

Arnolds Veterinary Products Limited

**Directors' report and financial
statements**

Registered number 505382
For the year ended 30 June 2002



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Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2002.

Principal activity

The company's principal activity is the marketing of veterinary products. Future developments are likely to be in the same field.

Business review

The company has performed well during the year with two new pharmaceutical products being launched.

The Competition Commissions Review relating to the supply and dispensing of Prescription Only Veterinary Medicines ("POM's") continues. On 16 April following an initial consultation period, an interim "issues" statement was released. A "proposed remedies" paper is anticipated to be released shortly which is expected to be followed up by a further consultation period, with the resultant findings being published in early 2003. The Company continues to co-operate fully with the enquiry.

Results and dividends

The results for the year are set out on page 5. The directors recommend payment of a final dividend of £1,000,000 making a total dividend of £1,000,000 (2001: £950,000) for the year.

Directors and directors' interests

The directors who served during the year were as follows:

GB Evans	(resigned 5 November 2001)
SP Whitehouse	
ETW Torr	
SD Evans	
ID Page	(appointed 2 November 2001)

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

At 30 June 2002, Mr SP Whitehouse held 558,700 (2001: 563,000) shares and 82,000 (2001: 70,000) options in Dechra Pharmaceuticals PLC, the ultimate parent company. He also held 6,010 (2001: 3,065) shares in the Dechra SAYE Share Option Scheme.

The other directors were all directors of Dechra Pharmaceuticals PLC, the ultimate holding company, and their interests in the shares of group undertakings are disclosed in the financial statements of that company.

Research and development

The company has a structured research and development programme with the aim of identifying and bringing to market new pharmaceutical products. The expenditure on this activity for the year ended 30 June 2002 was £473,000 (2001: £371,000).

Directors' report *(continued)*

Auditors

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

By order of the board



SP Whitehouse
Secretary

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

3 September 2002

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 of the company 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 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.



2 Cornwall Street
Birmingham
B3 2DL

Independent auditor's report to the members of Arnolds Veterinary Products Limited

We have audited the financial statements on pages 5 to 16.

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 30 June 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

3 September 2002

Profit and loss account
for the year ended 30 June 2002

	<i>Note</i>	2002 £000	2001 *Re-stated £000
Turnover	2	10,906	10,178
Cost of sales		(6,628)	(6,277)
Gross profit		4,278	3,901
Distribution costs		(74)	(86)
Administrative expenses		(2,293)	(2,098)
Operating profit		1,911	1,717
Net interest receivable/(payable)	4	11	(79)
Profit on ordinary activities before taxation	5	1,922	1,638
Tax on profit on ordinary activities	7	(568)	(504)
Profit on ordinary activities after taxation		1,354	1,134
Dividends	8	(1,000)	(950)
Retained profit for the financial year		354	184

A statement of movements on reserves is given in note 15 to the financial statements.

All amounts relate to continuing operations.

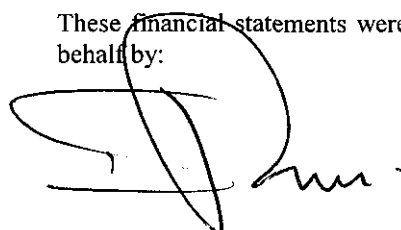
* restated on adoption of FRS 19, see note 13.

Balance sheet
at 30 June 2002

	<i>Notes</i>	2002	2001
		£000	*Re-stated £000
Fixed assets			
Tangible assets	9	283	306
Current assets			
Stocks	10	1,255	1,300
Debtors	11	3,711	3,303
Cash at bank and in hand		922	-
		<u>5,888</u>	<u>4,603</u>
Creditors: amounts falling due within one year	12	<u>(4,118)</u>	<u>(3,210)</u>
Net current assets		<u>1,770</u>	<u>1,393</u>
Net assets		<u>2,053</u>	<u>1,699</u>
Capital and reserves			
Called up share capital	14	500	500
Profit and loss account	15	1,553	1,199
Total equity shareholders' funds		<u>2,053</u>	<u>1,699</u>

* restated on adoption of FRS 19, see note 13.

These financial statements were approved by the board of directors on 3 September 2002 and were signed on its behalf by:



ID Page
Director

Reconciliation of movements in shareholders' funds
for the year ended 30 June 2002

	2002 £000	2001 *Re-stated £000
Profit for the financial year	1,354	1,134
Dividends	(1,000)	(950)
Net movement in shareholders' funds	354	184
Shareholders' funds at beginning of year (re-stated – see below)	1,699	1,515
Shareholders' funds at end of year	2,053	1,699

Statement of total recognised gains and losses
for the year ended 30 June 2002

	2002 £000	2001 £000
Profit for the financial year being total gains and losses relating to the year	1,354	1,134
Prior period adjustment (see note 13)	6	
Total gains and losses since the last annual report	1,360	

* re-stated on adoption of FRS 19, see note 13.

