in the Directors' Remuneration Report. The audited information has therefore been separately highlighted.

The Board is responsible for the Group's remuneration policy and setting Non-Executive fees, although the task of determining and monitoring the remuneration packages of Executive Directors has been delegated to the Remuneration Committee.

/ Remuneration Committee

The Remuneration Committee is responsible for ensuring that the remuneration packages provided to Executive Directors are appropriate to individual levels of experience, responsibility and performance, are consistent with the Company's remuneration policy and are in line with the principles of good corporate governance. The committee considers remuneration packages payable to Executives at comparable companies when setting remuneration of Executive Directors and also considers pay structures around the Group.

The Remuneration Committee comprises solely Non-Executive Directors: M.M. Diamond, M. Redmond and N.W. Warner. The Committee usually meets twice a year and is chaired by M.M. Diamond. During the year, the Chief Executive attended all of these meetings in order to assist on matters concerning remuneration of other Senior Executives within the Group. The Chief Executive was not present during the part of the meetings where his own remuneration was discussed.

The attendance record of the members is shown on page 17.

During the year, the Remuneration Committee received advice from external consultants on executive remuneration, annual and long-term incentive schemes, pensions and other benefits.

/ Remuneration Policy

The Company's policy on Directors' remuneration for the forthcoming year is that its remuneration packages should be capable of attracting, rewarding and retaining Executive Directors whilst being arrived at responsibly and fairly, when compared with similar organisations.

The remuneration packages of Executive Directors are structured to include a performance related element linked to corporate and individual objectives. Both the Executive Incentive Plan and the Executive Bonus Scheme are performance related. Bonuses are non-pensionable.

Remuneration for Non-Executive Directors is limited to salary only with no performance related element.

The Company's policy on the remuneration of all Directors is reviewed annually.

Once remuneration has been approved by the Board, the Chairman, where considered appropriate, will consult the Company's principal shareholders regarding remuneration issues. This Remuneration Report is included in the Annual General Meeting agenda for shareholder approval.

/ Components of the Remuneration Package

Basic Salary

The basic salary of each Executive Director is reviewed annually and is determined taking into account the responsibilities and performance of the individual, together with independently furnished information on rates for similar positions in comparable industry sectors. Details of salaries, bonuses and benefits paid to Executive Directors are included in the table headed "Summary of Remuneration" shown on page 22.

Benefits in kind

Executive Directors receive other benefits, including the use of a fully expensed car, medical cover and life insurance. This provides an overall package that is competitive with similar companies.

Pensions

The scheme is a funded, contributory, Inland Revenue approved money-purchase occupational pension scheme and is contracted into the State Earnings Related Pension Scheme. The pension scheme changed to a Group Stakeholder pension scheme with effect from 1 July 2005.

Share Option Schemes

The Company operates the Approved Share Option Scheme, the Unapproved Share Option Scheme together with a savings related share option scheme. Executive Directors are entitled to participate in the Company savings related share option ("SAYE") scheme and the Executive Incentive Plan discussed below. However, Executive Directors are not entitled to participate in either the Approved Share Option Scheme or the Unapproved Share Option Scheme. The table on page 23 provides an analysis of outstanding SAYE Directors' Share Options.

Executive Incentive Plan

Following its approval by shareholders at the Annual General Meeting on 23 October 2003, the Company operates the Executive Incentive Plan for Executive Directors and other key employees.

The Executive Incentive Plan aims to provide a clear link between the remuneration of Executive Directors and the creation of value for shareholders by rewarding Executive Directors for the Company's performance in terms of Total Shareholder Return ("TSR").

Under this plan, the Remuneration Committee makes awards to Senior Executives of shares in the Company, with vesting to individuals being subject to the achievement of performance targets. The first target is based on TSR over a three year measurement period (commencing at the beginning of the financial year in which the awards are made) expressed as an annual percentage return over that period. The TSR is calculated and compared to the TSR's of all other companies in the FTSE Small Cap Index for the entire measurement period. If the Company is ranked in the top quartile of the list of TSR's achieved by the companies in the FTSE Small Cap Index over the measurement period, all of the shares over which an award had been made will vest.

If the TSR of the Company is ranked in the second quartile then the number of shares which will vest is determined by reference to a straight-line graph which ensures that 30% of the shares over which the award has been made will vest on the achievement of a TSR that places the Company at the bottom of the second quartile and all of the shares will vest on an achievement of a TSR that places the Company at the top of the second quartile.

If the TSR of the Company is ranked in the third or fourth quartile then none of the shares over which an award had been made will vest and the relevant participant will not be entitled to any of the shares.

In addition to the TSR performance target, no award will vest unless, in the opinion of the Remuneration Committee, the underlying financial performance of the Company has been satisfactory over the measurement period.

/Directors' Remuneration Report
continued

Initial awards granted under the Plan were made during the year ended 30 June 2004, the measurement period for these awards commencing on 1 July 2003 and ending on 30 June 2006. In accordance with the rules of the plan awards granted during the current year and subsequent financial years are limited to 50% of basic salary. The measurement period for the grants for this financial year commenced on 1 July 2004 and ends on 30 June 2007. The levels of grants made under the first two years of the scheme are shown on page 23.

Executive Bonus Scheme

This scheme rewards Executive Directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging, but achievable operational performance targets derived at the beginning of the financial year. The bonus is calculated on formulae which are determined each year by the Remuneration Committee.

Executive bonuses for the year ended 30 June 2005 are payable on the achievement of Group performance targets as set out below.

	Bonus payable for achievement of profit target (% of Salary)
I.D. Page	35%
S.D. Evans	25%
E.T.W. Torr	25%

In addition, each further 1% achieved above 105% of target attracts a further bonus of 1% of salary capped at a maximum additional 5% of annual salary for S.D. Evans and E.T.W. Torr.

Executive Directors' bonus payments for the forthcoming year will be payable as follows:

I.D. Page	30% payable on achievement of 95% of target rising to 50% payable on achievement of 105% of target. The bonus payable will be pro-rated on achievement of between 95% and 105% of target.
S.D. Evans and E.T.W. Torr	21% payable on achievement of 95% of target rising to 35% payable on achievement of 105% of target. The bonus payable will be pro-rated on achievement of between 95% and 105% of target.

