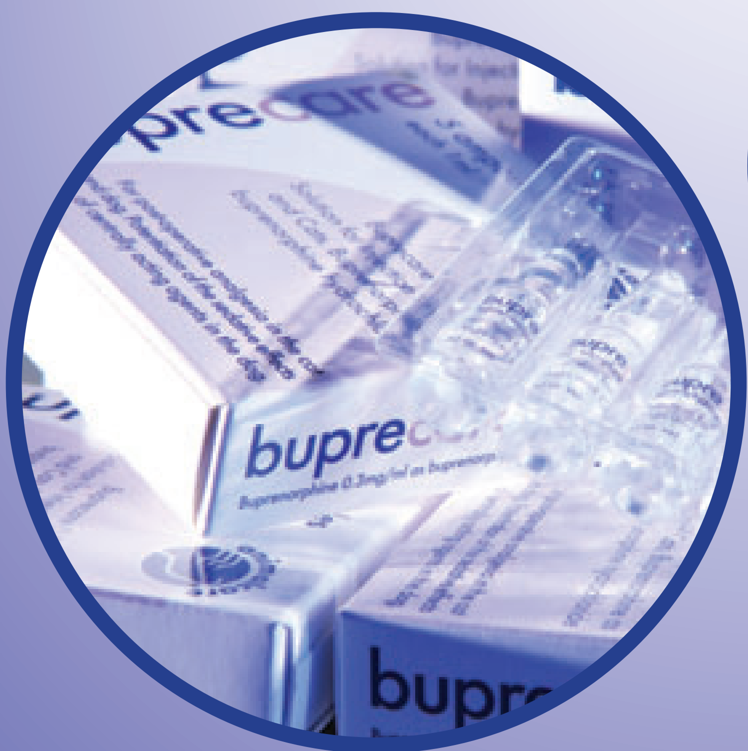
Annual Report and Financial Statements 2008



Animalcare Group plc

A leading supplier of veterinary medicines, identification and other products to the companion animal veterinary and livestock markets in the United Kingdom and the Republic of Ireland.

Animalcare Group plc is:

- Listed on the Alternative Investment Market of the London Stock Exchange.
- Owned by a mix of institutional funds, management and private individuals.

Our aim is to deliver substantial sales and profit growth through:

- The introduction of new generic licensed veterinary medicines.
- Complementary acquisitions.
- Organic growth.

The key businesses within the group are:

- Animalcare: A leading supplier of licensed veterinary medicines, companion animal identification microchips and other products to veterinary practices in the United Kingdom and the Republic of Ireland.
- Ritchey: A leading manufacturer and supplier of livestock identification and other products to agricultural retailers and farmers in the United Kingdom and the Republic of Ireland.

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James Lambert, Chairman.

Highlights

	Year Ended June 2008	Year Ended June 2007 (Restated Under IFRS)	
Revenue	£11.76m	£8.30m	+42%
Adjusted operating profit*	£1.38m	£0.63m	+120%
Operating profit	£1.28m	£0.32m	+301%
Adjusted Profit before tax*	£1.21m	£0.61m	+99%
Profit before tax	£1.11m	£0.30m	+269%
Adjusted earnings per share*			
Basic	8.4p	9.5p	
Fully Diluted	8.3p	9.4p	
Earnings per share			
Basic	7.7p	4.4p	
Fully Diluted	7.6p	4.4p	
Dividend	2.25p	2.25p	

* Excluding intangible asset amortisation costs and impairment of goodwill.

- **Acquisition of Animalcare Ltd in January 2008 has transformed group prospects**
- **Integration of Animalcare Ltd successfully completed**
- **Veterinary medicine development programme performing well**
- **Robust sales growth from core companion animal business**
- **Higher selling prices and robust cost control mitigated impact of Foot & Mouth and Bluetongue**
- **Recommended dividend of 2.25 pence per share reflecting strong profit growth and excellent cashflow**

animalcare

RITCHEY

FEARING

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS	J S Lambert S F Riddell S Hall G C Rhodes Lord Downshire S M Wildridge J Tobin
SECRETARY	S Hall
COMPANY NUMBER	1058015
REGISTERED OFFICE	Fearby Road Masham Ripon North Yorkshire HG4 4ES
AUDITORS	Deloitte & Touche 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 2008

On 15 January 2008 we announced the acquisition of Animalcare Ltd at a cost of £13.4 million excluding expenses, the successful placing of new shares and the commencement of trading on AIM under our new name of Animalcare Group plc. I am pleased to report the first annual results for Animalcare Group plc. The Group performed strongly following the acquisition and the integration of Animalcare Ltd within the Group was successfully completed as planned.

The Animalcare Ltd business achieved sales and profits in line with the targets set at the time of the acquisition and the veterinary medicine development programme is progressing satisfactorily. We received Marketing Authorisations in key EU markets for Benazecare, a generic version of the canine heart failure treatment based on benazepril, and first orders to key European markets were fulfilled towards the end of the year. The Ritchey livestock business experienced lower sales due to the outbreaks of Foot & Mouth and Bluetongue but this was mitigated by higher selling prices and robust cost control.

Financial Highlights

The results include Animalcare Ltd for the 24 week period post-acquisition and demonstrate that the acquisition has transformed the profitability, cash generation and growth prospects for the Group.

Group revenue increased 42% from £8.30 million in 2006/07 to £11.76 million in this period. Adjusted operating profit, excluding intangible asset amortisation and impairment of goodwill, increased by 120% from £0.63 million in 2006/07 to £1.38 million in this period and operating profit increased 301% from £0.32 million in 2006/07 to £1.28 million in this period. Basic earnings per share adjusted for the impact of intangible asset amortisation and the impairment of goodwill declined from 9.5p to 8.4p reflecting the issue of new shares. Basic earnings per share increased to 7.7p from the 4.4p 2006/07, the latter having been depressed by an impairment charge. Cash flow was excellent with £1.46 million generated from operating activities; at 30th June 2008 the Group had net debt* of £5.3 million compared with £6.5 million on completion of the Animalcare acquisition.

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

Dividend

The board is recommending a dividend of 2.25p per share in line with 2006/07; this is higher than forecast at the time of the Animalcare acquisition reflecting our confidence in the business. The dividend is subject to shareholder approval at our Annual General Meeting to be held on 27 November 2008 and it is proposed that the dividend will be paid on 28 November 2008 to shareholders on the register on 24 October 2008.

Board Changes

I was pleased to welcome Stephen Wildridge, Managing Director of Animalcare Ltd, to the board following the acquisition. Stephen's leadership has been key to the success of Animalcare Ltd and he continues to have a pivotal role in strategic development and operational management of that business. His experience and technical skills represent an important additional benefit to the wider Group.

During the year Stephen Hall moved to a new role as Group Commercial Director and John Tobin was appointed to the board as Group Finance Director. John was the Finance Director of Batleys plc for 14 years, leaving the Company following its sale to Bestway Holdings. John's financial skills and his experience of complex distribution and manufacturing represent an excellent fit with our requirements. I am very pleased to welcome John to the board and look forward to his contribution to the development of the Group.

