Animalcare Group

Annual Report and Financial Statements 2009

Animalcare Group plc

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www.animalcaregroup.co.uk

"I'm delighted to announce that your Company has delivered a very successful performance across the 2008-09 financial year achieving the growth targets set at the time of acquisition of Animalcare Ltd in January 2008. We are creating a broad based animal identification and welfare business with the main emphasis on the sale of licensed veterinary medicines to the companion animal market in the UK and other major European markets."

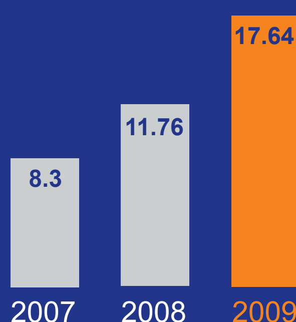
James Lambert, Chairman.

Highlights

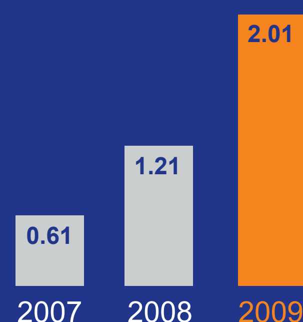
	Year Ended June 2009	Year Ended June 2008
Revenue	£17.64m	£11.76m
Operating profit	£2.13m	£1.28m
Adjusted operating profit*	£2.38m	£1.38m
Profit before tax	£1.53m	£1.11m
Adjusted Profit before tax†	£2.01m	£1.21m
Adjusted Earnings per share†		
Basic	7.2p	8.4p
Fully Diluted	6.8p	8.3p
Earnings per share		
Basic	5.3p	7.7p
Fully Diluted	5.0p	7.6p
Dividend	2.50p	2.25p
Borrowings	£5.45m	£6.72m
Cash & cash equivalents	£1.53m	£1.42m

Prior to 2009 adjustments to operating profit and profit before tax included amortisation of developed intangibles and excluded fair value movements on interest rate hedging.

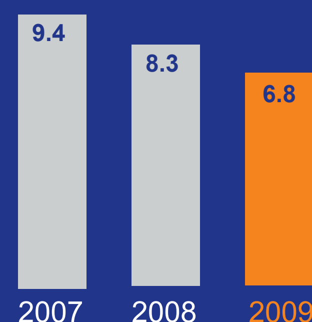
Revenue
£m



Adjusted Profit before tax
£m



Adjusted Earnings per share Fully Diluted
pence



* Excluding amortisation of acquired intangibles and impairment of goodwill.
† Excluding amortisation of acquired intangibles, impairment of goodwill and fair value movements on interest rate hedging.

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS	J S Lambert S F Riddell 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	Deloitte LLP Chartered Accountants and Registered Auditors Gainsborough House 34–40 Grey Street Newcastle upon Tyne NE1 6AE
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 Ltd 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 2009

Introduction

I am delighted to announce that your Company has delivered a very successful performance across the 2008–09 financial year achieving the growth targets set at the time of the acquisition of Animalcare Ltd in January 2008. We are creating a broad based animal identification and welfare business with the main emphasis on the sale of licensed veterinary medicines to the companion animal market in the UK and other major European markets. The granting and exploitation of regulatory approvals for licensed veterinary medicines has been the main engine of growth across the business during the financial year.

Financial Highlights

The financial results for the year ended 30 June 2009 include a full year's contribution from Animalcare Ltd whilst the results for the previous financial year include a contribution from Animalcare Ltd for 24 weeks only.

Sales have increased from £11.76 million to £17.64 million, an increase of almost 50 per cent, and the adjusted operating profit (excluding amortisation of acquired intangible assets and impairment of goodwill) increased from £1.38 million to £2.38 million, an increase of 73 per cent. Profit before tax (including amortisation of acquired intangibles, impairment of goodwill and fair value movements on interest rate hedging) for the year ended 30 June 2009 was £1.53 million (2008 — £1.11 million). Fully diluted adjusted earnings per share (excluding amortisation of acquired intangible assets, impairment of goodwill and fair value movements on interest rate hedging) declined from 8.3 pence per share to 6.8 pence per share due to the full year effect of the additional shares issued at the time of the acquisition. Cash flow from operating activities remained strong and net debt* was reduced from £5.30 million to £3.92 million, alongside an increase in capital expenditure from £0.40 million to £0.65 million.

* Net debt comprises total borrowings less cash and cash equivalents.

Dividend

In line with our progressive dividend policy, the board is recommending a dividend of 2.5 pence per share, an increase of 11.1 per cent over the previous financial year. The dividend is subject to shareholder approval at our Annual General Meeting to be held on 26 November 2009 and is proposed to be paid on 1 December 2009 to shareholders on the register on 6 November 2009.

People

We have strengthened your business through the development of a stronger and more able senior management team which I am confident is capable of delivering growth across the business. On behalf of the board and the shareholders I would like to thank all our colleagues for the dedication and hard work that has been put into delivering this successful year.

Prospects

I am pleased to report that the current financial year is performing in line with your board's expectations and that the Company is implementing plans to deliver organic growth from all areas of the business across markets that are either stable or growing.

J S Lambert
Chairman

CHIEF EXECUTIVE'S REVIEW
FOR THE YEAR ENDED 30 JUNE 2009

Introduction

Animalcare Group plc operates as two divisions, Companion Animal and Livestock. The Companion Animal division is focused on the supply of companion animal medicines, identification and welfare products to veterinary practices in the United Kingdom and the Republic of Ireland, and to distributors in the main EU markets. The Livestock division is focused on the supply of livestock identification and welfare products to agricultural retailers and farmers in the United Kingdom and the Republic of Ireland.

The companion animal market has delivered strong growth in recent years and despite the difficult economic climate continues to grow, albeit at a lower rate; the key drivers of this growth have been the availability of a wider range of veterinary medicines, the willingness of pet owners to fund more complex procedures and the increased take-up of pet insurance. The Companion Animal division delivered sales growth of almost 20 per cent on a like-for-like basis, i.e. in comparison to 52 weeks prior year sales from Animalcare Ltd rather than the 24 weeks included in the financial statement, well ahead of market growth.

Although the livestock market has declined in recent years, in line with overall livestock numbers, the Livestock division delivered sales growth of approximately 3 per cent. In recent months livestock farmers have achieved much higher selling prices as a result of reduced domestic supply and strengthened export demand due to the weakness of sterling. We believe that this substantial improvement in the profitability of both the sheep and beef sectors represents a turning point for the livestock market.

The Group's strategy is:

— To license and market generic companion animal veterinary medicines under the Animalcare brand in the United Kingdom, the Republic of Ireland and other major markets in the European Union.
— To deliver organic growth from our core identification and welfare businesses.
— To pursue opportunities for complementary acquisitions.
— To reduce operating costs through improved efficiencies and leveraging scale.

The business operates in three core product categories and the contribution of each category to overall Company revenue and gross profit is detailed below.

	Revenue	Gross Profit
Veterinary Medicines	25%	24%
Animal Identification	30%	35%
Animal Welfare products	37%	33%

Veterinary Medicines

Sales of licensed veterinary medicines increased by almost 45 per cent on a like-for-like basis. Key achievements were the introduction of Buprecare, an opiod-based analgesic for the management of pain in dogs and cats, and Cephacare, a broad spectrum antibiotic for the treatment of skin conditions in dogs and cats, and regulatory approval for the use of Benazecare in the treatment of renal insufficiency in cats in addition to congestive heart failure in dogs.

