Animalcare Group plc

Annual Report and Financial Statements 2010

Animalcare Group plc

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"2010 has been a transformational year for your Company whilst still achieving all our financial targets. Your Company has achieved record sales, margins and underlying profits during the last financial year. Since the year end it has also become virtually debt free, after the proceeds from the sale of the agricultural business have been realised. With a simpler and more focused business, I believe your Board has put in place a strategy for optimising the growth in earnings per share of your Company for several years to come."

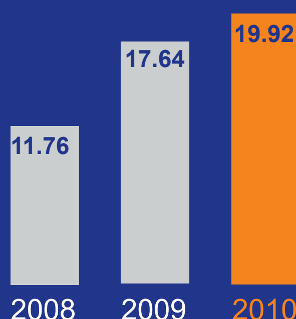
James Lambert, Chairman

Highlights

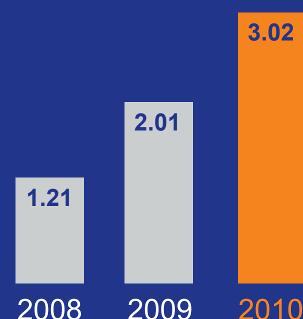
	Year Ended June 2010	Year Ended June 2009
Revenue	£19.92m	£17.64m
Companion animal revenue	£11.22m	£9.70m
Operating (loss)/profit	(£0.40m)	£2.13m
Underlying operating profit*	£3.14m	£2.38m
(Loss)/profit before tax	(£0.56m)	£1.53m
Underlying profit before tax*	£3.02m	£2.01m
Basic earnings per share — underlying*	11.2p	7.2p
Basic (loss)/earnings per share	(5.2p)	5.3p
Fully diluted (loss)/earnings per share	(5.2p)	5.0p
Proposed dividend	3.00p	2.50p
Borrowings	£4.46m	£5.45m
Cash and cash equivalents	£1.56m	£1.53m

* Underlying measures exclude, where applicable, amortisation of acquired intangibles, impairment of goodwill, fair value movements on interest rate hedging, impairments to current and non-current assets and other charges relating to Group reorganisation.

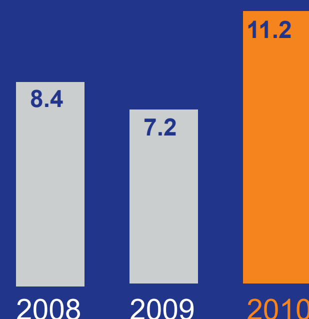
Revenue
£m



Underlying profit before tax
£m



Underlying basic earnings per share
pence



OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS	J S Lambert G C Rhodes Lord Downshire S M Wildridge J Tobin
SECRETARY	J Tobin
COMPANY NUMBER	1058015
REGISTERED OFFICE	Fearby Road Masham Ripon North Yorkshire HG4 4ES
AUDITORS	KPMG Audit Plc 1 The Embankment Neville Street Leeds LS1 4DW
BANKERS	Barclays Bank PLC PO Box 190 1 Park Row Leeds LS1 5WU
SOLICITORS	Eversheds LLP Bridgewater Place Water Lane Leeds LS11 5DR
NOMINATED ADVISOR AND BROKER	Brewin Dolphin 34 Lisbon Street Leeds LS1 4LX
REGISTRARS	Capita Registrars Ltd 34 Beckenham Road Beckenham Kent BR3 4TU

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

Introduction

2010 has been a transformational year for your Company whilst still achieving all our financial targets. With over 80 per cent of your Company's earnings now coming from the recently acquired, and rapidly growing, Companion Animal Division your Board decided to conduct a full strategic review of the entire Company. The purpose of this exercise was to allow your Company to optimise its resources for shareholder value creation over the medium term, and to deliver a strong path of earnings growth for the future. Since the financial year end the result of this review has now been implemented, with the sale of the marginally profitable agricultural focused business for £3.25 million, which completed towards the end of September 2010, and the closure announcement on 4 October 2010 of its small chemical formulation plant Travik Chemicals.

The agricultural market has seen a decline of both animal numbers and margins over many years which has slowly eroded the profitability of Ritchey and Fearing, along with many other similar agricultural based companies. It was felt by the Board that a better use of shareholders' funds would be to invest all our available resources in speeding up the growth of our veterinary medicines business in the companion animal market in the UK and other major European markets which are exhibiting long-term growth. Your Company has grown market share in 2010 with several new licensed veterinary products launched during the last financial year, and will do so again this year.

Financial Highlights

Your Company has achieved record sales, margins and underlying profits during the last financial year. Since the year end it has also become virtually debt free, after the proceeds from the sale of the agricultural business have been realised. Sales during the year increased from £17.68 million to £19.92 million, a 12.7 per cent increase, and underlying EPS increased from 7.2p to 11.2p, a 55.6 per cent increase. The exceptional items in the accounts are substantial this year, being £3.42 million, of which £0.31 million represents cash costs. Going forward your Company has a strong and stable balance sheet capable of creating the resources for rapid growth.

Dividend

In line with our progressive dividend policy and underlying earnings per share, the Board is recommending a dividend of 3 pence per share, an increase of 20 per cent over the previous year. The dividend is subject to shareholders' approval at our Annual General meeting to be held on 25 November 2010 and is proposed to be paid on 6 December 2010 to shareholders on the register on 12 November 2010.

The Board

The Board, in line with the implementation of the strategic review, has seen several changes. Stephen Wildridge, who has successfully built up the Animalcare Company over the past seven years, became Group Chief Executive Officer taking over from Simon Riddell who left the Group on 1 April 2010. I would like to thank Simon who, through the acquisition of Animalcare Ltd from Genus plc in January 2008, helped transform the prospects of the old Ritchey business. John Tobin, previously Group CFO, who helped both integrate Animalcare into the old Ritchey Group and then recently sell off the non-core agriculture business, retires from the Group in December 2010 after all the transactions have been completed. His contribution during his time with the business has been important and very much appreciated by me and his colleagues. I am delighted that Peter Warner, our Group Financial Controller, has been appointed as Chief Financial Officer. Peter joined the Group through the acquisition of Animalcare Ltd veterinary business, having previously been the Financial Controller for that business.

On behalf of the Board and the shareholders I would like to thank all our colleagues for their dedication and hard work that has delivered this successful year.

Prospects

With a simpler and more focused business, I believe your Board has put in place a strategy for optimising the growth in earnings per share of your Company for several years to come. The current year has started in line with your Board's expectation.

James Lambert
Chairman

CHIEF EXECUTIVE'S REVIEW
FOR THE YEAR ENDED 30 JUNE 2010

Introduction

Animalcare Group plc continued to operate as two Divisions, Companion Animal (Veterinary Products) and Livestock. The Companion Animal (Veterinary Products) Division is focused on the supply of licensed veterinary medicines, animal identification microchips and other professional goods and services to veterinary practices in the UK and through development and distribution partners to key markets in the EU. Although the focus of the Division remains on companion animals (dogs, cats, horses and other small pets) it also supplies a small number of licensed livestock medicines. The Livestock Division is focused on the supply of livestock identification ear tags and animal husbandry sundries to agricultural merchants, retailers and farmers in the UK and Ireland.

The table below illustrates the relative significance of the Divisions:

	Revenue	Underlying operating profit*
Companion Animal Division	56%	84%
Livestock Division	44%	16%

* Excludes unallocated Group costs.

Market overview
Companion Animal Division

The UK animal health manufacturers association, the National Office of Animal Health (NOAH), reported the overall UK market veterinary medicines as showing less than 0.5 per cent growth in calendar year 2009. The companion animal segment, however, continued to show its resilience and posted an 8.2 per cent year on year growth demonstrating both the commitment of the UK public to their pets and the increasing range of treatments and products available to veterinary surgeons to treat companion animals. In the financial year the Companion Animal Division grew its revenue by 16 per cent year on year to £11.22 million (2009 — £9.70 million) comfortably ahead of market rates. Notable in the year were the launch of the flavoured version of Animalcare's canine heart treatment Benazecare now sold as Benazecare Flavour and, as planned, the launch in the final quarter of the year of two new products Enrocare Injectable Solution, a later generation antibiotic, and Phenoleptil, a treatment for epilepsy in dogs. It was also encouraging that the range of older products saw revenue growth of over 7 per cent as they benefited, we believe, from wider buying across parts of our range by veterinary surgeons stimulated by the interest in the new products. Underlying operating profit grew by 25 per cent to £2.87 million (2009 — £2.30 million).

Livestock Division

Although annual revenue for the Division grew by 9 per cent over the previous year to £8.77 million (2009 — £8.04 million) underlying operating profit remained static at £0.54 million (2009 — £0.54 million). One of the main factors affecting the performance of the Division related to the introduction of new regulations for the electronic tagging (EID tagging) of sheep on 1 January 2010. Uncertainty surrounding the EID regulations resulted in many farmers deferring normal purchases until spring 2010 which depressed tag sales in the first half of the year. As compliance requirements became better understood by farmers, we benefited from a surge in demand in the latter months of the financial year.

The component costs of EID tags are substantially higher and the production process is more complex and lengthy than the simple plastic tags which they supersede. Although EID tag prices, and therefore revenue, are much greater than the simple plastic tags, the market did not reach a level where the same percentage margin or in some cases the same cash margin was achieved. The effect of these developments in the main product category of the Division reflects in the improved revenue but relatively poor profit performance.

Other difficulties affecting the Livestock Division were: the continuing strength of the New Zealand dollar in which a number of key products are purchased; commodity price fluctuation in relation to iodine; and the loss of important non-agriculture customer contracts at Travik Chemicals. The Division was, however, successful in completing the launch of a revolutionary automatic sheep tag applicator, the Autotagger, in further developing its industrial tagging business and in increasing sales of electronic weighing equipment.

Exceptional Costs

From the time of the Animalcare Limited acquisition in January 2008 until early 2010 the directors' intention was that the Group's businesses should be brought together in a single location. This objective was to be addressed by launching Project Copper, whereby target premises were identified and expenditure committed in respect of building design, planning applications and detailed relocation planning.

However, early in 2010 Project Copper was terminated for strategic and financial reasons, which led to senior management changes and the instigation of a strategic review of Livestock Division activities. The ongoing challenges in the market faced by the Livestock Division, combined with the financial performance of the Division, resulted in the directors forming the view that the recoverable value to the Group of the assets of the Livestock Division was much lower than their carrying value, and that an impairment charge was necessary.

These considerations resulted in an exceptional charge for the year of £3.42 million, principally relating to the impairment of goodwill and non-current assets. The associated cash costs amount to £0.31 million. Further details are given in the Financial Review.