People

On behalf of the board and the shareholders, I would like to welcome the employees of Animalcare Ltd and all other new employees to the Group. I would also like to thank our employees for their hard work and dedication which is critical to the success of the Group.

Prospects

I am pleased to report that current trading is in line with board expectations. The companion animal market continues to grow and our veterinary medicine development programme continues to deliver encouraging results. The agricultural market has improved considerably behind higher selling prices for both dairy products and livestock. We therefore remain confident about future prospects.

J S Lambert
Chairman

CHIEF EXECUTIVE'S REVIEW
FOR THE YEAR ENDED 30 JUNE 2008

Following the acquisition of Animalcare Ltd, the Group consolidated its position in its core companion animal and livestock markets whilst making strong progress in the development and introduction of generic licensed veterinary medicines. The Group operates as two divisions:

- The Animalcare Ltd business comprising:
  - Licensed veterinary medicines
  - Companion animal identification and other products
- The Ritchey business comprising livestock identification and other products.

Animalcare Ltd

Animalcare Ltd's contribution to Group revenue in the 24 weeks to 30 June 2008 was £3.97 million. A comparative analysis of the longer term revenue performance is given in the following table.

	Year ended 30 June 2008			Year ended 30 June 2007		
	Current product range £'000	**New licensed veterinary medicines £'000**	**Total £'000**	Current product range £'000	New licensed veterinary medicines £'000	Total £'000
Pre-acquisition	**4,024**	**86**	**4,110**	4,046	42	4,088
Post acquisition	**3,683**	**288**	**3,971**	3,469	39	3,508
Total revenue	**7,707**	**374**	**8,081**	7,515	81	7,596

New Licensed Veterinary Medicines:

Following on from UK Marketing Authorisation for Benazecare, a generic version of the canine heart failure treatment based on benazepril, we received Marketing Authorisations in key EU markets in mid-2008 and first shipments of the product were made to distribution partners in other EU countries. UK market size is about £6.6 million, with recent growth of about 5% p.a.; the markets in Germany and France are each of comparable size to the UK with other European markets also offering excellent potential.

Current range (existing veterinary medicines and companion animal products):

Animalcare Ltd consolidated its position as a leading supplier of products to companion animal veterinary practices in the United Kingdom and the Republic of Ireland with post-acquisition sales growth of about 6%; within this our key product categories, such as iDENTICHIP and infusions, achieved sales growth ahead of the market . The companion animal market continues to offer favourable prospects underpinned by historic market growth of about 7%.

Ritchey

Overall sales across the historic Ritchey livestock business declined from £8.3 million in 2007 to £7.8 million in 2008 for two principal reasons. Firstly trading arrangements with a New Zealand supplier were changed so that low margin sales previously invoiced by Ritchey were invoiced directly by the manufacturer with Ritchey receiving a modest commission; trading with this supplier ceased towards the end of the financial year. Secondly the outbreaks of Foot & Mouth and Bluetongue led to reduced livestock trading and consequently reduced livestock tag sales; however the decline in the livestock tag market was substantially offset by sales gains in other product categories, higher selling prices and robust cost control.

Integration

Following completion of the acquisition, the integration of Animalcare Ltd within the Group proceeded smoothly and has now been satisfactorily completed. The implementation of a common IT system across the Group to manage order processing, delivery and invoicing is underway and is scheduled for completion in early 2009; it is anticipated that the new system will deliver substantial improvement in the management of our business processes and efficiency savings. We will continue to review all opportunities to improve efficiency including reducing the number of sites from which we operate.

Future Developments

This has been a transformational year for the business with our focus extending from livestock to companion animals.

We are confident that the Group is well placed to deliver substantial profitable sales growth behind the introduction of generic licensed veterinary medicines. We have recently received EU Marketing Authorisations for Buprecare, a generic version of the popular analgesic based on buprenorphine, and first shipments of the product have been made to veterinary practices in the UK and Ireland and to distribution partners in other key EU countries. The UK market size is about £2.2 million, growing at about 10% p.a., and we believe that our European distribution partners represent similar sales potential to the UK. Additional generic veterinary medicines are already progressing through the development and regulatory process and further marketing authorisations are anticipated across the next three months to two years.

Despite the decline in consumer disposable incomes, we believe that the companion animal market will continue to grow albeit at a slower rate than recently. We remain confident that we can continue to deliver profit growth behind our extensive companion animal product portfolio and our strong relationships with veterinary practices.

Whilst UK livestock numbers have declined significantly in recent years, the recent increase in livestock selling prices and improved profitability is likely to lead to livestock numbers stabilising at least for the next twelve months. We are confident that our existing product range, the introduction of new products and strong relationships with agricultural retailers and farmers will allow us to achieve satisfactory profitability in the future.

S F Riddell
Chief Executive

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2008

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 2008.

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 and Chief Executives 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 2008 the Group invested in developments in companion animal pharmaceutical products, a livestock ear tag applicator and in electronic identification tagging of livestock.

Financial Review

The financial performance and condition of the Group changed significantly in the year as a consequence of the acquisition of Animalcare Limited and the related funding events as described in the financial statements. Also the Group's financial statements have been prepared for the first time under IFRS particularly affecting goodwill, intangible asset and deferred tax accounting. Segmental analysis has been provided by recognising the acquired business as the Animalcare Ltd division; the existing business forms the second operating segment, the Ritchey division.

Consolidated revenue for the year end 30 June was £11.76 million including a contribution of £3.97 million from Animalcare Ltd. Revenue from the Ritchey division was reduced year-on-year at £7.78 million (2007: £8.30 million) for the reasons described in the Chief Executive's Review. The revenue of Animalcare Limited for the year to 30 June 2008, including the period prior to its acquisition by the Group, was £8.08 million against £7.60 million in 2007, an increase of 6.3%.

The gross profit for the year of £6.69 million (56.8%) compares with £4.80 million (57.8%) in 2007. This slight dilution arises from the inclusion of Animalcare Ltd with Ritchey division margins holding steady overall. Animalcare Ltd's gross profit margin was 51.6%, a 2% gain on its 2007 performance prior to joining the Group.

Distribution costs and administrative expenses totalled £5.41 million (2007: £4.48 million) inclusive of £0.10 million (2007: £0.31 million) of amortisation and impairments on intangible assets recognised under IFRS. Excluding amortisation and impairment and having regard to the effect of the acquisition overheads were well controlled in response to the revenue pressures experienced.

Group operating profit for the year was £1.28 million (2007: £0.32 million) and, adjusting for depreciation, amortisation and impairment, EBITDA was £1.63 million (2007: £0.81 million). The segmental split of these being:

	2008 Animalcare Ltd Division £'000	2008 Ritchey Division £'000	2008 Unallocated Group £'000	2008 Total £'000	2007* Total £'000
Operating profit	881	460	(63)	1,278	319
Deprecication, amortisation, impairment	103	244	—	347	495
EBITDA	984	704	(63)	1,625	814

* In 2007 all activities related to the Ritchey division.