Sales of the new licensed veterinary medicines are progressing in line with our expectations.

Animal Identification

Sales of animal identification products declined by approximately 2 per cent on a like-for-like basis due to the decline in livestock identification sales, broadly in line with the decline in livestock numbers; our percentage market share of companion animal identification under our Identichip brand remained flat in the mid thirties and our percentage market share of livestock identification under our Ritchey and Fearing brands remained flat in the high teens for cattle and mid twenties for sheep.

Animal Welfare

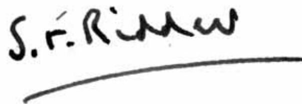
Sales of animal welfare products increased by almost 2 per cent on a like-for-like basis due to increased sales of companion animal welfare products; sales of livestock welfare products remained broadly flat, with underlying sales growth offset by the loss of a low margin agency supply contract towards the end of the previous financial year. We continue to develop the capability to manufacture a broader range of welfare products in our own production facility.

Future Developments

We continue to focus on identifying opportunities to license and market generic companion animal veterinary medicines in the United Kingdom, the Republic of Ireland and the other major markets in the European Union; we have a number of products progressing through the regulatory process and anticipate further new product introductions across the next twelve months. In addition, we have increased resources and capital investment to maintain a strong tempo of new product introductions in the medium term.

We also continue to invest in our core animal identification business. In August 2009 we announced the introduction of an innovative sheep tag applicator allowing the farmer to apply up to ten tags consecutively; this applicator is being developed to accommodate electronic sheep tags which will become mandatory for all breeding stock from 1 January 2010.

We also continue to evaluate opportunities for complementary acquisitions and will pursue any which we believe have the potential to deliver significant improvement in market share or manufacturing efficiency in our core product categories.



S F Riddell
Chief Executive

FINANCIAL REVIEW
FOR THE YEAR ENDED 30 JUNE 2009

Group Overview — Revenue and Profit

The structure of the Group at 30 June 2009 continued to comprise two operating segments, Companion Animal and Livestock. The financial statements for the year ended 30 June 2009 include a full year of Companion Animal results versus 24 weeks in the previous year, following the acquisition of Animalcare Ltd, in January 2008. Commentary below on the segmental results provides further analysis on the like-for-like financial performance of the Companion Animal segment.

Group revenue for the year ended 30 June 2009 was £17.64 million (2008 — £11.76 million). Adjusted operating profit (excluding amortisation of acquired intangibles and goodwill impairment) was £2.38 million (2008 — £1.38 million) and adjusted profit before tax (excluding amortisation of acquired intangibles, goodwill impairment and fair value movements on interest rate hedging) was £2.01 million (2008 — £1.21 million). Profit before tax (including amortisation of acquired intangibles, goodwill impairment and fair value movements on interest rate hedging) for the year ended 30 June 2009 was £1.53 million (2008 — £1.11 million) and after income tax expenses of £0.49 million (2008 — £0.22 million) retained profit for the year was £1.04 million (2008 — £0.89 million).

Revenue growth arose principally in Companion Animal with a lesser, although still positive, contribution from Livestock. Gross profit for the year ended 30 June 2009 was £9.89 million (56.1 per cent of Group revenue) versus £6.69 million (56.9 per cent of Group revenue) in 2008. The reduction in gross profit percentage arose from adverse currency fluctuations and a dilution resulting from the full year inclusion of Companion Animal's slightly lower gross profit margins.

Distribution costs at £0.69 million (2008 — £0.44 million) increased principally due to the inclusion of a full year of Companion Animal. On a like-for-like basis distribution costs increased approximately 7 per cent on last year, related in part to increased export activity.

Adjusted administrative expenses (excluding amortisation of acquired intangibles and goodwill impairment) for the year ended 30 June 2009 rose to £6.82 million from £4.87 million in 2008. This increase is largely due to the inclusion of a full year of Companion Animal plus additional corporate and governance costs of approximately £0.25 million relating to the Group's AIM listing. On a like-for-like basis administrative expenses increased by approximately 3 per cent.

Net adjusted financing costs (excluding fair value movements on interest rate hedging) for the year ended 30 June 2009 were £0.37 million (2008 — £0.17 million).

The adjustments referred to above have been applied in order to give an indication of the Group's underlying financial performance, and are amortisation of acquired intangibles £0.12 million (2008 — £0.06 million), goodwill impairment in relation to deterioration in sales of Marabo products £0.13 million (2008 — nil), and fair value movements on interest rate hedging £0.23 million (loss) (2008 — nil).

Group Overview — Cash Flow

Operating profit plus depreciation, amortisation and impairment ("EBITDA") for the year ended 30 June 2009 was £2.75 million (2008 — £1.63 million) reflecting increases in profit and higher depreciation, amortisation and impairment. Net cash flow from operating activities increased to £2.45 million from £1.46 million in 2008 with a working capital reduction of £0.31 million (2008 — Increased £0.09 million) and higher tax and interest payments totalling £0.80 million (2008 — £0.35 million).

Capital expenditure in the year ended 30 June 2009 totalled £0.65 million (2008 — £0.40 million) with developed intangible capital expenditure totalling £0.31 million (2008 — £0.22 million) and expenditure on property, plant and equipment amounting to £0.34 million (2008 — £0.19 million).

After dividend payments of £0.45 million (2008 — £0.13 million) and loan repayments of £1.23 million (2008 — £0.22 million), net cash flow for the year ended 30 June 2009 was £0.15 million (2008 — £0.88 million).

The Group's net debt at 30 June 2009 (comprising bank loans less cash and cash equivalents) was £3.92 million (2008 — £5.30 million). Underlying this net position the Group had total bank debt at 30 June 2009 of £5.45 million (2008 — £6.72 million) and cash of £1.53 million (2008 — £1.42 million).

Segmental Analysis — Companion Animal

Revenue from the Companion Animal segment in the year ended 30 June 2009 before eliminations was £9.61 million against £3.97 million across 24 weeks in 2008. Strong growth was achieved in licensed veterinary medicines in addition to which revenue on the core product range increased by approximately 8 per cent.

Gross profit for the segment was improved at 52.9 per cent of revenue against 51.6 per cent in 2008 with gains on licensed veterinary medicines eroded slightly by cost increases on imported products following the reduction in the GB£/US$ exchange rate in autumn 2008.

Overhead costs in the Companion Animal segment were generally well contained; distribution costs increased ahead of revenue due to growth in export sales of licensed veterinary medicines.

EBITDA for the segment for the year ended 30 June 2009 was £2.43 million (2008 — £0.98 million).

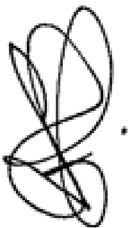
Segmental Analysis — Livestock

The Livestock segment contributed £8.03 million of Group revenue before eliminations (2008 — £7.78 million). Revenue growth achieved in manufacturing was partly offset by the loss of a low margin agency supply contract towards the end of the previous financial year. Performance across most product groups was broadly stable.

Gross profit for the segment, at 59.3 per cent of revenue, was similar to that of 2008 (59.5 per cent). Currency effects were mixed with pricing gains on EU exports but increased costs on imported products.

Livestock segment overheads increased marginally through general inflation and on increased business development activity.

EBITDA for the segment for the year ended 30 June 2009 was £0.79 million (2008 — £0.70 million).