Notes

(forming part of 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 company's financial statements. During the year, Financial Reporting Standard 19 "Deferred Tax" became effective for this year's financial statements.

Basis of preparation

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

Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard No 1 (Revised) to prepare a cash flow statement as 100% of the voting rights of the company's shares are controlled by Dechra Pharmaceuticals PLC. The consolidated financial statements of Dechra Pharmaceuticals PLC, which include the company, are publicly available.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

Tangible fixed assets and depreciation

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

Fixtures and fittings	-	10-20% on a straight line basis
Motor vehicles	-	25% on a straight line basis

Research and development

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

Leased assets

Assets which have been funded through finance leases are recorded as tangible fixed assets and are depreciated over their estimated useful lives. Future lease obligations, net of finance charges are included in creditors. Rentals payable are apportioned between the finance element which is charged to the profit and loss account and the outstanding capital element which reduces those obligations.

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

Stocks

Stocks are valued at the lower of cost and net realisable value.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred (or accelerated) because of timing differences between the treatment of certain items for taxation and accounting purposes. 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 FRS 19 "Deferred Tax". FRS 19 has been adopted for the first time in these financial statements and comparative figures have been restated accordingly (see note 13).

Pensions

The company participates in a defined contribution pension scheme. The pension charge comprises the contributions payable.

Related parties

By virtue of the company being a wholly owned subsidiary included in the consolidated financial statements of a larger EU group, the company is exempt under Financial Reporting Standard 8 from disclosing transactions of balances with entities which are part of the group that qualify as related parties.

2 Turnover

In the opinion of the directors the company has only one class of business.

An analysis of turnover by geographical markets is as follows:

	2002 £000	2001 £000
United Kingdom	8,786	8,483
Rest of the world	2,120	1,695
	<hr/>	<hr/>
	10,906	10,178
	<hr/>	<hr/>

All turnover originates in the UK.

Notes (continued)

3 Staff numbers and costs

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

	Number of employees	
	2002	2001
Warehouse and sales	10	10
Administration and operations	43	39
	<u>53</u>	<u>49</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	909	834
Social security costs	99	87
Other pension costs	49	46
	<u>1,057</u>	<u>967</u>

4 Net interest (receivable)/payable

	2002 £000	2001 £000
Interest receivable on bank deposits	(16)	(1)
Interest payable on bank overdrafts	4	78
Finance charges payable in respect of finance leases and hire purchase contracts	1	2
	<u>(11)</u>	<u>79</u>

Notes (continued)

5 Profit on ordinary activities before taxation

	2002 £000	2001 £000
<i>The profit on ordinary activities before taxation is stated after charging</i>		
Depreciation of tangible fixed assets		
- owned assets	105	95
- finance lease assets	14	14
Auditors' remuneration	14	12
Payments under operating leases:		
Plant and machinery	10	6
Other assets	51	53
Research and development	473	371
	<hr/>	<hr/>

6 Directors' emoluments

	2002 £000	2001 £000
Directors' emoluments	209	197
Company contributions to money purchase scheme	18	17
	<hr/>	<hr/>
	227	214
	<hr/>	<hr/>

Included in the figure for directors' emoluments is £55,116 (2001: £21,875) which was paid to National Veterinary Services Limited, a fellow subsidiary undertaking for the services of the Group Finance Director and Chief Executive.

The emoluments of the highest paid director were £80,614 and company pension contributions of £7,416 were made to a money purchase scheme on his behalf.

	Number 2002
Members of money purchase pension schemes	5
	<hr/>

7 Tax on profit on ordinary activities

	2002 £000	2001 *Re-stated £000
<i>a) Tax charge for year</i>		
Current taxation	586	501
Adjustments in respect of prior periods	(6)	1
	<hr/>	<hr/>
Total current tax charge for the year	580	502
	<hr/>	<hr/>
Deferred taxation		
Origination and reversal of timing differences	(7)	3
Adjustments in respect of prior periods	(5)	(1)
	<hr/>	<hr/>
Total deferred tax (credit)/charge for the year	(12)	2
	<hr/>	<hr/>
Tax on profit on ordinary activities	568	504
	<hr/>	<hr/>

* re-stated on adoption of FRS 19, see note 13

Notes (continued)

7 Tax on profit on ordinary activities (continued)

(b) Factors affecting the tax charge for the current period

The current tax charge is higher than the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below:

	2002 £000	2001 £000
Profit on ordinary activities before taxation	1,922	1,638
Current tax charge at 30% (2001: 30%)	577	491
<i>Effects of:</i>		
Permanent timing differences:		
Other	2	13
Short term timing differences:		
Excess of depreciation over capital allowances	7	3
Other short term timing differences	-	(6)
Adjustments to tax charge in respect of previous periods	(6)	1
	1	(2)
Total current tax charge (see above)	580	502