Higher interest costs of £0.17 million (2007: nil) on the Group's increased debt resulted in a pre-tax profit of £1.11 million (2007: £0.30 million). Profit before amortisation of intangible assets and impairment of goodwill (Adjusted Profit) was £1.21 million (2007: £0.61 million). After corporation tax profit for the year was £0.89 million (2007: £0.25 million). Dividends paid of £0.13 million (2007: £0.10 million) and new equity of £7.70 million brought shareholders funds at 30 June 2008 to £14.65 million (2007: £6.14 million).

Cash flow from operations in the year was £1.46 million (2007: £1.00 million) and capital expenditure totalled £0.40 million (2007: £0.33 million). Net debt at 30 June 2008, being bank loans and overdrafts less cash and cash equivalents, stood at £5.30 million (2007: £0.50 million on deposit), equivalent to 36% of shareholders funds. Scheduled loan repayments of £0.22 million were made against the bank debt of £6.9 million raised as part of the acquisition funding arrangements in January 2008.

As part of the Animalcare Ltd share purchase agreement a deferred consideration of up to £0.6 million was payable to Genus plc subject to certain conditions; these conditions were not met and consequently no deferred consideration was paid.

Dividends

The Company paid a first and final dividend of 2.25p per share on 1 February 2008. A dividend of 2.25p per share payable to all shareholders on the share register at 24 October to be paid 28 November 2008 will be proposed at the AGM.

Capital Structure

The Company's authorised share capital as at 30 June 2008 was £5.00 million divided into 25,000,000 ordinary shares of 20p each. The Company's issued share capital as at that date and at 30 September 2008 was 19,756,225 ordinary shares of 20p each, each credited as fully paid. The changes that took place to the share capital of the Company throughout the reporting period are set out below, divided between the periods before and after the Company's shares were admitted to listing on AIM on 15 January 2008 (Admission).

Before Admission

The authorised share capital of the Company as at 1 July 2007 was £1.25 million divided into 6,250,000 ordinary shares of 20p each.

From and after Admission

At a meeting of the board held on 19 December 2007, it was resolved that, with effect from and conditional upon Admission, the Company would issue 14,096,000 ordinary shares of 20p. Upon Admission, on 15 January 2008, the Company's ordinary shares were admitted to trading on AIM. The global offer comprised 13,616,000 ordinary shares of 20p each. In addition 480,000 ordinary shares of 20p were issued to members of the management team. The changes to the authorised and issued share capital of the Company up to 30 June 2008 are also set out in note 25 to the financial statements. The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles, copies of which can be obtained from Companies House in the UK, or by writing to the Company Secretary. There are no restrictions on transfer or voting of securities in the Company and there are no agreements known to the Company which might result in such restrictions. There are no shareholders carrying special rights with regard to control of the Company.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2008

Directors

The following directors have held office during the year ended 30 June 2008.

J S Lambert
S F Riddell
S Hall
G C Rhodes
Lord Downshire
S M Wildridge (appointed 14 January 2008)
J Tobin (appointed 8 April 2008)

Directors' interests

Details of directors' share ownership are shown in note 30 and details of directors' share options and long-term incentive plans are provided in note 6.

The Company maintains directors' and officers' liability insurance for the benefit of its directors which remained in place at 30 June 2008 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 pharmaceuticals, 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 processes 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 significant amount of turnover from a number of key customers. In the event that these relationships are lost, the effect on the Group's revenue could be significant.

The agricultural market and animal epidemics

In recent years the agricultural sector has been subject to a number of adverse factors, most notably: diseases such as Foot and Mouth and Bluetongue; disease related export bans; changes in subsidy regimes; and competition from low cost overseas producers. 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 executive senior 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 risks

The Group's exposure to, and arrangements for the management of, financial risks are described in note 21 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 2008 was 40 days (2007: 27 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 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 appointments committees, with membership comprising the Company's three non-executive directors, are active in the conduct of internal financial control; executive performance and remuneration; and board appointments.

Substantial Shareholdings

On 30 September 2008 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
Aberdeen Asset Management	4.53	895,454	Direct
Rensburg Sheppards Investment Management Ltd	7.87	1,554,318	Direct
N.R. Sale	3.10	613,400	Direct
Lord Downshire	5.56	1,461,809	Direct/ Indirect*
J S Lambert	4.07	803,373	Direct
S F Riddell	3.71	732,727	Direct

* Lord Downshire's interest includes a non-beneficial interest in 363,636 ordinary shares.

Charitable and Political Donations

During the year the Group made charitable donations of £2,434 (2007: £1,000).

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 directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, 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/she ought to have taken as a director in order to make himself/herself 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 s234ZA of the Companies Act 1985.

During the year Kenneth Easby & Co resigned as auditors and Deloitte & Touche LLP were appointed to fill the casual vacancy. Deloitte & Touche 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,
S Hall
Company Secretary
30 September 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2008

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation 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 1985.

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 1985. 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 (FORMERLY RITCHEY plc)

We have audited the Group and parent Company financial statements (the "financial statements") of Animalcare Group plc for the year ended 30 June 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expenditure, the Company statement of changes in equity, the balance sheets, the cash flow statements and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and the Chairman's Statement and Chief Executive's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANIMALCARE GROUP plc (FORMERLY RITCHEY plc)

Opinion

In our opinion:
— the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of its profit for the year then ended;
— the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 30 June 2008;
— the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
— the information given in the Directors' Report, Chairman's Statement and Chief Executive's Review is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
30 September 2008

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 30 JUNE 2008

	Note	Before other items 2008 £'000	Other items(*) 2008 £'000	Total 2008 £'000	Before other items 2007 £'000	Other items(*) 2007 £'000	Total 2007 £'000
Revenue							
Existing operations		7,784	—	7,784	8,301	—	8,301
Acquisitions		3,971	—	3,971	—	—	—
	4	11,755	—	11,755	8,301	—	8,301
Cost of sales		(5,070)	—	(5,070)	(3,504)	—	(3,504)
Gross profit		6,685	—	6,685	4,797	—	4,797
Distribution costs		(440)	—	(440)	(362)	—	(362)
Administrative expenses		(4,869)	(98)	(4,967)	(3,810)	(306)	(4,116)
Operating profit							
Existing operations		421	(24)	397	625	(306)	319
Acquisitions		955	(74)	881	—	—	—
	5	1,376	(98)	1,278	625	(306)	319
Finance costs	8	(250)	—	(250)	(34)	—	(34)
Finance income	8	85	—	85	17	—	17
Profit before tax		1,211	(98)	1,113	608	(306)	302
Income tax expense	9	(237)	17	(220)	(73)	21	(52)
Profit for the year	25	974	(81)	893	535	(285)	250
Basic earnings per share	11	8.4p	0.7p	7.7p	9.5p	5.1p	4.4p
Diluted earnings per share	11	8.3p	0.7p	7.6p	9.4p	5.0p	4.4p

(*) "Other items" relate to the amortisation of intangibles 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 consolidated income statement has been prepared on the basis that all operations are continuing operations.