J Tobin
Group Finance Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2009

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 2009.

Principal activities

The principal activity of the Group is the manufacture and distribution of veterinary medicines, 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.

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 2009 the Group invested in developments in veterinary medicines, a livestock ear tag applicator and in livestock electronic identification.

Dividends

A final dividend of 2.5 pence per share will be proposed at the Annual General Meeting on 26 November 2009 and is proposed to be paid on 1 December 2009 to all shareholders on the share register at 6 November 2009.

Capital Structure

The Company's authorised share capital as at 30 June 2009 was £5.00 million divided into 25,000,000 ordinary shares of 20 pence each. The Company's issued share capital as at 30 June 2009 was 19,756,225 ordinary shares of 20 pence each, each credited as fully paid.

Directors

The following directors have held office during the year ended 30 June 2009:

J S Lambert
S F Riddell
S Hall (resigned 30 March 2009)
G C Rhodes
Lord Downshire
S M Wildridge
J Tobin

Details of directors' share options and long-term incentive plans are provided in note 6.

Directors' interests

The Company maintains directors' and officers' liability insurance for the benefit of its directors which remained in place at 30 June 2009 and throughout the preceding year.

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.

The agricultural market

In recent years the agricultural sector has been subject to a number of adverse factors, such as the outbreaks of Foot and Mouth and Bluetongue, competition from low cost overseas producers, and dramatically increased input costs. A significant proportion of the Group's revenue is related to agriculture and is thus subject to the uncertainties affecting that sector.

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 20 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 2009 was 49 days (2008 — 40 days).

Corporate governance

The directors support the underlying principles of the Combined Code, not withstanding 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.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2009

Substantial Shareholdings

On 5 October 2009 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
Octopus Investments	12.75	2,518,183	Direct
Rensburg Sheppards Investment Management Ltd	8.05	1,590,682	Direct
Lord Downshire	7.40	1,461,809	Direct/Indirect*
J S Lambert	5.91	1,166,782	Direct
Mavern Capital Partners UK LLP	4.53	895,454	Direct
S F Riddell	3.94	779,091	Direct/Indirect†
N.R. Sale	3.10	613,400	Direct

* Lord Downshire's interest includes a non-beneficial interest in 363,636 ordinary shares.
† S F Riddell's interest includes a non-beneficial interest in 10,000 ordinary shares.

Charitable and Political Donations

During the year the Group made charitable donations of £1,579 (2008 — £2,434).

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.

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 2009 to the value of £700,000 which is available for general corporate and working capital requirements until 1 February 2010. The Group's bank has offered, in principal, to replace the overdraft with a longer-term committed credit facility. At 30 June 2009 the Group had cash on hand of £1.53 million (2008 — £1.42 million).

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

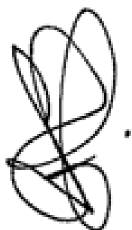
Each of the persons who is a director at the date of this annual report confirms that:

- 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.

Deloitte LLP have expressed a 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
5 October 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2009

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. The directors are required by IAS Regulations to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also elected to prepare the parent Company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of 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 United Kingdom 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 2009 which comprise the Group Income Statement, the Group and parent Company Statements of Changes in Equity, the Group and parent Company Balance Sheets and the Group and parent Company Cash Flow Statements and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and 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 sections 495 and 496 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, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 30 June 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANIMALCARE GROUP plc

Opinion on other matters 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 statements.

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.

John Charlton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne, UK
5 October 2009

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 30 JUNE 2009

	Note	Before other items 2009 £'000	Other items(*) 2009 £'000	Total 2009 £'000	Before other items 2008 £'000	Other items(*) 2008 £'000	Total 2008 £'000
Revenue	4	17,638	—	17,638	11,755	—	11,755
Cost of sales		(7,749)	—	(7,749)	(5,070)	—	(5,070)
Gross profit		9,889	—	9,889	6,685	—	6,685
Distribution costs		(693)	—	(693)	(440)	—	(440)
Administrative expenses		(6,819)	(252)	(7,071)	(4,869)	(98)	(4,967)
Operating profit	5	2,377	(252)	2,125	1,376	(98)	1,278
Finance costs	8	(387)	(227)	(614)	(250)	—	(250)
Finance income	8	16	—	16	85	—	85
Profit before tax		2,006	(479)	1,527	1,211	(98)	1,113
Income tax expense	9	(585)	97	(488)	(237)	17	(220)
Profit for the year	24	1,421	(382)	1,039	974	(81)	893
Basic earnings per share	11	7.2p	1.9p	5.3p	8.4p	0.7p	7.7p
Diluted earnings per share	11	6.8p	1.8p	5.0p	8.3p	0.7p	7.6p

(*) "Other items" relate to the amortisation of acquired intangibles (brands and customer relationships), the impairment of goodwill and fair value movements on interest rate hedging. "Other items" have been disclosed separately in order to give an indication of the underlying earnings of the Group. Amortisation of developed intangibles (new product development and developed software) is treated as a charge against underlying earnings. Prior to 2009 amortisation of developed intangibles was included in "other items" and fair value movements on interest rate hedging were excluded from "other items". This change of presentation, has been introduced because of the increasing significance to the Group of new product development expenditure and because in prior years fair value movements on interest rate hedging were not material. "Other items" in 2008 includes a £39,000 charge for amortisation of developed intangibles and excludes a fair value gain on interest rate hedging of £59,000.

The consolidated income statement has been prepared on the basis that all operations are continuing operations.

STATEMENTS OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2009

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Balance at 1 July	14,645	6,137	13,781	5,727
Net profit for the year	1,039	893	276	439
Dividend paid	(445)	(127)	(445)	(127)
Share-based payment charges	143	42	143	42
Issue of shares	—	7,700	—	7,700
Balance at 30 June	15,382	14,645	13,755	13,781

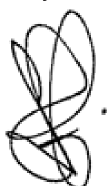
As permitted by Section 408 of the Companies Act 2006, the income statement of the parent Company is not presented as part of these accounts. The parent Company's profit for the year was £276,000 (2008 — £439,000).

BALANCE SHEETS
30 JUNE 2009

	Note	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Non-current assets					
Goodwill	12	15,254	15,388	20	154
Other intangible assets	13	2,139	2,065	226	197
Property, plant and equipment	14	1,817	1,743	1,014	904
Investments in subsidiary companies	15	—	—	17,384	17,384
		19,210	19,196	18,644	18,639
Current assets					
Inventories	16	2,032	1,818	643	640
Trade and other receivables	17	2,589	2,438	1,590	1,874
Cash and cash equivalents	17	1,532	1,420	127	795
Derivative financial instruments	20	—	59	—	59
		6,153	5,735	2,360	3,368
Total assets		25,363	24,931	21,004	22,007
Current liabilities					
Trade and other payables	18	(2,603)	(1,934)	(1,488)	(1,313)
Current tax liabilities		(339)	(187)	(33)	(43)
Bank overdraft and loans	19	(883)	(919)	(883)	(883)
Deferred consideration		(91)	(91)	(91)	(91)
Derivative financial instruments	20	(145)	—	(145)	—
Current liabilities		(4,061)	(3,131)	(2,640)	(2,330)
Net current assets		2,092	2,604	(280)	1,038
Non-current liabilities					
Bank loans	19	(4,573)	(5,800)	(4,573)	(5,800)
Deferred income		(883)	(775)	—	—
Deferred tax liabilities	21	(464)	(580)	(36)	(96)
		(5,920)	(7,155)	(4,609)	(5,896)
Total liabilities		(9,981)	(10,286)	(7,249)	(8,226)
Net assets		15,382	14,645	13,755	13,781
Capital and reserves					
Called up share capital	23	3,951	3,951	3,951	3,951
Share premium account	24	5,824	5,824	5,824	5,824
Profit and loss account	24	5,607	4,870	3,980	4,006
Equity attributable to equity holders of the parent	24	15,382	14,645	13,755	13,781

The financial statements were approved by the board of directors and authorised for issue on 5 October 2009.

