



DECHRA PHARMACEUTICALS PLC

DECHRA PHARMACEUTICALS PLC INNOVATION, DEVELOPMENT AND DELIVERY

DECHRA PHARMACEUTICALS PLC

ANNUAL REPORT AND ACCOUNTS 2002



Dechra House
Jamage Industrial Estate
Talke Pits
Stoke-on-Trent ST7 1XW
T: +44 (0)1782 771100
F: +44 (0)1782 773366
E: corporate.enquiries@nvs-ltd.co.uk

www.dechra.com

ANNUAL REPORT AND ACCOUNTS 2002

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Dechra Pharmaceuticals operates in the healthcare/pharmaceuticals and related markets. It is the only listed pharmaceutical company which derives a substantial part of its income from the UK and international veterinary and animal healthcare markets. Dechra comprises:

National Veterinary Services

Arnolds Veterinary Products

Dales Pharmaceuticals

North Western Laboratories /
Cambridge Specialist Laboratory Services

ADVISERS

STOCKBROKER & FINANCIAL ADVISER

ING Barings
60 London Wall
London
EC2M 5TQ

PRINCIPAL BANKERS

Bank of Scotland
55 Temple Row
Birmingham
B2 5LS

AUDITORS

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

SOLICITORS

DLA
Victoria Square House
Victoria Square
Birmingham
B2 4DL

REGISTRARS

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

FINANCIAL PR

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

HIGHLIGHTS



> Significant achievements

- > Introduction by Arnolds of two new veterinary licensed products
- > Completion of two acquisitions
- > £2.8 million capital investment programme at Dales completed
- > Vetcom windows® launch and roll-out
- > Exclusive disposables distribution contract secured

	2002	2001	
> Turnover	£170m	£156m	+9%
> Profit before tax*	£7.6m	£5.85m	+30%
> Earnings per share*†	10.59p	9.29p	+14%
> Total dividend per share	4.12p	3.75p	+10%

* pre-exceptional and goodwill amortisation

† after FRS 19 re-statement

OUR STRATEGY

- > Development of the veterinary pharmaceutical portfolio
- > Increasing export opportunities
- > Further penetration of existing markets
- > Exploitation of contract manufacturing opportunities

BUSINESS DESCRIPTION

National Veterinary Services

NVS is the UK market leader in the supply of pharmaceuticals, pet related products, instruments, consumables, accessories, IT and business services to the veterinary profession.

Arnolds Veterinary Products

Suppliers of licensed branded pharmaceuticals, instruments and equipment used by the veterinary profession worldwide; focusing on the small animal and equine markets.

Dales Pharmaceuticals

Licensed manufacturer of human and veterinary pharmaceuticals for Arnolds and third party customers. It specialises in the manufacture of liquids, ointments and solid dose pharmaceuticals.

North Western Laboratories/ Cambridge Specialist Laboratory Services

NWL is the only veterinary pathology laboratory with UKAS accreditation. A multi-disciplined commercial veterinary laboratory, providing diagnostic and clinical pathology services covering over 500 test options to veterinary surgeons throughout the UK.

CSLS is the UK's leading endocrine specialist. Arnolds utilises the skills and knowledge of CSLS in its product development programme.

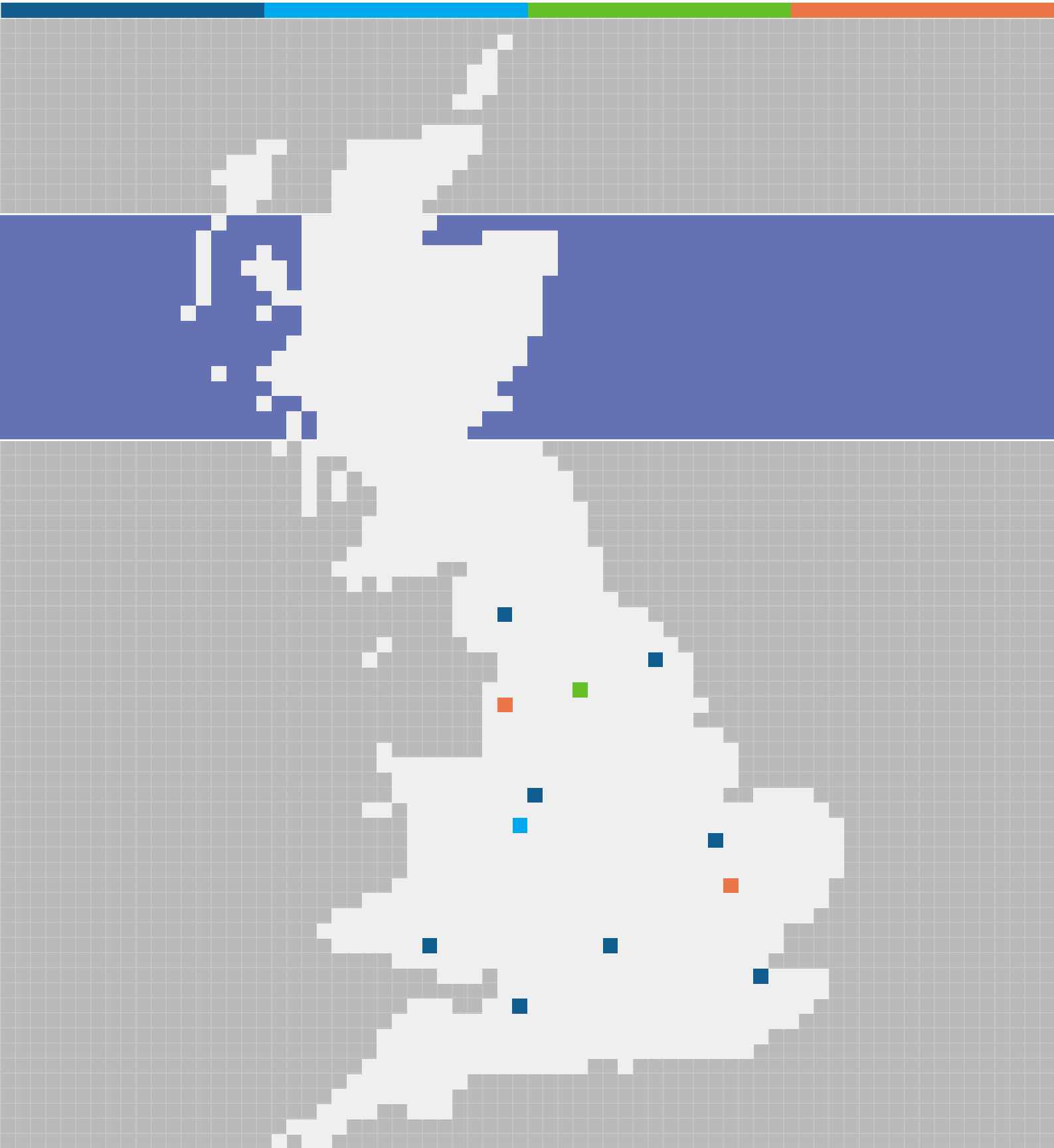
KEY PRODUCTS AND SERVICES

- Highest Market Service Levels
- Electronic Ordering Systems
- Vetcom® Practice Management Systems
- National Next Day Delivery

- Branded Veterinary Pharmaceuticals
- Veterinary Instruments
- Surgical Equipment
- Pharmaceutical Development

- Manufacturing
- Clinical Trials and Specials
- Packing
- Technical Support

- Diagnostic and Clinical Services
- Assay Innovation
- Research and Development
- Clinical Trials



CHAIRMAN'S STATEMENT



“Our core veterinary and third party contract manufacturing markets continue to grow and offer opportunities that we can exploit.”

Michael Redmond, Chairman

INTRODUCTION

The Group has produced a good performance especially when considering the outside influences which have clearly impacted on our business, in particular the foot and mouth outbreak and the on-going decline in Agriculture.

Significant achievements include the introduction of two new veterinary licensed products to our pharmaceutical portfolio and the completion of two acquisitions, the first since our Stock Market Listing. We have also completed a £2.8 million capital investment programme at Dales.

The two acquisitions were largely funded from the Group's own cash resources; their contribution to this year's results is negligible as we completed these transactions towards the end of the financial year. We expect both to be earnings enhancing in the year ending 30 June 2003. Further details are provided within the Chief Executive's Review.

FINANCIAL HIGHLIGHTS

Group turnover increased by 8.8% from £156 million to £170 million whilst operating profit (pre-goodwill and exceptional items) improved from £8.23 million to £8.77 million. Pre-tax profit (pre-goodwill and exceptional items) was £7.6 million (2001: £5.85 million), an increase of 29.9%. Earnings per share, on the same basis, was 10.59 pence compared to 9.29 pence last year, an increase of 14.0%.

Net debt at the year-end increased to £14.94 million and reflects the cash consideration for

the acquisitions and the costs of upgrading our pharmaceutical manufacturing facilities.

DIVIDEND

In light of these results and in line with the Group's progressive dividend policy, the Board is recommending a final dividend of 2.75 pence (2001: 2.5p), an increase of 10%. This, together with the interim dividend of 1.37 pence paid in April 2002 gives a total for the year of 4.12 pence (2001: 3.75 pence). The total dividend is covered 2.4 times by profit after tax. If approved at the Annual General Meeting on 16 October 2002, the final dividend will be paid to shareholders on the Register as at 1 November 2002, on 27 November 2002.

PEOPLE

In November 2001, Ian Page was appointed Chief Executive following the resignation of Gary Evans. Prior to this he was Managing Director of NVS and played a major role in establishing this division's leading position within its marketplace. Martin Roach replaced Ian as Managing Director at NVS in January this year. He has extensive experience within the distribution and veterinary pharmaceuticals industries both in Europe and North America.

In January we also announced, with great sadness, the sudden death of Peter Redfern who from 1997, as Chairman, guided the Group through the MBO to flotation. Although he is missed, he has left with us a strong legacy upon which we shall build further.

On behalf of the Board and shareholders I would like to welcome all the staff who have

joined the Group over the last 12 months.

I also wish to place on record our thanks to all our employees throughout our subsidiaries for their hard work and dedication in delivering a good result in a challenging year which has seen many achievements.

PROSPECTS

Our core veterinary and third party contract manufacturing markets continue to grow and offer opportunities that we can exploit. We will further expand our licensed veterinary product portfolio through our own in-house development capabilities whilst, at the same time, continuing to look for product acquisition opportunities.

The merger between Dales and Anglian is progressing well and the strengthened management team is already starting to realise the exciting potential for this business.

North Western Laboratories ("NWL") and Cambridge Specialist Laboratory Services ("CSLS") have made encouraging progress since acquisition with results to date in line with our pre-acquisition expectations.

Trading in the first two months of the new financial year is in line with our expectations and we remain confident in the prospects for growth being realised from our strategic development plans.

Michael Redmond Chairman
3 September 2002

BOARD OF DIRECTORS



01. IAN PAGE
CHIEF EXECUTIVE

Aged 41, Ian joined the Group's principal trading subsidiary NVS at its formation in 1989 and was appointed Managing Director in 1998. He joined the Board in 1997 and became 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 medical arena.