STATEMENTS OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2008

	Group		Company	
	2008	**2007**	**2008**	**2007**
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 July	6,137	5,818	5,727	5,390
Net profit for the year	893	250	439	268
Dividend paid	(127)	(102)	(127)	(102)
Share-based payment charges	42	33	42	33
Issue of shares	7,700	138	7,700	138
Balance at 30 June	14,645	6,137	13,781	5,727

As permitted by Section 230 of the Companies Act 1985, the income statement of the parent Company is not presented as part of these accounts. The parent Company's profit for the year was £439,000 (2007: £268,000).

BALANCE SHEETS
30 JUNE 2008

		Group		Company	
		2008	2007	2008	2007
	Note	£'000	£'000	£'000	£'000
Non-current assets					
Goodwill	12	15,388	2,677	154	154
Other intangible assets	13	2,065	115	197	115
Property, plant and equipment	14	1,743	1,670	904	919
Investments in subsidiary companies		—	—	17,384	3,022
		19,196	4,462	18,639	4,210
Current assets					
Inventories	17	1,818	1,118	640	662
Trade and other receivables	18	2,438	1,400	1,874	1,785
Current tax receivable		—	—	—	6
Cash and cash equivalents	18	1,420	562	795	73
Derivative financial instruments		59	—	59	—
		5,735	3,080	3,368	2,526
Total assets		24,931	7,542	22,007	6,736
Current liabilities					
Trade and other payables	19	(1,934)	(915)	(1,313)	(702)
Current tax liabilities		(187)	(33)	(43)	—
Bank overdraft and loans	20	(919)	(60)	(883)	(55)
Deferred consideration		(91)	(111)	(91)	(111)
Current liabilities		(3,131)	(1,119)	(2,330)	(868)
Net current assets		2,604	1,961	1,038	1,658
Non-current liabilities					
Bank loans	20	(5,800)	—	(5,800)	—
Deferred income		(775)	—	—	—
Deferred consideration		—	(34)	—	(34)
Deferred tax liabilities	22	(580)	(252)	(96)	(107)
		(7,155)	(286)	(5,896)	(141)
Total liabilities		(10,286)	(1,405)	(8,226)	(1,009)
Net assets		14,645	6,137	13,781	5,727
Capital and reserves					
Called up share capital	24	3,951	1,132	3,951	1,132
Share premium account	25	5,824	943	5,824	943
Profit and loss account	25	4,870	4,062	4,006	3,652
Equity attributable to equity holders of the parent	25	14,645	6,137	13,781	5,727

CASH FLOW STATEMENTS
YEAR ENDED 30 JUNE 2008

		Group		Company	
		2008	2007	2008	2007
	Note	£'000	£'000	£'000	£'000
Operating profit		1,278	319	510	245
Adjustments for:					
Depreciation of property, plant and equipment		249	189	155	127
Amortisation of intangible assets		98	69	24	69
Goodwill impairment charge		—	237	—	237
Share-based payment award		42	33	42	33
Release of deferred income		59	—	—	—
(Profit)/loss on disposal of property, plant and equipment		(6)	21	2	—
Operating cash flows before movements in working capital		1,720	868	733	711
(Increase)/decrease in inventories		(27)	(161)	22	(95)
Decrease/(increase) in receivables		93	390	(89)	(177)
Increase/(decrease) in payables		19	(24)	611	10
Cash generated by operations		1,805	1,073	1,277	449
Income taxes paid		(123)	(57)	(58)	(54)
Interest paid		(247)	(32)	(246)	(24)
Interest received/investment income		23	15	212	95
Net cash flows from operating activities		1,458	999	1,185	466
Investing activities:					
Payments to acquire intangible assets		(216)	(45)	(106)	(45)
Payments to acquire property, plant and equipment		(186)	(281)	(150)	(181)
Receipts from sale of property, plant and equipment		19	4	8	23
Acquisition of Animalcare Limited	16	(14,395)	—	(14,362)	—
Settlement of deferred consideration		(54)	(155)	(54)	(155)
Net cash used in investing activities		(14,832)	(477)	(14,664)	(358)
Financing:					
Receipts from issue of share capital		7,700	130	7,700	130
Equity dividends paid		(127)	(102)	(127)	(102)
New bank loans		6,900		6,900	—
Repayment of bank loans		(217)	(214)	(217)	—
Capital element of finance lease repayments		—	(5)	—	—
Net cash used in financing activities		14,256	(191)	14,256	28
Net increase in cash and cash equivalents		882	331	777	136
Cash and cash equivalents at start of year		502	171	18	(118)
Cash and cash equivalents at end of year		1,384	502	795	18
Comprising:					
Cash and cash equivalents		1,420	562	795	73
Bank overdrafts		(36)	(60)	—	(55)
		1,384	502	795	18

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

1. GENERAL INFORMATION

Animalcare Group plc ("the Company") is a Company incorporated in England and Wales under the Companies Act 1985 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

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1: Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 21).

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

- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC 8 Scope of IFRS 2;
- IFRIC 9 Reassessment of Embedded Derivatives;
- IFRIC 10 Interim Financial Reporting and Impairment; and
- IFRIC 11 IFRS 2: Company and Treasury Share Transactions.

The adoption of these interpretations has not led to any significant changes in the Group's accounting policies.

Additionally, 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 mandatory:

- 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.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

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 1985 as applicable to companies reporting under IFRS. They have also been prepared in accordance with the requirements of the AIM Rules.

The Group first presented its consolidated financial statements under International Financial Reporting Standards (IFRS) in its AIM admission document which has been published in the Group's website at http://www.animalcaregroup.co.uk/corporate-documents-and-shareholders-communications/default.aspx. These consolidated financial statements were for the year ended 30 June 2007 and the date of the Group's transition to IFRS was 1 July 2004. The Group disclosures required in the period of transition are therefore contained within the AIM admission document. The Company's financial statements have not been adjusted to comply with IFRS and the disclosures required in the period of transition are contained in note 31.

IFRS 1 First-time Adoption of IFRS allows certain exemptions from the retrospective application of IFRS prior to 1 July 2004. Where these exemptions have been used, they are explained under the relevant headings below.

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.

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 unit 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 CGU 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognizes 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	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.

Consolidated income disclosure

In order to give an indication of the underlying earnings of the Group the amortisation charge relating to intangible assets and impairment charges goodwill 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.

Sales of goods are recognised 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.

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.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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.

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 presentation 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.

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 recognized 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Property, plant and equipment

Land and buildings 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, 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
Computer software	2 to 4 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.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (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 (or 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 recognized 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.

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 and derecognised on the date when the contract for sale or purchase of the investment require 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 computed at initial recognition. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and 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 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 gain or loss 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.

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.

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.

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.

The Group also provides employees from time to time with the opportunity to purchase the Group's ordinary shares at 80% of the current market value prevailing at the time. The Group records an expense, based on its estimate of the 20% discount related to shares expected to vest on a straight-line basis over the vesting period.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

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 significant research & development expenditure and to depreciate this expenditure over the estimated life of the developed product. 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 pharmaceutical Marketing Authorisations.