They were signed on its behalf by:



J Tobin
Group Finance Director

CASH FLOW STATEMENTS
YEAR ENDED 30 JUNE 2009

	Note	Group		Company	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
Operating profit		2,125	1,278	(270)	510
Adjustments for:					
Depreciation of property, plant and equipment		251	249	130	155
Amortisation of intangible assets		237	98	47	24
Goodwill impairment charge		134	—	134	—
Share-based payment award		94	42	94	42
Release of deferred income		108	59	—	—
(Profit)/loss on disposal of property, plant and equipment		(7)	(6)	—	2
Operating cash flows before movements in working capital		2,942	1,720	135	733
(Increase)/decrease in inventories		(214)	(27)	(3)	22
(Increase)/decrease in receivables		(151)	93	284	(89)
Increase in payables		671	19	176	611
Cash generated by operations		3,248	1,805	592	1,277
Income taxes paid		(405)	(123)	138	(58)
Interest paid		(410)	(247)	(410)	(246)
Interest received/investment income		16	23	1,000	212
Net cash flow from operating activities		2,449	1,458	1,320	1,185
Investing activities:					
Payments to acquire intangible assets		(311)	(216)	(76)	(106)
Payments to acquire property, plant and equipment		(336)	(186)	(240)	(150)
Receipts from sale of property, plant and equipment		18	19	—	8
Acquisition of Animalcare Limited		—	(14,395)	—	(14,362)
Settlement of deferred consideration		—	(54)	—	(54)
Net cash used in investing activities		(629)	(14,832)	(316)	(14,664)
Financing:					
Receipts from issue of share capital		—	7,700	—	7,700
Equity dividends paid		(445)	(127)	(445)	(127)
New bank loans		—	6,900	—	6,900
Repayment of bank loans		(1,227)	(217)	(1,227)	(217)
Net cash used in financing activities		(1,672)	14,256	(1,672)	14,256
Net increase in cash and cash equivalents		148	882	(668)	777
Cash and cash equivalents at start of year		1,384	502	795	18
Cash and cash equivalents at end of year		1,532	1,384	127	795
Comprising:					
Cash and cash equivalents	17	1,532	1,420	127	795
Bank overdrafts	19	—	(36)	—	—
		1,532	1,384	127	795

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

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 4 and within the directors' report.

Adoption of new and revised standards

Two interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- IFRIC 3 Customer Loyalty Programmes; and
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The adoption of these interpretations has not led to any significant changes in the Group's accounting policies. Neither are applicable to the activities of the Group.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)/IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (amended)	Share-based Payment — Vesting Conditions and Cancellations
IFRS 3 (revised 2008)	Business Combinations
IFRS 7 (amended)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IAS 1 (revised 2007)	Presentation of Financial Statements
IAS 23 (revised 2007)	Borrowing Costs
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 32 (amended)/IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 39 (amended)	Eligible Hedged Items
IAS 39 (amended)/IFRS 7 (amended)	Reclassification of Financial Assets
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for certain disclosure items:

IFRS 8 Operating Segments

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 board to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 *Segment Reporting*) required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, the directors anticipate that the adoption of this standard in future periods will require additional disclosure but that it will not otherwise materially impact on the financial statements of the Group.

IFRS 7 (amended) Improving disclosure of financial instruments

The amendment to IFRS 7 requires enhanced disclosure to be provided about fair value measurements and liquidity risk. As a result, the directors anticipate that the adoption of this standard in future periods will require additional disclosure but that it will not otherwise materially impact on the financial statements of the Group.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, in accordance with International Financial Reporting Standards ("IFRS") 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.

The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with article 4 of the EU IAS Regulation.

Going concern

The principal risks and uncertainties facing the Group are set out within the Directors' Report.

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 2009 to the value of £700,000 which is available for general corporate and working capital requirements until 1 February 2010. The Group's bank has offered, in principal, to replace the overdraft with a longer-term committed credit facility. At 30 June 2009 the Group had cash on hand of £1.53 million (2008 — £1.42 million).

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 income statement 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, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss 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.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidated income disclosure

In order to give an indication of the underlying earnings of the Group the amortisation charge relating to acquired intangible assets (brands and customer relationships), impairment charges against goodwill and fair value movements on interest rate hedging are presented as a separate column within the Consolidated Income Statement.

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. Income received in relation to long-term service contracts is deferred and subsequently recognised over the life of the relevant contracts.

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

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.

Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services, or in providing products or services within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments. The directors consider Companion Animal and Livestock to have different risks and rewards and therefore represent different segments.

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).

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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 profit or loss in the period in which they are incurred.

Operating profit

Operating profit is stated after charging restructuring costs but before material non-operating costs, investment income and finance costs.

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.

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 income statement 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.

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 income statement, 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.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income statement as incurred.

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.

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.

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.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 profit or loss 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 are recognised or derecognised on the date when the contract for sale or purchase of the investment requires the delivery of that investment and are initially measured at cost, including transaction costs.

An impairment is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate adjusted for a risk premium. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

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 profit or loss 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 re-measurement to fair value is recognised immediately as part of finance income or finance costs in the Consolidated Income Statement. 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 "other items"on the face of the Income Statement.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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 2.5%. 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.

An impairment charge of £134,000 was made against non-current assets, details of which are shown in note 12, as a result of the impairment reviews performed in the year (2008 — Nil).

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.

Share-based payments

The charge to profit and loss in respect of share-based payments has been estimated in line with the employee service requirements which are specified within the relevant agreements and which it is anticipated will be fulfilled.

4. REVENUE AND OPERATING SEGMENTS

For management purposes, the Group is currently organised into two operating divisions — the Companion Animal division and the Livestock division. These divisions are the basis on which the Group reports its primary segment information.

Segment results, assets and liabilities comprise those items directly attributable to particular segments as well as items which can reasonably be allocated to those segments.

Principal activities are as follows:

- The Companion Animal division supplies and distributes veterinary medicines, identification and other welfare products to the veterinary market; and
- The Livestock division manufactures and distributes livestock identification and welfare products.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

4. REVENUE AND OPERATING SEGMENTS (continued)

2009 Revenue	Companion Animal 2009 £'000	Livestock 2009 £'000	Eliminations 2009 £'000	Consolidated 2009 £'000
Products and Services				
Licensed veterinary	4,365	—	—	4,365
Animal identification	2,516	2,899	(89)	5,326
Animal welfare	2,814	3,650	(9)	6,455
Other	—	1,492	—	1,492
	9,695	8,041	(98)	17,638
Revenue				
External sales	9,606	8,032	—	17,638
Inter-segment sales	89	9	(98)	—
Total revenue	9,695	8,041	(98)	17,638
Result				
Segment result before other items(*)	2,303	543		2,846
Other items(*)	(118)	(134)		(252)
Segment result	2,185	409		2,594
Unallocated corporate expenses				(469)
Operating profit				2,125
Net finance costs				(598)
Profit before tax				1,527
Tax				(488)
Profit after tax				1,039

(*) "Other items" relate to the amortisation of acquired intangibles (brands and customer relationships) and the impairment of goodwill. "Other items" have been disclosed separately in order to give an indication of the underlying earnings of the Group. The impairment loss in the year of £134,000 relates entirely to the Livestock segment.