02. SIMON EVANS B.COM, ACA
GROUP FINANCE DIRECTOR

Aged 38, 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.

03. ED TORR
EXECUTIVE DIRECTOR

Aged 42, Ed joined NVS as Sales Director in 1997 and was part of the MBO team. In 1998, he was appointed Managing Director of Arnolds and Dales. Prior to joining the Group, he worked within the animal healthcare sector for a number of companies including ICI, Wellcome and Alfa Laval Agri.

04. MICHAEL ANNICE BSC(HONS), M.R. PHARM.S.
EXECUTIVE DIRECTOR

Aged 42, 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 Production Director at the time of the MBO and joined the Board in 1997. Mike was appointed Managing Director at Dales in March 2002.

05. MICHAEL REDMOND
NON-EXECUTIVE CHAIRMAN

Aged 58, 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. Mr Redmond is currently also a Non-Executive Director and Chairman at Microscience Ltd, Synexus Ltd and Arakis Ltd and a Non-Executive Director at Strakan Ltd.

Former Non-Executive Directorships include Biocompatibles International plc, CeNeS plc and Cantab Pharmaceuticals plc.

06. MALCOLM DIAMOND MBE
SENIOR NON-EXECUTIVE DIRECTOR

Aged 53, he joined the Board in August 2000 prior to the Group's flotation in September of the same year. Malcolm retired after 18 years as Chief Executive of Trifast plc in March 2002 although he will continue to be involved with the Company until September 2003. Currently, he is also advising a number of private businesses on their strategic planning, management development programmes and marketing initiatives. He was, until its takeover in March 2002, a Non-Executive Director of Sytner Group plc and was formerly a Member of both the CBI Smaller Quoted Companies Working Committee (SQC) and the National Manufacturing Council.

07. STEPHEN WHITEHOUSE FCCA
COMPANY SECRETARY

Aged 54, Stephen has been with the Group since 1989 and was part of the MBO team. He is Finance Director at Arnolds and was appointed Company Secretary at flotation in 2000. Prior to this, he worked for twelve years at GKN Sankey and ten years at British Oxygen.

CHIEF EXECUTIVE'S REVIEW



“Product opportunities remain key to the Group’s strategy as they offer significantly higher margin returns across the Group.”

Ian Page, Chief Executive

INTRODUCTION

In my first year as Chief Executive, I am delighted to report that Dechra has made significant developments in taking forward and delivering our strategy for growth.

THE COMPETITION COMMISSION INQUIRY

The Competition Commission’s Review relating to the supply and dispensing of Prescription-Only Veterinary Medicines (‘POMs’) continues.

On April 16, following an initial consultation period, an interim ‘issues’ statement was released by the Commission which appeared on the Regulatory News Service.

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 inquiry and we will update shareholders when any new relevant information is available.

STRATEGY DEVELOPMENT

Returning to our strategy, I would like to outline the progress achieved during the year.

• The development of our veterinary pharmaceutical portfolio

Arnolds has successfully licensed and marketed two new veterinary prescription-only medicines - Vetoryl® and Felimazole®, both of which are projected to make a significant contribution to revenues during the new financial year.

Product opportunities remain key to the Group’s strategy as they offer significantly higher margin returns across the Group.

Whilst our current pipeline will deliver satisfactory returns in the short and medium term, we are now accelerating its development to drive longer-term growth prospects.

We are continuing to identify niche opportunities and additionally are developing high-value branded generics. We also have alliances with UK and international pharmaceutical companies to develop products for the veterinary markets worldwide.

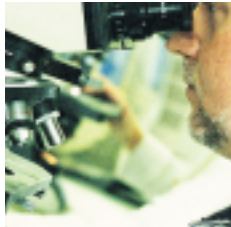
• Increased Export Opportunities

Sales of our licensed pharmaceuticals will be significantly increased by licensing products in overseas markets. Mainland Europe offers short to medium-term opportunities and we currently have a number of licensing dossiers under preparation for submission through the ‘mutual recognition’ system.

Dales, our manufacturing division, has started the procedure to gain Federal Drug Administration (‘FDA’) approval as we recognise the marketing opportunities for niche products in North America. Whilst there will be no short-term revenue benefits, this is an important step to achieve our long-term growth potential.

• Exploitation of Contract Manufacturing

The acquisition of Anglian Pharma Plc (‘Anglian’) has more than doubled our contract manufacturing revenues and substantially enhanced our management capabilities with the retention of senior Anglian personnel in all areas of the business. The rationalisation of Anglian is proceeding to plan with the transfer of business to Dales’ site at Skipton expected to be completed by the end of January 2003.



- > **Build on the strengths and capabilities recently brought to the Group through Anglian, NWL and CSLS**
- > **Develop export markets through joint ventures in the EU and North America**
- > **Continue to add value and enhance the service offerings to the veterinary profession**

The 30% organic sales growth achieved this year provides a good base from which to develop this business further in particular through Anglian's sales team who already have a proven track record in securing new contracts and developing long-term relationships.

- **Further Penetration of Existing Markets**
Our principal trading subsidiary, National Veterinary Services ("NVS"), again out-performed market growth in the year being reported by approximately three percentage points.

NVS has launched Vetcom windows® our in-house developed practice management software which not only generates regular rental income but considerably improves veterinary practices marketing and business management capabilities.

The NVS Central operation in Stoke-on-Trent, Staffordshire, has been considerably expanded by the acquisition of a lease for an adjacent warehouse. The site has been refurbished and provides an additional 6,000 pallet spaces to support growth across the Group. The new facility will further improve operational efficiencies at NVS as well as providing increased security and improved staff facilities.

More significantly, the acquisition of North Western Laboratories ("NWL") and Cambridge Specialist Laboratory Services ("CSLS") has enabled us to extend our service offering to the veterinary profession.

NWL and CSLS are well regarded within the industry for their high quality service levels and clinical research methodologies. NWL, based in Poulton-le-Flyde, is a multi-disciplined veterinary laboratory with UKAS accreditation and provides diagnostic and clinical pathology services to veterinary surgeons throughout the UK. Around 80% of its work is focussed around the companion animal sector.

NWL's services are being promoted by NVS's sales team and we are already beginning to see new business as a result. In addition we have launched a national 'sample' collection service utilising the NVS network. This new service offered to our customers gives us a competitive edge in this exciting and developing market.

CSLS, based in Sawston, South Cambridgeshire is the UK's leading specialist veterinary endocrine laboratory. For a number of years, Arnolds has utilised the skills of CSLS in its product development

programme - in particular they played a key role in the newly launched licensed products Vetoryl® and Felimazole®.

Summary

Despite the negative influence of factors outside of our control, our strong and capable team have delivered a good result and a number of significant achievements, as I have just outlined.

We welcome the additional skills and expertise our recent acquisitions have brought to the Group and, with the continued support of the Board, management and staff, I look forward to the future with enthusiasm and confidence.

Ian Page Chief Executive
3 September 2002



VETCOM TEAM

VETCOM WINDOWS® PROVIDES THE VETERINARY PROFESSION WITH A COMPUTER SYSTEM THAT FULFILLS ALL THE REQUIREMENTS TO MANAGE THEIR BUSINESSES EFFECTIVELY AND PROFITABLY.

SIMON LAHEY VETCOM MANAGER, AND HIS TEAM AIM TO PROVIDE THE BEST SERVICE POSSIBLE TO THE VETERINARY PRACTICES, FROM INSTALLING THE SYSTEM TO FREE INDUCTION TRAINING; FREE HELP DESK SUPPORT; FREE SOFTWARE DEVELOPMENT AND PROGRAM ENHANCEMENTS AND NEXT DAY ENGINEERING SUPPORT.

NVS, our principal trading subsidiary, is the UK's leading veterinary wholesaler. Our central warehouse which carries over 12,000 product lines, pharmaceuticals instruments, consumables and related products, provides a comprehensive service to over 1,800 veterinary practices.

Traditionally, NVS has focussed on the small animal market which has provided solid growth over recent years. However, we have strengthened our large animal offering through new software, products and marketing promotions. The large animal market began to recover towards the end of 2001 and showed strong growth in the early months of this calendar year albeit from a lower base following the foot and mouth crisis the previous year.

In the year being reported, NVS accounted for 94% of Group turnover of which, 80% relate to pharmaceuticals and 20% to related products. Sales increased by 8% which was three points above market sector growth.

IMPROVED SERVICES THAT BENEFIT THE CUSTOMER

NVS will remain the leading veterinary wholesaler by continuing to improve the services we offer our customers.

VETCOM

Vetcom, our in-house developed practice management software continues to provide operational benefits to both NVS and its customers. The software was first introduced in 1990 and has provided a solid foundation for the business. Today, over 80% of orders received daily by NVS are processed electronically via the VetCom system - the balance being handled by our Customer Care team.

In April 2002, following several years of development and extensive tests in trial practices, we launched a Windows based full practice management system.



“NVS continues to focus on its core wholesaling business as we consolidate on our market share, which remains above 40% in a highly competitive market.”

Martin Roach, Managing Director

This comprehensive management tool not only allows the veterinary practice to improve its own marketing initiatives to its own client base, it enables veterinary practices to do everything from scheduling appointments to holding client records, invoicing, stock control, ordering and accounting.

In June 2002, Vetcom Tracker was launched; this software has been developed for the large animal veterinary practice and has enabled them to meet Government Safety Regulations to track prescribed veterinary pharmaceuticals from ordering through to administration in animals destined for human food production.

Revenues are generated from these products by monthly rental; we will increase market penetration as more practices utilise the software.

VET2PET

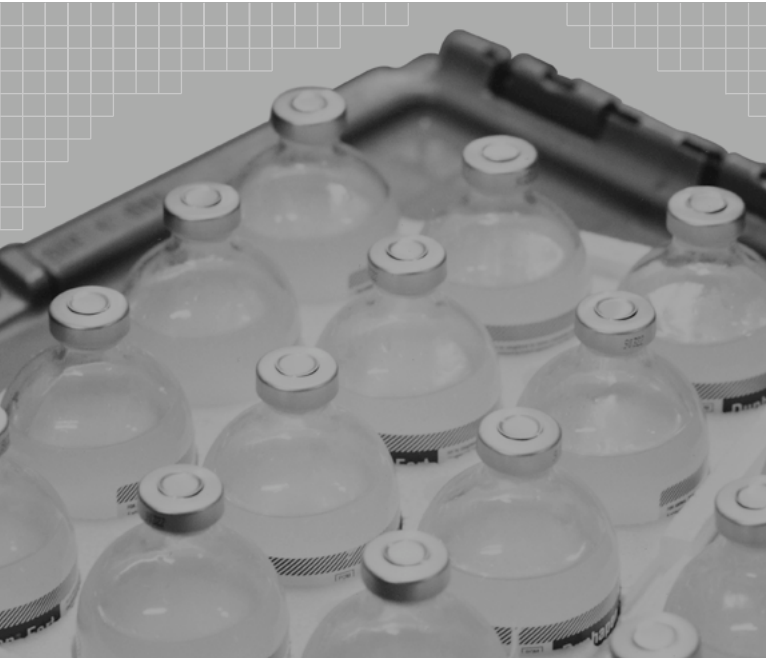
www.vet2pet.co.uk

This on-line secure veterinary pet superstore, available to the consumer, lists over 1,500 high quality premium products. In addition to the electronic service, NVS has supplied over 1,000 pet accessories catalogues to veterinary practices enabling their customers to browse in the waiting room. Products can be ordered on-line or via the surgery and delivered the next day directly to customers homes or to their veterinary practice.