Future Developments

The strategic review of the Group was completed in summer 2010 with the recommendation that the Livestock Division be sold to allow concentration on the faster growing and more profitable Companion Animal Division. The sale of the Ritchey and Fearing businesses was completed on 17 September 2010 by way of a trade and asset sale for Ritchey and a share sale for Fearing International (Stock Aids) Ltd. The combined gross consideration payable for the two businesses is £3.25 million subject to confirmation in completion accounting. I am satisfied that the divestiture of Ritchey and Fearing was achieved on favourable terms.

On 4 October 2010 the Group's withdrawal from Livestock Division activities was completed by the announcement of the closure of its loss-making subsidiary Travik Chemicals Ltd.

The retained Companion Animal Division has a full new product development pipeline with at least four in-house or distribution new products scheduled for launch in the coming year. This rate of new product introduction is capable of being sustained into the medium term at approximately the same levels of investment we have seen historically. The investment in new sales staff in the last year is complete and is working well. Emphasis in the coming year will be on strengthening the management team to control and deliver the potential available to the Division.

I am confident of the strategy and proven strength of the core elements of the new shaped Animalcare Group and that we are building a very strong sustainable business which is capable of continuing to deliver exceptional rates of growth, for which the key elements are already in place.

Stephen Wildridge
Chief Executive Officer

FINANCIAL REVIEW
FOR THE YEAR ENDED 30 JUNE 2010

Group Overview — Revenue and Profit

The structure of the Group at 30 June 2010 continued to comprise two operating segments, Companion Animal (the Animalcare Ltd business) and Livestock (the Ritchey, Fearing and Travik Chemicals businesses).

Group revenue for the year ended 30 June 2010 was £19.92 million (2009 — £17.64 million). Underlying(*) operating profit was £3.14 million (2009 — £2.38 million) and underlying(*) profit before tax was £3.02 million (2009 — £2.01 million). Total losses before tax for the year ended 30 June 2010 were £0.56 million (2009 — profit £1.53 million). After income tax expenses of £0.47 million (2009 — £0.49 million) total comprehensive losses for the year were £1.03 million (2009 — income £1.04 million).

Total Group revenue was 13 per cent higher than the previous year with each of the operating segments contributing positive growth. Underlying(*) gross profit for the year was £10.51 million (52.8 per cent of Group revenue) versus £9.89 million (56.1 per cent of Group revenue) in 2009. The reduction in gross margin percentage is attributable entirely to the Livestock segment.

Distribution costs at £0.66 million compare favourably with the 2009 cost of £0.69 million particularly given the activity growth reflected in the revenue performance. Underlying administrative expenses for the year were £6.89 million against £6.82 million in 2009 with increased costs relating to headcount growth balanced by firm restraint on all areas of discretionary spending.

Net underlying(*) financing costs for the year ended 30 June 2010 were £0.12 million (2009 — £0.37 million). This reflects the reduction in Group borrowings and the fall in UK interest rates.

(*) Underlying results are before the effect of exceptional costs and other items as noted below.

Exceptional costs and other items

The Chief Executive's Review outlines the events giving rise to the exceptional costs which, along with a number of other items, have been identified separately from the underlying earnings of the Group. Together these exceptional and other costs amounted to £3.58 million, full details of which are shown in note 4 to the financial statements.

The main elements of the exceptional costs were:
— abortive costs of Project Copper (a project to consolidate all business activities on one site) and senior management changes totalling £0.28 million;
— impairments and other costs related to the Ritchey and Fearing businesses totalling £2.56 million (including goodwill impairment totalling £2.16 million);
— impairments and other costs related to Travik Chemicals totalling £0.58 million.

Other items which have been excluded from underlying results are amortisation of acquired intangibles £0.12 million (2009 — £0.12 million) and fair value movements on interest rate hedging £0.04 million (2009 — £0.23 million).

Cash Flow

Operating profit plus depreciation, amortisation and impairment ("EBITDA") for the year ended 30 June 2010 was £3.13 million (2009 — £2.75 million). This comparison is affected by cash costs of £0.22 million relating to the exceptional items referred to above and in note 4 to the financial statements. Net cash flow from operating activities fell to £1.94 million from £2.45 million in 2009, with a working capital increase of £0.54 million (2009 — £0.31 million decrease) resulting primarily from an increase in trade receivables and tax and interest payments totalling £0.80 million (2009 — £0.80 million).

Capital expenditure in the year ended 30 June 2010 totalled £0.61 million (2009 — £0.65 million) with developed intangible capital expenditure totalling £0.41 million (2009 — £0.31 million) and expenditure on property, plant and equipment amounting to £0.20 million (2009 — £0.34 million).

After dividend payments of £0.49 million (2009 — £0.45 million) and loan repayments of £1.00 million (2009 — £1.23 million), net positive cash flow for the year ended 30 June 2010 was £0.03 million (2009 — £0.15 million).

The Group's net debt at 30 June 2010 (comprising bank loans less cash and cash equivalents) was £2.89 million (2009 — £3.92 million) which comprised total bank debt at 30 June 2010 of £4.46 million (2009 — £5.45 million) and cash balances of £1.56 million (2009 — £1.53 million).

Segmental Analysis — Companion Animal

Revenue from the Companion Animal segment in the year ended 30 June 2010 before eliminations was £11.22 million against £9.70 million for 2009 representing 16 per cent year on year growth. Strong growth in licensed veterinary medicines was supplemented by notable growth in sales of electronic pet identification microchips, infusion accessories and hygiene products.

Gross profit for the segment increased marginally at 53.1 per cent of revenue against 52.9 per cent in 2009. Overhead costs in the segment increased by 9 per cent ahead of 2009 mainly through headcount increases in the sales function which were required to maintain the pace of business development in the segment.

EBITDA for the segment for the year ended 30 June 2010 was £3.05 million (2009 — £2.43 million).

Segmental Analysis — Livestock

The Livestock segment contributed £8.77 million of Group revenue before eliminations (2009 — £8.04 million) representing 9 per cent year on year growth. Revenue growth was almost entirely attributable to electronic identification (EID) tags for sheep, with progress in industrial tags and electronic weighing equipment but level or negative performance in other product groups.

Gross profit for the segment was 54.0 per cent (2009 — 59.2 per cent) of revenue. This reduction results overwhelmingly from the higher manufacturing cost of EID tags although there was secondary margin erosion through the continuing strength of the New Zealand dollar, commodity price fluctuation in relation to iodine and the loss of important customer contracts at Travik Chemicals.

There was no significant year on year change in the level of Livestock segment overheads.

EBITDA for the segment for the year ended 30 June 2010 was £0.64 million (2009 — £0.79 million).

P Warner
Chief Financial Officer

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010

The directors present their annual report on the affairs of the Group together with the financial statements and auditors' report for the year ended 30 June 2010.

Principal activities

The principal activity of the Group during the year was the manufacture and distribution of veterinary medicines, and identification and other products for companion animals and livestock.

Business Review and Future Developments

A review of the business and future developments is provided in the Chairman's Statement, Chief Executive's Review and Financial Review.

Post-Balance Sheet Events

On 17 September 2010 the Company disposed of the business and assets of its trading division, Ritchey, and of the shares of its wholly owned subsidiary, Fearing International (Stock Aids) Limited. The disposals were for a combined gross consideration of £3.25 million in cash subject to confirmation in completion accounting.

On 4 October 2010 the Group announced the closure of its loss-making subsidiary, Travik Chemicals Limited.

A review of these events is provided in the Chairman's Statement, Chief Executive's Review and Financial Review.

Research and Development

The Group is committed to the development of new and innovative products to meet the needs of its customers. During the year to 30 June 2010 the Group invested in developments in veterinary medicines, in livestock electronic identification and in enhancements to its electronic customer ordering system.

Dividends

A final dividend of 3.0 pence per share will be proposed at the Annual General Meeting on 25 November 2010 and is proposed to be paid on 6 December 2010 to all shareholders on the share register at 12 November 2010.

Capital Structure

The Company's authorised share capital as at 30 June 2010 was £5.0 million divided into 25,000,000 ordinary shares of 20 pence each. The Company's issued share capital as at 30 June 2010 was 20,047,516 ordinary shares of 20 pence each, each credited as fully paid.

Directors

The following directors have held office during the year ended 30 June 2010:

J S Lambert
S F Riddell (resigned 31 March 2010)
G C Rhodes
Lord Downshire
S M Wildridge
J Tobin

Details of directors' share options and long-term incentive plans are provided in note 8.

The Company maintains directors' and officers' liability insurance for the benefit of its directors, which was in place throughout the year ended 30 June 2010 and remains in place at the date of this report.

Principal risks and uncertainties

New product development

A key element of the Group's strategy is to expand its portfolio of veterinary medicines, the success of which depends on these products meeting the required regulatory standards and achieving the necessary marketing authorisations. Rejection of applications or delays in the regulatory process could have a significant impact on the Group's results. Also there can be no guarantee of the commercial success of these products following their launch.

Key customers

The Group derives a substantial proportion of its revenue from a number of key customers. In the event that these relationships are lost the effect on the Group's revenue could be significant.

Key suppliers

The Group purchases goods for resale under supply and distribution agreements with a number of key suppliers. Failure of supply under these arrangements could result in significant loss of Group revenue.

Retention of key employees

The Group has a small senior executive management team whose skills, knowledge and experience are key to the success of Group strategy. Loss of any of these team members could significantly affect Group performance.

Financial instruments

The Group's exposure to, and arrangements for, the management of financial risks are described in note 22 to the financial statements.

Creditor payment policy

It is the Group's policy to maintain good relationships with its suppliers. Suppliers are made aware of the terms of payment which are agreed with them in advance and these terms are adhered to. The number of days' purchases included in trade creditors at 30 June 2010 was 38 days (2009 — 49 days).

Corporate governance

The directors support the underlying principles of the Combined Code, notwithstanding that the Company is not required to comply with all of the Code's recommendations. The board recognises its overall responsibility for the Group's systems of internal control and their effective operation and it has sought to comply with those provisions of the Code judged appropriate for the current size and nature of the Group, being the establishment of an audit committee, a remuneration committee and a nominations committee.

Formally constituted audit, remuneration and nominations committees, with membership comprising the Company's three non-executive directors, were established on the Group's admission to AIM and are active in the conduct of internal financial control, executive performance and remuneration and board appointments.

Charitable and Political Donations

During the year the Group made charitable donations of £262 (2009 — £1,579). No political donations were made during the year (2009 — nil).

Employees

Applications for employment by disabled persons are given full and fair consideration. When existing employees become disabled every effort is made to provide continuing employment wherever possible.

The directors recognise the importance of good communications with employees and continue to consult and inform them on matters affecting them and the performance of the Group. Employees are provided with financial incentives related to the performance of the Group in the form of annual bonuses and participation in approved sharesave schemes.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010

Substantial Shareholdings

On 4 October 2010 the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as shareholders of the Company.