/ Contracts of Service

Each Executive Director has a service contract with the Company which contains details regarding remuneration, restrictions and disciplinary matters.

Executive Directors are appointed on contracts terminable by the Company on not more than 12 months' notice and by the Director on 6 months' notice.

Non-Executive Directors have a service contract for an initial 12 month period which is thereafter terminated by either party giving 12 months' notice. Participation in share option schemes, bonus schemes or entitlement to a pension is not allowed under the service contract.

Details of Directors' service contracts and notice periods are set out below:

Name	Commencement	Notice Period	
		(Director)	(Company)
M. Redmond	25 April 2001	12 months	12 months
I.D. Page	23 August 2000	6 months	12 months
S.D. Evans	23 August 2000	6 months	12 months
E.T.W. Torr	23 August 2000	6 months	12 months
M.M. Diamond	23 August 2000	12 months	12 months
N.W. Warner	2 May 2003	12 months	12 months

There are no expiry dates applicable to either Executive or Non-Executive Directors' service contracts.

The Company may, in its absolute discretion at any time after written notice of termination has been given by either party, lawfully terminate the service contract by paying to the Director an amount equal to his salary entitlement for the unexpired period of notice together with an amount representing the fair value of any other benefits to which the Director is contractually entitled for the unexpired period of notice (subject in either case to a deduction at source of income tax and national insurance contributions).

In the event that the service contract is terminated partway through any financial year, the Director shall not be entitled to any bonus in respect of that financial year.

Non-Executive Directors' compensation is confined to 12 months' remuneration.

Individual Directors' eligibility for the various elements of compensation are set out below:

Name	Salary	Bonus	Benefits
M. Redmond	12 months	n/a	n/a
I.D. Page	12 months	Nil	12 months
S.D. Evans	12 months	Nil	12 months
E.T.W. Torr	12 months	Nil	12 months
M.M. Diamond	12 months	n/a	n/a
N.W. Warner	12 months	n/a	n/a

Where applicable, payment of this compensation would be in full and final settlement of all claims other than in respect of share options and pension arrangements.

In an appropriate case the Directors would have a regard to the departing Director's duty to mitigate loss, except in the event of dismissal following a change of control of the Company.

/ Directors' Remuneration Report

continued

Other than as described above, there are no express provisions within the Directors' service contracts for the payment of compensation or liquidated damages on termination of employment.

No awards of compensation for loss of office or any other reason have been made to any person, whether a Director or a former Director, during the year.

No compensation payments were made to Executive or Non-Executive Directors during the year.

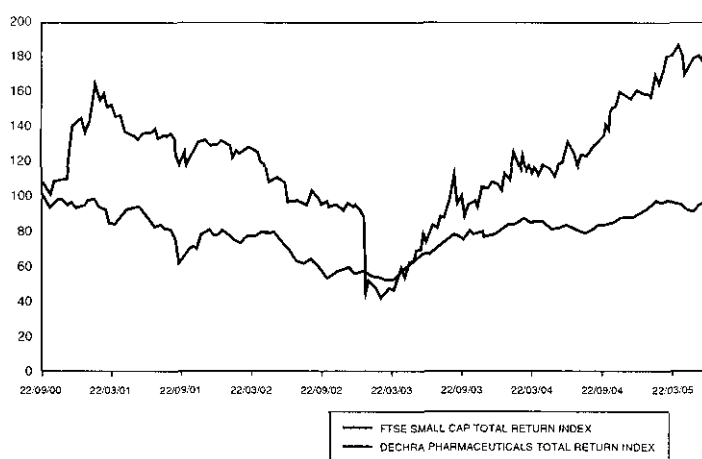
/ Directors' Shareholdings

The beneficial interests of the Directors in office at 30 June 2005 and their families in the share capital of Dechra Pharmaceuticals PLC at 30 June 2005 were as follows:

Shareholdings	Ordinary Shares 2005	Ordinary Shares 2004
M. Redmond	35,000	35,000
I.D. Page	592,167	592,167
S.D. Evans	669,131	663,000
E.T.W. Torr	343,832	342,414
M.M. Diamond	5,000	5,000
N.W. Warner	2,206	2,206

/ Total Shareholder Return

The graph below shows the total shareholder return performance of the Company over the past five years compared with the total shareholder return over the same period for the FTSE Small Cap Total Return Index. The FTSE Small Cap Index is considered to be an appropriate index as the Company is a constituent of that index.



The information shown relates to the five-year period since the Company's flotation on the London Stock Exchange in September 2000. Total shareholder return is the performance target for the Executive Incentive Plan.

/ Audited Information

The auditors are required to report on the information contained in the remainder of this report.

/ Summary of Remuneration

	Salaries & Fees £'000	Bonuses £'000	Other Benefits £'000	Total 2005 £'000	Total 2004 £'000
Executive Directors					
I.D. Page (Chief Executive)	155	54	20	229	215
S.D. Evans	105	26	9	140	136
E.T.W. Torr	100	25	15	140	134
M.D. Annice (resigned 23 October 2003)	—	—	—	—	31
Non-Executive Directors					
M. Redmond (Chairman)	41	—	—	41	40
M.M. Diamond	24	—	—	24	22
N.W. Warner	21	—	—	21	20
	446	105	44	595	598

/Directors' Remuneration Report
continued

/ Executive Incentive Plan

Awards made under the Executive Incentive Plan are as follows:

	Market price at date of award pence	Award Date	Exercise Dates	Performance period	At 30 June 2005 Number of shares	2004 Number of shares
I.D. Page	126	2003	2006-2007	2003-2006	120,000	120,000
	159.5	2004	2007-2008	2004-2007	68,589	
S.D. Evans	126	2003	2006-2007	2003-2006	80,000	80,000
	159.5	2004	2007-2008	2004-2007	33,096	
E.T.W. Torr	126	2003	2006-2007	2003-2006	80,000	80,000
	159.5	2004	2007-2008	2004-2007	31,348	

/ SAYE Scheme

Directors' entitlements under the SAYE Scheme are as follows:

	Date of award	Market price at date of grant pence	Exercise price pence	Exercise dates	At 30 June 2004 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2005 Number
I.D. Page	3 April 2003	48	39	June 2008	42,115	—	—	—	42,115
S.D. Evans	26 April 2001	198	158	July 2004	6,131	(6,131)	—	—	—
	15 October 2004	155	124	January 2008	—	—	7,641	—	7,641
E.T.W. Torr	26 April 2001	198	158	July 2004	2,452	—	—	(2,452)	—
	9 April 2002	161	129	June 2005	4,418	(4,418)	—	—	—
	15 October 2004	155	124	January 2008	—	—	3,056	—	3,056
					55,116	(10,549)	10,697	(2,452)	52,812

The middle market price for the Company's shares on 30 June 2005 was 211.5p and the range of prices during the year was 133.5p to 215p.