This offering greatly extends the choice for pet owners and benefits the practice as it can add value to its service by being able to supply, on demand, product without the need to stock. As a result, we have seen a significant increase in sales from this activity which although from a low base is encouraging for the future.



Our Pet Care Insurance, operated by Pinnacle, continues to sell well. We anticipate that by the end of 2002, around 10,000 policies will have been underwritten, up from 4,000 in 2001 and although this service is not considered a significant revenue provider, it underpins our strategy of improving the services we offer.



LABORATORY AND CLINICAL SERVICES

Following the acquisition of NWL and CSLS we have extended our service offering to include clinical and pathology services which are being marketed by our customer care and sales teams.

NVS INDICES

As part of our objectives of improving management information to veterinary practices, we introduced NVS Indices. This highly successful product provides information to the veterinary practices on their purchase levels and compares their business with others in their territory as well as nationally. This helps them manage their costs, identify growth areas and improve their buying and stock control functions.

CUSTOMER CARE

Customer service remains fundamental to our business. We must ensure that we can deliver product in full and on time. I am pleased to report that we have maintained our 98% service levels.

Meeting and exceeding our customers' expectations is crucial. During the year, we increased the level of staffing in this area. Training is also key and we have run a number of courses to enable staff to acquire the experience and product knowledge which enables them to provide professional advice to our customers.

We continue to examine ways to further improve our customer care service. Currently, we are in the process of upgrading our telephone system thus further improving the way in which we handle enquiries.

OPERATIONAL IMPROVEMENTS

The automated picking system introduced in 2001 at our Central warehouse operation in Stoke has continued to provide substantial cost savings and improved productivity.

However, with the increase in volumes already achieved, and to support future growth, we recently acquired a lease for additional warehousing capacity on an adjacent site which has more than doubled capacity. The extended facility, allows us to bring all our stock onto one site which significantly improves our stock control and efficiency.





“Customer service remains fundamental to our business. I am pleased to report that we have maintained our 98% service levels.”

Martin Roach, Managing Director

In addition to improving our central operation, we opened a depot in Wallingford, Berkshire and added new van routes to satisfy increased volume and better meet practices requests for specific delivery times.

Our depot in Swanley, Kent, is near capacity. Therefore, during this new financial year, we will be establishing depots north and south of the Thames which will satisfy increased business in the South-East whilst providing our veterinary practices in this region with an improved service.

STRATEGY FOR GROWTH

2002 has seen NVS produce a creditable performance. To ensure we remain in a leading position our strategy for growth will be based on:-

- Identifying new areas for development whilst maintaining our focus on our core business
- Further improving operational efficiencies and productivity
- Continuing to provide the highest levels of service
- Maintaining and developing close relationships with our customers to ensure we are meeting their needs
- Continue to enhance our IT capabilities both internally and for our customers
- Identifying new sources of products which will provide benefits to both the veterinary profession and their customers
- Further improving purchasing in order to retain our competitiveness and increase margins



www.vetwholesaler.co.uk

Martin Roach
 Managing Director
 National Veterinary Services Limited
 3 September 2002





LICENSING & REGULATORY

KEITH COLLIS AND THE REGULATORY TEAM SUPPORTED BY DR FRANCESCA HOLLAND PHD, MRCVS FORM PART OF THE TEAM RESPONSIBLE FOR REGULATION AND LICENSING OF THE PHARMACEUTICAL DEVELOPMENT PROGRAMME. THEY ALSO PROVIDE TECHNICAL SUPPORT TO OUR CUSTOMERS AND OUR SALES & MARKETING TEAM.

THE TEAM HAS SUCCESSFULLY LICENSED HYPERCARD[®], VETORYL[®] AND FELIMAZOLE[®]. OUR GROWING PORTFOLIO OF DEVELOPMENT PROJECTS IN THE COMPANION ANIMAL SECTOR WILL PROVIDE THE TEAM WITH FUTURE OPPORTUNITIES.

Our focus on new products, key suppliers and strategic alliances has seen positive contributions in all sectors of Arnolds' business.

Oxyglobin[®] and Vetoryl[®] which were developed and introduced to the market in 2001/2002 have performed ahead of expectations whilst other key pharmaceutical brands such as Equipalazone[®], Soloxine[®], Intubeaze[®], Willcain[®], Intra Epicaine[®] and Peridale[®] have increased sales over the period. Our key distributorships of 3M[®], B.Braun and Sims-Portex[®] have also achieved growth in a mature market.

We are also successfully continuing to develop our export markets through EU product licensing and by existing and new international alliances all of which will ensure good future growth overseas.

ADDING VALUE TO OUR CUSTOMERS

As part of our Continuous Development Programme, Arnolds has introduced a series of educational seminars targeted at our customers - the veterinary surgeons.

In the first series of seminars, entitled "Advances in Small Animal Medicines", lectures were delivered to 600 delegates by independent speakers renowned for their expertise in fields related to Arnolds product sectors. Post seminar research showed an 80% positive approval rating in the subjects covered which included:-

- Advances in Canine Endocrinology
- Anaemia: The Investigation and Treatment
- Advances in Feline Endocrinology and Cardiology

Throughout these seminars, Arnolds reinforces its product range and enforces our position as a key player in the veterinary pharmaceutical market.

PRODUCT DEVELOPMENT

Arnolds' strategy is to develop and market niche pharmaceutical products focussed on the companion animal sector.

Our pipeline in product development remains centred around:-

- Cardiology
- Endocrinology/Hormonal
- Respiratory
- Oncology



“We are successfully continuing to develop our export markets through EU product licensing and by existing and new international alliances all of which will ensure good future growth.”

Ed Torr, Managing Director

The success of recent introductions to our licensed product portfolio, including Vetoryl® and Felimazole®, provide exciting opportunities for the future. Already, preparation is underway to license them in other countries, initially in Europe.

We are constantly investigating opportunities to supplement our own-brand product range with associated products through third party alliances. In the final quarter of the year, our strength in the instruments and consumables market was further enhanced through a distribution agreement with Cook Veterinary Products which gives us exclusive rights to market their veterinary products in the UK.

OPERATIONS

As we have continued to experience growth we have had to adapt to the ever-changing needs of the business and its customers. The warehouse operation has been reorganised, increased technical support has been introduced and our front line sales and marketing teams have been provided with a more sophisticated database which has further focussed their activities.

Within Arnolds we employ some 50 people, and it is a credit to each and every one of them that through their commitment and effort, we have delivered a strong performance.

A LOOK TO THE FUTURE

The veterinary industry in the UK faces an exciting future.

Arnolds is in a strong position to capitalise on this challenging market-place, and the opportunities that we have created for the future:-

- New innovative products
- A strong development pipeline
- The people and the structure to deliver, and
- A strong brand with a companion animal focus

Ed Torr
Managing Director
Arnolds Veterinary Products Limited
3 September 2002



www.arnolds.co.uk



MANAGEMENT TEAM STRENGTHENED

THE TEAM HAS BEEN SIGNIFICANTLY STRENGTHENED FOLLOWING THE ACQUISITION OF ANGLIAN. SIMON DARVILLE, STEVE DEWAR, STEPHEN WILLIAMS AND GARETH DAVIES BRING TO THE BUSINESS ADDITIONAL TECHNICAL EXPERTISE AND EXPERIENCE WHICH STRENGTHENS THE SALES & MARKETING, PRODUCTION, PACKING AND TECHNICAL SUPPORT FUNCTIONS - ALL ESSENTIAL FOR THE FUTURE GROWTH AND DEVELOPMENT OF DALES.

Dales Pharmaceuticals, the Group's manufacturing arm located in Skipton, North Yorkshire, is a fully licensed M.C.A. [Medicines Control Agency] approved plant. It produces veterinary pharmaceuticals on behalf of the Group's subsidiary, Arnolds, and human pharmaceuticals for third parties on a contract manufacturing basis.

OPERATIONS

During the year, we have had to adapt to change and create opportunities to meet our strategic objectives.

We have been successful in developing existing customer relationships whilst, at the same time, converting enquiries into sales from new customers both in the UK and overseas.

BUILDING FOR THE FUTURE

The manufacturing facilities have undergone extensive re-development at a cost of £2.8 million. The 57,000 sq. ft unit, which has trebled capacity, has taken more than twelve months to complete and was officially opened in May. The building was named the Peter Redfern Building in memory of our late Chairman.

The development, which we believe to be the most modern and best of its kind in the UK, has exceeded customer expectations. It operates under a Building Management System which monitors and controls the environment, thus providing protection for both products and staff who work within the manufacturing and packing departments.

Solid dose production capacity has been significantly increased to one billion tablets/capsules per annum, with packing capacity similarly increased via fully automated packing lines.

In addition to solid dose production, key capabilities include production and packing of liquid products such as injections, oral suspensions, syrups and semi-solid products such as gels, pastes, creams and ointments.

STRENGTHENING THE OFFERING

The scope of products and services we can now offer both new and existing customers has been expanded through the acquisition of Anglian, which was previously renowned as a niche manufacturer of liquids, ointments and solid dose pharmaceuticals.



“Through the strengthened operating resource at Dales, created by the capital investment and the Anglian merger, we are in a stronger position to exploit the opportunities that exist in the human healthcare market.”

Mike Annice, Managing Director

These complement the existing Dales range of speciality solid dose tablets, capsules and powders and provides opportunities for the enlarged sales team to “cross sell” the additional capabilities arising from the expanded product offering.

FOCUSING ON EFFICIENCY AND SERVICE

Currently, we are in the process of transferring the manufacturing and packaging activities of Anglian to Skipton. This will create a single operation, with added management resource, who can meet on-going and future requirements for both existing and new customers. It will also have long-term benefits for the business with increased operational and productivity efficiency, and an improved service to our customers.

MOVING FORWARD

Over the last three years, the pharmaceutical contract manufacturing market is estimated to have grown from £600 million to £800 million, as leading pharma businesses look to out-source production of certain product lines to achieve improved returns and efficiencies on their major products.

Through the strengthened operating resource at Dales, created by the capital investment and the Anglian merger, we are in a stronger position to exploit the opportunities that exist in the human healthcare market.

This, together with our close working relationship with Arnolds on the development and manufacture of its current and future licensed veterinary product portfolio, provides a solid foundation upon which to further build our business.