Eliminations relate to inter-segment trading.

Unallocated corporate expenses relate to administrative costs of centralised Group management.

4. REVENUE AND OPERATING SEGMENTS (continued)

2008 Revenue	Companion Animal 2008 £'000	Livestock 2008 £'000	Eliminations 2008 £'000	Consolidated 2008 £'000
Products and Services				
Licensed veterinary	1,571	—	—	1,571
Animal identification	1,148	3,044	—	4,192
Animal welfare	1,252	3,647	—	4,899
Other	—	1,093	—	1,093
	3,971	7,784	—	11,755
Revenue				
External sales	3,971	7,784	—	11,755
Inter-segment sales	—	—	—	—
Total revenue	3,971	7,784	—	11,755
Result				
Segment result before other items(*)	955	484		1,439
Other items(*)	(74)	(24)		(98)
Segment result	881	460		1,341
Unallocated corporate expenses				(63)
Operating profit				1,278
Net finance costs				(165)
Profit before tax				1,113
Tax				(220)
Profit after tax				893

(*) "Other items" relate to the amortisation of acquired intangibles (brands and customer relationships) and the impairment of goodwill. "Other items" have been disclosed separately in order to give an indication of the underlying earnings of the Group.

Eliminations relate to inter-segment trading.

Unallocated corporate expenses relate to administrative costs of centralised Group management.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

4. REVENUE AND OPERATING SEGMENTS (continued)

2009 Other information	**Companion Animal 2009 £'000**	**Livestock 2009 £'000**	**Eliminations 2009 £'000**	**Consolidated 2009 £'000**
Capital additions	251	396	—	647
Depreciation, amortisation and impairment charges	246	376	—	622
Balance sheet				
Assets				
Segment assets	18,539	7,096	(272)	25,363
Unallocated corporate assets				—
Consolidated total assets				25,363
Liabilities				
Segment liabilities	(2,703)	(2,094)	272	(4,525)
Unallocated corporate liabilities				(5,456)
Consolidated total liabilities				(9,981)
Consolidated net assets				15,382

2008 Other information	**Companion Animal 2008 £'000**	**Livestock 2008 £'000**	**Eliminations 2008 £'000**	**Consolidated 2008 £'000**
Capital additions	119	283	—	402
Depreciation and amortisation	103	244	—	347
Balance sheet				
Assets				
Segmental assets	17,384	8,014	(467)	24,931
Unallocated corporate assets				—
Consolidated total assets				24,931
Liabilities				
Segment liabilities	(2,458)	(1,576)	467	(3,567)
Unallocated corporate liabilities				(6,719)
Consolidated total liabilities				(10,286)
Consolidated net assets				14,645

Unallocated corporate liabilities in 2008 and 2009 are the Group's bank borrowings and overdraft.

4. REVENUE AND OPERATING SEGMENTS (continued)

Geographical segments

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

	2009 £'000	2008 £'000
Geographical market		
United Kingdom	15,872	10,772
Other European Countries	1,695	835
Americas	20	45
Australasia	1	8
Rest of the World	47	65
	17,635	11,725
Other income	3	30
	17,638	11,755

The Group's assets are wholly located in the United Kingdom and accordingly no analysis of the carrying amount of segment assets, and liabilities and additions to property, plant and equipment or intangible assets, analysed by the geographical area is presented.

An analysis of total Group revenue is as follows:

	2009 £'000	2008 £'000
Revenue from sale of goods	16,710	11,293
Revenue from the provision of services	928	432
Sales commission	—	30
	17,638	11,755
Finance income	16	85
	17,654	11,840

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

5. PROFIT FOR THE YEAR

	2009 £'000	2008 £'000
Profit for the year has been arrived at after charging/(crediting):		
Cost of inventories recognised as expense	8,156	5,191
Depreciation of tangible assets	252	249
Amortisation of developed intangible assets	119	39
Amortisation of acquired intangible assets	118	59
Research and development	266	138
Operating lease rentals	187	124
Goodwill impairment	134	—
Profit on disposal of tangible assets	(7)	(6)
Foreign exchange gains	(60)	(30)
Operating lease rental income	—	(12)
Increase in provision for receivables	5	26
Increase in provision for inventories	33	14
Staff costs	3,945	2,965

Other items disclosed on the face of the income statement include:

	Note	2009 £'000	2008 £'000
Amortisation of acquired intangibles	13	118	59
Impairment of goodwill	12	134	—
		252	59
Amortisation of developed intangibles	13	119	39
		371	98

The impairment charge relates to the Marabo business (note 12). In 2009 the amortisation of developed intangibles of £119,000 is not shown on the face of the income statement due to a change in presentation.

The analysis of remuneration paid to Deloitte LLP is as follows:

	2009 £'000	2008 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	21	13
Fees payable to the Company's auditors for other services to the Group	5	—
The audit of the Company's subsidiaries pursuant to legislation	23	17
Total audit fees	49	30
Other services pursuant to legislation	—	7
Tax services	17	11
Corporate finance services (reporting accountant on flotation)	—	200
Other services	—	6
Total non-audit fees	17	224
Total auditors' remuneration	66	254

6. DIRECTORS' REMUNERATION

	2009 £'000	2008 £'000
Emoluments	465	309
Company pension contributions to defined contribution schemes	40	25
Compensation for loss of office	30	—

The number of directors for whom retirement benefits are accruing under defined contribution pension schemes amounts to 3 (2008 — 4).

Emoluments disclosed above include the following amounts paid to the highest paid director:

	2009 £'000	2008 £'000
Emoluments	105	112
Company pension contributions to defined contribution schemes	12	11

Share options were granted to certain directors under the terms of the EMI scheme and on an unapproved basis as described in note 28 as follows:

	EMI		Unapproved	
Director	**2009**	**2008**	**2009**	**2008**
S F Riddell	180,000	10,000	120,000	—
S M Wildridge	200,000	—	100,000	—
S Hall	10,000	6,000	—	—

The options granted to Mr Riddell and Mr Wildridge are conditional on the achievement of financial performance targets.

7. STAFF COSTS

	2009 No.	2008 No.
Number of employees		
The average monthly number of employees (including directors) during the year was:		
Production and distribution	40	44
Selling and administration	106	109
	146	153

	2009 £'000	2008 £'000
Related costs		
Wages and salaries	3,502	2,612
Social security costs	329	269
Other pension costs	114	84
	3,945	2,965

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

8. FINANCE COSTS AND FINANCE INCOME

	2009 £'000	2008 £'000
Interest expense on financial liabilities held at amortised cost:		
Bank interest	387	250
Fair value losses on financial instruments*	227	—
Finance costs	614	250
Other net finance (income)/costs:		
Interest income on bank deposits	(16)	(26)
Fair value gains on financial instruments	—	(59)
Finance income	(16)	(85)
Net finance costs	598	165

* Finance costs arising from derivatives held at fair value through profit and loss relate to fair value movements on the Group interest rate swap (note 20). The costs are included within "other items" on the face of the income statement in 2009 but excluded in 2008.