Name of holder	Percentage of voting rights and issued share capital	No. of ordinary shares	Nature of holding
Brewin Dolphin	13.4	2,681,244	Direct
Including the beneficial shareholding of J S Lambert of 1,196,691 shares (6.0 per cent)			
Rensburg Sheppards Management Ltd.	11.2	2,242,227	Direct
Including the beneficial shareholding of S F Riddell of 986,364 shares (4.9 per cent)			
Octopus Investments	9.0	1,808,574	Direct
Unicorn Asset Management	8.2	1,636,663	Direct
Liontrust Asset Management	8.2	1,636,364	Direct
Lord Downshire	7.5	1,510,029	Direct/Indirect*
Downing Corporate Finance Ltd	4.7	945,909	Direct
Hargreave Hale	4.2	847,273	Direct
Williams de Broë	3.4	687,226	Direct
N.R. Sale	3.1	613,400	Direct

* Lord Downshire's interest includes a non-beneficial interest in 400,446 ordinary shares.

Going concern

The principal risks and uncertainties facing the Group are set out on page 9.

The Group's principal committed financing facilities are not due for renewal within the next four years. Additionally, the Group had an undrawn overdraft facility at 30 June 2010 to the value of £700,000 which is available for general corporate and working capital requirements. Reflecting the Group's healthy cash position, this overdraft facility was reduced by agreement with the bank to £100,000 with effect from 20 September 2010. At 30 June 2010 the Group had cash on hand of £1.56 million (2009 — £1.53 million). The Group received £2.16 million in cash in September 2010 as the first instalment of the consideration following the sales of its Ritchey and Fearing businesses and is due to receive the balance between 31 October and 31 December 2010. At that point the Group should be substantially debt free.

Overall, the directors believe the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

Each of the persons who is a director at the date of this annual report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

During the period, Deloitte LLP resigned as auditors and KPMG Audit Plc were appointed in their place.

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Animalcare Group plc
By order of the board,

J Tobin
Company Secretary
4 October 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
— prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANIMALCARE GROUP plc

We have audited the financial statements of Animalcare Group plc for the year ended 30 June 2010 set out on pages 14 to 51. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP

Opinion on financial statements

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2010 and of the Group's loss for the year then ended;
— the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
— the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statement.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
— the parent Company financial statements are not in agreement with the accounting records and returns; or
— certain disclosures of directors' remuneration specified by law are not made; or
— we have not received all the information and explanations we require for our audit.

Chris Hearld (Senior Statutory Auditor)
For and on behalf of
KPMG Audit Plc
Statutory Auditor
Chartered Accountants
1 The Embankment
Leeds LS1 4LX

4 October 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 30 JUNE 2010

	Note	Underlying results before exceptional and other items 2010 £'000	Exceptional and other items(*) 2010 £'000	Total 2010 £'000	Underlying results before exceptional and other items 2009 £'000	Exceptional and other items(*) 2009 £'000	Total 2009 £'000
Revenue	6	19,921	—	19,921	17,638	—	17,638
Cost of sales		(9,231)	(181)	(9,412)	(7,749)	—	(7,749)
Gross profit		10,690	(181)	10,509	9,889	—	9,889
Distribution costs		(631)	—	(631)	(693)	—	(693)
Administrative expenses		(6,918)	(3,359)	(10,277)	(6,819)	(252)	(7,071)
Operating profit/(loss)	4, 7	3,141	(3,540)	(399)	2,377	(252)	2,125
Finance costs	10	(137)	(38)	(175)	(387)	(227)	(614)
Finance income	10	16	—	16	16	—	16
Profit/(loss) before tax	4, 7	3,020	(3,578)	(558)	2,006	(479)	1,527
Income tax (expense)/credit	11	(799)	326	(473)	(585)	97	(488)
Total comprehensive income/(loss) for the year		2,221	(3,252)	(1,031)	1,421	(382)	1,039
Basic (loss)/earnings per share	13			(5.2p)			5.3p
Fully diluted (loss)/earnings per share	13			(5.2p)			5.0p

Total comprehensive income/(loss) for the year is attributable to the equity holders of the parent.

(*) In order to aid understanding of underlying business performance, the directors have presented underlying results before the effect of exceptional and other items. These exceptional and other items are analysed in detail in note 4 to the financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED 30 JUNE 2010

Group	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2008	3,951	5,824	4,870	14,645
Total comprehensive income for the year	—	—	1,039	1,039
Transactions with owners of the Company, recognised in equity:				
Dividends paid	—	—	(445)	(445)
Share-based payments	—	—	143	143
Balance at 1 July 2009	3,951	5,824	5,607	15,382
Total comprehensive loss for the year	—	—	(1,031)	(1,031)
Transactions with owners of the Company, recognised in equity:				
Dividends paid	—	—	(494)	(494)
Issue of share capital	59	107	—	166
Share-based payments	—	—	58	58
Balance at 30 June 2010	4,010	5,931	4,140	14,081

Company	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2008	3,951	5,824	4,006	13,781
Total comprehensive income for the year	—	—	276	276
Transactions with owners of the Company, recognised in equity:				
Dividends paid	—	—	(445)	(445)
Share-based payments	—	—	143	143
Balance at 1 July 2009	3,951	5,824	3,980	13,755
Total comprehensive loss for the year	—	—	(1,258)	(1,258)
Transactions with owners of the Company, recognised in equity:				
Dividends paid	—	—	(494)	(494)
Issue of share capital	59	107	—	166
Share-based payments	—	—	58	58
Balance at 30 June 2010	4,010	5,931	2,286	12,227

As permitted by section 408 of the Companies Act 2006, the statement of comprehensive income of the parent Company is not presented as part of these financial statements.

BALANCE SHEETS
30 JUNE 2010

	Note	Group 2010 £'000	Group Restated 2009 £'000	Company 2010 £'000	Company 2009 £'000
Non-current assets					
Goodwill	14	13,027	15,254	—	20
Other intangible assets	15	2,105	2,139	117	226
Property, plant and equipment	16	1,153	1,817	795	1,014
Investments in subsidiary companies	17	—	—	15,276	17,384
Deferred tax asset	24	—	—	35	—
		16,285	19,210	16,223	18,644
Current assets					
Inventories	18	1,815	2,032	618	643
Trade and other receivables	19	3,418	2,589	2,091	1,590
Cash and cash equivalents	19	1,564	1,532	224	127
		6,797	6,153	2,933	2,360
Total assets		23,082	25,363	19,156	21,004
Current liabilities					
Trade and other payables	20	(2,770)	(2,603)	(2,418)	(1,488)
Current tax liabilities		(479)	(339)	—	(33)
Bank overdraft and loans	21	(883)	(883)	(883)	(883)
Deferred income	23	(154)	(123)	—	—
Contingent consideration		—	(91)	—	(91)
Derivative financial instruments	22	(55)	(145)	(55)	(145)
Current liabilities		(4,341)	(4,184)	(3,356)	(2,640)
Net current assets/(liabilities)		2,456	1,969	(423)	(280)
Non-current liabilities					
Bank loans	21	(3,573)	(4,573)	(3,573)	(4,573)
Deferred income	23	(837)	(760)	—	—
Deferred tax liabilities	24	(250)	(464)	—	(36)
		(4,660)	(5,797)	(3,573)	(4,609)
Total liabilities		(9,001)	(9,981)	(6,929)	(7,249)
Net assets		14,081	15,382	12,227	13,755
Capital and reserves					
Called up share capital	25	4,010	3,951	4,010	3,951
Share premium account		5,931	5,824	5,931	5,824
Retained earnings		4,140	5,607	2,286	3,980
Equity attributable to equity holders of the parent		14,081	15,382	12,227	13,755

The comparatives shown in the Group balance sheet for the year ended 30 June 2009 have been restated to reclassify deferred income totalling £123,000 from non-current liabilities to current liabilities. The directors have revised the presentation to enhance disclosure relating to services (see note 23).

The financial statements of Animalcare Group plc, registered number 1058015, were approved by the board of directors and authorised for issue on 4 October 2010.

They were signed on its behalf by:

J Tobin
Commercial Director

CASH FLOW STATEMENTS
YEAR ENDED 30 JUNE 2010

	Note	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
(Loss)/profit before tax		(558)	1,527	(3,101)	(884)
Adjustments for:					
Depreciation of property, plant and equipment	16	287	251	165	130
Amortisation of intangible assets	15	308	237	63	47
Impairment of intangible assets	15	115	—	115	—
Impairment of property, plant and equipment	16	596	—	225	—
Impairment of investments	17	—	—	2,108	—
Goodwill impairment charge	14	2,227	134	20	134
Finance costs	10	175	614	166	614
Finance income	10	(16)	(16)	—	—
Share-based payment award		58	94	58	94
Release of deferred income	23	108	108	—	—
(Profit)/loss on disposal of property, plant and equipment		(16)	(7)	2	—
Operating cash flows before movements in working capital		3,284	2,942	(179)	135
(Increase)/decrease in inventories	18	217	(214)	25	(3)
(Increase)/decrease in receivables	19	(829)	(151)	(501)	284
Increase in payables	20	76	671	840	176
Cash generated by operations		2,748	3,248	185	592
Income taxes (paid)/received		(547)	(405)	88	138
Interest paid		(265)	(410)	(256)	(410)
Net cash flow from operating activities		1,936	2,433	17	320
Investing activities:					
Payments to acquire intangible assets	15	(407)	(311)	(69)	(76)
Payments to acquire property, plant and equipment	16	(205)	(336)	(174)	(240)
Interest received	10	16	16	—	—
Dividends received		—	—	1,650	1,000
Receipts from sale of property, plant and equipment		20	18	1	—
Net cash (used in)/generated by investing activities		(576)	(613)	1,408	684
Financing:					
Receipts from issue of share capital		166	—	166	—
Equity dividends paid	12	(494)	(445)	(494)	(445)
Repayment of bank loans	21	(1,000)	(1,227)	(1,000)	(1,227)
Net cash used in financing activities		(1,328)	(1,672)	(1,328)	(1,672)
Net increase/(decrease) in cash and cash equivalents		32	148	97	(668)
Cash and cash equivalents at start of year		1,532	1,384	127	795
Cash and cash equivalents at end of year		1,564	1,532	224	127
Comprising:					
Cash and cash equivalents	19	1,564	1,532	224	127
		1,564	1,532	224	127

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

1. GENERAL INFORMATION

Animalcare Group plc ("the company") is a company incorporated in England and Wales under the Companies Act 2006 and is domiciled in the United Kingdom. The Group comprises Animalcare Group plc and its subsidiaries. The nature of the Group's operations and its principal activities are set out in note 6 and within the directors' report.