Mike Annice
Managing Director
Dales Pharmaceuticals Limited
3 September 2002



www.dalespharma.com

NORTH WESTERN LABORATORIES / CAMBRIDGE SPECIALIST LABORATORY SERVICES



THE PATHOLOGY TEAM

THE TEAM IS HEADED BY JANE MILLER, BVET MED MRCVS FRCPATH. IN ADDITION TO HER EXTENSIVE KNOWLEDGE OF CLINICAL PATHOLOGY, JANE HAS A PARTICULAR INTEREST IN HISTOPATHOLOGY, CYTOLOGY AND PATHOLOGY. OTHER MEMBERS OF THE TEAM INCLUDE; DR GERALDINE HALE BVM&S PHD CERT PM MRCVS, WHO HAS AN INTEREST IN INTERNAL MEDICINE, MICROBIOLOGY AND EXTENSIVE EXPERIENCE OF CURRENT VETERINARY THERAPY; SUE BECK BVMS MRCVS, WHO SPECIALISES IN DERMATOLOGY AND FELINE AND RABBIT MEDICINE AND DR TED ORMEROD BVMS, PHD, MRCVS, THE PRINCIPAL VETERINARY HISTOPATHOLOGIST. WE ALSO RETAIN THE SERVICES OF ROMAIN PIZZI BVSC, MSc, MRCVS, A SPECIALIST IN AVIAN AND EXOTIC SPECIES.

NORTH WESTERN LABORATORIES

COMPETITIVE ADVANTAGE

NWL provides clinical and diagnostic pathology services to the veterinary profession within the UK and increasingly in Europe.

NWL is the only commercial laboratory in this sector of the market with UKAS accreditation to ISO 17025, providing a significant advantage over the competition in a number of markets. This internationally recognised standard, monitors all of the requirements that testing laboratories have to meet if they wish to demonstrate that they operate a quality system, are technically competent, and able to generate technically valid results. UKAS accreditation has already given us a competitive advantage in securing a number of substantial new contracts in the last 2 years.

ADDING VALUE TO CLIENT SERVICE

NWL provides its veterinary clients with a highly complementary range of services, general veterinary practitioners continue to provide the largest proportion of the laboratory's income.

With the changes taking place in the market, NWL is well placed to provide an integrated laboratory solution to the growing number

of corporate and large group veterinary practices whilst continuing to provide the smaller practice clients with a highly personalised service.

Considerable emphasis is placed on the development of client services. The Sameday courier collection service is to be enhanced. In addition, a Nextday service through the NVS logistics system is to be introduced. Web based sample tracking, reporting and information services are under development which will add value to the business and improve our competitive advantage.

DIVERSIFICATION

Microbiological and analytical services to the food industry continue to develop and, although this sector is highly competitive, we are currently undergoing a significant investment which will create additional capacity allowing us to exploit this and other new markets. Similarly, we anticipate our services to the pharmaceutical industry to expand as further value of UKAS accreditation is realised.

EXPANSION OF FACILITIES

Major expansion of the laboratory facilities is underway. This will not only provide increased laboratory space, but will also accommodate the planned expansion of the pathology team.



“One of the unique strengths of the laboratory has been the research and development of a wide range of specialist assays, in particular, radio-immunoassay, a highly specialist analytical technique not commonly available from competing laboratories.”

Alistair Parker/Tom Williams, Joint Managing Directors



www.nwllabs.co.uk



www.cslabs.co.uk

CAMBRIDGE SPECIALIST LABORATORY SERVICES

SPECIALIST EXPERTISE

The team at CSLS, headed by Helen Evans, enjoys an enviable international reputation for expertise in the highly specialised field of veterinary endocrinology.

Helen was instrumental in starting the first specialist veterinary endocrinology laboratory in the 1980's. Following the break up of the original enterprise, Helen took the opportunity with a number of colleagues to establish CSLS. Since then, the laboratory has gone from strength to strength through the provision of a range of both routine and highly specialised hormone assays for the veterinary practitioner.

RESEARCH AND DEVELOPMENT

One of the unique strengths of the laboratory has been the research and development of a wide range of specialist assays, in particular, radio-immunoassay, a highly specialist analytical technique not commonly available from competing laboratories. This, together with the expertise of Helen and her team are recognised worldwide by veterinary endocrinologists. Providing assay services for UK and overseas universities and research organisations gives an increasing source of revenue. The laboratory works closely with individual specialists to develop assay methods and undertakes the testing to an extremely high standard of competence and reliability.

MAJOR ASSET

CSLS is a major asset, providing research, testing and trial facilities for the Group particularly Arnolds Veterinary Products, as they develop a growing portfolio of veterinary endocrinology pharmaceuticals and other specialist products.

Alistair Parker/Tom Williams
Joint Managing Directors
North Western Laboratories/
Cambridge Specialist Laboratory Services
3 September 2002

FINANCIAL REVIEW



“During the year, significant investment of nearly £7.0 million was made both in our existing businesses and acquisitions.”

Simon Evans, Group Finance Director

OPERATING RESULTS

The Group profit and loss account is shown on page 33 and discloses a profit before tax, exceptional item and goodwill amortisation of £7.6 million, an increase of 29.9% on last year calculated on the same basis. A significant contributor to this increase was a lower interest charge, reflecting both lower base rates this year and the full year effect of reduced gearing following our listing on the London Stock Exchange in September 2000.

Group turnover increased by 8.8% (8.3% excluding acquisitions) compared to 7.5% last year. This reflects a slow recovery in the market following the foot and mouth outbreak last year, the benefit of new product introductions at Arnolds and a 30.0% increase in third party contract manufacturing turnover at Dales.

Gross margin showed a slight decline during the year from 12.3% to 12.1%, reflecting an increased competitive environment faced particularly by NVS together with fewer opportunities for strategic stock purchases. Dales was also impacted by the costs of the expansion.

However, I am pleased to say that the increase in operating costs was restricted to 5.4% (before exceptional items and goodwill amortisation and excluding acquisitions) compared to the increase in turnover of 8.3%. This was achieved despite increased expenditure on new product development.

Overall, Group operating margin (before exceptional items and goodwill amortisation) reduced slightly to 5.15% from 5.26%.

During the year, the Group made its first two acquisitions since flotation. These were both made towards the end of our financial year and their impact on the results for this year was therefore negligible. We expect both acquisitions to be earnings enhancing in the year ending 30 June 2003.

The operations of Anglian Pharma Manufacturing Ltd are in the process of being integrated into Dales. Rationalisation costs associated with the integration will be shown as an exceptional operating item in the year ending 30 June 2003.

NET INTEREST CHARGE

The net interest charge of £1.2 million was covered 7.5 times by operating profit before goodwill and exceptional item. This compares to 3.5 times for the same period last year.

EXCEPTIONAL ITEM

The exceptional item represents compensation for loss of office paid to Gary Evans the former Chief Executive together with associated legal fees. This represented his contractual entitlement.

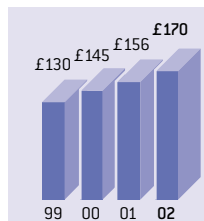
TAXATION

The tax charge of 30.8% is slightly higher than the standard UK corporation tax rate of 30.0%. The difference is principally due to certain expenses that are not allowable for tax, such as goodwill amortisation.

EARNINGS PER SHARE AND DIVIDEND

Adjusted earnings per share (before exceptional items and goodwill amortisation) was 10.59p (2001: 9.29p; 2001 pro-forma 9.66p), an increase of 14.0% (pro-forma: 9.6%).

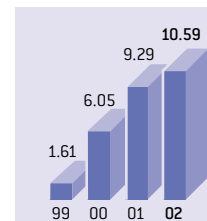
TURNOVER (£m)



OPERATING PROFIT (£m)



EARNINGS PER SHARE (p)



- > Turnover up 9%
- > Operating Profit up 7%
- > Earnings per Share up 14%
- > Dividends up 10%

Pro-forma earnings in 2001 were calculated before exceptional items and before a pro-forma interest adjustment which reflected the effect on interest payable and similar charges on bank and other loans (and the related tax effect) of replacing the funding in place prior to the Group's flotation on the London Stock Exchange on 22 September 2000 with that in place from 22 September 2000 onwards as if this financing had been in place since 1 July 2000.

The proposed final dividend is 2.75p per share (2001: 2.5p) making a total of 4.12p for the year (2001: 3.75p). Dividends were covered 2.4 times by profit after taxation.

CAPITAL EXPENDITURE

Total fixed asset additions (excluding acquisitions) were £2.8 million of which £2.0 million related to the Dales expansion. The depreciation charge for the year was £1.3 million compared to £1.2 million last year, the increase reflecting the continued investment in the Group.

CASH FLOW AND NET DEBT

During the year, significant investment of nearly £7.0 million was made both in our existing businesses and acquisitions. This caused net debt to rise from £8.7 million to £14.9 million. Interest cover, however, remains healthy.

BALANCE SHEET AND SHAREHOLDERS' FUNDS

Shareholders' funds increased to £5.75 million during the year, reflecting the retained profit for the year of £3.0 million and the issue of £1.0 million of ordinary shares to partly fund the acquisition of North Western Laboratories Limited and Anglian Pharma Plc. In addition, £0.75 million of shares are still to be issued in respect of the Anglian Pharma Plc acquisition.

Working capital increased from £5.4 million to £9.1 million, of which £0.5 million related to new acquisitions. The remainder of the increase principally reflected an investment in stocks at NVS to further improve service levels.

PRIOR YEAR ADJUSTMENT

The Group has adopted FRS 19 "Deferred Tax" for the first time. This has resulted in a net deferred tax asset not previously provided being included in the balance sheet. All comparative figures have been amended accordingly.

CAPITAL POLICY

It is the policy of the Company to maintain a prudent balance between equity financing and debt financing. Whilst the cost of debt is normally lower than the cost of equity, it is at the expense of financial flexibility. The Company will therefore only use debt

financing to the extent that minimum internal interest cover targets are not breached.

TREASURY POLICY

Overall treasury policy is set by the Board and monitored by myself. The Company does not speculate on short term interest rate or exchange rate movements. All of the Group's borrowings (with the exception of hire purchase contracts) are currently at floating rates.

No borrowings are denominated in foreign currencies and the Group has no significant foreign exchange exposure.

LIQUIDITY MANAGEMENT

The Group's cash position is monitored on a daily basis by myself. 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 20 to the financial statements.

Simon Evans Group Finance Director
3 September 2002

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CORPORATE GOVERNANCE

Combined Code

The Financial Services Authority (FSA) listing rules contain the Combined Code – ‘Principals of Good Governance and Code of Best Practice.’

In the opinion of the Directors, the Group has complied throughout the period with Section 1 of the Code of Best Practice with the exception of the following items (references in brackets are to provisions in the Combined Code):

- a) Composition of the Remuneration Committee. From January 2002 the Remuneration Committee consisted of two Non-Executive Directors. Prior to this it consisted of three Non-Executive Directors (B.2.2).
- b) Composition of the Audit Committee. From January 2002 the Audit Committee consisted of two Non-Executive Directors (all of whom are independent). Prior to this there were three Non-Executive Directors (D.3.1).

Board of Directors

The details of the Board of Directors are shown on page 5 and in the Directors' Report on page 29. There is a clear division of responsibilities between the Chairman and Chief Executive. The Board consists of an independent Non-Executive Chairman, four Executive Directors (including the Chief Executive) and one other independent Non-Executive Director.

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.

The Board considers an independent Director to be one who has no relationship with any party who may undermine independence and is not dependent on the Company for his or her primary source of income or paid by the Company in any capacity other than a Non-Executive Director. In addition, an independent director will not previously have been a senior manager of the Company, and will not have participated in the Company's incentive bonus schemes or pension schemes.

