Animalcare Group plc

Annual Report
for the year ended **30th June 2014**
www.animalcaregroup.co.uk
Stock Code: **ANCR**

Supplying & Supporting
veterinary professionals throughout the UK

Animalcare Group plc

Welcome to Animalcare Group plc

Animalcare Group plc is **focused** on **growing** its veterinary **business.**

Animalcare is a leading supplier of generic veterinary medicines and animal identification products to companion animal veterinary markets.

It develops and sells goods and services to veterinary professionals principally for use in companion animals; operating through UK wholesalers and distribution and development partners in key markets in Western Europe.

Its principal product lines are licensed veterinary medicines and companion animal identification products and services.

Look Out For These Icons

See further content for the Annual Report and Accounts 2014 online at : **animalcare.annualreport2014.com**

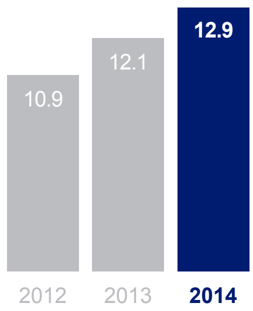
View more content within this report

Highlights

Financial Highlights

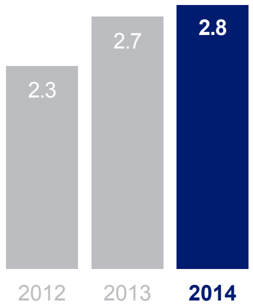
Revenue
£m

+6.3% at £12.9m



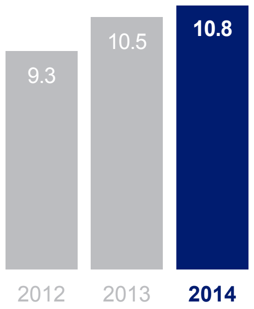
Underlying* operating profit
£m

+4.4% at £2.8m



Underlying* basic EPS
Pence

+2.9% at £10.8p



* Underlying measures are before the effect of exceptional costs and other items. These are analysed in note 4.

Read more about our Financial Review on pages 14 and 15

View our Financial Highlights online at animalcare.annualreport2014.com

Operational Highlights

- Strong revenue growth from our Licensed Veterinary Medicines group, up 9.5% to £7.9m (2013: £7.2m)
- Companion Animal Identification group sales and marketing strategy started to deliver with revenue growth of 7.8% to £2.4m (2013: £2.2m)
- Animal welfare products has seen top line decline, with margin improvement in line with management intention to streamline lower value products
- Three new products launched this year
- Investment in infrastructure and senior management team to drive future growth
- IT investment creating a more robust infrastructure to business and Identichip database