9. INCOME TAX EXPENSE

	2009 £'000	2008 £'000
The income tax expense comprises:		
Current tax expense	550	239
Adjustment in the current year in relation to the current tax of prior years	5	8
	555	247
Deferred tax — note 21	(67)	(27)
	488	220
The total tax charge can be reconciled to the accounting profit as follows:		
Profit before tax	1,527	1,113
Income tax calculated at 28% (2008 — 29.5%)	428	328
Tax effect of expenses not deductible	89	12
Tax effect of share-based deductions	(35)	(28)
Tax effect of business acquisition	—	(74)
Effect of certain companies taxed at a rate lower than 28% (2008 — 29.5%)	(2)	(8)
Effect of adjustments to the income tax expense of earlier years	8	(10)
	488	220

The tax credit of £97,000 (2008 — £17,000) shown within "other items" on the face of the income statement relates to the tax credits on the amortisation of acquired intangibles and fair value movements on interest rate hedging.

10. DIVIDENDS

	2009 £'000	2008 £'000
Ordinary paid	445	127

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.

11. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit 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.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of fully paid ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the potentially dilutive ordinary shares into fully paid ordinary shares.

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

	Total earnings before other items(*) 2009 £'000	Total earnings before other items(*) 2008 £'000	Total earnings 2009 £'000	Total earnings 2008 £'000
Net profit attributable to equity holders of the Company	1,421	974	1,039	893
	2009 No.	**2008 No.**	**2009 No.**	**2008 No.**
Basic weighted average number of shares	19,756,225	11,617,422	19,756,225	11,617,422
Dilutive potential ordinary shares:				
Employee share options	1,153,176	160,480	1,153,176	160,480
Diluted weighted average number of shares	20,909,401	11,777,902	20,909,401	11,777,902
Adjusted/earnings per share				
Basic	7.2p	8.4p	5.3p	7.7p
Diluted	6.8p	8.3p	5.0p	7.6p

(*) "Other items" relate to the amortisation of intangibles, the impairment of goodwill and fair value losses on interest rate hedging.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

12. GOODWILL

	Group £'000	Company £'000
Cost		
At 1 July 2007	3,238	715
Recognised on acquisition of a subsidiary	12,711	—
At 1 July 2008 and 30 June 2009	15,949	715
Accumulated impairment losses		
At 1 July 2007 and 1 July 2008	561	561
Impairment losses for the year	134	134
At 30 June 2009	695	695
Net book value		
At 30 June 2009	15,254	20
At 30 June 2008	15,388	154

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period.

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 annual growth rate of 2.5 per cent. 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

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 CGUs. In the current year management estimated the applicable rate to be 12%. Despite general economic conditions, given the strong market position of the Group management consider that there is adequate headroom when comparing the net present value of the cash flows to the carrying value of goodwill.

The goodwill impairment of £134,000 arising from the annual impairment tests performed in 2009 relates entirely to Marabo (2008 — Nil). The impairment charge arises from the deterioration in revenue and cash flow from the Marabo range of livestock products. The current year's charge, together with a previous impairment in the year to June 2007, represents the full impairment of Marabo goodwill.

The carrying amount of Group goodwill has been allocated as follows:

	2009 £'000	2008 £'000
Companion Animal	12,711	12,711
Livestock	2,543	2,677
Goodwill	15,254	15,388

All goodwill within the Company resides within the Livestock segment.

13. OTHER INTANGIBLE ASSETS

Group	Acquired brands and customer relationships £'000	New product development costs £'000	Capitalised software £'000	Total £'000
Cost				
At 1 July 2007	—	40	154	194
Additions	—	172	44	216
Additions on acquisition	1,361	471	—	1,832
At 1 July 2008	1,361	683	198	2,242
Additions	—	264	47	311
At 30 June 2009	1,361	947	245	2,553
Amortisation				
At 1 July 2007	—	10	69	79
Charge for the year	59	15	24	98
At 1 July 2008	59	25	93	177
Charge for the year	118	72	47	237
At 30 June 2009	177	97	140	414
Carrying value				
At 30 June 2009	1,184	850	105	2,139
At 30 June 2008	1,302	658	105	2,065

The amortisation period for development costs incurred on the Group's livestock ear tag applicator, EID tagging system developments, and 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.

Company	Development costs £'000	Capitalised software £'000	Total £'000
Cost			
At 1 July 2007	40	154	194
Additions	62	44	106
At 1 July 2008	102	198	300
Additions	29	47	76
At 30 June 2009	131	245	376
Amortisation			
At 1 July 2007	10	69	79
Charge for the year	—	24	24
At 1 July 2008	10	93	103
Charge for the year	—	47	47
At 30 June 2009	10	140	150
Carrying value			
At 30 June 2009	121	105	226
At 30 June 2008	92	105	197

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

14. 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 2007	1,268	70	1,483	342	12	3,175
Additions	—	3	34	139	10	186
Additions by acquisition	—	—	19	59	71	149
Disposals	—	—	(9)	(46)	(10)	(65)
At 1 July 2008	1,268	73	1,527	494	83	3,445
Additions	—	—	190	135	11	336
Disposals	—	—	—	(2)	(29)	(31)
At 30 June 2009	1,268	73	1,717	627	65	3,750
Depreciation						
At 1 July 2007	255	23	992	233	2	1,505
On disposals	—	—	(6)	(39)	(7)	(52)
Charge for the year	24	8	121	77	19	249
At 1 July 2008	279	31	1,107	271	14	1,702
On disposals	—	—	—	(2)	(18)	(20)
Charge for the year	22	7	108	84	30	251
At 30 June 2009	301	38	1,215	353	26	1,933
Net book value						
At 30 June 2009	967	35	502	274	39	1,817
At 30 June 2008	989	42	420	223	69	1,743

Freehold land with a carrying value of £10,848 (2008 — £10,848) has not been depreciated.

14. 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 2007	718	1,323	248	8	2,297
Additions	—	18	132	—	150
Disposals	—	(8)	(28)	—	(36)
At 1 July 2008	718	1,333	352	8	2,411
Additions	—	122	118	—	240
Disposals	—	—	—	—	—
At 30 June 2009	718	1,455	470	8	2,651
Depreciation					
At 1 July 2007	243	962	172	1	1,378
On disposals	—	(5)	(21)	—	(26)
Charge for the year	14	89	50	2	155
At 1 July 2008	257	1,046	201	3	1,507
On disposals	—	—	—	—	—
Charge for the year	11	71	46	2	130
At 30 June 2009	268	1,117	247	5	1,637
Net book value					
At 30 June 2009	450	338	223	3	1,014
At 30 June 2008	461	287	151	5	904

Freehold land with a carrying value of £10,848 (2008 — £10,848) has not been depreciated.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

15. INVESTMENTS IN SUBSIDIARIES

Subsidiary undertakings

	2009 £'000	2008 £'000
Cost and net book value	17,384	17,384

The principal subsidiary undertakings of the Company are summarised below:

The Company holds more than 20 per cent of the share capital of the following subsidiary undertakings:

	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
Ritchey Europe Limited	England	Ordinary	100
Ritchey Tagg Limited	England	Ordinary	100
Brookwick Ward & Company Limited	Scotland	Ordinary	100
		Preference	100
Travik Manufacturing Limited	England	Ordinary	100

