

**KENDLE INTERNATIONAL LIMITED**

**Annual Report and Financial Statements for  
the year ended 31 December 2005**



# **KENDLE INTERNATIONAL LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2005**

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# **KENDLE INTERNATIONAL LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2005**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

CC Bergen  
C Kendle  
K Brenkert

#### **SECRETARY**

N N Singh

#### **REGISTERED OFFICE**

Angel House  
24 Station Road  
Ely  
Cambridgeshire  
CB7 4BS

#### **BANKERS**

HSBC Bank plc  
Brentwood DSC  
Unit B  
Redwing Court  
Ashton Road  
Harold Hill  
Romford  
RM3 8UD

#### **AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants  
Reading

# **KENDLE INTERNATIONAL LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

### **PRINCIPAL ACTIVITY**

The principal activity of the company is the provision of consultancy services to the pharmaceutical industry.

### **REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

The directors consider both the year-end position and the trading results for the year to be satisfactory, and do not anticipate significant changes to the company's business in the foreseeable future.

The profit for the year was £305,965 (2004: £468,885).

### **DIVIDENDS**

The directors do not recommend the payment of a dividend (2004: £nil).

### **CHARITABLE AND POLITICAL DONATIONS**

The company made no charitable or political donations in the year.

### **DIRECTORS AND THEIR INTERESTS**

CC Bergen  
C Kendle  
K Brenkert

No director had an interest in the shares of the company at 31 December 2005 or at any time during the year ended on that date.

The company is a subsidiary of a company incorporated outside Great Britain and, as permitted by statutory instrument, no disclosure is made of any interests of the directors in the shares or share options of that company.

### **AUDITORS**

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



NN Singh  
Secretary

30 October 2006

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report including the financial statements. The directors have chosen to prepare the financial statements for the company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

United Kingdom company law requires the directors to prepare financial statements for each financial period which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period and which comply with UK GAAP and the Companies Act 1985. 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; and
- 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 are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENDLE INTERNATIONAL LIMITED**

We have audited the financial statements of Kendle International Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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**

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, 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 other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and 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**

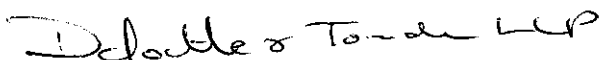
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
Reading

30 OCTOBER 2006

# KENDLE INTERNATIONAL LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 31 December 2005

	Notes	2005 £	2004 £
<b>TURNOVER</b>	2	3,006,029	3,009,750
Cost of sales		(2,189,679)	(2,046,299)
<b>Gross profit</b>		816,350	963,451
Administrative expenses		(500,316)	(401,932)
<b>OPERATING PROFIT</b>		316,034	561,519
Interest receivable and similar income	5	103,855	118,545
Interest payable and similar charges	6	(14,412)	(9,777)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	7	405,477	670,287
Tax on profit on ordinary activities	8	(99,512)	(201,402)
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES</b>	13	305,965	468,885

All the results above relate to continuing operations.

The company has no recognised gains and losses other than the above and therefore no separate statement of total recognised gains and losses has been presented.

# KENDLE INTERNATIONAL LIMITED

## BALANCE SHEET 31 December 2005

	Note	2005 £	2004 £
<b>FIXED ASSETS</b>			
Tangible assets	9	519,914	564,300
<b>CURRENT ASSETS</b>			
Debtors	10	2,766,966	2,612,450
Cash at bank and in hand		288,898	45,857
		3,055,864	2,658,307
<b>CREDITORS: amounts falling due within one year</b>	11	(862,170)	(814,964)
<b>NET CURRENT ASSETS</b>		2,193,694	1,843,343
<b>NET ASSETS</b>		2,713,608	2,407,643
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	4,000	4,000
Profit and loss account	13	2,709,608	2,403,643
<b>EQUITY SHAREHOLDERS' FUNDS</b>	15	2,713,608	2,407,643

These financial statements were approved by the Board of Directors on 27<sup>th</sup> October 2006.