Contents

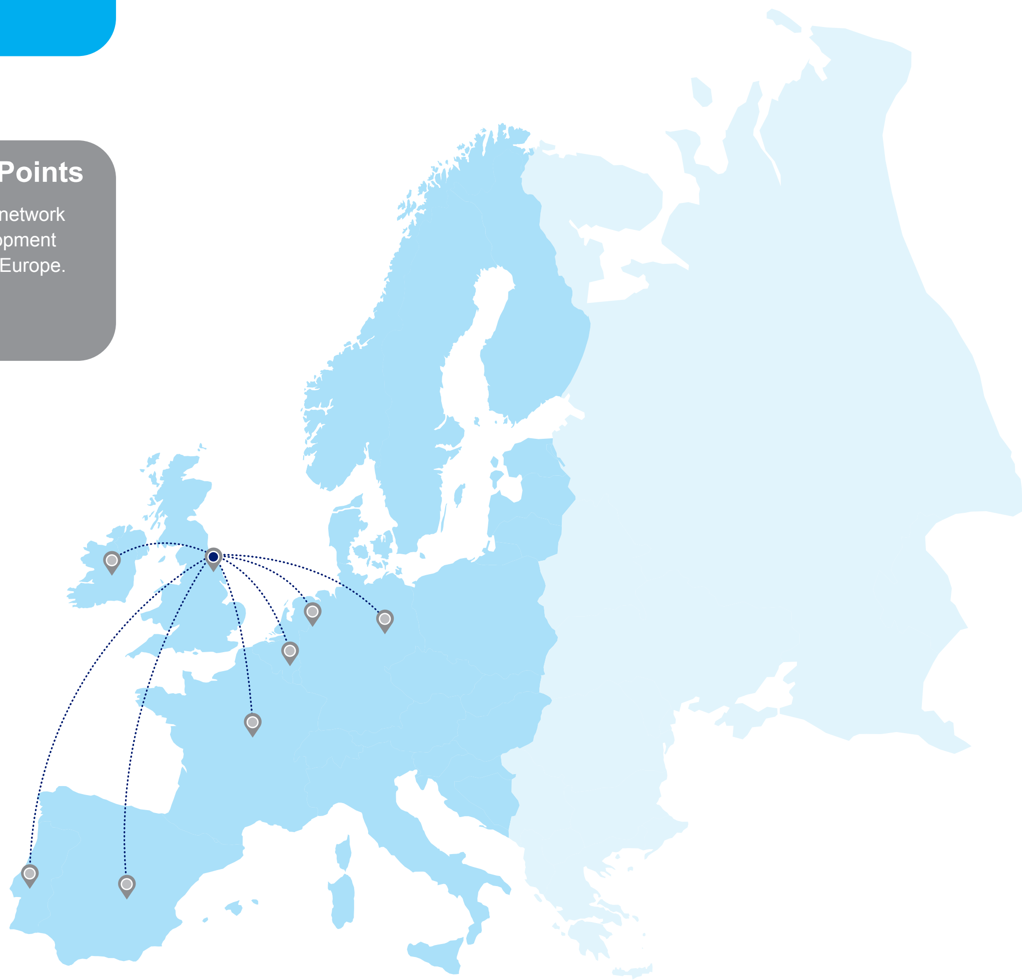
Group at a Glance

Our Main Location

Our new head office and increased warehousing operation are both located in York, UK.

Our Distribution Points

Animalcare has a strong network of distribution and development partners across Western Europe.



Licensed Veterinary Medicines	Companion Animal Identification	Animal Welfare Products
£7.9m, 61%	£2.4m, 19%	£2.6m, 20%
59% (2013)	19% (2013)	20% (2013)
55% (2012)	22% (2012)	24% (2012)

Business Model

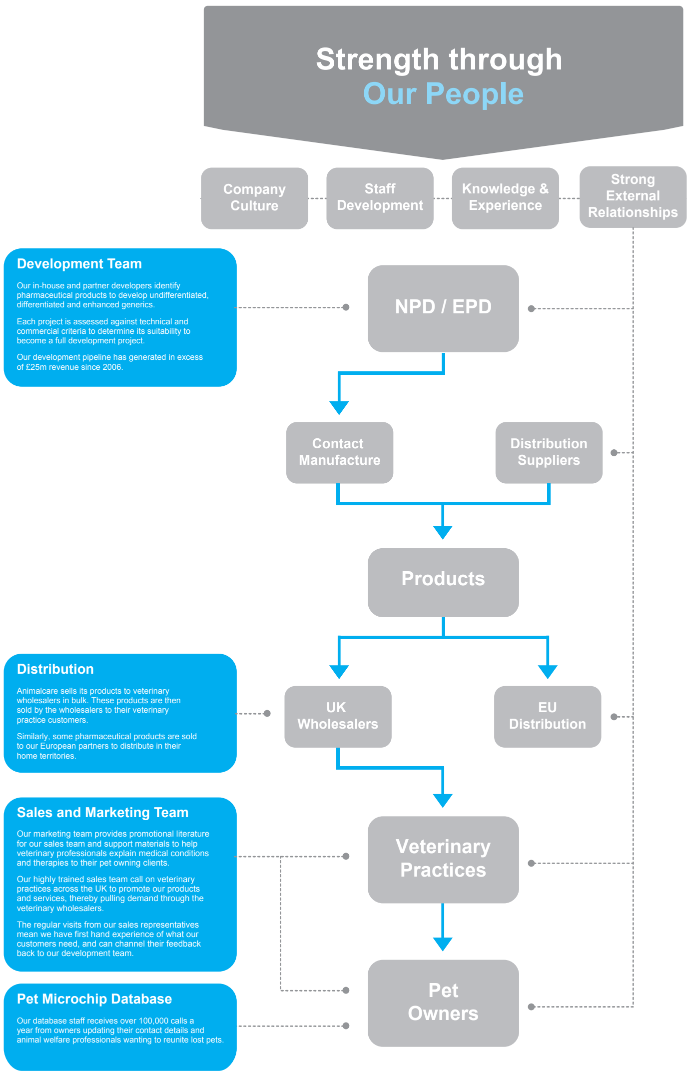
“This is the Animalcare Group plc Business Model, which seeks to outline how we create, deliver and capture shareholder value.”

Primary Markets: Supply of goods and services to veterinary professionals.

Animal Types: Primarily companion animals.

Products and Services: Licensed veterinary medicines, companion animal identification and animal welfare products.

Geographic Reach: Currently 90% revenue in the UK; 10% in EU with expansion plans further into EU.