Adoption of new and revised standards

The following new standards and amendments to standards were adopted by the Group for the first time for the financial year beginning 1 July 2009.

IFRS 8 — *Operating Segments*. The Group adopted IFRS 8 which replaces IAS 14 — *Segment Reporting* ("IAS 14"), during the year ended 30 June 2010. IFRS 8 requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. IAS 14 required identification of two sets of segments — one based on business units and the other on geographical areas. IFRS 8 requires additional disclosures around identifying segments and their products and services. Since the change in accounting policy only impacts the presentation and disclosure aspects, there is no impact on reported results or earnings per share.

IAS 1 (revised) — *Presentation of Financial Statements*. The revised standard prohibits the presentation of items of income and expense within the statement of changes in shareholders' equity, therefore requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). The Group has elected to present one statement. Also, the revised standard includes the statement of changes in shareholders' equity as a primary statement, rather than as a note to the financial statements. Since the change in accounting policy only impacts the presentation and disclosure aspects, there is no impact on reported results or earnings per share.

IFRS 3 (Revised) — *Accounting for business combinations* and IAS 27 (Revised) — *Consolidated and separate financial statements*. The Group has adopted the revised versions of IFRS 3 *Business combinations* and IAS 27 *Consolidated and separate financial statements* with effect from 1 July 2009. The standards apply prospectively to all business combinations executed from that date. Business combinations executed prior to that date, and the resolution of related issues, are dealt with under the preceding version of the standards as previously applied by the Group.

The revised standards introduce changes in a number of areas, including the requirement to recognise changes in contingent consideration in the income statement rather than as an adjustment to goodwill; the requirement to recognise contingent liabilities at fair value; and the requirement to expense acquisition costs as incurred rather than treating them as part of the cost of acquisition. The Group did not complete any business combinations year ended 30 June 2010, and therefore the application of these revised standards has no material impact on the 30 June 2010 Group and Company financial statements.

Amendments to IFRS 7 *Improving Disclosures about Financial Instruments*. The relevant aspects of the amendment have been included in these financial statements.

The IASB and IFRIC have issued the following standards and interpretations, with an effective date after the date of these financial statements. Their adoption is not expected to have a material effect on the financial statements of the Group.

New and revised standards

IAS 24 *Related Party Disclosures* (revised 2009) 1 January 2011
IFRS 9 *Financial Instruments* 1 January 2013

Amendments to standards and interpretations

Improvements to IFRSs 2009 — various standards 1 January 2010
Improvements to IFRSs 2010 — various standards 1 July 2010
Amendments to IFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions 1 January 2010
Amendment to IAS 32 Financial Instruments: Presentation — Classification of Rights Issues 1 February 2010
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* 1 July 2010

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Group and Company financial statements have been prepared and approved by the directors under the historical cost convention, except for the revaluation of certain financial instruments, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("adopted IFRSs") and the Companies Act 2006 as applicable to companies reporting under IFRS. They have also been prepared in accordance with the requirements of the AIM Rules.

Going concern

The principal risks and uncertainties facing the Group are set out on page 9.

The Group's principal committed financing facilities are not due for renewal within the next four years. Additionally, the Group had an undrawn overdraft facility at 30 June 2010 to the value of £700,000 which is available for general corporate and working capital requirements. Reflecting the Group's healthy cash position, this overdraft facility was reduced by agreement with the bank to £100,000 with effect from 20 September 2010. At 30 June 2010 the Group had cash on hand of £1.56 million (2009 — £1.53 million). The Group received £2.16 million in cash in September 2010 as the first instalment of the consideration following the sales of its Ritchey and Fearing businesses and is due to receive the balance between 31 October and 31 December 2010. At that point the Group should be substantially debt free.

Overall, the directors believe the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries and other businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Costs directly attributable to the business combination are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised) are recognised at their fair value at the acquisition date, except for non-current assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Exceptional and other items

Exceptional items are material items of income or expense which, because of their nature and the expected frequency of the events giving rise to them, merit separate disclosure.

Other items relate to the amortisation of acquired intangible assets, fair value movements on interest rate hedging and impairment of goodwill.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The separate presentation of exceptional and other items enables the users of the accounts to better understand the elements of financial performance during the year and hence to better assess trends in that financial performance.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in comprehensive income and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS (1 July 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Intangible Assets

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. Intangible assets arise both as a result of applying IFRS 3 which requires the separate recognition of intangible assets from goodwill on all business combinations from 1 January 2004, and from the purchase of software (that is separable from any associated hardware), and development machinery and from research and development (see below).

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows;

Customer relationships	10 years
Brands	15 years
Software	Useful life of the software
Research and development	Estimated economic life, normally 4–5 years

The useful life of software is currently estimated to be 2–4 years.

Internally generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

— an asset is created that can be identified (such as software and new processes);
— it is probable that the asset created will generate future economic benefits; and
— the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from the sale of goods is recognised when the risks and rewards of ownership are transferred which is generally when goods are delivered.

Income received in relation to long-term service contracts is deferred and subsequently recognised over the life of the relevant contracts. Further details are contained in note 23.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in comprehensive income in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to State-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentational currency for the consolidated financial statements. The functional currency and the reporting currency is the same for all Group companies.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in comprehensive income for the year.

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transaction with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Chief Executive Officer include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly central Group administration costs, interest, taxation, and bank loans.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Dividends

Dividends paid are recognised within the Statement of Changes in Equity only when an obligation to pay the dividend arises prior to the year end.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of such equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions (with a corresponding movement in equity).

Fair value is measured by use of the Black–Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Land and buildings and other assets held for use in the production or supply of goods and services or for administrative purposes, fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Other than for land, which is not depreciated, depreciation is charged so as to write off the cost of assets, less their estimated residual value, over their estimated useful lives, as follows:

Straight-line

Freehold Buildings	50 years
Leasehold improvements	10 years
Plant and equipment	4 to 7 years
Office furniture and equipment	3 to 5 years
Motor vehicles	4 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income as incurred.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation outstanding at the balance sheet date, and are discounted to present value where the effect is material.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in comprehensive income when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Investments in Group companies are stated at cost less provisions for impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits repayable on demand, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in comprehensive income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments

The Group uses derivative financial instruments including interest rate swaps to hedge its exposure to interest rate risks arising from operational and financial activities. The Group does not hold any derivative financial instruments for trading purposes. However, derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments.

Hedge accounting is not adopted and therefore the movement on remeasurement to fair value is recognised immediately as part of finance income or finance costs in the Consolidated Statement of comprehensive income. Derivatives not designated into an effective hedge relationship are classified as a current asset or current liability. Fair value movements on interest rate hedging are included within "exceptional and other items" on the face of the statement of comprehensive income.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Capitalised research & development expenditure

It is the Group's policy to capitalise development expenditure and to amortise this expenditure over the estimated life of the asset. Expenditure incurred to date relates primarily to the following:

— a major project to develop and manufacture for sale an automatic tagging tool; and
— certain costs associated with preparing regulatory dossiers in support of applications for generic veterinary medicine Marketing Authorisations.

The directors have adjudged these costs to meet the relevant criteria of IAS 38 "Intangible Assets".

Capitalised software expenditure

The Group has historically capitalised software projects and developments. Expenditure on a bespoke web-based system, designed to facilitate online ordering of its products, is currently capitalised in the Group's financial statements as the directors have adjudged it to meet the relevant criteria.

The rate of depreciation on capitalised software is set so as to reflect the pattern of usage and the level of pace of change within the global information technology market.

Key sources of estimation uncertainty

Impairment of non-current assets

Determining whether a non-current asset is impaired requires an estimation of the "value in use" and/or the "fair value less costs to sell" of the cash-generating units ("CGUs") to which the non-current asset has been allocated. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The key assumptions for these value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU. The Group prepares cash flow forecasts derived from the most recent financial budgets and projections approved by management for the next three years, thereafter assuming an estimated growth rate of 2.0 per cent (2009: 2.5%). The growth rates for the three year period covered by financial budgets and projections prepared by management are based on the current performance of the existing product portfolio and the contribution from new products, currently in development, which will be launched in the short term. The directors believe that the long-term growth rate does not exceed the average long-term growth rate for the relevant markets.

Impairment of slow moving and obsolete inventory

The Group performs an annual stockholding review to determine any slow-moving or obsolete lines and accordingly makes provision in its financial statements for writing down or writing off the value of such lines in order to reflect the true value of its stock.

4. EXCEPTIONAL AND OTHER ITEMS

From the time of the Animalcare Limited acquisition in January 2008 until early 2010 it was believed that there may have been significant benefits from bringing the Group's businesses together in a single location. This objective was to be addressed by launching Project Copper, whereby target premises were identified and expenditure committed in respect of building design, planning applications and detailed relocation planning.

However, early in 2010 Project Copper was terminated for strategic and financial reasons this in turn led to senior management changes and the instigation of a strategic review of Livestock division activities.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

4. EXCEPTIONAL AND OTHER ITEMS (continued)

The ongoing challenges in the market faced by the Livestock division are referred to in the Chairman's Statement and the Chief Executive's Review. These circumstances, combined with the financial performance of the division, resulted in the directors forming the view that the fair value less costs to sell of the Livestock division exceeded the value in use.

The estimate of fair value to the Group in respect of the Ritchey and Fearing businesses has been substantiated by reference to the subsequently agreed disposal proceeds (see note 5).

	Note	2010 £'000	2009 £'000
Charges relating to the reorganisation of the Group			
Aborted Group relocation costs		69	—
Executive severance payments		212	—
		281	—
Impairments and other charges relating to the Ritchey and Fearing businesses			
Impairment of goodwill	14	2,165	—
Impairment of other intangible assets	15	115	—
Impairment of property, plant and equipment	16	225	—
Other charges		59	—
		2,564	—
Impairments and restructuring charges relating to the Travik Chemicals business			
Impairment of goodwill	14	62	—
Impairment of property, plant and equipment	16	371	—
Inventory provisions		181	—
Release of contingent consideration		(39)	—
		575	—
Total exceptional items		3,420	—
Impairment of goodwill	14	—	134
Amortisation of acquired intangible assets	15	120	118
Fair value movements on interest rate hedging	10	38	227
Other items		158	479
Total exceptional and other items		3,578	479

Of the exceptional items listed above £181,000 is classified within cost of sales and £3,239,000 within administrative expenses. An analysis of exceptional and other costs by business segment is contained in note 6. The goodwill impairment charge of £134,000 in 2009 relates to the write-off of Marabo goodwill and was not considered at the time to merit separate disclosure as an exceptional item.