8 Dividends

	2002 £000	2001 £000
Dividend on ordinary shares of £1 each		
Paid	-	350
Proposed	1,000	600
	1,000	950

Notes (continued)

9 Tangible fixed assets

	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost			
At 1 July 2001	335	312	647
Additions	33	69	102
Disposals	-	(56)	(56)
At 30 June 2002	368	325	693
Depreciation			
At 1 July 2001	235	106	341
Charge for the year	43	76	119
Disposals	-	(50)	(50)
At 30 June 2002	278	132	410
Net book value			
At 30 June 2002	90	193	283
At 30 June 2001	100	206	306
Net book value of assets held under finance leases			
At 30 June 2002	-	6	6
At 30 June 2001	-	28	28

10 Stocks

	2002 £000	2001 £000
Goods purchased for resale	1,255	1,300

11 Debtors

	2002 £000	2001 *Re-stated £000
Trade debtors	1,311	1,212
Amounts owed by group undertakings	2,348	2,061
Deferred tax	18	6
Other debtors	13	6
Prepayments and accrued income	21	18
	3,711	3,303

Notes (continued)

12 Creditors: amounts falling due within one year

	2002	2001
	£000	£000
Bank loans and overdraft	-	160
Obligations under finance leases	-	10
Trade creditors	886	694
Amounts owed to group undertakings	1,197	604
Other creditors	67	166
Corporation tax	597	511
Other taxation and social security	26	32
Accruals and deferred income	345	253
Deferred consideration	-	180
Proposed dividend	1,000	600
	<hr/>	<hr/>
	4,118	3,210
	<hr/>	<hr/>

13 Provisions for liabilities and charges

	Deferred tax £000
At 1 July 2001 as previously reported	-
Prior period adjustment	(6)
	<hr/>
At 1 July 2001 as re-stated	(6)
Transfer to profit and loss account	(12)
Deferred tax transferred to debtors	18
	<hr/>
At 30 June 2002	-
	<hr/>

* re-stated on adoption of FRS 19, see note 13.

Notes (continued)

13 Provisions for liabilities and charges (continued)

The amounts provided for deferred taxation under the liability method at 30% (2001: 30%) are as follows:

	2002 £000	2001 £000
Depreciation in excess of capital allowances	(8)	2
Short term timing differences	(10)	(8)
	<u>(18)</u>	<u>(6)</u>

Prior year adjustment

As a result of the company's adoption of FRS 19 "Deferred tax" full provision is now made for deferred taxation on all timing differences which have arisen but not reversed at the balance sheet date expect as follows:

- (i) deferred tax is not recognised on the difference between fair values and book values as non-monetary assets arising on acquisition where there is a binding agreement to sell the asset and the gains or loss expected to arise has been recognised;
- (ii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

The effect of the prior year adjustment was to increase profit after tax by £12,000 (2001: reduced by £2,000) and increase net assets by £18,000 (2001: £6,000).

14 Called up share capital

	2002 £000	2001 £000
Authorised:		
750,000 ordinary shares of £1 each	750	750
	<u>750</u>	<u>750</u>
Allotted, called up and fully paid:		
500,000 ordinary shares of £1 each	500	500
	<u>500</u>	<u>500</u>

15 Reserves

	Profit and loss account *Re-stated £000
At 1 July 2001 as previously reported	1,193
Prior year adjustment (see note 13)	6
	<u>1,199</u>
At 1 July 2001 (as re-stated)	1,199
Retained profit for the financial year	354
	<u>1,553</u>
At 30 June 2002	1,553

* Restated on adoption of FRS 19, see note 13.

Notes (continued)

16 Commitments under operating leases

The annual commitments under non-cancellable leases are:

	2002 Land and Buildings £000	2001 Land and Buildings £000
Leases which expire:		
After more than five years	45	43

17 Capital commitments

The company had no capital commitments at 30 June 2002 (2001: £Nil).

18 Pensions

The company participates in the Dechra Pharmaceuticals PLC Group pension scheme. This is a defined contribution scheme and is constituted as an independently administered fund with the assets held separately from those of the Dechra Pharmaceuticals Group. The pension charge comprises the contributions payable.

19 Contingent liabilities

The company guarantees the borrowings of certain other group companies which at 30 June 2002 amounted to £21,011,000 (2001: £15,236,000).

The company has a guarantee in favour of HM Customs & Excise which has a maximum potential liability £20,000 (2001: £20,000).

20 Ultimate holding company

The ultimate holding company at the year end is Dechra Pharmaceuticals PLC, which is registered in England and Wales.

The results of the company for the year are included within the group financial statements of Dechra Pharmaceuticals PLC but are not included within any other group financial statements.

Copies of the group financial statements of Dechra Pharmaceuticals PLC may be obtained from Dechra House, Jamage Industrial Estate, Talke Pits, Stoke-on-Trent, ST7 1XW.