/ Pension Entitlement

All Executive Directors were members of the Dechra Holdings Limited money purchase scheme throughout the year. Contributions made by Dechra Pharmaceuticals PLC on behalf of the Executive Directors during the year are based on a percentage of pensionable salary and were paid as follows:

	Age	Contributions 2005 £000	Contributions 2004 £000
I.D. Page	44	19	18
S.D. Evans	41	13	12
E.T.W. Torr	45	12	11
M.D. Annice (resigned 23 October 2003)	45	—	3
		44	44

/ Effectiveness Review

During the year, the Committee reviewed its effectiveness through a process led by the Committee Chairman. The findings were reported to the Committee and the Board.

By order of the Board

M.M. Diamond

Chairman Remuneration Committee
6 September 2005

/ Social, Ethical and Environmental Responsibilities

The Board recognises that our social, environmental and ethical conduct has an impact on our reputation. We take our corporate social responsibilities (CSR) seriously and are committed to implementing our policies and systems across the Group. This includes good ethical behaviour, concern for employee health and safety and care for the environment.

The aim is to maintain a productive and open dialogue with all interested parties in our business including shareholders, customers, suppliers and employees.

The Board takes ultimate responsibility for CSR and is committed to developing and implementing appropriate policies to create and maintain long term value for shareholders. Sound business ethics help to minimise risk, ensure legal compliance, enhance company efficiency and build a reputation amongst stakeholders.

The Board recognises the need to review and manage risks to the short and long term value of the Company arising from social, ethical and environmental matters. The Board has received adequate information to review these risks and has not identified any risks to the business that could affect its future value.

/ Environmental Policy

Dechra Pharmaceuticals PLC acknowledges the importance of good environmental controls. It is the Company's policy to comply with and exceed environmental legislation currently in place, adopt responsible environmental practices and be committed to minimising the impact of its operations on the environment.

This is being achieved within our manufacturing unit by complying with and bettering effluent discharge standards into local water supplies which is monitored by Yorkshire Water Authority and standard operating procedures which ensure contaminated waste is disposed of only under strict controls. Exhaust air is fully filtered before discharge. The unit is currently involved in achieving ISO14001 status. An environmental consultant has visited the site to establish areas of the business where improvements can be made and current energy consumption levels have been maintained to enable energy saving initiatives to be established.

The Group complies with the Waste Packaging Obligations Regulations and maintains a modern fleet of low CO₂ emission diesel vehicles, which are subject to a leasing arrangement and are replaced every three years.

Dechra will continue to review its environmental controls and encourage its own staff, suppliers and customers to achieve similar high standards.

The Development Director is the nominated Director responsible for environmental policy.

/ Business Ethics

The Board expects all of the Group's business activities to be conducted in accordance with high standards of ethical conduct and full compliance with all applicable national and international legislation. These standards are applied to all dealings with customers, suppliers, employees and other stakeholders.

A 'whistle-blowing' policy has been established whereby employees may report, in confidence, any suspect wrongdoings within the business. This policy is re-emphasised annually and communicated through staff handbooks and the Dechra Pharmaceuticals PLC web site.

/ Health and Safety Policy

Dechra Pharmaceuticals PLC attaches great importance to the health and safety of its employees and the public. The management are responsible and committed to the maintenance, monitoring and promoting of a policy of Health and Safety at work, to ensure the care and well-being of its employees and on-site visitors.

Each division has a Health and Safety Committee comprising representatives from both management and employees. Employee representatives are elected by a ballot of the whole workforce. The Committees meet on a regular basis to carry out a rolling review of risk assessments as well as investigating any concerns raised by individual employees. Each site has at least one person continuously trained in Health and Safety legislation.

A full Health and Safety Report is presented at Divisional Board Meetings on a quarterly basis. Executive Directors are present at these meetings. These reports are summarised for the Main Board also on a quarterly basis.

The Finance Director is the nominated Executive Director responsible for Health and Safety policy.

/ 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. A Works Council has been established at Dales Pharmaceuticals, who are also registered with 'Investors in People'.

It is the Company's policy to provide equal recruitment and other opportunities for all employees, regardless of sex, religion, race or disability. 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.

The Group operates a SAYE share option scheme in which all employees of the Group can participate.

/ 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 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 Group and to prevent and detect fraud and other irregularities.

/ Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

We have audited the financial statements on pages 27 to 43. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 Annual Report and the Directors' Remuneration Report. As described on page 25, this includes responsibility for preparing 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, the Listing Rules of the Financial Services Authority 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been 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 Group is not disclosed.