5. POST BALANCE SHEET EVENTS

On 17 September 2010 the Company disposed of the business and assets of its trading division, Ritchey, and of the shares of its wholly owned subsidiary, Fearing International (Stock Aids) Limited. The disposals were for a combined gross consideration of £3.25 million in cash subject to confirmation in completion accounting. Following the impairments described in note 4 and subject to the completion accounting process, the directors do not anticipate that these transactions will result in a significant profit or loss to the Group.

On 4 October 2010 the Group announced the closure of its loss-making subsidiary, Travik Chemicals Limited.

A review of these events is provided in the Chairman's Statement, Chief Executive's Review and Financial Review.

6. REVENUE AND OPERATING SEGMENTS

The Group has adopted IFRS 8 "Operating Segments" for the current period. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. The Chief Operating Decision Maker is considered to be the Chief Executive Officer of Animalcare Group Plc.

In prior years, segment information reported externally was analysed on the basis of the categories Companion Animal and Livestock which is also the information reported to the Chief Operating Decision Maker. No restatement of prior year comparatives has been necessary as a consequence of the adoption of IFRS 8.

The Chief Operating Decision Maker receives and reviews segmental operating profit.

Intersegment transactions are undertaken in the ordinary course of business.

The Board considers that certain items are cross divisional in nature and cannot be allocated between the segments on a meaningful basis. The administrative costs of central Group management is presented as unallocated in the following tables, as this entity has trading relationships with companies in both the segments.

Net funding costs and taxation are treated as unallocated reflecting the nature of the Group's borrowing facilities and its tax group.

Each segment is shown net of intercompany transactions and balances within that segment. The eliminations remove intercompany transactions and balances between the segments.

Principal activities are as follows:

The Companion Animal Division supplies and distributes veterinary medicines, and identification and other welfare products to veterinary markets.

The Livestock Division manufactures and distributes livestock identification and welfare products to agricultural merchants, retailers and farmers.

2010	Note	Companion Animal 2010 £'000	Livestock 2010 £'000	Eliminations 2010 £'000	Segment Total 2010 £'000	Unallocated 2010 £'000	Total 2010 £'000
Revenue							
External sales		11,156	8,765	—	19,921	—	19,921
Inter-segment sales		67	4	(71)	—		—
Total revenue		11,223	8,769	(71)	19,921	—	19,921
Gross profit		5,957	4,733	—	10,690	—	10,690
Underlying operating profit/(loss)		2,872	545	—	3,417	(276)	3,141
Other items	4	(120)	—	—	(120)	—	(120)
Exceptional items	4	—	(3,139)	—	(3,139)	(281)	(3,420)
Operating profit/(loss)		2,752	(2,594)	—	158	(557)	(399)
Finance income	10						16
Finance costs	10						(175)
Profit/(loss) before tax							(558)
Income tax (expense)/credit	11						(473)
Total comprehensive income/(loss) for the year							(1,031)

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

6. REVENUE AND OPERATING SEGMENTS (continued)

2009	Note	Companion Animal 2009 £'000	Livestock 2009 £'000	Eliminations 2009 £'000	Segment Total 2009 £'000	Unallocated 2009 £'000	Total 2009 £'000
Revenue							
External sales		9,606	8,032	—	17,638	—	17,638
Inter-segment sales		89	9	(98)	—		—
Total revenue		9,695	8,041	(98)	17,638	—	17,638
Gross profit		5,125	4,764	—	9,889	—	9,889
Underlying operating profit/(loss)		2,304	542	—	2,846	(469)	2,377
Other items	4	(118)	(134)	—	(252)	—	(252)
Exceptional items	4	—	—	—	—	—	—
Operating profit/(loss)		2,186	408	—	2,594	(469)	2,125
Finance income	10						16
Finance costs	10						(614)
Profit/(loss) before tax							1,527
Income tax (expense)/credit	11						(488)
Total comprehensive income/(loss) for the year							1,039

2010	Note	Companion Animal 2010 £'000	Livestock 2010 £'000	Eliminations 2010 £'000	Segment Total 2010 £'000	Unallocated 2010 £'000	Total 2010 £'000
Products and Services							
Licensed veterinary		5,373	—	—	5,373	—	5,373
Animal identification		2,980	3,903	(67)	6,816	—	6,816
Animal welfare		2,870	3,943	(4)	6,809	—	6,809
Other		—	923	—	923	—	923
		11,223	8,769	(71)	19,921	—	19,921
Other information							
Intangible asset additions	15	338	69	—	407	—	407
Property, plant and equipment additions	16	8	197	—	205	—	205
Depreciation and amortisation	15,16	296	299	—	595	—	595
Impairment of intangible assets	15	—	115	—	115	—	115
Impairment of property, plant and equipment	16	—	596	—	596	—	596
Goodwill impairment charge	4	—	2,227	—	2,227	—	2,227
Consolidated assets		19,439	4,731	(1,088)	23,082	—	23,082
Consolidated liabilities		(3,119)	(2,514)	1,088	(4,545)	(4,456)	(9,001)
Consolidated net assets		16,320	2,217	—	18,537	(4,456)	14,081

6. REVENUE AND OPERATING SEGMENTS (continued)

2009	Note	Companion Animal 2009 £'000	Livestock 2009 £'000	Eliminations 2009 £'000	Segment Total 2009 £'000	Unallocated 2009 £'000	Total 2009 £'000
Products and Services							
Licensed veterinary		4,365	—	—	4,365	—	4,365
Animal identification		2,516	2,899	(89)	5,326	—	5,326
Animal welfare		2,814	3,650	(9)	6,455	—	6,455
Other		—	1,492	—	1,492	—	1,492
		9,695	8,041	(98)	17,638	—	17,638
Other information							
Intangible asset additions	15	235	76	—	311	—	311
Property, plant and equipment additions	16	16	320	—	336	—	336
Depreciation and amortisation	15,16	246	242	—	488	—	488
Goodwill impairment charge	4	—	134	—	134	—	134
Consolidated assets		18,539	7,096	(272)	25,363	—	25,363
Consolidated liabilities		(2,703)	(2,094)	272	(4,525)	(5,456)	(9,981)
Consolidated net assets		15,836	5,002	—	20,838	(5,456)	15,382

Geographical analysis

The analysis by geographical area of the Group's revenue by destination is set out below:

	2010 £'000	2009 £'000
Geographical market		
United Kingdom	18,061	15,872
Other European Countries	1,706	1,695
Americas	41	20
Australasia	2	1
Rest of the World	111	47
	19,921	17,635
Other income	—	3
	19,921	17,638

The Group's assets are wholly located in the United Kingdom and accordingly no geographical analysis of assets and liabilities is presented.

An analysis of total Group revenue is as follows:

	2010 £'000	2009 £'000
Revenue from sale of goods	19,045	16,710
Revenue from provision of services	876	928
	19,921	17,638
Finance income	16	16
	19,937	17,654

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

7. OPERATING PROFITS

	2010 £'000	2009 £'000
Underlying profit for the year has been arrived at after charging/(crediting):		
Cost of inventories recognised as expense	9,128	8,156
Depreciation of tangible assets	287	251
Amortisation of developed intangible assets	188	119
Research and development	187	266
Operating lease rentals	250	187
Profit on disposal of tangible assets	(16)	(7)
Foreign exchange losses/(gains)	46	(60)
(Decrease)/increase in provision for receivables	(35)	5
Increase in provision for inventories	104	33

The above items are those charged/(credited) to underlying operating profit only. Full details on items charged/(credited) to exceptional and other items are contained in note 4.

The analysis of remuneration paid to the Company's auditors is as follows:

	2010 £'000	2009 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	15	21
Fees payable to the Company's auditors for other services to the Group	—	5
The audit of the Company's subsidiaries pursuant to legislation	19	23
Total audit fees	34	49
Tax services	15	17
Total non-audit fees	15	17
Total auditors' remuneration	49	66

During the year Deloitte LLP resigned as auditors and KPMG Audit Plc were appointed in their place.

8. DIRECTORS' REMUNERATION AND INTERESTS

Emoluments

The various elements of remuneration received by each director were as follows:

	Salary £'000	Bonus £'000	Company pension contribution £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
Year ended 30 June 2010						
J S Lambert(*)	30	—	—	—	—	30
G C Rhodes(*)	20	—	—	2	—	22
Lord Downshire(*)	20	—	—	1	—	21
S F Riddell (resigned 31 March 2010)	82	19	10	—	135	246
S M Wildridge	103	19	18	—	—	140
J Tobin	93	11	8	2	—	114
Total	348	49	36	5	135	573
Year ended 30 June 2009						
J S Lambert(*)	30	—	—	—	—	30
G C Rhodes(*)	24	—	—	—	—	24
Lord Downshire(*)	20	—	—	1	—	21
S F Riddell	104	1	12	—	—	117
S M Wildridge	99	22	11	—	—	132
J Tobin	91	—	10	2	—	103
S Hall (resigned 30 March 2009)	68	1	7	1	30	107
Total	436	24	40	4	30	534

(*) Indicates non-executive directors.

All Company pension contributions relate to defined contribution pension schemes. Benefits consisted of private medical insurance. Compensation for loss of office was paid in cash.

Share options

The directors had the following beneficial options:

S M Wildridge

Scheme	EMI	Unapproved	Unapproved	Unapproved	Total
Exercise price	£0.575	£0.575	£0.575	£0.975	
Date of grant	2 July 2008	2 July 2008	3 July 2008	9 July 2009	
Outstanding at 1 July 2008	—	—	—	—	—
Granted during the year	200,000	100,000	100,000	—	400,000
Outstanding at 30 June 2009	200,000	100,000	100,000	—	400,000
Granted during the year	—	—	—	100,000	100,000
Exercised during the year	—	—	—	—	—
Outstanding at 30 June 2010	200,000	100,000	100,000	100,000	500,000

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

8. DIRECTORS' REMUNERATION AND INTERESTS (continued)

J Tobin

Scheme	EMI	Total
Exercise price	£0.975	
Date of grant	28 Aug 2009	
Outstanding at 1 July 2009	—	—
Granted during the year	50,000	50,000
Outstanding at 30 June 2010	50,000	50,000

S F Riddell

Scheme	EMI	EMI	Unapproved	Unapproved	Total
Exercise price	£0.690	£0.575	£0.575	£0.975	
Date of grant	2 July 2007	2 July 2008	3 July 2008	9 July 2009	
Outstanding at 1 July 2008	10,000	—	—	—	10,000
Granted during the year	—	180,000	120,000	—	300,000
Outstanding at 30 June 2009	10,000	180,000	120,000	—	310,000
Granted during the year	—		—	50,000	50,000
Exercised during the year	(10,000)	(150,000)	—	—	(160,000)
Lapsed during the year	—	(30,000)	(120,000)	(50,000)	(200,000)
Outstanding at 30 June 2010	—	—	—	—	—

S Hall

Scheme	EMI	EMI	Total
Exercise price	£0.690	£0.575	
Date of grant	2 July 2007	2 July 2008	
Outstanding at 1 July 2008	6,000	—	6,000
Granted during the year	—	10,000	10,000
Lapsed during the year	(6,000)	(10,000)	(16,000)
Outstanding at 30 June 2009	—	—	—

The directors' interests in the shares of the Company as at 30 June are set out below.