The directors have adjudged these costs to meet the relevant criteria.

Capitalised software expenditure

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

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

Key sources of estimation uncertainty

Impairment of non-current assets

Determining whether a non-current asset is impaired requires an estimation of the "value in use" and/or the "fair value less costs to sell" of the cash generating units ("CGU's") 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. Cash flow forecasts are prepared using the following year's operating budget and an appropriate projection of cash flows based upon the industry expectations for up to five years. After this period, the growth rates applied to the cash flow forecasts are no more than 3% and do not exceed the long-term average growth rate for the industry.

No instances of impairment of non-current assets have bee note as a result of the impairment reviews performed in the year (2007: £237,00).

Impairment of slow-moving and obsolete inventory

The Group annually 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 Animalcare Ltd division and the Ritchey division. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

The Animalcare Ltd division supplies and distributes animal medicines, identification technology and other products to the veterinary market; and

The Ritchey division manufactures and distributes livestock identification, cleaning and other livestock products.

Segment information for the year to 30 June 2008 is presented below. No comparatives are presented for 2007 as all activities for that year fell entirely within the Ritchey division.

2008	Animalcare Ltd Year ended 2008 £'000	Ritchey Year ended 2008 £'000	Eliminations Year ended 2008 £'000	Consolidated Year ended 2008 £'000
Revenue				
External sales	3,971	7,784	—	11,755
Inter-segment sales	—	—	—	—
Total revenue	3,971	7,784	—	11,755
Result				
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

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

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

4. REVENUE AND OPERATING SEGMENTS (continued)

Other information	**Animalcare Ltd Year ended 2008 £'000**	**Ritchey Year ended 2008 £'000**	**Eliminations Year ended 2008 £'000**	**Consolidated Year ended 2008 £'000**
Capital additions	119	283	—	402
Depreciation and amortisation	103	244	—	347
Balance sheet				
Assets				
Segment assets	15,486	9,912	(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 are the Group's bank borrowings.

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

	2008 £'000	**2007 £'000**
Geographical market		
United Kingdom	10,772	7,713
Other European countries	835	393
Americas	45	96
Australasia	8	—
Rest of the world	65	84
	11,725	8,286
Other income	30	15
	11,755	8,301

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:

	2008 £'000	**2007 £'000**
Revenue from sale of goods	11,293	8,215
Revenue from the provision of services	432	71
Sales commission	30	15
	11,755	8,301
Finance income	85	17
	11,840	8,318

5. OPERATING PROFIT

	2008 £'000	2007 £'000
Operating profit is stated after charging/(crediting):		
Cost of inventories recognised as expense	5,191	3,307
Depreciation of tangible assets	249	187
Amortisation of intangible assets	98	69
Research and development	138	3
Operating lease rentals	124	81
Goodwill impairment	—	237
(Profit)/loss on disposal of tangible assets	(6)	21
Foreign exchange (gains)/losses	(30)	8
Operating lease rental income	(12)	(19)
Increase in provision for receivables	26	16
Increase in provision for inventories	14	—

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

	2008 £'000	2007 £'000
Amortisation of intangibles	98	69
Impairment of goodwill	—	237
	98	306

Kenneth Easby & Co resigned as auditors during the year and Deloitte & Touche LLP were appointed to fill the casual vacancy. The analysis of remuneration paid to Deloitte & Touche LLP is as follows:

	2008 £'000	2007 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	13	—
Fees payable to the Company's auditors for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	17	—
Total audit fees	30	—
Other services pursuant to legislation	7	—
Tax services	11	—
Corporate finance services (reporting accountant on flotation)	200	—
Other services	6	—
Total non-audit fees	224	—
Total auditors' remuneration	254	—

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

5. OPERATING PROFIT (continued)

The analysis of remuneration paid to Kenneth Easby & Co. is as follows:

	2008 £'000	**2007 £'000**
Fees payable to the Company's auditors for the audit of the Company's annual accounts	3	9
Fees payable to the Company's auditors for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	2	7
Total audit fees	5	16
Other services pursuant to legislation		
Tax services	—	5
Total non-audit fees	—	7
Total auditors' remuneration	5	23

Fees payable to the auditors for non-audit services to the Company are not required to be disclosed separately because the consolidated financial statements are required to disclose such fees on a consolidated basis.

6. DIRECTORS' EMOLUMENTS

	2008 £'000	**2007 £'000**
Emoluments	309	267
Company pension contributions to defined contribution schemes	25	27

The number of directors for whom retirement benefits are accruing under defined benefit pension schemes amounts to 4 (2007: 4).

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

	2008 £'000	**2007 £'000**
Emoluments	112	82
Company pension contributions to defined contribution schemes	11	10

In addition to the above, an equity agreement between the Company and Simon Riddell was signed on 19 July 2006 and provides for the issue of 400,000 shares to Mr Riddell. The agreement provides the Company with a right to repurchases the shares issued in the event that Mr Riddell is not employed as Managing Director of the Company on 30 June 2010, subject to certain other conditions set out in the agreement.

Also, on 2 July 2007, share options were granted to certain directors under the terms of the EMI scheme described in note 29, as follows:

Director	**Number of options**
S F Riddell	10,000
S Hall	6,000

7. STAFF COSTS

	2008 No.	2007 No.
Number of employees		
The average monthly number of employees (including directors) during the year was:		
Production and distribution	44	43
Selling and administration	109	65
	153	108

	2008 £'000	2007 £'000
Related costs		
Wages and salaries	2,612	2,130
Social security costs	269	218
Other pension costs	84	57
	2,965	2,405

8. FINANCE COSTS AND FINANCE INCOME

	2008 £'000	2007 £'000
Interest expense on financial liabilities held at amortised cost:		
Other interest charges	—	11
Bank interest	250	23
Finance costs	250	34
Other net finance (income)/costs:		
Interest income on bank deposits	(26)	(15)
Hire-purchase interest expense	—	(2)
Fair value gains on financial instruments	(59)	—
Finance income	(85)	(17)
Net finance costs	165	17

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

9. INCOME TAX EXPENSE

	2008 £'000	2007 £'000
The income tax expense comprises:		
Current tax expense	239	42
Adjustment in the current year in relation to the current tax to prior years	8	(10)
	247	32
Deferred tax — note 22	(27)	20
	220	52
The total tax charge can be reconciled to the accounting profit as follows:		
Profit before tax	1,113	302
Income tax calculated at 29.5% (2007: 30%)	328	90
Tax effect of expenses not deductible	12	8
Tax effect of share-based deductions	(28)	—
Tax effect of business acquisition	(74)	—
Effect of certain companies taxed at rate lower than 29.5% (2007: 30%)	(8)	(21)
Effect of unprovided temporary differences	—	(15)
Effect of adjustments to the income tax expense of earlier years	(10)	(10)
	(220)	52

The Finance Act 2008 introduced legislation to phase out and withdraw in 2011 capital allowances on qualifying buildings. This was substantially enacted on 3 July 2008 and will lead to an increase in the deferred tax provision required for accelerated tax depreciation of £44,000 and will give rise to a one-off deferred tax charge for this amount in the year ending 30 June 2009.

