

Intervet UK Limited

**Directors' report and financial
statements**

Registered number 946942

31 December 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principal activities of the Company are the manufacture and sale of veterinary products both to the UK and to export markets.

Business review

The results for the year ended 31 December 2003 are reported on page 5 of the financial statements.

Research and development

The Company carries out research and development for both new products and improvements to existing products. All work is carried out on behalf of Intervet International.

Proposed dividend

An interim dividend of £5,933,000 (2002: £nil) was paid during the year. The directors do not recommend the payment of a final dividend.

Directors and directors' interests

The directors who held office during the year and at the date of this report were as follows:

W Baxendale	(Resigned on 31 March 2004)
PS Casady	
R Stolp	

Mr Stolp retires by rotation and being eligible offers himself for re-election.

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

The Companies (Disclosures of Director's Interests) (Exceptions) Regulations 1985 (SI No. 802) are applicable to the company.

Employees

The Company places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company.

It is the policy of the Company to offer equal opportunities to disabled persons in recruitment, training and career development, having due regard to their aptitudes and abilities in relation to the jobs available.

Directors' report *(continued)*

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £nil (2002 : £nil).

Auditors

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

By order of the Board

A handwritten signature in black ink, appearing to read 'AE Burwood', with a stylized flourish at the end.

AE Burwood
Secretary

Walton Manor
Walton
Milton Keynes
MK7 7AJ

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those 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 the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

37 Hills Road
Cambridge
CB2 1XL
United Kingdom

Report of the independent auditors to the members of Intervet UK Limited

We have audited the financial statements on pages 5 to 18.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

14 May 2004

Profit and loss account
for the year ended 31 December 2003

	<i>Note</i>	2003 £000	2002 £000
Turnover	2	49,759	46,568
Cost of sales		(31,352)	(26,704)
Gross profit		18,407	19,864
Distribution costs		(11,835)	(12,291)
Administrative expenses		(2,580)	(2,513)
Research & Development		752	407
Operating profit		4,744	5,467
Profit on sale of fixed assets	4	1,227	-
Other interest receivable and similar income	7	116	57
Interest payable and similar charges	8	(75)	(82)
Profit on ordinary activities before taxation	3-6	6,012	5,442
Tax on profit on ordinary activities	9	(1,214)	(1,560)
Profit on ordinary activities after taxation		4,798	3,882
Dividends	10	(5,933)	-
Retained (loss) / profit for the year		(1,135)	3,882
Retained profit brought forward		5,933	2,051
Retained profit carried forward		4,798	5,933

All activities derive from continuing operations.

The company has no recognised gains and losses other than shown above, and therefore no separate statement of total gains and losses has been prepared.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

The notes on pages 8 to 18 form part of these financial statements.

Balance sheet
at 31 December 2003

	Note	£000	2003 £000	£000	2002 £000
Fixed assets					
Intangible assets					
Negative goodwill	11	(4,163)		(4,408)	
			(4,163)		(4,408)
Tangible assets	12		30,600		35,542
Investments	13		31,920		31,920
			58,357		63,054
Current assets					
Stocks	14	6,253		5,824	
Debtors	15	11,901		14,138	
Cash at bank and in hand		12		7	
		18,166		19,969	
Creditors: amounts falling due within one year	16	(12,294)		(17,488)	
Net current assets			5,872		2,481
Total assets less current liabilities			64,229		65,535
Creditors: amounts falling due after more than one year	17		(23,338)		(23,338)
Provisions for liabilities and charges	18		(1,573)		(1,744)
Net assets			39,318		40,453
Capital and reserves					
Called up share capital	19		34,520		34,520
Profit and loss account			4,798		5,933
Equity shareholders' funds			39,318		40,453

These financial statements were approved by the board of directors on
on its behalf by

10 May 2004

and were signed

PS Casady
Director

The notes on pages 8 to 18 form part of these financial statements.

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2003

	2003 £000	2002 £000
Profit for the financial year	4,798	3,882
Dividends	(5,933)	-
Net movement in shareholders' funds	(1,135)	3,882
Opening shareholders' funds	40,453	36,571
Closing shareholders' funds	39,318	40,453

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Intangible fixed assets and amortisation

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably. Fair values are restricted to an amount that does not create, or increase, any negative goodwill.

Negative goodwill arising on business combinations in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	5 - 25 years
Plant and machinery	-	4 - 10 years

No depreciation is provided on freehold land.

Cost of buildings includes interest capitalised over the construction period.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Cash flow statement

The cash flows of the company are included in the consolidated cash flow statement of the ultimate parent company, Akzo Nobel NV (see note 23). As Akzo Nobel NV is incorporated in the Netherlands, an EC member state, and its financial statements are drawn up in accordance with the provisions of the seventh directive, the company is exempt under the terms of Financial Reporting Standard No. 1 (revised 1996) from publishing a cash flow statement.

Notes (continued)

1 Accounting policies (continued)

Pensions

The company participates in the Akzo Nobel UK pension scheme which is a defined benefit pension scheme which covers the majority of employees. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the group.