We review whether the corporate governance statement on pages 17 to 18 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

/ Basis of audit opinion

We conducted our audit in accordance with the 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 and the part of the Directors' Remuneration Report to be audited. 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 Group'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

/ 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 2005 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants
Registered Auditor
Birmingham
6 September 2005

/Consolidated Profit and Loss Account

For the year ended 30 June 2005

		2005			2004		
		Before exceptional items and goodwill amortisation	Exceptional items and goodwill amortisation (note 3)	Total	Before exceptional items and goodwill amortisation	Exceptional items and goodwill amortisation (note 3)	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	2	208,197	—	208,197	186,843	—	186,843
Cost of sales		(178,480)	—	(178,480)	(161,422)	—	(161,422)
Gross profit		29,717	—	29,717	25,421	—	25,421
Distribution costs		(9,017)	—	(9,017)	(7,588)	—	(7,588)
Administrative expenses		(9,724)	(564)	(10,288)	(8,649)	(691)	(9,340)
Operating profit		10,976	(564)	10,412	9,184	(691)	8,493
Net interest payable and similar charges	4	(1,554)	—	(1,554)	(1,124)	—	(1,124)
Profit on ordinary activities before taxation	5	9,422	(564)	8,858	8,060	(691)	7,369
Tax on profit on ordinary activities	8	(2,590)	—	(2,590)	(2,309)	21	(2,288)
Profit on ordinary activities after taxation		6,832	(564)	6,268	5,751	(670)	5,081
Dividends	9			(2,656)			(2,396)
Retained profit for the financial year				3,612			2,685
Earnings per ordinary share							
Basic	10	13.39p	(1.11p)	12.28p	11.28p	(1.31p)	9.97p
Diluted	10	13.16p	(1.08p)	12.08p	11.12p	(1.29p)	9.83p

A statement of movements on reserves is given in note 21 to the financial statements.

All amounts relate to continuing operations.

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

/Balance Sheets

As at 30 June 2005

	Note	Group		Company	
		2005 £'000	2004 £'000	2005 £'000	2004 £'000
Fixed assets					
Intangible assets	11	5,710	5,174	—	—
Tangible assets	12	5,201	5,224	—	—
Investments	13	—	—	53,408	4,608
		10,911	10,398	53,408	4,608
Current assets					
Stocks	14	20,390	16,979	—	—
Debtors	15	33,712	32,889	45,488	48,718
Cash at bank and in hand		13,924	—	1,345	—
		68,026	49,868	46,833	48,718
Creditors: amounts falling due within one year	16	(47,174)	(45,172)	(50,120)	(15,912)
Net current assets/(liabilities)		20,852	4,696	(3,287)	32,806
Total assets less current liabilities		31,763	15,094	50,121	37,414
Creditors: amounts falling due after more than one year	16	(17,281)	(4,763)	(17,010)	(4,759)
Provisions for liabilities and charges	19	—	(174)	—	—
Net assets		14,482	10,157	33,111	32,655
Capital and reserves					
Called up share capital	20	511	510	511	510
Share premium account	21	26,953	26,784	26,953	26,784
Merger reserve	21	1,720	1,720	—	—
Profit and loss account	21	(14,702)	(18,857)	5,647	5,361
Total equity shareholders' funds		14,482	10,157	33,111	32,655

The financial statements were approved by the Board of Directors on 6 September 2005 and are signed on its behalf by:


I.D. Page Director


S.D. Evans Director

/Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 2005

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
At start of year	10,157	7,471	32,655	32,600
Profit for the financial year	6,268	5,081	2,399	2,450
Share based payments charge	543	—	543	—
Dividends	(2,656)	(2,396)	(2,656)	(2,396)
New shares issued	170	1	170	1
At end of year	14,482	10,157	33,111	32,655

/Financial statements

/ Consolidated Cash Flow Statement

For the year ended 30 June 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities	23	13,228	10,576
Returns on investment and servicing of finance			
Interest received		355	584
Interest paid		(1,990)	(1,580)
Interest element of finance lease rentals		(32)	(16)
Net cash outflow for returns on investment and servicing of finance		(1,667)	(1,012)
Taxation			
Corporation tax paid		(1,996)	(1,864)
Capital expenditure			
Purchase of tangible fixed assets		(644)	(569)
Purchase of intangible fixed assets		(1,100)	(5)
Sale of tangible fixed assets		140	28
Net cash outflow for capital expenditure and financial investment		(1,604)	(546)
Equity dividends paid		(2,473)	(2,192)
Cash inflow before financing		5,488	4,962
Financing			
Shares issued		138	1
Term loans raised		13,160	—
Term loans repaid		(1,400)	(1,954)
Loan stock repaid		—	(500)
Capital element of finance lease payments		(138)	(135)
Net cash inflow/(outflow) from financing		11,760	(2,588)
Increase in cash in the year		17,248	2,374
Bank overdraft at start of year		(3,324)	(5,698)
Cash at bank and in hand/(bank overdraft) at end of year		13,924	(3,324)
Reconciliation of net cash flow to movement in net debt			
Increase in cash during the year		17,248	2,374
Debt repayments		1,400	2,454
New loans		(13,160)	—
Repayment of finance leases		138	135
Change in net debt resulting from cash flows		5,626	4,963
New finance leases		(438)	(11)
Other non-cash changes		63	(74)
Movement in net debt in the period		5,251	4,878
Net debt at start of year	24	(10,110)	(14,988)
Net debt at end of year	24	(4,859)	(10,110)

/Notes to the Financial Statements

1. Accounting Policies

The following accounting policies have been applied in dealing with items which are considered material in relation to the Group and parent 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.

Consolidation Principles

The consolidated financial statements incorporate those of Dechra Pharmaceuticals PLC 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 profit for the year dealt with in the accounts of the Company was £2,399,000 (2004: £2,450,000).

Turnover

Turnover represents cash and credit sales excluding value added tax and net of discounts allowed and is recognised to the extent that all obligations relating to that turnover have been fulfilled in accordance with FRS5 Application Note G.

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 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

Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 131 of the Companies Act 1985 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. In the Group balance sheet the excess of the fair value of the shares issued as consideration over their nominal value is credited to a merger reserve.

Goodwill and Intangible Assets

Goodwill relating to the acquisition of companies and businesses up to 30 June 1998 was written off immediately against reserves. On a subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill not written off through the profit and loss account, including any previously taken direct to reserves. Purchased goodwill arising subsequent to 30 June 1998 is capitalised and amortised to nil over its estimated useful economic life.

The cost of intangible assets acquired is capitalised only if separately identifiable.

Where intangible assets are regarded as having limited useful economic lives, their cost is amortised on a straight-line basis over those lives up to 20 years. Where intangible assets are considered to have indefinite useful economic lives they are not amortised. Instead they are reviewed each year for impairment. Other assets are reviewed for impairment only whenever circumstances may indicate that the carrying amount may not be recoverable.