The Board considers M.M. Diamond to be the senior independent Director.

Conduct of Board Meetings

The Board normally has twelve regular monthly Board meetings including two meetings where the full year and half year results are dealt with. Strategy meetings are convened as required. A schedule of matters reserved for the Board is maintained comprising key events and decisions.

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

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

The Directors regularly receive financial and other information on the Group's activities and performance and those of the individual businesses. Each Director is entitled on request to receive information to enable him to make informed judgements and adequately discharge his duties and has access to the advice and services of the Company Secretary on all matters of Board procedure. The Directors' terms of appointment also allow them, at the Company's expense, to take independent professional advice in connection with their duties.

Although no formal training programme exists, all Directors are encouraged to keep up to date on matters relevant to the Group and attend briefings and seminars as appropriate.

The Board is assisted by the following committees, all of which operate within written terms of reference.

CORPORATE GOVERNANCE CONTINUED

The Audit Committee

Members: M. Redmond (Chairman), M.M. Diamond.

The Audit Committee generally meets twice a year. The terms of reference of the Audit Committee include the following responsibilities:

- To review and advise the Board on the interim and annual financial statements
- To review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response
- To make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal
- To review and oversee the Company's approach to internal control and risk management

The Remuneration Committee

Members: M.M. Diamond (Chairman), M. Redmond.

The Remuneration Committee meets at least once per year and sets the pay and benefits of the Executive Directors and approves their terms and conditions and bonus schemes having regard to performance. A report on the remuneration of Directors appears on pages 24 to 27.

The Nominations Committee

Members: M. Redmond (Chairman), M.M. Diamond.

The Nominations Committee will normally meet once per year and oversees the plans for management succession, recommends appointments and reappointments to the Board and considers the structure and composition of the Board generally.

Internal Control

The Directors have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The members of the Board have responsibility for monitoring the conduct and operations of individual businesses within the Group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.

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 has prepared and updated a thorough review of relevant risk areas and systems of internal control. The review is structured by business area and key risk category.

The Company's key systems of internal control include:

Business Plans

Business plans provide a framework from which annual budgets are agreed with each business, 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. Monthly actual results are compared to the approved plans.

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 being determined by the individual business.

Management Structure

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

CORPORATE GOVERNANCE CONTINUED

Risk Control

Responsibility for monitoring the Group's system of internal control rests with the Board. It is assisted in this respect 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 Board has reviewed the effectiveness of the Group's internal control systems for the period from 1 July 2001 to the date of approval of the financial statements by means of consideration of the updated progress report and internal controls action plan.

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

Investor Relations

A rolling programme of meetings between institutional shareholders and Executive Directors is held throughout the year, in addition to the annual and half year results presentations and the Annual General Meeting to foster mutual understanding of objectives. Such meetings are conducted so as to ensure protection of share price sensitive information that has not already been made available generally to 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 a letter from the Chairman and the Annual Report and financial statements, are posted to shareholders not fewer 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 proposed 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 will be disclosed at the meeting.

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 financial statements have been prepared on the basis that the Group is a going concern.

BOARD REMUNERATION REPORT

This report has been prepared in compliance with schedule B of the Combined Code annexed to the listing rules of the Financial Services Authority.

Remuneration Policies

In determining remuneration policies, the Board has followed the provisions set out in Schedule A of the Combined Code. Responsibilities of the Remuneration Committee and its membership are set out in the corporate governance statement on pages 21 to 23.

Remuneration packages for Executive Directors are structured to include a performance related element linked to corporate and individual objectives, specifically the Executive Share Plan and the Executive Bonus Scheme.

Remuneration policy reflects the fact that pay levels must be positioned at competitive levels in order to attract and retain Executive Directors of a high calibre. At the same time it is recognised that levels of remuneration must be arrived at responsibly and fairly.

It is the policy of the Company to align the interests of shareholders and executives as closely as possible. Schemes encouraging executive share ownership are an important part of the policy and executive share options are detailed below.

Salaries and Fees

Salaries of Executive Directors reflect the scope and depth of their responsibilities and are reviewed annually by the Remuneration Committee. The Board sets the level of remuneration of the Non-Executive Directors by reference to practice in comparable companies.

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 targets derived at the beginning of the financial year and relate to Group and business unit performance.

During 2001/02, the performance criterion was operating profit before interest and tax. A bonus of 5% of base salary was payable for performance at 95% of target rising to a maximum of 30% of salary for performance 20% above target. The bonuses of the Chief Executive and Group Finance Director are dependant on Group results. The bonuses of the other Executive Directors are dependent on the relevant subsidiary company performance.

Other Benefits

Executive Directors receive other benefits, including a company car, private healthcare, sick pay and holidays which overall provide a reasonably competitive package comparable with that provided by other quoted companies.

Analysis of individual Directors' emoluments	Salaries and fees £'000	Bonuses £'000	Other benefits £'000	Total 2002 £'000	Total 2001 £'000
P.J. Redfern (deceased 23 January 2002)	14			14	25
G.B. Evans (resigned 5 November 2001)	48		9	57	151
S.D. Evans	94	9	13	116	99
I.D. Page	118	12	11	141	108
E.T.W. Torr	88	9	9	106	96
M.D. Annice	72	4	9	85	77
M.M. Diamond	20			20	17
M. Redmond (appointed 25 April 2001)	20			20	3
S.P. Whitehouse (resigned 22 August 2000)				–	11*
C.D. Higham (resigned 22 August 2000)				–	9*
	474	34	51	559	596

*to date of resignation

G.B Evans who resigned on the 5th November 2001 received compensation for loss of office amounting to £194,000 (including £7,000 of legal expenses) which was in accordance with his service contract.

BOARD REMUNERATION REPORT CONTINUED

The Executive Share Plan

The Executive Share Plan has been adopted by the Company in addition to three share option schemes (the Approved Scheme, the Unapproved Scheme and the SAYE Scheme – all detailed below). As a consequence of the imposition of very demanding performance targets, the Executive Share Plan is intended to motivate Executive Directors to increase significantly the market value of the Company for the benefit of the shareholders. In addition, it is expected that the plan will play a major part in retaining the services of the Directors and Executives who have demonstrated, over recent years, their drive and commitment to the Company and its shareholders.

The Executive Share Plan is administrated by the trustee of the Dechra Pharmaceuticals PLC Employee Benefit Trust under the authority of the Remuneration Committee.

Any Executive Director who is participating in the Executive Share Plan will not be granted options under the Approved Share Option Scheme or the Unapproved Share Option Scheme.

Other than in circumstances which the Remuneration Committee consider exceptional, any further awards can only be made in the 42 day period following the announcement of the interim or final results of the Company.

Two performance criteria attached to awards made under the Executive Share Plan, both of which must normally be satisfied before any shares can vest.

Firstly, the share price of the Company in the six months following the third anniversary of the award must be at least 220% of the Initial Award Value for at least 90 days (the Initial Award Value being 120p for the awards made on 14 September 2000 or an amount equal to the three day average closing mid market value of an ordinary share on the date that any further awards are made). Adjustments to the share price target would be made following a change in the capital structure of the Company.

Secondly, the earnings per ordinary share of the Company must exceed inflation by a compound 15% per annum in the three financial years following an award.

The trustee of the Dechra Pharmaceuticals Employee Benefit Trust made the additional following awards under the Executive Share Plan on 13 March 2002. These awards are share options with an exercise price of £1 in aggregate, which will vest to the Directors shown below if the performance criteria detailed above are achieved within the relevant timescales. The option exercise date in respect of half of the actual number over which the performance option can be exercised will be the fourth anniversary of the commencement of the measurement period and in respect of the balance of the actual number over which the performance option can be exercised will be the fifth anniversary of the commencement of the measurement period.

Director	Exercise Dates	As at 30 June 2001	Granted	As at 30 June 2002
S.D. Evans	2004 – 2012	145,833	20,833	166,666
I.D. Page	2004 – 2010	166,666	–	166,666
E.T.W. Torr	2004 – 2010	166,666	–	166,666
M.D. Annice	2004 – 2012	104,166	62,500	166,666

Share Option Schemes

Two other schemes, the Approved Share Option Scheme and the Unapproved Share Option Scheme, are in operation within the Group. In accordance with the terms of both schemes, employees (excluding Executive Directors) may receive options to buy Company shares at current market value. Options can be exercised, subject to certain criteria relating to the performance of earnings per share, between three and ten years after grant.

Approved Scheme

No awards were made under the Approved Scheme during the period.

Unapproved Scheme

The Remuneration Committee made awards on 22 April 2002 to specific key employees within the Group. No Executive Directors received awards under this scheme.

The performance target to be achieved under the Unapproved Share Option Scheme has been set by the Remuneration Committee in accordance with the scheme rules, and is based on the growth in the earnings per share of the Group. It requires that the percentage growth in the Group's 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) is greater than the percentage increase in the Retail Prices Index for the same period by 12 per cent.

BOARD REMUNERATION REPORT CONTINUED

SAYE

The Company granted options under the Dechra Pharmaceuticals PLC SAYE scheme on 9 April 2002. No share options lapsed or were exercised during the period.

An analysis of the number of outstanding Directors' share options, is as follows:

SAYE Scheme	Exercise Dates	2001 Granted at 158p	2002 Granted at 129p	2002 Total
S.D. Evans	2004	6,131	–	6,131
I.D. Page	2006	10,680	–	10,680
E.T.W. Torr –	2004	2,452	–	2,452
–	2005	–	4,418	4,418
M.D. Annice	2006	4,272	–	4,272

The market price of the Company's shares on 30 June 2002 was 123p and the range of prices during the year was 181.50p – 123p. Directors interests in share options at 3 September 2002 remain unchanged.

Directors' Shareholdings

The beneficial interests of the Directors in office at 30 June 2002 and their families in the share capital of Dechra Pharmaceuticals PLC at 30 June 2002 are shown below.

Shareholdings	Ordinary Shares 2001	Ordinary Shares 2002
S.D. Evans	638,000	663,000
I.D. Page	592,167	592,167
E.T.W. Torr	342,414	342,414
M.D. Annice	596,334	596,334
M.M. Diamond	–	5,000
M. Redmond	–	10,000

There were no changes to the Directors' interests shown above between 30 June 2002 and the date of this report.

BOARD REMUNERATION REPORT CONTINUED

Pension Entitlement

All Executive Directors were members of the Dechra Pharmaceuticals PLC money purchase pension scheme during 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 as follows:

	Contributions during the year £'000
G.B. Evans (resigned 5 November 2001)	6
S.D. Evans	11
I.D. Page	14
E.T.W. Torr	7
M.D. Annice	9

Non-Executive Directors are not members of the pension scheme.

Contracts of Service

Each Executive Director has a service contract with the Company which contains details regarding remuneration, holiday and sick pay entitlements, 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 six months notice.

Non-Executive Directors are appointed for an initial term of one year, continuing thereafter until terminated by either party giving not less than 12 months notice.

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 implementation, 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.