	Ordinary shares of 20p 2010	Ordinary shares of 20p 2009
J S Lambert	1,196,691	1,130,418
Lord Downshire	1,109,583	1,098,173
G C Rhodes	582,000	592,000
S M Wildridge	319,068	470,068

In addition to the above, Lord Downshire had a non-beneficial interest in 400,446 shares.

S F Riddell, who resigned as a director on 31 March 2010, had interests in 769,091 shares of the Company at 30 June 2009.

9. STAFF COSTS

	2010 No.	2009 No.
Number of employees		
The average monthly number of employees (including directors) during the year was:		
Production and distribution	39	40
Selling and administration	113	106
	152	146

	2010 £'000	2009 £'000
Related costs		
Wages and salaries	3,485	3,502
Social security costs	360	329
Other pension costs	129	114
	3,974	3,945

10. FINANCE COSTS AND FINANCE INCOME

	Note	2010 £'000	2009 £'000
Interest expense on financial liabilities held at amortised cost:			
Bank interest		137	387
Fair value losses on financial instruments*	20	38	227
Finance costs		175	614
Other net finance income:			
Interest income on bank deposits		(16)	(16)
Finance income		(16)	(16)
Net finance costs		159	598

* Finance costs arising from derivatives held at fair value through profit and loss relate to fair value movements on the Group interest rate swap. The costs are included within "other items" on the face of the statement of comprehensive income.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

11. INCOME TAX EXPENSE

	Note	2010 £'000	2009 £'000
The income tax expense/(credit) comprises:			
Current tax expense		712	550
Adjustment in the current year in relation to prior years		(25)	5
		687	555
The deferred tax credit comprises:			
Origination and reversal of temporary differences	21	(214)	(67)
Adjustment in the current year in relation to prior years	21	—	—
		(214)	(67)
Total tax expense in the statement of comprehensive income		473	488
The total tax charge can be reconciled to the accounting profit as follows:			
(Loss)/profit before tax		(558)	1,527
Income tax calculated at 28 per cent (2009 — 28 per cent)		(156)	428
Effect of expenses not deductible		26	89
Effect of share-based deductions		(51)	(35)
Effect of goodwill impairments not deductible		623	—
Effect of certain companies taxed at a rate lower than 28 per cent		(5)	(2)
Effect of unprovided temporary differences		61	—
Effect of adjustments to the income tax expense of earlier years		(25)	8
		473	488

The tax credit of £326,000 (2009 — £97,000) shown within "exceptional and other items" on the face of the statement of comprehensive income relates to the amortisation of acquired intangibles, fair value movements on interest rate hedging, impairments to non-current assets and other charges relating to Group reorganisation, details of which are contained in note 4.

On 22 June 2010 it was announced that the rate of corporation tax will be reducing from 28 per cent to 24 per cent over a four year period at a rate of 1 per cent per year, with the first reduction to 27 per cent on 1 April 2011. The change in the tax rate was enacted on 27 July 2010 and therefore the calculations in these financial statements are based on the rates applicable at the balance sheet date and do not reflect the change in the tax rate.

12. DIVIDENDS

	2010 £'000	2009 £'000
Ordinary paid	494	445

The dividend paid during the year ended 30 June 2010 was 2.50 pence per share (2009 — 2.25 pence per share).

The proposed final dividend is subject to approval from shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

13. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the total comprehensive income for the year attributable to ordinary equity holders of the Company by the weighted average number of fully paid ordinary shares outstanding during the year.

The following income and share data was used in the basic earnings per share computations:

	Underlying earnings before exceptional and other items 2010 £'000	Underlying earnings before exceptional and other items 2009 £'000	Total (loss)/ earnings 2010 £'000	Total (loss)/ earnings 2009 £'000
Total comprehensive income/(loss) attributable to equity holders of the Company	2,221	1,421	(1,031)	1,039
	2010 No.	**2009 No.**	**2010 No.**	**2009 No.**
Basic weighted average number of shares	19,870,419	19,756,225	19,870,419	19,756,225
Basic earnings per share	11.2p	7.2p	(5.2p)	5.3p

The potential ordinary shares in the current year do not increase the loss per share. In the prior year the inclusion of 1,153,176 dilutive potential ordinary shares in respect of share options resulted in diluted earnings per share of 5.0p.

The underlying earnings per share is calculated by adding back the post tax effect of the exceptional and other items of £3,252,000 as shown in the consolidated statement of comprehensive income.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

14. GOODWILL

	Group £'000	Company £'000
Cost		
At 1 July 2009 and 30 June 2010	15,949	715
Accumulated impairment losses		
At 1 July 2009	561	561
Impairment losses for the year	134	134
At 30 June 2009	695	695
Impairment losses for the year	2,227	20
At 30 June 2010	2,922	715
Net book value		
At 30 June 2010	13,027	—
At 30 June 2009	15,254	20

The carrying amount of Group goodwill is allocated as follows:

	2010 £'000	2009 £'000
Companion Animal	12,711	12,711
Livestock	316	2,543
Goodwill	13,027	15,254

All goodwill within the Company resided within the Livestock segment.

The impairments recognised in the year of £2,227,000 relate to the Livestock segment. The recoverable amount has been calculated based on fair value less cost to sell. The estimate of fair value has been substantiated by reference to the subsequently agreed disposal proceeds as disclosed in notes 4 and 5.

The impairment test of the goodwill allocated to the Companion Animal segment was based on the value in use. The value in use was determined by discounting the future cash flows to be generated from the continuing use of the CGU.

The Group prepares cash flow forecasts derived from the most recent financial budgets and projections approved by management for the next three years and thereafter assuming an estimated annual growth rate of 2.0 per cent (2009 — 2.5 per cent).

The financial budgets and projections are based on past experience and actual operating results. The growth rates for the three year period are based on current performance of the existing product portfolio and the contribution from new products currently in development which will be launched in the short term. The directors consider the growth rate to be modest based on historical performance. The directors believe that the long-term growth rate does not exceed the average long-term growth rate for the UK economy.

Management estimates discount rates using the pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. In the current year management estimated the applicable rate to be 12 per cent (2009 — 12 per cent). The director's sensitivity analysis indicates that the discount rate in the impairment test of 12 per cent is robust to significant changes in discount factors.

The directors modelled a range of different scenarios by applying sensitivities to both the cash flow assumptions and the discount rate. Based on this sensitivity analysis there is significant headroom between the value in use calculation and the carrying value of the CGU.

The goodwill impairment of £134,000 arising from the annual impairment tests performed in 2009 related entirely to the Marabo range of livestock products and resided in the Livestock segment. This represented the full impairment of Marabo goodwill.

15. OTHER INTANGIBLE ASSETS

Group	Acquired brands and customer relationships £'000	New product development costs £'000	Capitalised software £'000	Total £'000
Cost				
At 1 July 2008	1,361	683	198	2,242
Additions	—	264	47	311
At 1 July 2009	1,361	947	245	2,553
Additions	—	407	—	407
Reclassification to tangible assets	—	(18)	—	(18)
Disposals	—	—	(36)	(36)
At 30 June 2010	1,361	1,336	209	2,906
Amortisation				
At 1 July 2008	59	25	93	177
Charge for the year	118	72	47	237
At 1 July 2009	177	97	140	414
Charge for the year	120	138	50	308
Impairment(*)	—	115	—	115
Disposals	—	—	(36)	(36)
At 30 June 2010	297	350	154	801
Carrying value				
At 30 June 2010	1,064	986	55	2,105
At 30 June 2009	1,184	850	105	2,139

Tooling with a cost and net book value of £18,000 previously classified as an intangible asset was reclassified during the year as property, plant and equipment.

The amortisation period for capitalised software relating to the bespoke online ordering system is four years. Veterinary medicine product development costs are amortised over 5 years, acquired brands are amortised over 15 years and acquired customer relationships are amortised over 10 years.

(*) The impairment charge relates to development costs incurred on the Company's livestock ear tag applicator and EID tagging system developments and has been treated as an exceptional cost in the year. Further details are contained in note 4.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

15. OTHER INTANGIBLE ASSETS (continued)

Company	Product development costs £'000	Capitalised software £'000	Total £'000
Cost			
At 1 July 2008	102	198	300
Additions	29	47	76
At 1 July 2009	131	245	376
Additions	14	55	69
Disposals	—	(36)	(36)
At 30 June 2010	145	264	409
Amortisation			
At 1 July 2008	10	93	103
Charge for the year	—	47	47
At 1 July 2009	10	140	150
Charge for the year	13	50	63
Impairment(*)	115		115
Disposals	—	(36)	(36)
At 30 June 2010	138	154	292
Carrying value			
At 30 June 2010	7	110	117
At 30 June 2009	121	105	226

(*) The impairment charge relates to development costs incurred on the Company's livestock ear tag applicator and EID tagging system developments and has been treated as an exceptional cost in the year. Further details are contained in note 4.

16. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings £'000	Leasehold improve-ments £'000	Plant and equipment £'000	Office furniture and equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 July 2008	1,268	73	1,527	494	83	3,445
Additions	—	—	190	135	11	336
Disposals	—	—	—	(2)	(29)	(31)
At 1 July 2009	1,268	73	1,717	627	65	3,750
Additions	—	—	158	47	—	205
Reclassification from intangible assets	—	—	18	—	—	18
Disposals	—	—	(19)	(124)	(14)	(157)
At 30 June 2010	1,268	73	1,874	550	51	3,816
Depreciation						
At 1 July 2008	279	31	1,107	271	14	1,702
Charge for the year	22	7	108	84	30	251
On disposals	—	—	—	(2)	(18)	(20)
At 1 July 2009	301	38	1,215	353	26	1,933
Charge for the year	32	8	118	104	25	287
Impairment(*)	276	—	265	55	—	596
On disposals	—	—	(15)	(125)	(13)	(153)
At 30 June 2010	609	46	1,583	387	38	2,663
Net book value						
At 30 June 2010	659	27	291	163	13	1,153
At 30 June 2009	967	35	502	274	39	1,817

Tooling with a cost and net book value of £18,000 previously classified as an intangible asset was reclassified during the year as property, plant and equipment.

(*) The impairment charge has been treated as an exceptional cost in the year. Further details are contained in note 4.