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.

/Notes to the Financial Statements

continued

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.

Derivative Financial Instruments

Short term debtors and creditors that meet the definitions of a financial asset or liability respectively have been excluded from the numerical disclosures as permitted by FRS13 "Derivatives and Other Financial Instruments Disclosures", as detailed in note 18.

Arrangement Fees

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

Employee Share Schemes

Apart from SAYE options, where shares or share options are granted to employees at below market value, the difference between the issue price and the market price is charged to the profit and loss account over the performance period in accordance with UITF17 (revised).

Due regard is made to the likelihood of the performance criteria being achieved over the performance period with the charge to the profit and loss account being adjusted accordingly.

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. 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 FRS19 "Deferred Tax".

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.

The pension scheme changed to a Group stakeholder pension scheme with effect from 1 July 2005.

2. Analysis of Turnover by Geographical Region

Destination	2005 £'000	2004 £'000
UK	205,103	184,411
Rest of the world	3,094	2,432
	208,197	186,843

The Directors consider that all turnover is derived from a single class of business. The origin of all turnover was in the UK.

3. Exceptional Items and Goodwill Amortisation

	2005 £'000	2004 £'000
Exceptional Items — reorganisation and rationalisation costs	—	130
Goodwill amortisation	564	561
Total exceptional items and goodwill amortisation	564	691

The reorganisation and rationalisation costs in 2004 related to the integration of the Group's manufacturing operations onto a single site at Skipton, together with other costs of reorganising the Group's trading operations.

4. Net Interest Payable and Similar Charges

	2005 £'000	2004 £'000
Bank loans and overdrafts	1,774	1,599
Amortisation of arrangement fees	103	88
Other loans	—	5
Finance charges payable on finance leases and hire purchase contracts	32	16
Total interest payable	1,909	1,708
Bank deposit and other interest receivable	(355)	(584)
Net interest payable and similar charges	1,554	1,124

5. Profit on Ordinary Activities Before Taxation is stated after charging/(crediting):

	2005 £'000	2004 £'000
Research and development	1,333	1,124
Depreciation of owned assets	807	872
Depreciation of assets held under finance leases	128	116
Amortisation of goodwill	564	561
(Profit)/loss on disposal of tangible fixed assets	(42)	4
Operating lease rentals:		
land and buildings	839	748
plant and machinery	937	795
Audit fees (including £31,000 for the Parent Company (2004: £38,000))	89	80
Other payments to the auditors for non-audit services	111	216
Analysis of total fees payable to the Group auditors:		
	2005 £'000	2004 £'000
Audit services	89	80
Further assurance services	8	11
Tax compliance services	36	61
Tax advisory services	48	126
Other services	19	18
	200	296

6. Remuneration of Directors

Details of the remuneration, shareholdings, share options and pension contributions of the Directors are included in the Directors' Remuneration Report on pages 20 to 23.

/Notes to the Financial Statements

continued

7. Employees

The monthly average numbers of staff employed by the Group, which includes Directors, were:

	2005 Number	2004 Number
Manufacturing	146	154
Distribution	344	318
Administration	189	171
	679	643

The costs incurred in respect of these employees were:

	2005 £'000	2004 £'000
Wages and salaries	11,081	9,576
Social security costs	997	852
Other pension costs	281	287
	12,359	10,715

8. Tax on Profit on Ordinary Activities

a) Tax charge for the year

	2005 £'000	2004 £'000
Current taxation:		
UK corporation tax charge	3,001	2,454
Adjustments in respect of prior periods	(233)	(347)
Total current tax charge for the year	2,768	2,107
Deferred taxation:		
Origination and reversal of timing differences	(121)	(16)
Adjustments in respect of prior periods	(57)	197
Total deferred tax charge for the year	(178)	181
Tax on profit on ordinary activities	2,590	2,288
Tax credit included above attributable to exceptional operating items	—	21

b) Factors affecting the tax charge for the current period

The current tax charge is higher than (2004: lower than) the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below:

	2005 £'000	2004 £'000
Profit on ordinary activities before taxation	8,858	7,369
Current tax charge at 30% (2004: 30%)	2,657	2,211
Effects of permanent differences:		
— goodwill amortisation	169	168
— depreciation on assets not eligible for tax allowances	22	22
— disallowable expenses	32	37
	223	227
Timing differences:		
— capital allowances in excess of depreciation	(35)	(65)
— other short term timing differences	156	81
	121	16
Adjustments to tax charge in respect of previous periods	(233)	(347)
Total current tax charge	2,768	2,107

9. Dividends

	2005	2004
	£'000	£'000
Interim paid 1.70p per share (2004: 1.55p)	867	790
Final proposed 3.50p per share (2004: 3.15p)	1,789	1,606
Total dividend 5.20p per share (2004: 4.70p)	2,656	2,396

10. Earnings per Share

Earnings per ordinary share have been calculated by dividing the profit on ordinary activities after taxation for each financial year by the weighted average number of ordinary shares in issue during the year.

	2005 pence	2004 pence
Basic earnings per share after exceptional items and goodwill amortisation	12.28	9.97
Effect of exceptional items	—	0.21
Basic earnings per share before exceptional items	12.28	10.18
Effect of goodwill amortisation	1.11	1.10
Adjusted earnings per share	13.39	11.28
Diluted earnings per share	12.08	9.83
Effect of exceptional items	—	0.21
Diluted earnings per share before exceptional items	12.08	10.04
Effect of goodwill amortisation	1.08	1.08
Adjusted diluted earnings per share	13.16	11.12

	2005 £'000	2004 £'000
The calculation of basic and diluted earnings per share is based upon:		
Earnings for basic and diluted earnings per share calculations	6,268	5,081
Exceptional items	—	109
Earnings for basic and diluted earnings per share calculations before exceptional items	6,268	5,190
Goodwill amortisation	564	561
Earnings for adjusted and adjusted diluted earnings per share	6,832	5,751