10. DIVIDENDS

	2008 £'000	2007 £'000
Ordinary paid	127	102

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(*) 2008 £'000	Total earnings before other items(*) 2007 £'000	Total earnings 2008 £'000	Total earnings 2007 £'000
Net profit attributable to equity holders of the Company	974	535	893	250

	2008 No.	2007 No.	2008 No.	2007 No.
Basic weighted average number of shares	11,617,422	5,626,628	11,617,422	5,626,628
Dilutive potential ordinary shares:				
Employee share options	160,480	64,242	160,480	64,242
Diluted weighted average number of shares	11,777,902	5,690,870	11,777,902	5,690,870
Earnings per share				
Basic	8.4p	9.5p	7.7p	4.4p
Diluted	8.3p	9.4p	7.6p	4.4p

(*) Other items relate to the amortisation of intangibles and the impairment of goodwill.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

12. GOODWILL

	Group £'000	Company £'000
Cost		
At 1 July 2006	3,240	715
Adjustment to contingent consideration	(2)	—
At 1 July 2007	3,238	715
Recognised on acquisition of a subsidiary (note 16)	12,711	—
At 30 June 2008	15,949	715
Accumulated impairment losses		
At 1 July 2006	324	324
Impairment losses for the year	237	237
At 1 July 2007	561	561
Impairment losses for the year	—	—
At 30 June 2008	561	561
Net book value		
At 30 June 2008	15,388	154
At 30 June 2007	2,677	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 approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 3%. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The growth rates are based on industry growth forecasts and the directors believe that this 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%.

There have been no instances of goodwill impairment noted from the annual impairment tests performed in 2008 (2007: £237,000). The carrying amount of Group goodwill has been allocated as follows:

	2008 £'000	2007 £'000
Animalcare Ltd	12,711	—
Ritchey	2,677	2,677
	15,388	2,677

All goodwill within the Company resides within the Ritchey segment

13. OTHER INTANGIBLE ASSETS

Group	Customer relationships £'000	Acquired brands £'000	New product development costs £'000	Capitalised software £'000	Total £'000
Cost					
At 1 July 2006	—	—	40	109	149
Additions	—	—	—	45	45
At 1 July 2007	—	—	40	154	194
Additions	—	—	172	44	216
Additions on acquisition (note 16)	837	524	471	—	1,832
At 30 June 2008	837	524	683	198	2,242
Amortisation					
At 1 July 2006	—	—	—	10	10
Charge for the year	—	—	10	59	69
At 1 July 2007	—	—	10	69	79
Charge for the year	42	17	15	24	98
At 30 June 2008	42	17	25	93	177
Carrying value					
At 30 June 2008	795	507	658	105	2,065
At 30 June 2007	—	—	30	85	115

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. Pharmaceutical product development costs are amortised over 5 years acquired brands are amortised over 15 years and customer relationships are amortised over ten years.

Company	Development costs £'000	Capitalised software £'000	Total £'000
Cost			
At 1 July 2006	40	109	149
Additions	—	45	45
At 1 July 2007	40	154	194
Additions	62	44	106
At 30 June 2008	102	198	300
Amortisation			
At 1 July 2006	—	10	10
Charge for the year	10	59	69
At 1 July 2007	10	69	79
Charge for the year	—	24	24
At 30 June 2008	10	93	103
Carrying value			
At 30 June 2008	92	105	197
At 30 June 2007	30	85	115

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

14. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and equipment £'000	Office furniture & equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 July 2006	1,243	65	1,318	306	36	2,968
Additions	25	5	207	36	8	281
Disposals	—	—	(42)	—	(32)	(74)
At 30 June 2007	1,268	70	1,483	342	12	3,175
Additions	—	3	34	139	10	186
Additions by acquisition (note 16)	—	—	19	59	71	149
Disposals	—	—	(9)	(46)	(10)	(65)
At 30 June 2008	1,268	73	1,527	494	83	3,445
Depreciation						
At 1 July 2006	230	16	906	193	21	1,366
On disposals	—	—	(28)	—	(22)	(50)
Charge for the year	25	7	114	40	3	189
At 30 June 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 30 June 2008	279	31	1,107	271	14	1,702
Net book value						
At 30 June 2008	989	42	420	223	69	1,743
At 30 June 2007	1,013	47	491	109	10	1,670

Freehold land with a carrying value of £10,848 (2007: £10,848) has not been depreciated.

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Freehold land and buildings £'000	Plant and equipment £'000	Office furniture & equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 July 2006	693	1,236	229	31	2,189
Additions	25	129	19	8	181
Disposals	—	(42)	—	(31)	(73)
At 1 July 2007	718	1,323	248	8	2,297
Additions	—	18	132	—	150
Disposals	—	(8)	(28)	—	(36)
At 30 June 2008	718	1,333	352	8	2,411
Depreciation					
At 1 July 2006	229	900	151	21	1,301
On disposals	—	(28)	—	(22)	(50)
Charge for the year	14	90	21	2	127
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 30 June 2008	257	1,046	201	3	1,507
Net book value					
At 30 June 2008	461	287	151	5	904
At 30 June 2007	475	361	76	7	919

Freehold land with a carrying value of £10,848 (2007: £10,848) has not been depreciated.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

15. INVESTMENTS IN SUBSIDIARIES

Subsidiary undertakings

The principal subsidiary undertakings of the Company are summarised below:

The Company holds more than 20% 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 veterinary 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. ACQUISITION OF SUBSIDIARY UNDERTAKINGS

Animalcare Limited was acquired by the Group on 15 January 2008. The following table sets out the book values of the identifiable assets acquired and their fair value to the Group:

	Book value at acquisition £'000	Fair value adjustment £'000	Fair value to Group £'000
Net assets acquired:			
Property, plant and equipment	149		149
Intangible assets	471	1,361	1,832
Inventories	673		673
Trade and other receivables	1,131		1,131
Cash at bank	4		4
Trade and other payables	(1,000)		(1,000)
Bank overdraft	(37)		(37)
Corporation tax liability	(30)		(30)
Deferred tax asset	26		26
Deferred tax liability	—	(381)	(381)
Deferred income provision	(716)		(716)
	671	980	1,651
Goodwill			12,711
Total consideration			14,362
Satisfied by:			
Cash consideration			14,362
Net cash outflow arising on acquisition:			
Total consideration			14,362
Net overdraft acquired			37
Cash acquired			(4)
			14,395

Fair value adjustments relate to the recognition of brands and customer relationships together with related tax effects.

Total consideration includes expenses of £962,000.

Included within goodwill are: staff acquired as part of the business; technical knowledge; and the growth potential of the acquired business which are specifically excluded in the identification of intangible assets on acquisition by the relevant accounting standards.