This is being achieved by adherence to the following policies: –

- We will meet and where necessary exceed the requirements of all relevant legislation. Where there is no appropriate legislation, Dechra will implement its own high standards.
- Ensure the involvement and consultation of all employees to achieve commitment to the implementation of our policy by means of risk assessment, continuous improvement and the monitoring of resources.
- Work with our suppliers to encourage their involvement in achieving our aims.
- Promote the awareness of Health and Safety to all employees through supervision, information and training and therefore ensure the individuals active involvement in their own, and others well being.
- Allocate duties for Health and Safety issues and provide practical working procedures to reduce the potential of risks identified.
- To regularly review the Health and Safety policy to ensure full compliance with new legislation.

ENVIRONMENTAL POLICY

Dechra Pharmaceuticals PLC is committed to minimising the impact of its operations on the environment by means of a programme of continuous improvement and the reduction of pollution.

This will be achieved by the adherence to the following policies: –

- We shall meet and, where possible exceed the requirements of all relevant legislation. Where there is no appropriate legislation, Dechra will consider and implement its own high standards.
- Where practicable, reduce consumption of materials in all aspects of its operations and re-use and/or dispose of waste when possible and promote recycling and the use of recycled products.
- We shall review and consider energy efficiency on existing and replacement equipment including the vehicle fleet.
- We will encourage employee involvement on environmental awareness through training programmes and company practices for Dechra personnel.
- Work with our suppliers and customers to encourage their involvement in achieving our aims.
- We shall set and review objectives and targets to improve our environmental performance.
- We will monitor and review our progress periodically.

DIRECTORS' REPORT

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

Principal Activity

The Group manufactures and sells pharmaceuticals and also markets and sells veterinary equipment and related goods and services, predominantly to the UK veterinary market, but also to overseas markets.

Acquisitions

During the year, the Company made two acquisitions, details of which are described in the Chief Executive's Review and in note 5 to the financial statements.

Share Capital

Details of the changes in share capital are shown in note 22 to the financial statements.

Results and Dividends

The results for the year are set out on page 33. The Directors recommend the payment of a final dividend of 2.75p per share which, if approved by shareholders, will be paid on 27 November 2002 to shareholders registered at 1 November 2002. An interim dividend of 1.37p per share was paid on 8 April 2002 making a total dividend for the year of 4.12p (2001: 3.75p). The total dividend payment is £2,069,000 (2001: £1,867,000). A retained profit of £2,989,000 (2001: £1,167,000) is transferred to reserves.

Business Review

A review of the Group's activities during the year and likely future developments are dealt with in the Chairman's statement, Chief Executive's review and Operational Review.

Directors

The Directors who served during the year were as follows:

P.J. Redfern (Chairman) (deceased 23 January 2002)
M. Redmond (Chairman since 5 July 2002)
G.B. Evans (resigned 5 November 2001)
S.D. Evans
I.D. Page
E.T.W. Torr
M.D. Annice
M.M. Diamond (acting Chairman from 24 January 2002 to 4 July 2002)

The interests of the Directors in the share capital of the Company are shown in the remuneration report on pages 24 to 27.

In accordance with the Company's articles of association, I.D. Page and M.D. Annice retire by rotation and being eligible, offer themselves for re-election.

Political and Charitable Contributions

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

Employees

It is the Group's policy to encourage employee involvement as the Directors consider that this is essential for the successful running of the business. The Group keeps employees informed of performance, developments and progress by way of regular team briefing sessions and notices. The Group 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 has set up a SAYE Share Option Scheme so that all employees of the Group can participate in its success.

DIRECTORS' REPORT CONTINUED

Research and Development

The Group has a structured research and development programme with the aim of identifying and bringing to market new pharmaceutical products. The expenditure on this activity for the year ended 30 June 2002 was £525,000 (2001: £427,000).

Suppliers

The Company does not adhere to any Code of Practice regarding the payment of suppliers but seeks to agree the terms of payment with suppliers prior to placing business and it is the Company's policy to settle liabilities by the due date. At 30 June 2002, the Group had an average of 77 days (2001: 83 days) purchases outstanding in creditors. The Company had an average of NIL (2001: NIL days) days purchases outstanding in creditors.

Substantial Shareholders

As at 22 August 2002, the Company is aware of the following material interests (other than Directors) representing 3% or more of the issued share capital in the Company:

	No of shares	% of Shares Held
Threadneedle Asset Management	5,440,000	10.78
Scottish Widows Investment Partnership	3,999,557	7.93
Hermes Pensions Management	2,760,752	5.47
Montanaro Investment Management	2,680,000	5.31
Morley Fund Management	1,958,904	3.88
HG Capital Private Equity	1,895,311	3.76
Friends Ivory & Sime (London)	1,824,683	3.62
Edinburgh Fund Managers	1,750,600	3.47
Insight Investments	1,725,000	3.42
Legal & General Investment Management	1,694,087	3.33
Universities Superannuation Scheme	1,540,912	3.05

Auditors

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

By order of the Board

S.P. Whitehouse Secretary

3 September 2002

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

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 33 to 53.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 31, 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 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 or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 21 to 23 reflects the Company's compliance with the seven provisions of the Combined 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 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. 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 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 affairs of the Company and the Group as at 30 June 2002 and of the profit of the Group for the year then ended and have been properly in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham

3 September 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2002

Note	Note	2002			2001		
		Before Exceptional Item £'000	Exceptional Item (note 4) £'000	Total £'000	Re-stated* Before Exceptional Item £'000	Exceptional Item (note 4) £'000	Re-stated* Total £'000
Turnover – continuing operations	2	169,346	–	169,346	156,400	–	156,400
– acquisitions	2	856	–	856	–	–	–
Cost of sales	2 3	170,202 (149,664)	–	170,202 (149,664)	156,400 (137,208)	–	156,400 (137,208)
Gross profit		20,538	–	20,538	19,192	–	19,192
Distribution costs	3	(6,166)	–	(6,166)	(5,882)	–	(5,882)
Administrative expenses – before goodwill amortisation	3	(5,599)	(194)	(5,793)	(5,076)	(1,080)	(6,156)
– goodwill amortisation	3	(101)	–	(101)	–	–	–
Total administrative expenses		(5,700)	(194)	(5,894)	(5,076)	(1,080)	(6,156)
Operating profit – continuing operations	3	8,689	(194)	8,495	8,234	(1,080)	7,154
– acquisitions	3	(17)	–	(17)	–	–	–
Total operating profit	3	8,672	(194)	8,478	8,234	(1,080)	7,154
Net interest payable and similar charges	6	(1,170)	–	(1,170)	(2,382)	–	(2,382)
Profit on ordinary activities before taxation	7	7,502	(194)	7,308	5,852	(1,080)	4,772
Tax on profit on ordinary activities	10	(2,308)	58	(2,250)	(1,738)	–	(1,738)
Profit on ordinary activities after taxation		5,194	(136)	5,058	4,114	(1,080)	3,034
Dividends	11			(2,069)			(1,867)
Retained profit for the financial year				2,989			1,167
Earnings per ordinary share							
Basic	12	10.39p	(0.27p)	10.12p	9.29p	(2.44p)	6.85p
Diluted	12	10.36p	(0.27p)	10.09p	9.26p	(2.43p)	6.83p

A statement of movements on reserves is given in note 23 to the financial statements.

All amounts relate to continuing operations.

*re-stated on adoption of FRS 19, see note 21.

BALANCE SHEETS

AS AT 30 JUNE 2002

		2002	Group 2001 re-stated*	Company 2002	2001
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	13	5,284	–	–	–
Tangible assets	14	6,324	4,317	–	–
Investments	15	–	–	4,619	894
		11,608	4,317	4,619	894
Current assets					
Stocks	16	19,302	16,460	–	–
Debtors	17	25,822	24,237	46,440	45,188
Cash at bank and in hand		–	3,993	–	–
		45,124	44,690	46,440	45,188
Creditors: amounts falling due within one year	18	(42,445)	(38,950)	(13,997)	(8,719)
		2,679	5,740	32,443	36,469
Net current assets		2,679	5,740	32,443	36,469
Total assets less current liabilities		14,287	10,057	37,062	37,363
Creditors: amounts falling due after more than one year	18	(8,538)	(9,047)	(8,200)	(8,784)
		5,749	1,010	28,862	28,579
Capital and reserves					
Called up share capital	22	504	498	504	498
Shares to be issued	23	750	–	5	–
Share premium account	23	26,783	26,783	26,783	26,783
Merger reserve	23	994	–	–	–
Profit and loss account	23	(23,282)	(26,271)	1,570	1,298
Total equity shareholders' funds		5,749	1,010	28,862	28,579

The financial statements were approved by the Board of Directors on 3 September 2002 and are signed on its behalf by:

I. Page Director

S.D. Evans Director

*re-stated on adoption of FRS 19, see note 21.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 30 JUNE 2002

	2002 £'000	Group 2001 re-stated*	2002 £'000	Company 2001 £'000
At 1 July 2001 (re-stated- see below)	1,010	(27,819)	28,579	875
Profit after tax for the financial year	5,058	3,034	2,341	1,909
Dividends	(2,069)	(1,867)	(2,069)	(1,867)
New shares issued	1,000	28,002	6	28,002
Shares to be issued	750	–	5	–
Costs of share issue	–	(340)	–	(340)
At 30 June 2002	5,749	1,010	28,862	28,579

The Group's reserves at 1 July 2001 were originally £901,000 before adding a prior year adjustment of £109,000.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 30 JUNE 2002

	2002 £'000	2001 re-stated* £'000
Profit for the financial year being total gains and losses relating to the year	5,058	3,034
Prior year adjustment (see note 21)	109	
Total gains and losses since the last annual report	5,167	

*re-stated on adoption of FRS 19, see note 21.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 £'000	2001 £'000
Net cash inflow from operating activities	25	6,397	3,453
Returns on investment and servicing of finance			
Interest received		16	4
Interest paid		(1,103)	(7,673)
Interest element of finance lease rentals		(39)	(43)
Net cash outflow for returns on investment and servicing of finance		(1,126)	(7,712)
Taxation			
Corporation tax paid		(2,155)	(1,195)
Capital expenditure			
Purchase of tangible fixed assets		(2,845)	(1,882)
Sale of tangible fixed assets		141	111
Net cash outflow for capital expenditure and financial investment		(2,704)	(1,771)
Acquisitions and disposals			
Acquisitions of subsidiary undertakings	5	(3,214)	–
Borrowings of acquired businesses	5	(429)	–
Purchase of business		(180)	(100)
Net cash outflow for acquisitions and disposals		(3,823)	(100)
Equity dividends paid		(1,927)	(622)
Cash outflow before financing		(5,338)	(7,947)
Financing			
Shares issued less expenses		–	27,662
New bank loans		3,000	15,000
Term loans repaid		(3,364)	(39,462)
Capital element of finance lease payments		(401)	(486)
Net cash (outflow)/inflow from financing		(765)	2,714
Decrease in cash in the period		(6,103)	(5,233)
Cash at 30 June 2001		3,993	9,226
[Bank overdraft]/cash at 30 June 2002		(2,110)	3,993

CONSOLIDATED CASH FLOW STATEMENT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	2002 £'000	2001 £'000
Decrease in cash during the period		(6,103)	(5,233)
Cash inflow from new loans		(3,000)	(15,000)
Debt repayments		3,364	39,462
Repayment of finance leases		401	486
Change in net debt resulting from cash flows		(5,338)	19,715
New finance leases		(418)	(860)
Loan stock issued		(500)	–
Movement in net debt in the period		(6,256)	18,855
Net debt at 1 July 2001	26	(8,680)	(27,535)
Net debt at 30 June 2002	26	(14,936)	(8,680)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2002

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. During the year, Financial Reporting Standard 19 'Deferred Tax' became effective for this year's financial statements. For the effects of FRS 19, see note 21.