	2005 No.	2004 No.
Weighted average number of ordinary shares for basic and adjusted earnings per share	51,022,645	50,975,214
Impact of share options	879,018	725,830
Weighted average number of ordinary shares for diluted and adjusted diluted earnings per share	51,901,663	51,701,044

/Notes to the Financial Statements

continued

11. Intangible Fixed Assets

Group	Goodwill £'000	Patent rights £'000	Product rights £'000	Marketing authorisations £'000	Total £'000
Cost					
At 1 July 2004	5,608	789	—	—	6,397
Additions	—	—	278	822	1,100
At 30 June 2005	5,608	789	278	822	7,497
Amortisation					
At 1 July 2004	1,223	—	—	—	1,223
Charge for the year	564	—	—	—	564
At 30 June 2005	1,787	—	—	—	1,787
Net book value					
At 30 June 2005	3,821	789	278	822	5,710
At 1 July 2004	4,385	789	—	—	5,174

All additions to intangible fixed assets during the year were acquired outside the Group and have been measured at cost at the time of acquisition.

Goodwill is being amortised over 10 years, being the Directors' estimate of the useful economic life.

During the year ended 30 June 2003, the Group entered into an agreement with Bioenvision, a company based in the USA, to acquire the exclusive marketing and development rights of Trilostane for animal health applications in the USA and Canada. Trilostane is the active ingredient in the Group's branded product Vetoryl®. The first stage payment of £789,000 including legal costs was made in 2003 and has been capitalised as a patent right. Depending upon certain milestones being achieved, the Group is committed to making two further payments. The second stage payment of US\$750,000 becomes payable on the submission of a New Animal Drug Application to the US Food and Drug Administration ("FDA") and the final payment of US\$3,000,000 becomes payable on the FDA granting a marketing authorisation for Vetoryl®. Once a marketing authorisation has been granted and the patent right can be applied commercially, the patent rights will begin to be amortised.

The addition to Product rights during the year of £278,000 was the acquisition of the rights to Thyroxyl. Amortisation of this amount will commence once the product is able to be marketed.

The marketing authorisations acquired during the year relate to the Vetivex range of products. The Vetivex marketing authorisations are regarded as having indefinite useful economic lives and have not been amortised. Ownership of the marketing authorisations rests with the Group in perpetuity. There are not believed to be any legal, regulatory or contractual provisions that limit their useful lives. From November 2005, renewal of Veterinary Medicines Directorate ("VMD") licences will only be required if products are shown to generate adverse reactions. Vetivex is an established range of products which are relatively simple in nature. Accordingly, the Directors believe that it is appropriate that the marketing authorisations are treated as having indefinite lives for accounting purposes.

12. Tangible Fixed Assets

Group	Freehold Land £'000	Short Leasehold Land and Buildings £'000	Motor Vehicles £'000	Plant and Fixtures £'000	Total £'000
Cost					
At 1 July 2004	13	2,627	596	5,960	9,196
Additions	—	60	—	950	1,010
Disposals	—	(243)	(58)	(315)	(616)
At 30 June 2005	13	2,444	538	6,595	9,590
Depreciation					
At 1 July 2004	—	511	541	2,920	3,972
Charge for the year	—	147	54	734	935
Disposals	—	(243)	(58)	(217)	(518)
At 30 June 2005	—	415	537	3,437	4,389
Net book value at 30 June 2005	13	2,029	1	3,158	5,201
Net book value at 1 July 2004	13	2,116	55	3,040	5,224
Leased assets					
Net book value of assets held under finance leases:					
At 30 June 2005	—	—	—	479	479
At 1 July 2004	—	—	32	149	181
				2005	2004
				£'000	£'000
Contracted Capital Commitments (tangible fixed assets)				379	63

13. Fixed Asset Investments

Company	Shares in Subsidiary Undertakings £'000
Cost and net book value	
At 1 July 2004	4,608
Additions	48,800
At 30 June 2005	53,408

A list of principal subsidiary undertakings is given in note 27.

Where subsidiaries are acquired for shares, or a combination of shares and cash, statutory merger relief has been applied and accordingly cost includes the nominal value of shares issued.

During the year, the Company acquired the entire issued "A" Ordinary share capital of Dechra Investments Limited from Veneto Limited, a wholly owned Group undertaking. The total consideration was £48,800,000.

/Notes to the Financial Statements

continued

14. Stocks

	2005	2004
	£'000	£'000
Group		
Raw materials and consumables	1,021	1,271
Work in progress	694	539
Finished goods and goods for resale	18,675	15,169
	20,390	16,979

In addition to the above, the Group held consignment stock at 30 June 2005 of £187,000 (2004: £nil) for which no deposit was paid.

15. Debtors

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Trade debtors	31,778	31,337	—	—
Amounts owed by subsidiary undertakings	—	—	44,433	46,639
Group relief receivable	—	—	537	1,816
Deferred taxation (see note 19)	4	—	217	82
Other debtors	1,112	890	191	35
Prepayments and accrued income	818	662	110	146
	33,712	32,889	45,488	48,718

16. Creditors

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (see note 17)	1,400	5,278	1,400	13,805
Hire purchase and finance leases	102	69	—	—
Trade creditors	38,175	33,205	—	—
Amounts due to subsidiary undertakings	—	—	46,624	10
Other creditors	313	246	8	—
Corporation tax	2,057	1,275	—	—
Other taxation and social security	1,650	1,666	23	—
Accruals and deferred income	1,688	1,827	276	491
Proposed dividend	1,789	1,606	1,789	1,606
	47,174	45,172	50,120	15,912

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Bank loans (see note 17)	17,010	4,759	17,010	4,759
Hire purchase and finance leases	271	4	—	—
	17,281	4,763	17,010	4,759

17. Borrowings

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Borrowings due within one year				
Bank overdraft	—	3,324	—	11,851
Bank loan	1,400	1,954	1,400	1,954
	1,400	5,278	1,400	13,805
Borrowings due after more than one year				
Aggregate bank loan instalments repayable				
between one and two years	3,000	1,954	3,000	1,954
between two and five years	14,200	2,932	14,200	2,932
	17,200	4,886	17,200	4,886
Arrangement fees netted off	(190)	(127)	(190)	(127)
	17,010	4,759	17,010	4,759
Obligations under finance leases				
Due within one year	102	69	—	—
Due between one and two years	271	4	—	—
	373	73	—	—
Total borrowings	18,783	10,110	18,410	18,564

The term loan from Bank of Scotland is secured by a fixed and floating charge on the assets of the Group. Interest is charged on the term loan at 1.25% over LIBOR.