Freehold land with a carrying value of £10,848 (2009 — £10,848) has not been depreciated.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Freehold land and buildings £'000	Plant and equipment £'000	Office furniture and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 July 2008	718	1,333	352	8	2,411
Additions	—	122	118	—	240
Disposals	—	—	—	—	—
At 1 July 2009	718	1,455	470	8	2,651
Additions	—	144	30	—	174
Disposals	—	(18)	(91)	—	(109)
At 30 June 2010	718	1,581	409	8	2,716
Depreciation					
At 1 July 2008	257	1,046	201	3	1,507
Charge for the year	11	71	46	2	130
On disposals	—	—	—	—	—
At 1 July 2009	268	1,117	247	5	1,637
Charge for the year	21	68	73	3	165
Impairment(*)	—	170	55	—	225
On disposals	—	(13)	(93)	—	(106)
At 30 June 2010	289	1,342	282	8	1,921
Net book value					
At 30 June 2010	429	239	127	—	795
At 30 June 2009	450	338	223	3	1,014

(*) The impairment charge has been treated as an exceptional cost in the year. Further details are contained in note 4.

Freehold land with a carrying value of £10,848 (2009 — £10,848) has not been depreciated.

17. INVESTMENTS IN SUBSIDIARIES

Subsidiary undertakings

	2010 £'000	2009 £'000
Cost	17,384	17,384
Impairment	(2,108)	—
Net book value	15,276	17,384

The impairment charge relates to the Company's investments in Fearing International (Stock Aids) Limited and Travik Chemicals Limited. The impairments were calculated based on the recoverable amount determined as estimated fair value less costs to sell. The estimate of fair value less costs to sell for Fearing International (Stock Aids) Limited has been substantiated by reference to the subsequently agreed disposal proceeds as disclosed in notes 4 and 5.

The principal subsidiary undertakings of the Company are summarised below. The companies listed include all those which principally affected the earnings and assets of the Group.

	Country of registration or incorporation	Class	Shares held %
Animalcare Limited	England	Ordinary	100
Fearing International (Stock Aids) Limited	England	Ordinary	100
Travik Chemicals Limited	England	Ordinary	100

The principal activity of these undertakings for the last financial year was as follows:

	Principal activity
Animalcare Limited	The sale of companion animal products and services
Fearing International (Stock Aids) Limited	The sale of livestock identification and other products
Travik Chemicals Limited	The manufacture and sale of liquid cleaning products

On 17 September 2010 the Company disposed of the shares of Fearing International (Stock Aids) Limited.

18. INVENTORIES

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Raw materials and consumables	188	191	153	71
Finished goods and goods for resale	1,627	1,841	465	572
	1,815	2,032	618	643

In the directors' opinion, the replacement cost of inventories is not materially different from their balance sheet value.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

19. OTHER FINANCIAL ASSETS

Trade and other receivables

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Trade receivables	3,037	2,318	1,469	780
Amounts receivable from subsidiaries	—	—	425	743
Other receivables	175	45	129	9
Prepayments and accrued income	206	226	68	58
	3,418	2,589	2,091	1,590

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Movement in allowance for doubtful debts

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Balance at the beginning of the period	55	50	18	11
(Reversal of) impairment losses recognised	(35)	5	(3)	7
	20	55	15	18

Ageing of past due but not impaired receivables

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
1–30 days past due	133	143	20	42
31–90 days past due	33	16	3	1
91 days and more	29	27	5	6
	195	186	28	49

The Group has not provided for these as there has not been a significant change in the credit quality and the directors consider that the amounts are still recoverable.

Cash and cash equivalents

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	1,564	1,532	224	127

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months of less.

The carrying amount of these assets approximates their fair value.

Credit risk

The Company's principal financial assets are bank balances and cash, and trade and other receivables. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The allowance for doubtful debts represents the difference between the carrying value of the specific trade receivables and the present value of the expected recoverable amount.

The average credit period on sales of goods is 43 days (2009 — 38 days). No interest has been charged on overdue receivables.

20. OTHER FINANCIAL LIABILITIES

Trade and other payables

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Trade payables	1,413	1,583	446	470
Amounts payable to subsidiaries	—	—	1,286	509
Other taxes and social security costs	536	402	246	194
Other creditors	430	—	255	—
Accruals	391	618	185	315
	2,770	2,603	2,418	1,488

The directors consider that the carrying amount of trade and other payables approximates their fair value.

21. BANK OVERDRAFTS AND LOANS

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Bank loans	4,456	5,456	4,456	5,456

All borrowings are in UK sterling. The bank loans and overdraft are secured on a fixed and floating charge over the Group's assets. Interest on the bank loans is charged at 1.50 per cent above LIBOR (2009 — 1.85 per cent above LIBOR). The carrying values and fair value of the Group's short-term and long-term borrowings are not considered materially different and are as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Secured borrowings at amortised cost				
Bank loans due within one year	883	883	883	883
Current liabilities	883	883	883	883
Secured borrowings at amortised cost				
Bank loans due after one year	3,573	4,573	3,573	4,573
Non-current liabilities	3,573	4,573	3,573	4,573

The borrowings are repayable as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Loan maturity analysis				
In more than one year but not more than two years	883	883	883	883
In more than two years but no more than five years	2,315	2,649	2,315	2,649
In more than five years	375	1,041	375	1,041
Amount due after more than one year	3,573	4,573	3,573	4,573
Amount falling due within one year	883	883	883	883
	4,456	5,456	4,456	5,456

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

21. BANK OVERDRAFTS AND LOANS (continued)

Analysis of net debt

References to net debt refer to total borrowings of the Group after offsetting cash and cash equivalents. Net debt is not a term defined under IFRS and may not be comparable with other similarly titled non-IFRS measures reported by other companies. The Group adopts this measure as it is used for internal debt analysis. In addition, the net debt balance provides an indication of the net borrowings on which the Group is required to pay interest.

	2010 £'000	2009 £'000
Cash and cash equivalents	1,564	1,532
Bank overdrafts and loans	(4,456)	(5,456)
Net debt	(2,892)	(3,924)

22. FINANCIAL INSTRUMENTS

Capital and liquidity risk management

At 30 June 2010 the Group was contractually obliged to make repayments of principal and payments of interest as detailed below:

	Within one year or on demand £'000	1–2 years £'000	3–5 years £'000	More than 5 years £'000	Total £'000
2010					
Bank borrowings	976	956	2,380	395	4,707
Financial instruments at fair value	55	—	—	—	55
Trade payables and leases	2,985	123	77	—	3,185
	4,016	1,079	2,457	395	7,947
2009					
Bank borrowings	1,063	1,032	2,911	1,097	6,103
Financial instruments at fair value	100	45	—	—	145
Trade payables and leases	3,209	89	47	—	3,345
	4,372	1,166	2,958	1,097	9,593

Categories and Fair Value of Financial Instruments

Carrying value

	2010 £'000	2009 £'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	4,983	4,121
Financial liabilities		
Derivative financial instruments (fair value through income statement)	(55)	(145)
Amortised cost	(6,955)	(8,150)
	(7,010)	(8,295)

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values. The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

22. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Risk Management

The Group undertakes transactions denominated in foreign currencies which gives rise to the risks associated with currency exchange rate fluctuations. Exposures are managed by a combination of matching foreign currency income and expenditure, maintaining foreign currency deposits and the use of forward exchange contracts. The carrying value of the Group's foreign currency assets and liabilities at the reporting date was:

	Assets		Liabilities	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Euro	452	476	474	113
US dollar	52	25	355	183
NZ dollar	22	6	94	—
Australian dollar	—	—	—	13
Yen	—	5	—	—

Foreign Currency Sensitivity Analysis

At 30 June 2010 the Group is mainly exposed to the euro and the US$. The following table details the effect of a 10 per cent increase and decrease in the exchange rate of these currencies against sterling when applied to outstanding monetary items denominated in foreign currency as at 30 June 2010. A positive number indicates the increase in profit which would arise from a 10 per cent strengthening. For a 10 per cent weakening there would be an equal and opposite negative effect on profit.

	£'000
Euro	10
US dollar	65

Interest Rate Sensitivity Analysis

This sensitivity analysis statement has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. If interest rates had been 0.5 per cent higher/lower and all other variables were held constant the Group's profit for the year ended 30 June 2010 would have decreased/increased by £12,000.

Forward Foreign Exchange Contracts

The Group had four (2009 — one) open foreign exchange contracts at 30 June 2010. The values are shown below.

	2010 £'000	2009 £'000
Principal value	471	184
Fair value	—	—

Capital Management

In line with the disclosure requirements of IAS 1, Presentation of Financial Statements, the Company regards its capital as being the issued share capital together with its banking facilities, used to manage short term working capital requirements. Note 25 to the financial statements provides details regarding the Company's share capital and movements in the period. There were no breaches of any requirements with regard to any relevant conditions imposed by the Company's Articles of Association during the periods under review.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

23. DEFERRED INCOME

Deferred income arises from certain services sold by the Group's subsidiary Animalcare Limited. In return for a single upfront payment, Animalcare Limited commits to a fixed term contract to provide certain database, pet reunification and other support services to customers. There is no contractual restriction on the amount of times the customer makes use of the service. At the commencement of the contract it is not possible to determine how many times the customer will make use of the services, nor does historical evidence provide indications of any future pattern of use. As such, income is recognised evenly over the term of the contract, currently eight years.

Movements in the Group's deferred income liabilities during the current and prior reporting period are as follows:

	2010 £'000	2009 £'000
Balance at the beginning of the period	883	775
Income deferred to future periods	231	204
Release of income deferred from previous periods	(123)	(96)
	991	883

The deferred income liabilities fall due as follows:

	2010 £'000	2009 £'000
Within one year	154	123
After one year	837	760
	991	883

Income recognised during the year is set out below:

	2010 £'000	2009 £'000
Income received	248	216
Income deferred to future periods	(231)	(204)
Release of income deferred from previous periods	123	96
Income recognised in the year	140	108

24. DEFERRED TAX LIABILITIES

The following are the major components of the deferred tax liabilities/(assets) recognised by the Group, and the movements thereon, during the current and prior reporting period.

	Property, plant and equipment £'000	Other £'000	Intangible fixed assets £'000	Total £'000
Balance at 1 July 2008	203	13	364	580
Charge/(credit) to income	7	(41)	(33)	(67)
Credit to reserves relating to stock options	—	(49)	—	(49)
Balance at 1 July 2009	210	(77)	331	464
Credit to income	(155)	(20)	(39)	(214)
Balance at 30 June 2010	55	(97)	292	250

As set out in note 11, the rate of corporation tax will be reducing to 27 per cent on 1 April 2011. A reduction of 1 per cent would reduce deferred tax liabilities, if applied at 30 June 2010, to £240,000.