Related party transactions

Related party transactions with members of the group controlled by Akzo Nobel NV are not disclosed in accordance with the exemption allowed under FRS8, as the company is a wholly owned subsidiary of that company.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods manufactured by the group, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the sale of veterinary products to customers during the year. Invoices are raised, and revenue recognised, on delivery of products to the customer.

2 Turnover

	2003 £000	2002 £000
<i>By destination</i>		
UK	49,421	46,102
Rest of Europe	338	466
	<hr/> 49,759 <hr/>	<hr/> 46,568 <hr/>

Notes (continued)

3 Profit on ordinary activities before taxation

	2003 £000	2002 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration:		
Audit	28	24
Other services	2	8
Depreciation and other amounts written off tangible fixed assets:		
Owned	3,353	3,368
Amortisation and other amounts written off intangible assets:		
Goodwill	(245)	(245)
Hire of plant and machinery - rentals payable under operating leases	25	43
Hire of other assets - operating leases	466	485
Rent of buildings	46	22
	<hr/>	<hr/>

4 Profit on sale of fixed assets

In October 2003 a parcel of land, including the warehouse, was sold to Frontier Estates (Walton) Ltd. The warehouse has been leased back for a ten year period.

Also during 2003 work has begun on developing an unused building on the Milton Keynes site as a Research and Development centre for the company. This will result in the closure of an existing facility in Cambridgeshire. A contract has been signed for the sale of this property in 2004.

5 Remuneration of directors

	2003 £000	2002 £000
Directors' emoluments	436	352
	<hr/>	<hr/>

The aggregate of emoluments of the highest paid director was £302,493 (2002: £194,957).

	Number of directors	
	2003	2002
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	1	1
	<hr/>	<hr/>

The amount of accrued pension of the highest paid director was £nil (2002 : £nil).

Notes (continued)

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2003	2002
Administration	44	55
Sales and distribution	75	71
Production	85	85
Research and development	80	79
	<hr/>	<hr/>
	284	290
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	10,041	9,729
Social security costs	876	811
Other pension costs	1,153	813
	<hr/>	<hr/>
	12,070	11,353
	<hr/>	<hr/>

7 Other interest receivable and similar income

	2003	2002
	£000	£000
Receivable from group undertakings	116	57
	<hr/>	<hr/>

8 Interest payable and similar charges

	2003	2002
	£000	£000
On bank loans and overdrafts	13	52
On all other loans	62	30
	<hr/>	<hr/>
	75	82
	<hr/>	<hr/>

Notes (continued)

9 Taxation

Analysis of charge in period

	2003 £000	2002 £000
<i>Current tax</i>		
UK corporation tax on profits of the period	1,402	1,668
Adjustments in respect of previous periods	9	(797)
Total current tax	1,411	871
<i>Deferred tax</i>		
Timing differences	(197)	689
Tax on profit on ordinary activities	1,214	1,560

Factors affecting tax charge for the period

The tax assessed for the period is lower (2002: lower) than the standard rate of tax in the UK (30%). The differences are explained below:

	2003 £000	2002 £000
Profit on ordinary activities before tax	6,012	5,442
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	1,804	1,633
<i>Effects of:</i>		
Expenses not deductible for tax purposes	116	68
Capital allowances for period less than depreciation	197	281
Negative goodwill	(73)	(73)
R&D super deduction	(274)	(192)
Royalties paid in excess of royalties payable	-	(49)
Profit on sale of fixed assets subject to rollover relief	(368)	-
Adjustment to tax charge in respect of previous period	9	(797)
Total current tax charge (see above)	1,411	871

Factors that may affect future tax charge

Based on current capital investment plans, the company expects to be able to claim capital allowances in excess of depreciation for the next two to three years.

Notes (continued)

9 Taxation (continued)

Provision for deferred tax

	2003 £000	2002 £000
Accelerated capital allowances	1,503	1,700
Other timing differences	-	-
	<u>1,503</u>	<u>1,700</u>
Provision at start of period	1,700	1,011
Deferred tax (credit)/charge in profit and loss account for the period	(197)	689
	<u>1,503</u>	<u>1,700</u>

The sale of land and warehouse does give rise to a potential capital gain of £631,723, however because of roll-over relief no tax is payable and in accordance with FRS 19 deferred tax of £189,517 has not been provided for.

10 Dividends and other appropriations

	2003 £000	2002 £000
Equity shares:		
Interim dividend paid	5,933	-

Notes *(continued)*

11 Intangible fixed assets

	Negative goodwill £000
<i>Cost</i>	
At beginning and end of year	(4,897)
	<hr/>
<i>Amortisation</i>	
At beginning of year	489
Charged in year	245
	<hr/>
At end of year	734
	<hr/>
<i>Net book value</i>	
At 31 December 2003	(4,163)
	<hr/>
At 31 December 2002	(4,408)
	<hr/>

Negative goodwill arose on the acquisition of the trade and assets of Intervet UK Production Limited in 2000. It represents the excess of the fair value of the non-monetary assets acquired over the consideration paid. Negative goodwill is being released to the profit and loss account commensurately with the recovery of the non-monetary assets acquired, whether through depreciation or sale.