The Company guarantees the borrowings of other Group companies, which at 30 June 2005 amounted to £nil (2004: £nil).

/Notes to the Financial Statements

continued

18. Financial Instruments and Derivatives

An explanation of the Group's treasury policies and controls is set out in the Finance Director's Review on pages 12 and 13. As permitted by Financial Reporting Standard 13, short term debtors and creditors meeting the definition of a short term asset or liability are excluded from these disclosures.

a) Fair value of financial assets and liabilities

The Group's financial assets and liabilities are, with the exception of finance leases, the floor and ceiling arrangement (see (b) below) and the currency option (see below), at floating rates of interest and therefore their fair value and book value are equal. Finance leases are at various fixed rates of interest; however, the difference between book value and fair value is not material.

At 30 June 2005 the Group held a foreign currency swap option for \$3.00 million to exchange sterling for US dollars at any time before 31 December 2005. Its book value at 30 June 2005 was £77,000 (2004: £77,000) whilst the fair value was £19,000 (2004: £77,000).

b) Interest rate risk profile of financial liabilities as at 30 June 2005

Financial liabilities principally comprise the Group's borrowings of bank loans and overdrafts from the Bank of Scotland. These are secured by fixed and floating charges on the assets of the Group. All interest is payable at floating rates of 1–1.25% above LIBOR. The Group also has finance lease commitments of £373,000 (2004: £73,000) with a weighted average fixed interest rate of 8.9% (2004: 7.8%) over a weighted average term of 45 months (2004: 10 months).

During the year, the Group entered into an interest rate floor and ceiling arrangement which effectively fixes the LIBOR rate to within the range 4.53%–5.50% over one-third of the Group's bank borrowings (£6.2 million at 30 June 2005).

This arrangement expires on 31 December 2007. At 30 June 2005, the book value was £nil (2004: £nil) whilst the fair value was (£44,000) (2004: £nil).

c) Foreign currency exposure profile

There were no material foreign currency monetary assets or liabilities that would give rise to gains or losses in the profit and loss account.

d) Maturity of borrowings

Details are shown in notes 16 and 17.

e) Maturity of facilities

At 30 June 2005 the Group had an undrawn committed revolving credit facility of £5 million maturing in between two to five years and an overdraft facility of £4 million which is renewable annually.

19. Provisions for Liabilities and Charges

Deferred Tax	Group
	£'000
At 1 July 2004	174
Transfer to profit and loss account	(178)
At 30 June 2005 (included in debtors)	(4)
	Company
	£'000
At 1 July 2004 (included in debtors)	(82)
Transfer to profit and loss account	(135)
At 30 June 2005 (included in debtors)	(217)

The amounts provided for deferred taxation at 30% (2004: 30%) are as follows:

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Accelerated capital allowances	262	296	—	—
Short term timing differences	(266)	(122)	(217)	(82)
Total	(4)	174	(217)	(82)

20. Called up Share Capital

Issued share capital

	Ordinary Shares of 1p each	
	£'000	No.
At 1 July 2004	510	50,977,857
New shares issued	1	143,107
At 30 June 2005	511	51,120,964
Authorised share capital		
At 30 June 2005 and 30 June 2004	750	75,000,000

During the year, 143,107 new ordinary shares of 1p were issued following the exercise of options under the Unapproved and SAYE share option schemes.

Share Options

Outstanding share options over ordinary shares of 1p at 30 June 2005 under the various Group share option schemes are as follows:

	Exercise Period	Exercise Price per Share Pence	At 30 June 2004 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2005 Number
Unapproved Share Option scheme							
14 Sept 2000	2003–2010	120	433,000	(78,000)	—	(12,000)	343,000
22 April 2002	2005–2012	153½	352,500	(17,500)	—	(18,000)	317,000
11 April 2003	2006–2013	58½	105,000	—	—	(5,500)	99,500
			890,500	(95,500)	—	(35,500)	759,500
Approved Share Option scheme							
2 April 2004	2007–2014	134½	143,000	—	—	(6,000)	137,000
3 December 2004	2007–2014	180	—	—	30,000	—	30,000
5 April 2005	2008–2015	202½	—	—	181,000	(2,000)	179,000
			143,000	—	211,000	(8,000)	346,000
SAYE scheme							
26 April 2001	2004–2006	158	73,297	(13,978)	—	(29,423)	29,896
9 April 2002	2005–2007	129	59,387	(16,662)	—	(13,647)	29,078
3 April 2003	2006–2008	39	985,279	(16,967)	—	(94,789)	873,523
15 October 2004	2007–2009	124	—	—	144,147	(1,528)	142,619
			1,117,963	(47,607)	144,147	(139,387)	1,075,116
Total share options			2,151,463	(143,107)	355,147	(182,887)	2,180,616

The performance target to be achieved under the Unapproved and Approved Share Option Schemes is a total growth in earnings per share over a consecutive three year period (commencing no earlier than the beginning of the accounting period immediately preceding the grant of the option) of at least 12% above inflation.

/Notes to the Financial Statements

continued

21. Reserves

Group	Share Premium Account £'000	Merger Reserve £'000	Profit and Loss Account £'000
At 1 July 2004	26,784	1,720	(18,857)
New shares issued	169	—	—
Retained profit for the financial year	—	—	3,612
Share based payments charge	—	—	543
At 30 June 2005	26,953	1,720	(14,702)

Company	Share Premium Account £'000	Merger Reserve £'000	Profit and Loss Account £'000
At 1 July 2004	26,784	—	5,361
New shares issued	169	—	—
Retained loss for the financial year	—	—	(257)
Share based payments charge	—	—	543
At 30 June 2005	26,953	—	5,647

22. Goodwill

The cumulative amount of goodwill written off to reserves at 30 June 2005 was £30,184,000 (2004: £30,184,000).