The principal activity of these undertakings for the last relevant 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
Ritchey Europe Limited	Dormant
Ritchey Tagg Limited	Dormant
Brookwick Ward & Company Limited	Dormant
Travik Manufacturing Limited	Dormant

16. INVENTORIES

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Raw materials and consumables	191	175	71	45
Finished goods and goods for resale	1,841	1,643	572	595
	2,032	1,818	643	640

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

17. OTHER FINANCIAL ASSETS

Trade and other receivables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade receivables	2,318	2,200	780	835
Amounts receivable from subsidiaries	—	—	743	982
Other receivables	45	26	9	6
Prepayments and accrued income	226	212	58	51
	2,589	2,438	1,590	1,874

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

Movement in allowance for doubtful debts

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Balance at the beginning of the period	50	24	11	4
Impairment losses recognised	5	26	7	7
	55	50	18	11

Ageing of past due but not impaired receivables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
1–30 days past due	143	92	42	16
31–90 days past due	16	12	1	7
91 days and more	27	22	6	1
	186	126	49	24

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	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Cash and cash equivalents	1,532	1,420	127	795

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.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

17. OTHER FINANCIAL ASSETS (continued)

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 38 days (2008 — 41 days). No interest has been charged on overdue receivables.

18. OTHER FINANCIAL LIABILITIES

Trade and other payables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade payables	1,583	1,185	470	487
Amounts payable to subsidiaries	—	—	509	573
Other taxes and social security costs	402	337	194	115
Accruals and deferred income	618	412	315	138
	2,603	1,934	1,488	1,313

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

19. BANK OVERDRAFTS AND LOANS

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank overdrafts	—	36	—	—
Bank loans	5,456	6,683	5,456	6,683
	5,456	6,719	5,456	6,683

All borrowings are in UK sterling. The bank loan and overdrafts are secured on a fixed and floating charge over the Group's assets. Interest on the bank loan is charged at 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	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Secured borrowings at amortised cost				
Bank overdraft due within one year	—	36	—	—
Bank loans due within one year	883	883	883	883
Current liabilities	883	919	883	883
Secured borrowings at amortised cost				
Bank loans due after one year	4,573	5,800	4,573	5,800
Non-current liabilities	4,573	5,800	4,573	5,800

The borrowings are repayable as follows:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank overdraft maturity analysis				
Amount falling due within one year	—	36	—	—
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	2,649	2,649	2,649	2,649
In more than five years	1,041	2,268	1,041	2,268
Amount due after more than one year	4,573	5,800	4,573	5,800
Amount falling due within one year	883	883	883	883
	5,456	6,683	5,456	6,683

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

19. 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.

	2009 £'000	2008 £'000
Cash and cash equivalents	1,532	1,420
Bank overdrafts and loans	(5,456)	(6,719)
Net debt	(3,924)	(5,299)

20. FINANCIAL INSTRUMENTS

The directors are responsible for the overall risk management, including risk arising from the financial instruments applied in the Group's activities. The risks associated with the Group's use of financial instruments are: capital and liquidity risk; credit risk; and market risk (including interest rate and currency risk).

Capital and liquidity risk management

The Group manages its capital to ensure continuity as a going concern whilst maximising returns through the optimisation of debt and equity. As part of this the directors consider the cost and risk associated with each class of capital. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents in note 17, and equity attributable to equity holders of the parent, comprising issued capital, reserves, and retained earnings, as disclosed in note 24.

Liquidity risk is managed by maintaining adequate reserves and banking facilities with continuous monitoring of cash flow against the maturity profiles of financial assets and liabilities.

At 30 June 2009 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	2–5 years £'000	More than 5 years £'000	Total £'000
2009					
Bank overdrafts	—	—	—	—	—
Bank borrowings	1,063	1,032	2,911	1,097	6,103
Financial instruments at fair value	100	45	—	—	145
Trade creditors and leases	3,209	89	47	—	3,345
	4,372	1,166	2,958	1,097	9,593
2008					
Bank overdrafts	36	—	—	—	36
Bank borrowings	1,337	1,272	3,426	2,575	8,610
Trade creditors and leases	2,329	58	58	—	2,445
	3,702	1,330	3,484	2,575	11,091

20. FINANCIAL INSTRUMENTS (continued)

The Group had an undrawn overdraft facility at 30 June 2009 to the value of £700,000 which is available for general corporate and working capital requirements until 1 February 2010. The Group's bank has offered, in principal, to replace the overdraft with a longer-term committed credit facility. At 30 June 2009 the Group had cash on hand of £1.53 million (2008 — £1.42 million).

Significant Accounting Policies

Details of significant accounting policies, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the accounts.

Categories and Fair Value of Financial Instruments

	Carrying value	
	2009	**2008**
	£'000	**£'000**
Financial assets		
Derivative financial instruments (fair value through income statement)	—	59
Loans and receivables (including cash and cash equivalents)	4,121	3,858
Financial liabilities		
Derivative financial instruments (fair value through income statement)	(145)	—
Amortised cost	(8,150)	(8,931)
Deferred income	(883)	(775)

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

Credit risk

Credit risk is that of financial loss as a result of default by a counterparty on its contractual obligations. The Group's exposure to credit risk arises principally in relation to trade receivables from customers and on short-term bank deposits.

The Group sells on credit to a diverse customer base, predominantly in the UK, ranging from large agricultural and veterinary wholesalers to small farmers and individual veterinary practices. Customer creditworthiness is, wherever possible, checked against independent rating databases or otherwise assessed on the basis of trade knowledge and experience. Exposure and customer credit limits are continually monitored both on specific debts and overall.

Concentration of credit risk in respect of the agricultural business is judged low because of the relatively high number of individual accounts receivable and the diversity of customers to which they relate. The veterinary business' principal route to market is via the UK's three main veterinary wholesalers which gives rise to a concentration of risk in terms of trade debt to these customers. As at 30 June 2009 the combined value of accounts receivable from these three customers represented 40 per cent (2008 — 35 per cent) of the Group's trade receivables.

The credit risk in relation to short-term bank deposits and derivatives is limited because the counterparties are banks with good credit ratings.

Market risk

The Group's activities are primarily in the UK but with approximately 10 per cent of revenue derived from exports, as detailed in note 4, and approximately 40 per cent of resale goods provided by import. Market risks affecting the Group are from UK interest rate changes and foreign currency exchange rate movements, principally in respect of the US$ and to a lesser extent the NZ$. The Group has entered into derivative instruments to manage its interest rate exposure and continues to put in place, on a short-term basis, currency management derivatives in the form of forward foreign exchange contracts in relation to specific import purchase contracts.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

20. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk Management

The Group is exposed to interest rate risk because its borrowings are at floating rates of interest linked to LIBOR. This risk is managed by the use of interest rate swap contracts which are kept under continual review. There are no borrowings at fixed rates and all of the Group's borrowings are denominated in sterling.

Sensitivity analysis

IFRS 7 requires the disclosure of a sensitivity analysis that details the effects on the Group's profit or loss and other equity of reasonably possible fluctuations in market rates.

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 2009 would have increased/decreased by £17,000.

Interest Rate Swap Contracts

The Group is party to an amortising interest rate swap which amortises between 18 January 2008 and 30 December 2010 based on an initial notional amount of £6.9 million.

The interest rate swaps complete on a quarterly basis. The fixed rate is 5.39 per cent and the floating rate is 3 months LIBOR. The Group will settle the difference between the fixed and floating rates on a net basis.