Signed on behalf of the Board of Directors



K Brenkert  
Director



**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2005**

**1. ACCOUNTING POLICIES**

These financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

**Cash flow statement**

The company has taken advantage of the exemption available to it under Financial Reporting Standard 1, which provides that where a company is a member of a group and the ultimate parent company produces a consolidated cash flow statement, the company does not have to prepare a cash flow statement.

**Tangible fixed assets**

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	2
Computer equipment	25
Motor vehicles	25
Fixtures and fittings	25

Freehold land is not depreciated.

**Operating leases**

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

**Turnover**

Turnover, which excludes value added tax, represents the invoiced value of goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

**Long-term contracts**

Turnover on long-term contracts is recognised according to the stage reached in the contract by reference to the value of work done. A prudent estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. The amount by which the turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts. The costs on long-term contracts not yet taken to the profit and loss account less related foreseeable losses and payments on account are shown in stocks as long-term contract balances.

**Foreign currency**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date. All differences are taken to the profit and loss account in the period in which they arise.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2005**

**1. ACCOUNTING POLICIES (CONTINUED)**

**Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax on the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

**Pension costs**

The company operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

**2. TURNOVER**

All turnover arises from the principal activity of the company. The origin of all turnover is the UK and the destination is as shown below.

	2005 £	2004 £
United Kingdom	1,824,353	1,591,869
Rest of Europe	193,041	289,640
North America	794,709	1,014,695
Rest of the World	193,926	113,546
	<u>3,006,029</u>	<u>3,009,750</u>

**3. DIRECTORS' EMOLUMENTS**

During the year and the previous year, the directors of the company received no emoluments directly from the company. Their remuneration for their services to the group as a whole are made from another group company, without specific recharge, and cannot be allocated by company.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2005**

**4. EMPLOYEE INFORMATION**

The average monthly number of persons (including executive directors) employed by the company during the year was:

	<b>2005</b>	<b>2004</b>
	<b>Number</b>	<b>Number</b>
<b>Average number of persons employed</b>		
Consultancy	28	29
Administration	5	5
	<u>33</u>	<u>34</u>

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
<b>Staff costs during the year</b>		
Wages and salaries	1,115,986	1,150,474
Social security costs	126,624	151,826
Pension costs	51,682	53,118
	<u>1,294,292</u>	<u>1,355,418</u>

Of the pension costs £4,107 (2004: £4,350) remained unpaid at the year end.

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Bank interest receivable	3,955	2,288
Interest from other group companies	99,900	116,257
	<u>103,855</u>	<u>118,545</u>

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Bank loans and overdrafts	10	19
Payable to other group companies	14,402	9,758
	<u>14,412</u>	<u>9,777</u>

**7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Profit on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year: tangible fixed assets	52,286	38,639
Auditors' remuneration		
- for audit services	9,840	8,000
- for non-audit services	600	7,660
Operating lease rentals	19,991	19,991
	<u>82,717</u>	<u>66,290</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2005**

**8. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
<b>Current tax</b>		
United Kingdom corporation tax	115,640	217,758
Under provision in respect of prior years	1,077	1,312
	<u>116,717</u>	<u>219,070</u>
<b>Deferred tax:</b>		
Movement on timing differences (see note 12)	(17,205)	(17,668)
	<u>99,512</u>	<u>201,402</u>

The current charge for the year is different from the standard rate of corporation tax in the UK. The difference is explained below:

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Profit on ordinary activities before tax	405,477	670,287
Profit on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2004: 30%)	121,643	201,086
Effect of:		
Capital allowances and other short term timing differences	(37,159)	14,281
Expenses not deductible for tax purposes	31,156	2,391
Under provision in respect of prior years	1,077	1,312
	<u>116,717</u>	<u>219,070</u>