23. Reconciliation of Operating Profit to Operating Cash Flow

	2005 £'000	2004 £'000
Operating profit	10,412	8,493
Depreciation	935	988
Goodwill amortisation	564	561
(Profit)/loss on disposal of tangible fixed assets	(42)	4
Share based payments charge	543	—
(Increase)/decrease in stocks	(3,411)	317
Increase in debtors	(787)	(4,901)
Increase in creditors	5,014	5,114
Net cash inflow from operating activities	13,228	10,576

24. Analysis of Net Debt

	At 1 July 2004 £'000	Cash Flow £'000	Other Non-Cash Changes £'000	At 30 June 2005 £'000
Borrowings due after one year	(4,759)	(13,160)	909	(17,010)
Bank overdraft	(3,324)	3,324	—	—
Other borrowings due within one year	(1,954)	1,400	(846)	(1,400)
Finance leases	(73)	138	(438)	(373)
Cash at bank and in hand	—	13,924	—	13,924
	(10,110)	5,626	(375)	(4,859)

25. Other Financial Commitments

	2005		2004	
	Land and buildings £'000	Other assets £'000	Land and buildings £'000	Other assets £'000
The Group has the following commitments payable within one year under operating leases expiring:				
Within one year	58	224	25	65
Between one and two years	25	294	38	399
Between two and five years	—	290	25	268
In five years or more	816	2	708	1
	899	810	796	733

The Company had no commitments under operating leases in either the current or prior year.

26. Pensions

The Group operates a defined contribution pension scheme for certain employees. The Group contributed between 4% and 12% of pensionable salaries which amounted to £281,000 (2004: £287,000) (see note 7).

27. Subsidiary Undertakings

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

Company	Country of Operation	Country of Incorporation	Principal Activity
Dechra Limited§	UK	Great Britain	Wholesaler, marketer and manufacturer of pharmaceuticals; Wholesaler and marketer of veterinary products, instruments and equipment; Provider of veterinary laboratory services
Dechra Investments Limited	UK	Great Britain	Holding company
National Veterinary Services Limited*	UK	Great Britain	Non-trading
Arnolds Veterinary Products Limited*	UK	Great Britain	Non-trading
Dales Pharmaceuticals Limited*	UK	Great Britain	Non-trading
Veneto Limited	UK	Great Britain	Holding company
North Western Laboratories Limited	UK	Great Britain	Non-trading
Cambridge Specialist Laboratory Services Limited†	UK	Great Britain	Non-trading
Anglian Pharma Manufacturing Limited‡	UK	Great Britain	Non-trading
Anglian Pharma Limited	UK	Great Britain	Holding company
Dechra Veterinary Products LLC	USA	USA	Distributor of veterinary products

* 100% of ordinary share capital held by Veneto Limited. Voting preference shares held by Dechra Pharmaceuticals PLC Employee Benefit Trust.

§ 100% of ordinary share capital held by Dechra Investments Limited.

† 100% of ordinary share capital held by North Western Laboratories Limited.

‡ 100% of ordinary share capital held by Anglian Pharma Limited.

/Financial History

	2005	2004	2003	2002	2001
	£'000	£'000	£'000	£'000	£'000
Profit and loss account					
Turnover	208,197	186,843	179,309	170,202	156,400
Operating profit before exceptional items and goodwill amortisation	10,976	9,184	8,162	8,773	8,234
Profit on ordinary activities before taxation	8,858	7,369	5,685	7,308	4,772
Profit after taxation	6,268	5,081	3,833	5,058	3,034
Dividends	(2,656)	(2,396)	(2,093)	(2,069)	(1,867)
Retained profit	3,612	2,685	1,740	2,989	1,167
Earnings per share —					
adjusted (pence)	13.39	11.28	9.39	10.59	9.29
Dividend per share (pence)	5.20	4.70	4.12	4.12	3.75
Average number of employees	679	643	615	500	454
Balance sheet					
Fixed assets	10,911	10,398	11,302	11,608	4,317
Working capital	8,430	10,043	11,157	8,869	5,157
Provisions for liabilities and charges	—	(174)	—	—	—
Net debt	(4,859)	(10,110)	(14,988)	(14,728)	(8,464)
Shareholders' funds	14,482	10,157	7,471	5,749	1,010
Cash flow					
Cash flow from					
operating activities	13,228	10,576	6,542	6,397	3,453
Net interest paid	(1,667)	(1,012)	(1,384)	(1,126)	(7,712)
Tax paid	(1,996)	(1,864)	(2,066)	(2,155)	(1,195)
Capital expenditure	(1,604)	(546)	(1,224)	(2,704)	(1,771)
Acquisitions	—	—	32	(3,823)	(100)
Equity dividends paid	(2,473)	(2,192)	(2,078)	(1,927)	(622)
Financing	11,760	(2,588)	(3,410)	(765)	2,714
Changes in cash in period	17,248	2,374	(3,588)	(6,103)	(5,233)

The historical figures have been adjusted to reflect the adoption of FRS19 "Deferred Tax".

/Advisers

Merchant Bank & Financial Advisers

NM Rothschild & Sons Limited
New Court
St Swithins Lane
London
EC4P 4DU

Stockbroker & Financial Advisers

Evolution Securities
100 Wood Street
London
EC2V 7AN

Principal Bankers

Bank of Scotland
55 Temple Row
Birmingham
B2 5LS

Auditors

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Lawyers

DLA Piper Rudnick Gray Cary LLP
Victoria Square House
Victoria Square
Birmingham
B2 4DL

Registrars

Computershare Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Financial PR

Citigate Dewe Rogerson
9 The Apex
6 Embassy Drive
Edgbaston
Birmingham
B15 1TP

Dechra

Pharmaceuticals PLC

Dechra House

Jamage Industrial Estate Talke Pits Stoke-on-Trent ST7 1XW
Staffordshire England

t: +44 (0)1782 771100

f: +44 (0)1782 773366

e: corporate.enquiries@dechra.com

www.dechra.com

Registered in England No. 3369634