The pre-acquisition revenue and operating profit for Animalcare from the beginning of its financial period 1 July 2007 to the date of acquisition were £4,110,000 and £486,000 respectively. The Animalcare acquisition had the following impact on the Group's cash flow: cash inflows from operating activity £860,000, purchase of fixed assets £9,000, purchase of intangible assets £110,000, and income tax paid of £80,000.

If the acquisition of Animalcare Limited had been completed on the first day of the financial year, Group revenue for the period would have been £15,865,000 and Group profit attributable to equity holders of the Company would have been £1,141,000.

17. INVENTORIES

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Raw materials and consumables	175	198	45	89
Finished goods and goods for resale	1,643	920	595	573
	1,818	1,118	640	662

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

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

18. OTHER FINANCIAL ASSETS

Trade and other receivables

	Group		Company	
	2008 £'000	**2007 £'000**	**2008 £'000**	**2007 £'000**
Trade receivables	2,200	1,310	835	978
Amounts receivable from subsidiaries	—	—	982	750
Other receivables	26	6	6	1
Prepayments and accrued income	212	84	51	56
	2,438	1,400	1,874	1,785

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	
	2008 £'000	**2007 £'000**	**2008 £'000**	**2007 £'000**
Balance at the beginning of the period	24	8	4	—
Impairment losses recognised	26	16	7	4
	50	24	11	4

Ageing of past due but not impaired receivables

	Group		Company	
	2008 £'000	**2007 £'000**	**2008 £'000**	**2007 £'000**
1–30 days past due	92	123	16	69
31–90 days past due	12	19	7	16
91 days and more	22	43	1	—
	126	185	24	85

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

Cash and cash equivalents

	Group		Company	
	2008 £'000	**2007 £'000**	**2008 £'000**	**2007 £'000**
Cash and cash equivalents	1,420	562	795	73

Cash and cash equivalents comprise cash held by the Company and short-term bank deposits with an original maturity of three months of less. The carrying amount of these assets approximates their fair value.

Credit risk

The Company's principal financial assets are bank balances and cash, and trade and other receivables.

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

The average credit period on sales of goods is 41 days (2007: 51 days). No interest has been charged on overdue receivables.

19. OTHER FINANCIAL LIABILITIES

Trade and other payables

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Trade payables	1,185	418	487	272
Amounts payable to subsidiaries	—	—	573	51
Other taxes and social security costs	337	210	115	172
Accruals and deferred income	412	287	138	207
	1,934	915	1,313	702

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

20. BANK OVERDRAFTS AND LOANS

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Bank overdrafts	36	60	—	55
Bank loans	6,683	—	6,683	—
	6,719	60	6,683	55

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 2.25% above LIBOR. The carrying value and fair value of the Group's short-term and long-term borrowings is as follows:

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Secured borrowings at amortised cost:				
Bank overdraft due within one year	36	60	—	55
Bank loans due within one year	883	—	883	—
Current liabilities	919	60	883	55
Secured borrowings at amortised cost:				
Bank loans due after one year	5,800	—	5,800	—
Non-current liabilities	5,800	—	5,800	—

The borrowings are repayable as follows:

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Bank overdraft maturity analysis				
Amount falling due within one year	36	60	—	55
Loan maturity analysis				
In more than one year but not more than two years	883	—	883	—
In more than two years but no more than five years	2,649	—	2,649	—
In more than five years	2,268	—	2,268	—
Amount due after more than one year	5,800	—	5,800	—
Amount falling due within one year	883	—	883	—
	6,683	—	6,683	—

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

20. 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.

	2008 £'000	2007 £'000
Cash and cash equivalents	1,420	562
Bank overdrafts and loans	(6,719)	(60)
Net (debt)/funds	(5,299)	502

21. 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 director considers 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 20, cash and cash equivalents (note 18), and equity attributable to equity holders of the parent, comprising issued capital, reserves, and retained earnings, as disclosed in note 25.

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 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
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	3,434	2,575	11,091
2007					
Bank overdrafts	60	—	—	—	60
Trade creditors and leases	1,059	35	104	41	1,239
	1,119	35	104	41	1,299

The Group had undrawn committed borrowing facilities at 30 June 2008 to the value of £700,000 which are available for general corporate and working capital requirements until 14 June 2009.

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 financial statements.

21. FINANCIAL INSTRUMENTS (continued)

Categories and Fair Value of Financial Instruments

	Carrying value	
	2008	**2007**
	£'000	**£'000**
Financial assets		
Derivative financial instruments (fair value through income statement)	59	—
Loans and receivables (including cash and cash equivalents)	3,858	1,962
Financial liabilities		
Amortised cost	(8,931)	(1,153)
Deferred income	(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's 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 2008 the combined value of accounts receivable from these three customers represented 35% 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 with a minor element of turnover deriving from exports, as detailed in note 4, and limited sourcing of supplies by import. Financial risks affecting the Group are from UK interest rate changes and to a lesser degree from foreign currency exchange rate movements. 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 2008

21. 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.

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

Interest Rate Sensitivity Analysis

The sensitivity analysis statement below 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% higher and all other variables were held constant the Group's profit for the year ended 30 June 2008 would have decreased by £3,000.

Interest Rate Swap Contracts

The Group is party to an amortising interest rate swap effective 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% and the floating rate is three 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**	
	2008	**2007**	**2008**	**2007**
	£'000	**£'000**	**£'000**	**£'000**
Euro	202	7	238	24
US$	59	10	16	20
NZ$	62	28	6	31

Foreign Currency Sensitivity Analysis

The Group is mainly exposed to the euro, the US$ the NZ$. The following table details the effect of a 10% increase and decrease in the exchange rate of these currencies against sterling when applied to outstanding monetary items denominated in foreign currency denominated as at 30 June 2008. A positive number indicates the increase in profit which would arise from a 10% strengthening. For a 10% weakening there would be an equal and opposite negative effect on profit.

	£000
Euro	(4)
US$	4
NZ$	6

Forward Foreign Exchange Contracts

There were no open forward foreign exchange contracts at 30 June 2008.

22. 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 assets £'000	Total £'000
Balance at 1 July 2006	232	—	—	232
(Credit)/charge to income	(10)	30	—	20
Balance at 1 July 2007	222	30	—	252
On acquisition	(26)	—	381	355
Charge/(credit) to income	7	(17)	(17)	(27)
Balance at 30 June 2008	203	13	364	580

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 2006	83	—	83
(Credit)/charge to income	(6)	30	24
Balance at 1 July 2007	77	30	107
Charge/(credit) to income	6	(17)	(11)
Balance at 30 June 2008	83	13	96

23. 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 independently administered funds. The pension costs charge represents contributions payable by the Group to the fund and amounted to £84,272 (2007: £56,599).

24. SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised		
25,000,000 (2007: 6,250,000) ordinary shares of 20p each	5,000	1,250
Allotted, called up and fully paid		
19,756,225 (2007: 5,660,225) ordinary shares of 20p each	3,951	1,132

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

25. SHARE CAPITAL & RESERVES

Group	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 July 2006	1,037	900	3,881	5,818
Dividends paid	—	—	(102)	(102)
Net profit for the year	—	—	250	250
Issue of share capital	95	43	—	138
Charges in relation to share options	—	—	33	33
At 30 June 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 30 June 2008	3,951	5,824	4,870	14,645

Company	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
At 1 July 2006	1,037	900	3,453	5,390
Dividends paid	—	—	(102)	(102)
Net profit for the year	—	—	268	268
Issue of share capital	95	43	—	138
Charges in relation to share options	—	—	33	33
At 30 June 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 30 June 2008	3,951	5,824	4,006	13,781

During the year ended 30 June 2008, 13,616,000 ordinary shares of 20p each were issued at a value of 55p and 480,000 ordinary shares of 20p each were issued at price of 44p.

26. CONTINGENT LIABILITIES

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

27. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2008 £'000	2007 £'000
Lease payments under operating leases recognised as an expense in the year	124	81

At 30 June, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £'000	2007 £'000
Within one year	117	65
In the second to fifth years inclusive	116	139
After five years	—	41
	233	245

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

28. CAPITAL COMMITMENTS

At 30 June the Group had capital commitments as follows:

	2008 £'000	2007 £'000
Contracted for but not provided in the financial statements	94	3

29. SHARE-BASED PAYMENTS

The Company operates two equity-settled share option schemes for certain employees of the Group: the SAYE scheme and the EMI scheme. Neither scheme is subject to performance criteria other than continued employment by the Group.

Under the SAYE scheme options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant, after a discount of 20% has been applied. Employees were granted the options on the 1 December 2006 and these can be exercised between 1 December 2009 and 1 June 2010 after which time the options lapse. Options are forfeited if the employee involved leaves the Group.

EMI scheme options were granted on 2 July 2007 to certain directors and key employees. These options were granted with an exercise price of 69p and can be exercised between 1 July 2009 and 1 July 2012. Options are forfeited if the employee involved leaves the Group.

NOTES TO THE ACCOUNTS
YEAR ENDED 30 JUNE 2008

29. SHARE-BASED PAYMENTS (continued)

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

	EMI Scheme		SAYE Scheme	
	Number of Share Options	Weighted average exercise price (in £)	Number of Share Options	Weighted average exercise price (in £)
Outstanding at beginning of year	—		165,130	0.540
Granted during the year	28,000	0.690	—	
Forfeited during the year	(12,000)	0.690	(20,650)	0.540
Exercised during the year	—		—	
Expired during the year	—		—	
Outstanding at the end of the year	16,000	0.690	144,480	0.540
Exercisable at the end of the year	—		—	

The estimated fair values of the EMI options granted on 2 July 2008 was £2,240.

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

	EMI Scheme	SAYE Scheme
Weighted average share price	55p	60p
Weighted average exercise price	69p	54p
Expected volatility	36%	36%
Expected life	2.5 years	3 years
Risk-free rate	5%	4.5%
Expected dividend yield	3.3%	2.4%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years. The expected life used in the model, were estimated based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

30. 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	
	2008	2007
S F Riddell	732,727	400,000
S Hall	151,780	151,780
G C Rhodes	582,500	697,000
Lord Downshire	1,098,173	1,098,173
J S Lambert	803,373	76,100
S M Wildridge	440,000	—

In addition to the above, Lord Downshire has a non-beneficial interest in 363,636 ordinary shares of 20p of the Company (2007: nil).

No changes took place in the interest of the directors between 30 June 2008 and 30 September 2008.

31. FIRST TIME ADOPTION OF IFRS BY THE COMPANY

The date of transition to International Financial Reporting and Accounting Standards was selected as 1 July 2004 and all comparative information in the financial information in the financial information has been restated to reflect the Company's adoption of IFRS. The only adjustment on transition to IFRS is as follows:

Goodwill amortisation

IFRS 3 Business Combinations requires that goodwill is not amortised but instead is subject to an impairment review annually or when there are indications that the carrying value may not be recoverable.

The effect of the transition to IFRS on the Company's profit for the years ended 30 June is as follows:

	UK GAAP £'000	Significant adjustments on transitions to IFRS £'000	IFRS £'000
Profit for the year ended 30 June 2007	268	—	268
Profit for the year ended 30 June 2006	125	118	243
Profit for the year ended 30 June 2005	110	19	129

The effect of the transition to IFRS on the Company's equity as at 1 July 2004 (date of transition) and subsequent years is as follows:

	UK GAAP £'000	Significant adjustments on transitions to IFRS £'000	IFRS £'000
Total equity at 30 June 2007	5,590	137	5,727
Total equity at 1 July 2006	5,253	137	5,390
Total equity at 1 July 2005	5,218	19	5,237
Total equity at 1 July 2004	5,108	136	5,244

Cash flow statement

The transition from UK GAAP to IFRS has no effect upon the cash flows generated by the Company. The IFRS cash flow statement is presented in a different format from that required by previous GAAP, with cash flows split into three categories.

Cash flows in relation to taxation and interest paid are included within operating cash flows. under UK GAAP, taxation outflows were shown as a separate category on the cash flow statement and interest paid was shown within returns on investments and servicing of finance.

First-time adoption exemptions applied

The requirements for the first time adoption of IFRS are set out in IFRS 1 First Time Adoption of International Financial Reporting Standards. In general, IFRS 1 requires that accounting policies be adopted that are compliant with IFRS and that these policies be applied retrospectively to all periods presented. However, under IFRS 1, a number of exemptions are permitted to be taken in preparing the balance sheet as at the date of transition to IFRS on 1 January 2004. The only exemption adopted by the Company is explained below:

- The Group has elected not to apply IFRS 3 Business Combinations to business combinations that took place before 1 July 2004.

Changes in presentation on transition to IFRS

Certain changes in presentation have been made by the directors on transition to IFRS as it allows more flexibility than UK GAAP.

THE BOARD

James Lambert (aged 49) — 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 (aged 47) — 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 since acquired by 3i.

Stephen Wildridge (aged 52) — 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 (aged 54) — Group Finance Director
John joined the board in April 2008. He qualified as a Chartered Accountant in 1983, subsequently joining the Leeds-based print supplies business Frank Horsell Group plc, gaining his first FD appointment in 1987. In 1992 John became FD of Batleys plc, the UK cash and carry wholesaler, where he managed large-scale systems projects, a substantial property portfolio and general corporate finance activities including the trade sale of Batleys to Bestway Holdings in 2005

Stephen Hall (aged 54) — Commercial Director and Company Secretary
Stephen moved into his current role in April 2008, having been Finance Director since 1991, having qualified as an ACCA chartered accountant in 1979 and an FCCA in 1986. He has commercial accounting experience in several industries including electricity supply, timber and waste disposal in addition to agriculture.

Geoff Rhodes (aged 62) — 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 Tagg in 1972 and subsequently became Managing Director of Ritchey Tagg plc; he remained Managing Director until his retirement and appointment as a non-executive director in 2005.

Lord Downshire (aged 48) — 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.

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