The following are the major components of the deferred tax liabilities/(assets) recognised by the Company, and the movements thereon, during the current and prior reporting period.

	Acclerated tax depreciation £'000	Share-based payments £'000	Total £'000
Balance at 1 July 2008	83	13	96
Charge/(credit) to income	24	(35)	(11)
Credit to equity	—	(49)	(49)
Balance at 1 July 2009	107	(71)	36
Credit to income	(49)	(22)	(71)
Balance at 30 June 2010	58	(93)	(35)

As set out in note 11, the rate of corporation tax will be reducing to 27 per cent on 1 April 2011. A reduction of 1 per cent would reduce deferred tax assets, if applied at 30 June 2010, to £34,000.

25. SHARE CAPITAL

	2010 No.	2009 No.
Authorised ordinary shares of 20p each	25,000,000	25,000,000
Allotted, called up and fully paid ordinary shares of 20p each	20,047,516	19,756,225

	2010 £'000	2009 £'000
Authorised ordinary shares of 20p each	5,000	5,000
Allotted, called up and fully paid ordinary shares of 20p each	4,010	3,951

During the year £59,000 of ordinary shares were issued for proceeds of £166,000 resulting in a share premium of £107,000.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

26. CONTINGENT LIABILITIES

Cross guarantees were in place at 30 June 2010 in respect of bank borrowing facilities between all of the Group companies. As a consequence of the sale of the whole of the share capital of the Company's subsidiary Fearing International (Stock Aids) Limited on 17 September 2010, referred to in note 5, Fearing International (Stock Aids) Limited is no longer party to this arrangement.

27. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2010 **£'000**	**2009** **£'000**
Lease payments under operating leases recognised as an expense in the year	250	187

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 **£'000**	**2009** **£'000**
Within one year	215	176
In the second to fifth years inclusive	123	136
After five years	77	—
	415	312

Operating lease payments represent rentals payable by the Group for certain of its office properties, vehicles and office equipment.

28. CAPITAL COMMITMENTS

At 30 June the Group had capital commitments as follows:

	2010 **£'000**	**2009** **£'000**
Contracted for but not provided in the financial statements	35	232

29. SHARE-BASED PAYMENTS

Details of the movement in share options during the year are as follows:

	EMI		SAYE		Unapproved	
	Options	Price £	Options	Price £	Options	Price £
Outstanding at beginning of year	522,000	0.575	311,176	0.490	320,000	0.575
Granted during year	140,000	0.975	—		150,000	0.975
Expired during year	(30,000)	0.575	(23,783)	0.450	(170,000)	0.690
Exercised during the year	(172,000)	0.554	(119,291)	0.537	—	—
Open at 30 June 2010	460,000	0.700	168,134	0.440	300,000	0.710
Exercisable at the end of the year	—		2,289		—	

The weighted average inputs into the Black–Scholes model at the time of grant were as follows:

	EMI Scheme	SAYE Scheme	Unapproved Scheme
Weighted average share price	63p	58p	65p
Weighted average exercise price	66p	49p	67p
Expected volatility	35%	36%	35%
Expected life	2.4years	3years	2.7years
Risk-free rate	4.2%	4.8%	4%
Expected dividend yield	3.6%	3.2%	3.6%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected lives used in the model were estimated based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The aggregate estimated fair value of the options granted during the year was £31,000 (2009 — £133,000).

The Group recognised total expenses of £58,000 (2009 — £94,000) within administrative expenses.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2010

30. RELATED PARTY TRANSACTIONS

Trading transactions

During the year ended 30 June, the following trading transactions took place between the Company and its subsidiaries listed in note 17:

2010	Animalcare Limited £'000	Fearing International (Stock Aids) Limited £'000	Travik Chemicals Limited £'000	Total £'000
Sale of goods	2	86	—	88
Purchase of goods	—	39	281	320
Management charges levied	156	67	83	306
Dividends received	1,500	150	—	1,650

2009	Animalcare Limited £'000	Fearing International (Stock Aids) Limited £'000	Travik Chemicals Limited £'000	Total £'000
Sale of goods	9	8	8	25
Purchase of goods	—	38	241	279
Management charges levied	96	42	24	162
Dividends received	800	200	—	1,000

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of directors is provided in note 8.

The directors' interests in the shares of the Company are contained in note 8.

THE BOARD

James Lambert — Non-executive Chairman
James was appointed Chairman in October 2005 having been a non-executive director since 2003. He started Richmond Foods in 1998 leading a series of acquisitions to make Richmond the largest ice cream manufacturer by volume in the UK. Richmond exited the stock market in April 2006 when it was bought by Oaktree Capital for £176 million and merged with Roncadin. James is now running the enlarged Group.

Stephen Wildridge — Group Chief Executive Officer
Stephen spent 16 years with Rhone-Poulenc (now Bayer Crop Science) in a variety of Sales, Marketing and Strategic Planning and General Management roles encompassing agro-chemicals, animal health and animal nutrition. Subsequently he spent five years with Monsanto as General Manager of Operations for Northern Europe and Director of Business Development Europe–Africa. He was appointed Managing Director of Animalcare Limited in 2003 developing the strategic plan and product development programme for the business.

John Tobin — Commercial Director
John joined the board in April 2008. He qualified as a Chartered Accountant in 1983 subsequently joining the Leeds-based print supplies business, Frank Horsell Group plc, gaining his first FD appointment in 1987. In 1992 John became FD of Batleys plc, the UK cash and carry wholesaler, where he managed large-scale systems projects, a substantial property portfolio and general corporate finance activities including the trade sale of Batleys to Bestway Holdings in 2005.

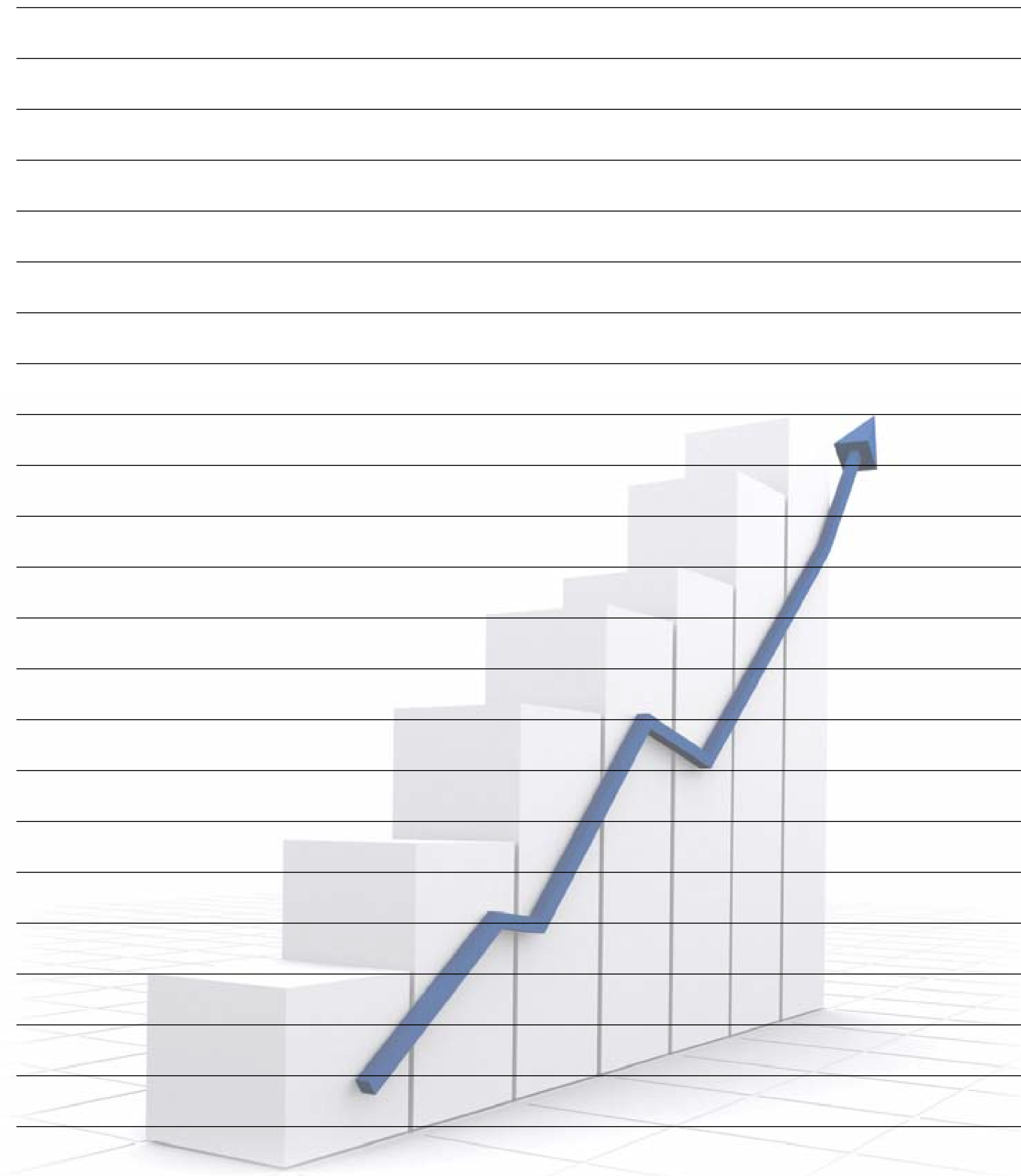
Geoff Rhodes — Non-executive Director
Geoff has a background in farming and agriculture and was educated at Askham Bryan agricultural college. Following a period at agricultural machinery manufacturer British Lely he joined Ritchey in 1972 and subsequently became Managing Director of Ritchey plc; he remained Managing Director until his retirement and appointment as a non-executive director in 2005.

Lord Downshire — Non-executive Director
Lord Downshire has been a non-executive director since 1998. He trained as a Chartered Accountant with Touche Ross before transferring to the corporate finance department where he worked for three years on acquisitions, flotations and new ventures. Following this he worked for 13 years at Scheduling Technology Group Limited, a venture capital backed international software company, becoming Finance Director until the sale of the business in 2001. He currently farms and manages an estate in Yorkshire and holds non-executive directorships in companies operating in RFID, agricultural supplies, hotels and insurance.

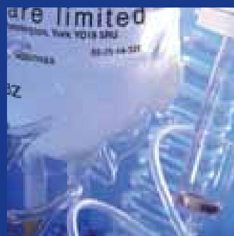
NOTES

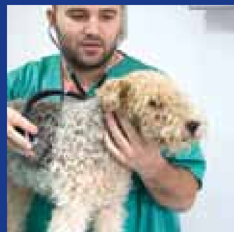
Animalcare Group plc

Annual Report and Financial Statements 2010



www.animalcaregroup.co.uk





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