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 after taxation dealt with in the accounts of the Company was £2,341,000 (2001: £1,909,000).

Turnover

Turnover represents cash and credit sales excluding value added tax.

Tangible Fixed Assets and Depreciation

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

Short leasehold property	Period of the lease on a straight line basis
Fixtures, fittings and equipment	10-33 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

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.

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.

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 FRS 13; Derivatives and Other Financial Instruments Disclosures as detailed in note 20.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

1. Accounting Policies continued

Arrangement Fees

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred 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". FRS 19 has been adopted for the first time in these financial statements and comparative figures have been re-stated accordingly (See note 21).

Pensions

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

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

2. Analysis of Turnover by Geographical Region

Destination	2002 £'000	2001 £'000
UK	167,907	154,705
Rest of the world	2,295	1,695
	170,202	156,400

The Directors consider that all turnover is derived from a single class of business.

3. Cost of Sales and Operating Expenses Analysis

	Continuing Operations 2002			2001
	£'000	Acquisitions £'000	Total £'000	Total £'000
Turnover	169,346	856	170,202	156,400
Cost of sales	(149,102)	(562)	(149,664)	(137,208)
Gross profit	20,244	294	20,538	19,192
Distribution costs	(6,107)	(59)	(6,166)	(5,882)
Administrative expenses - before exceptional items and goodwill amortisation	(5,448)	(151)	(5,599)	(5,076)
– exceptional items	(194)	–	(194)	(1,080)
– goodwill amortisation	–	(101)	(101)	–
Total administrative expenses	(5,642)	(252)	(5,894)	(6,156)
Operating profit	8,495	(17)	8,478	7,154

The origin of all turnover was in the UK.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

4. Exceptional Items

	2002 £'000	2001 £'000
Flotation costs	–	1,080
Compensation for loss of office	194	–
	194	1,080

The compensation for loss of office relates to the termination of the contract of Gary Evans, the former Chief Executive and associated legal fees.

5. Acquisitions

North Western Laboratories Limited and Cambridge Specialist Laboratory Services Limited were acquired on 8 April 2002 and, excluding goodwill amortisation, contributed £73,000 to the Group's operating profit, £72,000 to profit before tax, (£177,000) to operating cash flows, (£1,000) to returns on investment and servicing of finance, (£16,000) to financing and utilised £3,000 for investment activities.

Under the terms of the acquisition agreement, consideration was paid on completion made up of £1,500,000 in cash, the issue of £500,000 of loan notes and £750,000 of ordinary shares of 1p at a fair value consideration of 160p per share.

Anglian Pharma Plc and Anglian Pharma Manufacturing Limited were acquired on 17 May 2002 and, before goodwill amortisation, contributed £11,000 to the Group's operating profit, £5,000 to profit before taxation, (£118,000) to the Group's operating cash flows, (£6,000) to returns on investment and servicing of finance, (£6,000) to financing and utilised £37,000 for investing activities.

In accordance with the acquisition agreement, initial consideration was paid on completion made up of £1,500,000 in cash and the issue of £250,000 of ordinary shares of 1p at a fair value consideration of 137.2p per share. Further consideration of £750,000 of ordinary shares of 1p is payable on 17 May 2003. If the consolidated net assets of Anglian Pharma Plc at 17 May 2002 are determined to be less than £150,000 then the deferred consideration will be reduced by an equivalent amount. The best estimate at 30 June 2002 of the deferred consideration that will be payable is £750,000 and this has been credited to shares to be issued in anticipation of the settlement of the purchase consideration in ordinary shares. Appropriate adjustments to goodwill and shares to be issued will be made as and when the final consideration is agreed and settled.

The fair values arising on these acquisitions were:

	Book Value £'000	2002 Fair Value Provisions £'000	Fair Value £'000
Intangible fixed assets	14	(14)	–
Tangible fixed assets	664	(25)	639
Stock	687	(68)	619
Debtors	1,106	(44)	1,062
Bank loans and overdrafts	(429)	–	(429)
Finance leases and hire purchase	(285)	–	(285)
Other creditors	(1,453)	–	(1,453)
Provisions for liabilities and charges	(26)	(48)	(74)
	278	(199)	79
Cash consideration (including acquisition expenses of £214,000)			3,214
Non-cash consideration:			
Shares issued			1,000
Loan notes issued			500
Shares to be issued (estimated)			750
Total estimated consideration			5,464
Goodwill (see note 13)			5,385

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

5. Acquisitions continued

The fair value adjustments above principally relate to the revaluation of assets to their estimated market value.

Total consideration and fair value adjustments have been determined provisionally subject to the availability of more detailed market value information relating to specific assets and liabilities.

There were no acquisitions in 2001.

6. Net Interest Payable and Similar Charges

	2002 £'000	2001 £'000
Bank loans and overdrafts	1,070	1,704
Amortisation of arrangement fees	74	37
Other loans	3	595
Other interest	–	7
Finance charges payable on finance leases and hire purchase contracts	39	43
Total interest payable	1,186	2,386
Bank deposit and other interest receivable	(16)	(4)
Net interest payable and similar charges	1,170	2,382

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

	2002 £'000	2001 £'000
Research and development	525	427
Depreciation of owned assets	1,033	1,010
Depreciation of assets held under finance leases	256	175
Amortisation of goodwill	101	–
Profit on disposal of tangible fixed assets	(43)	(78)
Operating lease rentals:		
land and buildings	603	455
plant and machinery	10	61
Audit fees (including £9,000 for the Parent Company (2001: £9,000))	66	40
Other payments to the auditors for non-audit services (2001: including £203,000 relating to the flotation)	54	293

In addition to the non-audit fees shown above, a further £66,000 (2001:£nil) has been capitalised in respect of payments made for non-audit services provided by the auditors.

8. Remuneration of Directors

Details of the remuneration, share holdings, share options and pension contributions of the Directors are included in the Board Remuneration Report on pages 24 to 27.

9. Employees

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

	2002 Number	2001 Number
Manufacturing	70	59
Distribution	289	274
Administration	141	121
	500	454

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

9. Employees continued

The costs incurred in respect of these employees were:

	2002 £'000	2001 £'000
Wages and salaries	6,475	5,874
Social security costs	530	476
Other pension costs	191	157
	7,196	6,507

10. Tax on Profit on Ordinary Activities

a) Tax charge for the year

	2002 £'000	2001 re-stated* £'000
Current taxation		
UK Corporation tax charge	2,281	1,537
Adjustments in respect of prior periods	(35)	(67)
Total current tax charge for the year	2,246	1,470
Deferred taxation		
Origination and reversal of timing differences	(24)	263
Adjustments in respect of prior periods	28	5
Total deferred tax charge for the year	4	268
Tax on profit on ordinary activities	2,250	1,738
Tax credit included above attributable to exceptional operating items	58	–

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	7,308	4,772
Current tax charge at 30% (2001: 30%)	2,192	1,432

*re-stated on adoption of FRS 19, see note 21.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

10. Tax on Profit on Ordinary Activities continued

Effects of

	2002 £'000	2001 £'000
Permanent timing differences:		
– goodwill amortisation	30	–
– depreciation on assets not eligible for tax allowances	18	15
– disallowable flotation related expenses	–	335
– other	17	18
	65	368
Temporary timing differences:		
– excess of capital allowances over depreciation	(20)	(22)
– other short term timing differences	44	(241)
– adjustments to tax charge in respect of previous periods	(35)	(67)
	(11)	(330)
Total current tax charge (see above)	2,246	1,470

11. Dividends

	2002 £'000	2001 £'000
Interim paid 1.37p per share (2001: 1.25p)	682	622
Final proposed 2.75p per share (2001: 2.5p)	1,387	1,245
	2,069	1,867

12. 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.

	2002 pence	2001 re-stated* pence
Basic earnings per share after exceptional items and goodwill amortisation	10.12	6.85
Effect of exceptional items	0.27	2.44
Basic earnings per share before exceptional item	10.39	9.29
Effect of goodwill amortisation	0.20	–
Adjusted earnings per share	10.59	9.29
Diluted earnings per share	10.09	6.83
Effect of exceptional items	0.27	2.43
Diluted earnings per share before exceptional items	10.36	9.26
Effect of goodwill amortisation	0.20	–
Adjusted diluted earnings per share	10.56	9.26

*re-stated on adoption of FRS 19, see note 21.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

12. Earnings per Share continued

	£'000	£'000
The calculation of basic and diluted earnings per share is based upon:		
Earnings for basic and diluted earnings per share calculations	5,058	3,034
Exceptional items	136	1,080
Earnings for basic and diluted earnings per share calculations before exceptional items	5,194	4,114
Goodwill amortisation	101	–
Earnings for adjusted and adjusted diluted earnings per share	5,295	4,114
	2002 No.	2001 No.
Weighted average number of ordinary shares for basic and adjusted earnings per share	49,989,015	44,274,767
Impact of share options	151,049	132,093
Weighted average number of ordinary shares for diluted and adjusted diluted earnings per share	50,140,064	44,406,860

13. Intangible Fixed Assets – Goodwill

	Group £'000
Cost	
At 1 July 2001	–
Additions	5,385
At 30 June 2002	5,385
Amortisation	
At 1 July 2001	–
Charge for the year	101
At 30 June 2002	101
Net book value	
At 30 June 2002	5,284
At 1 July 2001	–

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

14. 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 2001	13	823	2,469	3,795	7,100
Additions – existing operations	–	1,336	266	1,153	2,755
– acquisitions	–	12	39	588	639
Disposals	–	–	(452)	(55)	(507)
At 30 June 2002	13	2,171	2,322	5,481	9,987
Depreciation					
At 1 July 2001	–	133	774	1,876	2,783
Disposals	–	–	(409)	–	(409)
Charge for the year	–	90	639	560	1,289
At 30 June 2002	–	223	1,004	2,436	3,663
Net book value at 30 June 2002	13	1,948	1,318	3,045	6,324
Net book value at 30 June 2001	13	690	1,695	1,919	4,317
Leased assets					
Net book value of assets held under finance leases:					
At 30 June 2002	–	–	662	178	840
At 1 July 2001	–	–	826	–	826
				2002 £'000	2001 £'000
Contracted Capital Commitments				649	1,075

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

15. Fixed Asset Investments

Company	Shares in Subsidiary Undertakings £'000
Cost and net book value	
At 1 July 2001	894
Additions	3,725
At 30 June 2002	4,619

A list of principal subsidiary undertakings is given in note 29.

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.