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 are:

	Liabilities		Assets	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Euro	113	202	476	238
US$	183	59	25	16
NZ$	—	62	6	6
AUS$	13	—	—	—
JPYEN	—	—	5	—

20. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Sensitivity Analysis

At 30 June 2009 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 2009. 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	(9)
US$	20

Forward Foreign Exchange Contracts

As at the 30 June 2009 the Group had one open exchange rate contract for a principal amount of £184,000. The fair value at the period end is nil. There were no open forward foreign exchange contracts at 30 June 2008.

21. DEFERRED TAX LIABILITIES

The following are the major components of the deferred tax liabilities 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 2007	222	30	—	252
On acquisition	(26)	—	381	355
(Credit)/charge to income	7	(17)	(17)	(27)
Balance at 1 July 2008	203	13	364	580
(Credit)/charge to income	7	(41)	(33)	(67)
Credit to reserves relating to stock options	—	(49)	—	(49)
Balance at 30 June 2009	210	(77)	331	464

The following are the major deferred tax liabilities recognised by the Company, and the movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Share-based payment £'000	Total £'000
Balance at 1 July 2007	77	30	107
(Credit)/charge to income	6	(17)	(11)
Balance at 1 July 2008	83	13	96
Charge/(credit) to income	24	(35)	(11)
Charge/(credit) to equity	—	(49)	(49)
Balance at 30 June 2009	107	(71)	36

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

22. RETIREMENT BENEFIT SCHEMES

The Group operates various defined contribution pension schemes for its employees. The assets of the schemes are held separately from those of the Group in an independently administered fund. The pension costs charge represents contributions payable by the Group to the fund and amounted to £114,048 (2008 — £84,272).

23. SHARE CAPITAL

	2009 £'000	2008 £'000
Authorised		
25,000,000 ordinary shares of 20p each	5,000	5,000
Allotted, called up and fully paid		
19,756,225 ordinary shares of 20p each	3,951	3,951

24. SHARE CAPITAL & RESERVES

Group	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 July 2007	1,132	943	4,062	6,137
Dividends paid	—	—	(127)	(127)
Net profit for the year	—	—	893	893
Issue of share capital	2,819	4,881	—	7,700
Charges in relation to share options	—	—	42	42
At 1 July 2008	3,951	5,824	4,870	14,645
Dividends paid	—	—	(445)	(445)
Net profit for the year	—	—	1,039	1,039
Charges in relation to share options	—	—	143	143
At 30 June 2009	3,951	5,824	5,607	15,382

Company	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 July 2007	1,132	943	3,652	5,727
Dividends paid	—	—	(127)	(127)
Net profit for the year	—	—	439	439
Issue of share capital	2,819	4,881	—	7,700
Charges in relation to share options	—	—	42	42
At 1 July 2008	3,951	5,824	4,006	13,781
Dividends paid	—	—	(445)	(445)
Net profit for the year	—	—	276	276
Charges in relation to share options	—	—	143	143
At 30 June 2009	3,951	5,824	3,980	13,755

25. CONTINGENT LIABILITIES

Cross guarantees exist in respect of bank borrowings facilities between all of the Group companies.

26. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2009 £'000	2008 £'000
Lease payments under operating leases recognised as an expense in the year	187	124

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:

	2009 £'000	2008 £'000
Within one year	176	117
In the second to fifth years inclusive	136	116
After five years	—	—
	312	233

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

27. CAPITAL COMMITMENTS

At 30 June the Group had capital commitments as follows:

	2009 £'000	2008 £'000
Contracted for but not provided in the financial statements	232	94

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2009

28. SHARE-BASED PAYMENTS

The Company operates three equity-settled share option schemes for certain employees of the Group:

SAYE schemes provide options under HMRC approved terms. These options are not subject to performance criteria other than continued employment by the Group.

EMI schemes provide options under HMRC approved terms. These options are generally not subject to performance criteria but options granted to SF Riddell and SM Wildridge in July 2009 are conditional on the achievement of financial performance targets. In all cases EMI options lapse if the employee leaves the Group.

Unapproved arrangements provide options which can be exercised conditionally on the achievement of financial performance targets.

SAYE options were granted on the 1 September 2008 at an exercise price of 44 pence and these can be exercised between 1 October 2011 and 1 March 2012 after which time the options lapse. Options are forfeited if the employee involved leaves the Group.

EMI scheme options were granted on 2 July 2008 to certain directors and key employees. These options were granted with an exercise price of 57.5 pence and can be exercised between 1 October 2010 and 1 October 2012. Options are forfeited if the employee involved leaves the Group.

Unapproved options were granted on 2 and 3 July 2008 with an exercise price of 57.5 pence. The number of unapproved options which can be exercised is conditional on the achievement of financial performance targets. The options granted on 2 July 2008 can be exercised between 1 October 2010 and 1 October 2013. The options granted on 3 July 2008 can be exercised between 1 October 2011 and 1 October 2014.

Details of the share options outstanding during the year are as follows.

	EMI		SAYE		Unapproved	
	Options	Price £	Options	Price £	Options	Price £
Outstanding at beginning of year	16,000	0.69	144,480	0.54	—	—
Granted during year	510,000	0.58	197,459	0.44	320,000	0.58
Expired during year	(4,000)	0.62	(30,763)	0.51	—	0.58
Open at 30 June 2009	522,000	0.58	311,176	0.49	320,000	0.58
Exercisable at the end of the year	—		7,312		—	

28. SHARE-BASED PAYMENTS (continued)

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	57p	58p	57.5p
Weighted average exercise price	58p	49p	57.5p
Expected volatility	36%	36%	36%
Expected life	2.3 years	3 years	2.6 years
Risk-free rate	5%	4.8%	5%
Expected dividend yield	3.9%	3.2%	3.9%

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 £133,000 (2008 — £2,000).

The Group recognised total expenses of £94,000 (2008 — £42,000) within operating expenses.

29. RELATED PARTY TRANSACTIONS

Trading transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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 6.

The directors' interests in the shares of the Company at 30 June were as stated below:

	Ordinary shares of 20p	
	2009	2008
J S Lambert	1,130,418	803,373
Lord Downshire	1,098,173	1,098,173
S F Riddell	769,091	732,727
G C Rhodes	592,000	592,000
S M Wildridge	470,068	440,000

In addition to the above, Lord Downshire had a non-beneficial interest in 363,636 shares.

Between 30 June 2009 and 6 October 2009 there were the following changes in directors' interests:

On 15 July 2009 J S Lambert acquired 36,364 shares.

On 20 July 2009 S F Riddell acquired a non-beneficial interest in 10,000 shares.

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.

Simon Riddell — Chief Executive
Appointed Managing Director in July 2005, Simon has an extensive background in marketing consumer products. A graduate in Land Economy from Cambridge, he subsequently spent 10 years at Procter & Gamble becoming a Marketing Director in the Babycare division. Prior to joining Animalcare Group he spent five years with Mayborn plc, managing the Sangenic nappy business later acquired by 3i.

Stephen Wildridge — Managing Director, Animalcare Limited
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 — Group Finance Director and Company Secretary
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

Fearby Road, Masham, Ripon, North Yorkshire HG4 4ES

Tel: 01765 689541

Fax: 01765 689851

e-mail: info@animalcaregroup.co.uk

website: www.animalcaregroup.co.uk