# KENDLE INTERNATIONAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 December 2005

### 9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Office equipment £	Fixtures and fittings £	Total £
<b>Cost</b>				
At 1 January 2004	548,857	405,329	109,621	1,063,807
Additions	1,840	4,840	1,220	7,900
	<u>550,697</u>	<u>410,169</u>	<u>110,841</u>	<u>1,071,707</u>
<b>Accumulated depreciation</b>				
At 1 January 2004	59,624	337,446	102,437	499,507
Charge for the year	18,810	30,625	2,851	52,286
	<u>78,434</u>	<u>368,071</u>	<u>105,288</u>	<u>551,793</u>
<b>Net book value</b>				
At 31 December 2005	<u>472,263</u>	<u>42,098</u>	<u>5,553</u>	<u>519,914</u>
At 31 December 2004	<u>489,233</u>	<u>67,883</u>	<u>7,184</u>	<u>564,300</u>

### 10. DEBTORS

	2005 £	2004 £
Trade debtors	411,656	468,751
Amounts owed by group undertakings	2,174,312	1,983,769
Other debtors	1,281	4,029
Deferred tax asset (see note 12)	84,659	67,454
Amounts recoverable on long term contracts	47,548	61,235
Prepayments and accrued income	47,510	27,212
	<u>2,766,966</u>	<u>2,612,450</u>

### 11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £	2004 £
Trade creditors	36,339	43,560
Payable for group relief	-	217,759
Corporation tax payable	115,422	-
Other tax and social security	88,756	72,202
Accruals and deferred income	55,040	30,046
Other creditors	388	10,991
Amounts owed to group undertakings	566,225	440,406
	<u>862,170</u>	<u>814,964</u>

Amounts owed to group undertakings are unsecured, accrue interest between 5.00% and 7.75% and are repayable on demand.

# KENDLE INTERNATIONAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 December 2005

### 12. DEFERRED TAXATION

The company has deferred taxation assets as follows:

	2005 Recognised £	2004 Recognised £
Excess of depreciation over capital allowances	72,521	59,564
Other short term timing differences	12,138	7,890
	<u>84,659</u>	<u>67,454</u>

The movement on the deferred taxation recognised is as follows:

	2005 £	2004 £
As at 1 January	67,454	49,786
Profit and loss account	17,205	17,668
At 31 December	<u>84,659</u>	<u>67,454</u>

### 13. PROFIT AND LOSS ACCOUNT

	2005 £	2004 £
At 1 January	2,403,643	1,934,758
Profit for the year	305,965	468,885
At 31 December	<u>2,709,608</u>	<u>2,403,643</u>

### 14. CALLED UP SHARE CAPITAL

	2005 £	2004 £
<b>Authorised</b>		
4,000 ordinary shares of £1 each	<u>4,000</u>	<u>4,000</u>
<b>Called up, allotted and fully paid</b>		
4,000 ordinary shares of £1 each	<u>4,000</u>	<u>4,000</u>

### 15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £	2004 £
Opening equity shareholders' funds	2,407,643	1,938,758
Profit for the financial year	305,965	468,885
Closing equity shareholders' funds	<u>2,713,608</u>	<u>2,407,643</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****Year ended 31 December 2005****16. FINANCIAL COMMITMENTS**

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as follows:

	Other 2005 £	2004 £
Expiring between two and five years	19,991	19,991

**17. RELATED PARTY TRANSACTIONS**

The company has taken the exemption available to it under Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Kendle International Inc. group.

The company has no other related party transactions in this period.

**18. IMMEDIATE PARENT COMPANY AND ULTIMATE CONTROLLING PARTY**

The immediate parent undertaking is Kendle International Holdings Limited.

The ultimate parent undertaking and controlling party is Kendle International Inc., a company registered in the United States of America. The only group to which the company belongs for which consolidated accounts are prepared is that of the company's ultimate parent undertaking. Copies of the consolidated financial statements of Kendle International Inc. can be obtained from 1200 Carew Tower, 441 Vine Street, Cincinnati, OH 45202, USA.