16. Stocks

Group	2002 £'000	2001 £'000
Raw materials and consumables	1,619	723
Work in progress	72	37
Finished goods and goods for resale	17,611	15,700
	19,302	16,460

17. Debtors

	Group		Company	
	2002 £'000	re-stated* 2001 £'000	2002 £'000	2001 £'000
Trade debtors	24,550	23,187	–	–
Amounts owed by subsidiary undertakings	–	–	44,955	43,830
Group relief receivable	–	–	1,433	1,274
Deferred taxation	31	109	–	–
Other debtors	869	732	41	23
Prepayments and accrued income	372	209	11	61
	25,822	24,237	46,440	45,188

*re-stated on adoption of FRS 19, see note 21.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

18. Creditors

	Falling Due within One Year			
	2002	Group	2002	Company
	£'000	2001	£'000	2001
		£'000		£'000
Bank loans and overdrafts	5,838	3,000	10,334	4,436
Hire purchase and finance leases	423	410	–	–
Trade creditors	31,709	31,131	–	–
Amounts due to subsidiary undertakings	–	–	2,018	2,971
Other creditors	253	67	–	–
Corporation tax	1,387	1,263	–	–
Other taxation and social security	678	1,192	–	–
Accruals and deferred income	770	462	258	67
Deferred consideration	–	180	–	–
Proposed dividend	1,387	1,245	1,387	1,245
	42,445	38,950	13,997	8,719

	Falling Due after more than One Year			
	2002	Group	2002	Company
	£'000	2001	£'000	2001
		£'000		£'000
Bank loans	7,700	8,784	7,700	8,784
Unsecured loan stock	500	–	500	–
Hire purchase and finance leases	267	263	–	–
Other creditors	71	–	–	–
	8,538	9,047	8,200	8,784

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

19. Borrowings

	2002 £'000	Group 2001 £'000	2002 £'000	Company 2001 £'000
Bank loans due after more than one year				
Aggregate bank loan instalments repayable				
between one and two years	3,728	3,000	3,728	3,000
between two and five years	4,180	6,000	4,180	6,000
	7,908	9,000	7,908	9,000
Arrangement fees netted off	(208)	(216)	(208)	(216)
	7,700	8,784	7,700	8,784
Obligations under finance leases due after more than one year				
Due between one and two years	267	263	–	–
Unsecured loan stock due after more than one year				
Due between one and two years	500	–	500	–
Total	8,467	9,047	8,200	8,784

The term loans from Bank of Scotland of £9 million, £1.288 million and £1.35 million are secured by a fixed and floating charge on the assets of the Group. Interest is charged at 1.25% over LIBOR. The loans are repayable in semi-annual instalments of £1.5 million, £214,000 and £150,000 respectively.

The unsecured loan stock is payable on the earlier of 8 April 2004 or North Western Laboratories Limited and Cambridge Specialist Laboratory Services Limited achieving annual pre-tax profits of at least £400,000. Interest is charged at 1% below base rate.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

20. 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 18 to 19. 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

Most financial assets and liabilities are 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.

b) Interest rate risk profile as at 30 June 2002

i) Financial liabilities

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 £690,000 (2001: £673,000) with a weighted average fixed interest rate of 8% (2001: 9%) over a weighted average term of 15 months (2001: 20 months).

ii) Financial assets

The Group had cash in hand of £NIL (2001: £3,993,000). Interest receivable is at floating rate.

c) Foreign currency exposure profile

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

d) Maturity of borrowings

Details are shown in notes 18 and 19.

e) Maturity of facilities

At 30 June 2002 the Group had an undrawn committed revolving credit facility of £5 million maturing in 2005.

21. Provisions for Liabilities and Charges

	Deferred Tax Group £'000
At 1 July 2001 as previously reported	–
Prior year adjustment	(109)
At 1 July 2001 as re-stated (included in debtors)	(109)
Transfer from profit and loss account	4
Acquisitions	74
Deferred taxation transferred to debtors	31
At 30 June 2002	–

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

	2002 £'000	2001 re-stated* £'000
Group		
Capital allowances	89	3
Short term timing differences	(120)	(112)
Amounts included in debtors	(31)	(109)

*re-stated on adoption of FRS 19, see note 21.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

21. Provisions for Liabilities and Charges continued

Prior year adjustment

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

- i) deferred tax is not recognised on the difference between fair values and book values on non-monetary assets arising on acquisition except where there is a binding agreement to sell the asset and the gain 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 reduce consolidated profit after tax by £30,000 (2001: £2,000) and increase net assets by £31,000 (2001: £109,000). There was no effect on the Company.

22. Called up share Capital

Issued share capital

	£'000	Ordinary Shares of 1p each No.
At 1 July 2001	498	49,791,278
New shares issued	6	650,966
At 30 June 2002	504	50,442,244
Authorised share capital At 30 June 2002 and June 2001	750	75,000,000

Since 1 July 2001 there have been the following changes in the issued and fully paid share capital of the Company:

On 8 April 2002, 468,750 new ordinary shares of 1p were issued at 160p to the shareholders of North Western Laboratories Limited and Cambridge Specialist Laboratory Services Limited in part consideration for the acquisition of these companies.

On 17 May 2002, 182,216 new ordinary shares of 1p were issued at 137.2p to the shareholders of Anglian Pharma Plc and Anglian Pharma Manufacturing Limited in part consideration for the acquisition of these companies. Further shares will be issued to the vendors as set out in note 5.

Share Options

Outstanding share options over ordinary shares of 1p at 30 June 2002 under the various Group Share Option Schemes are as follows:

	Exercise Period	Exercise Price per Share Pence	At 30 June 2001 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2002 number
Unapproved Share Option scheme							
14 September 2000	2003 – 2010	120	544,000	–	–	(20,000)	524,000
22 April 2002	2005 – 2012	153.5	–	–	399,000	–	399,000
			544,000	–	399,000	(20,000)	923,000
SAYE scheme							
26 April 2001	2004 – 2006	158	201,247	–	–	(23,123)	178,124
9 April 2002	2005 – 2007	129	–	–	150,614	–	150,614
			201,247	–	150,614	(23,123)	328,738
Total share options			745,247	–	549,614	(43,123)	1,251,738

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

23. Reserves

Group	Shares to be issued £'000	Share Premium Account £'000	Merger Reserve £'000	Profit and Loss Account re-stated* £'000
At 1 July 2001 as previously reported	–	26,783	–	(26,380)
Prior year adjustment (see note 21)	–	–	–	109
At 1 July 2001 (as re-stated)	–	26,783	–	(26,271)
New shares issued (see note 5)	–	–	994	–
Shares to be issued (see note 5)	750	–	–	–
Retained profit for the year	–	–	–	2,989
At 30 June 2002	750	26,783	994	(23,282)
Company				
At 1 July 2001	–	26,783	–	1,298
Shares to be issued	5	–	–	–
Retained profit for the year	–	–	–	272
At 30 June 2002	5	26,783	–	1,570

24. Goodwill

The cumulative amount of goodwill written off to reserves at 30 June 2002 was £30,184,000 (2001: £30,184,000).

25. Reconciliation of Operating Profit to Operating Cash Flow

	2002 £'000	2001 £'000
Operating profit	8,478	7,154
Depreciation	1,289	1,185
Goodwill amortisation	101	–
Profit on disposal of tangible fixed assets	(43)	(78)
Increase in stocks	(2,223)	(253)
Increase in debtors	(601)	(1,972)
Decrease in creditors	(604)	(2,583)
Net cash inflow from operating activities	6,397	3,453

*re-stated on adoption of FRS 19, see note 21.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

26. Analysis of Net Debt

	At 1 July 2001 £'000	Cash Inflow/ (Outflow) £'000	Other Non-Cash Changes £'000	At 30 June 2002 £'000
Cash at bank and in hand	3,993	(3,993)	–	–
Debt due after one year	(9,000)	(1,908)	2,500	(8,408)
Debt due within one year	(3,000)	162	(3,000)	(5,838)
Finance leases	(673)	401	(418)	(690)
	(8,680)	(5,338)	(918)	(14,936)

Major non-cash transactions:

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £133,000 (2001: £860,000) and finance leases with a total capital value of £285,000 (2001: £nil) arising on the acquisitions of subsidiaries (see note 5).

On 8 April 2002, the Group issued £500,000 of unsecured loan stock to the shareholders of North Western Laboratories Limited and Cambridge Specialist Laboratory Services Limited in part consideration for the acquisition of these companies (see note 5).

27. Other Financial Commitments

	2002 Land and Buildings £'000	2001 Land and Buildings £'000
At 30 June 2002 the Group has the following commitments payable within one year under operating leases expiring:		
Between one and two years	9	–
Between two and five years	51	44
In five years or more	756	489
	816	533

28. Pensions

The Group operates a defined contribution pension scheme for certain employees. The Group contributed between 8% and 12% of pensionable salaries which amounted to £191,000 (2001: £157,000). See note 9.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2002

29. 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
National Veterinary Services Limited*	UK	England	Wholesale of veterinary products
Arnolds Veterinary Products Limited*	UK and Export	England	Marketer of veterinary pharmaceuticals, instruments and equipment
Dales Pharmaceuticals Limited*	UK	England	Manufacture of pharmaceuticals
Veneto Limited	UK	England	Holding Company
North Western Laboratories Limited	UK	England	Veterinary Laboratory
Cambridge Specialist Laboratory Services Limited [†]	UK	England	Veterinary Laboratory
Anglian Pharma Manufacturing Ltd ^{††}	UK	England	Manufacture of pharmaceuticals
Anglian Pharma Plc	UK	England	Holding Company

*100% of ordinary share capital held by Veneto Limited.

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

^{††} 100% of ordinary share capital held by Anglian Pharma Plc.

FINANCIAL HISTORY

	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000
Profit and loss account					
Turnover	170,202	156,400	145,487	130,762	122,874
Operating profit before exceptional items and goodwill	8,773	8,234	7,505	6,033	5,502
Profit on ordinary activities before taxation	7,308	4,772	2,088	417	77
Profit after taxation	5,058	3,034	1,546	205	9
Dividends	(2,069)	(1,867)	–	–	–
Retained profit	2,989	1,167	1,546	205	9
Earnings per share – adjusted (pence)	10.59	9.29	6.05	1.61	0.03
Dividend per share (pence)	4.12	3.75	–	–	–
Average number of employees	500	454	408	367	343
Balance sheet					
Fixed assets	11,608	4,317	2,595	2,514	2,529
Working capital	9,077	5,373	1,580	5,823	5,022
Net debt	(14,936)	(8,680)	(31,994)	(37,669)	(37,088)
Shareholders' funds	5,749	1,010	(27,819)	(29,332)	(29,537)
Cash flow					
Cash flow from operating activities	6,397	3,453	12,036	5,424	6,408
Net interest paid	(1,126)	(7,712)	(3,662)	(3,348)	(4,072)
Tax paid	(2,155)	(1,195)	(252)	61	(1,300)
Capital expenditure	(2,704)	(1,771)	(859)	(183)	(130)
Acquisitions	(3,823)	(100)	(260)	(25)	(36,672)
Equity dividends paid	(1,927)	(622)	–	–	–
Financing	(765)	2,714	(2,473)	(1,388)	39,921
Changes in cash in period	(6,103)	(5,233)	4,530	541	4,155

The historical figures have been adjusted to reflect the adoption of FRS19 "Deferred Tax" (see note 21)

NOTES



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