Notes (continued)

12 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Total £000
Cost			
At beginning of year	32,552	26,646	59,198
Additions	623	2,799	3,422
Disposals	(5,140)	(415)	(5,555)
At end of year	28,035	29,030	57,065
Depreciation			
At beginning of year	4,985	18,671	23,656
Charge for year	932	2,421	3,353
On disposals	(307)	(237)	(544)
At end of year	5,610	20,855	26,465
Net book value			
At 31 December 2003	22,425	8,175	30,600
At 31 December 2002	27,567	7,975	35,542

Included in land and buildings is £6,506,607 (2002: £9,109,634) of land which is not subject to depreciation.

13 Investments

	2003 £000	2002 £000
Mycofarm UK Ltd	1,040	1,040
Intervet UK Production Ltd	30,880	30,880
	31,920	31,920

The undertakings in which the company holds an investment are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held
Mycofarm UK Ltd	Great Britain	Non-trading	100% ordinary shares
Intervet UK Production Ltd	Great Britain	Production and sale of veterinary products	100% ordinary shares

Notes (continued)

14 Stocks

	2003 £000	2002 £000
Raw materials and consumables	109	21
Work in progress	395	459
Finished goods and goods for resale	5,749	5,344
	<u>6,253</u>	<u>5,824</u>

15 Debtors

	2003 £000	2002 £000
Trade debtors	6,286	5,656
Amounts owed by group undertakings	5,318	8,180
Other debtors	28	32
Prepayments and accrued income	269	270
	<u>11,901</u>	<u>14,138</u>

16 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Trade creditors	594	1,019
Amounts owed to group undertakings	1,737	1,246
Taxation and social security	2,684	1,408
Other creditors	4,954	3,417
Dividend proposed	1	7,001
Corporation tax	2,324	3,397
	<u>12,294</u>	<u>17,488</u>

Notes (continued)

17 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Amounts owed to group undertakings	23,338	23,338

18 Provisions for liabilities and charges

	Deferred taxation (note 9) £000	Other provisions £000	Total £000
At beginning of year	1,700	44	1,744
Additional provision	(197)	26	(171)
At end of year	1,503	70	1,573

19 Called up share capital

	2003 £000	2002 £000
<i>Authorised</i>		
Equity: Ordinary shares of £1 each	50,000	50,000
<i>Allotted, called up and fully paid</i>		
Equity: Ordinary shares of £1 each	34,520	34,520

20 Contingent liabilities

At 31 December 2003, the group was contingently liable to the extent of indemnities of £40,000 re HM Customs & Excise guarantee of VAT (2002: £40,000)

The company participates in a cash pooling arrangement with certain other group companies. This arrangement allows the company to draw upon or credit amounts to a separately designated facility within the cash pool account in the name of Akzo Nobel Limited. The company operates the facility as if it were the company's own bank account, however the company has no legal title.

All parties to the arrangement are jointly and severally liable to the bank for any overdraft thereon. At 31 December 2003 the overdraft was £nil (2002: £14.641 million). Included within amounts receivable from inter-group companies is £1,657,145 (2002: £4,769,570) in respect of the company's share of the account.

Notes (continued)

21 Commitments and contingencies

Annual commitments under non-cancellable operating leases are as follows:

	2003		2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	45	-	91
In the second to fifth years inclusive	-	332	-	233
Over five years	275	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	275	377	-	324
	<hr/>	<hr/>	<hr/>	<hr/>

22 Pension scheme

The company is a member of the group-wide Akzo Nobel UK pension scheme ("the scheme") providing benefits based on final pensionable pay. Because the company is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 "Retirement benefits", the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme.

The latest full actuarial valuation was carried out at 31 March 2003 by a qualified independent actuary. At this valuation the market value of the scheme assets was sufficient to cover 78% of the benefits that had accrued to members at that date.

The contribution for the year was £1,153,000 (2002: £813,000).

As a result of recent market volatility and in advance of the valuation the trustees agreed that an increased employer contribution rate of 17.6% (2002: 8.9%), 17.5% (2002: 13.5%) and 13.5% (2002: 10%) of pensionable pay would apply from 1 January 2003 for members of the Organon closed section, the HR Vet closed section and open section respectively. In the light of the deficit revealed by the valuation, additional employer contributions of 5.5% of pensionable pay are to be paid on all sections from 1 April 2004, bringing the employer contribution rates up to 23.1%, 23% and 19.0% on the Organon closed section, the HR Vet closed section and open respectively.

23 Ultimate parent company

The company's ultimate parent company is Akzo Nobel NV, which is a public company incorporated in The Netherlands. Akzo Nobel NV represents the only group of undertakings for which group accounts are drawn up and of which the company is a member.

Copies of the group accounts are available from the office address of Akzo Nobel NV, Velperweg 76, PO Box 9300, 6800 SB Arnhem, The Netherlands.

As at 31 December 2003, the company's immediate parent company was Poultry Biologicals Limited, a company registered in England and Wales. Subsequent to the year end, as part of a group restructuring exercise, Poultry Biologicals Limited's investment in Intervet UK Limited was transferred to Akzo Nobel NV.