- Robust process of identification of generic pharmaceuticals
- Core competence in pharmaceutical licence applications
- Broad experience of pharmaceutical formulation and contract manufacturers
- Strong EU partner network for pharmaceuticals co-development projects and *quid pro quo* distribution
- Extensive reach of sales and marketing into UK veterinary customer base

Investment Case & Strategy

Investment Case

Animalcare is a sustainable growing business in a growing market. In the year ended 30th June 2014 Animalcare recorded revenue and gross profit growth of 6.3% and 5.2% respectively; continuing its track record of top line growth.

Animalcare is cash generative and debt free, hence in a strong financial position to invest in future growth.

Animalcare is dividend paying and given its strong balance sheet expects to maintain its current dividend policy during the investment phase.

Animalcare has a clear strategy for growth by investing in development of enhanced veterinary generic pharmaceuticals to accelerate its progress over the next three to five years.

Strategy

In recent years UK veterinary practices have consolidated; be it by corporate acquisition or joint-venture partnership, joining buying groups and growth of the charitable sector.

The veterinary pharmaceutical sector has seen increased competition through numbers of suppliers and generic products.

Conversely, in part through M & A activity, there are now fewer high quality routes to market for those pharmaceutical licence holders without domestic sales channels.

We have developed our internal capability, expertise and cash position to take advantage of these market conditions and opportunities to focus our strategy in the following areas.

Our strategy for 2015 to 2018 is to:

1. Continue development of differentiated generic medicines
2. Advance enhanced generic medicines (Project Sustain) into product development pipeline
3. Identify new candidates to maintain flow into the development pipeline
4. Increase the sales of our current products outside the UK

i. through existing distribution in current markets

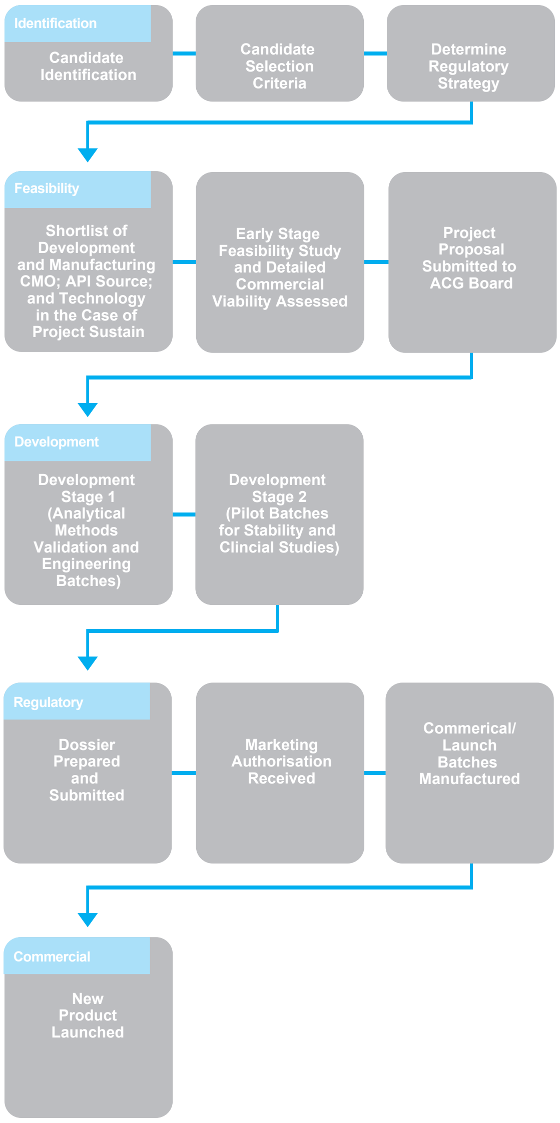
ii. by adding geographic cover with new distribution in new markets

iii. building on the progress of the Companion Animal Identification range and explore opportunities to innovate and strengthen the range of products and services

iv. strengthening value creating products in the Animal Welfare Products range and further rationalise less profitable lines at appropriate opportunities

New Product Development (NPD) Process

The varied nature of product development dictates that the exact process can be different for each project; however the diagram below explains some of the key steps in the Animalcare process.



NPD Pipeline Monitoring

Regular project meetings are held with in-house teams and external partners, with progress monitored against the project timeline and budget using project management software. The development pipeline is reviewed by the Board at all Board meetings.

Identification

Animalcare draws on many areas to identify product development candidates to be considered for the pipeline.

We have experienced professionals across the business in sales, marketing, technical, regulatory and business development functions; their market and practical knowledge is a great source of ideas and innovation. Their combined time in the veterinary and healthcare industry is considerable and inevitably extensive personal networks have been built, offering further opportunities to generate and grow ideas. One such network is our group of partner companies in the major northern European markets.

The team also has access to market sales data and sector online resources and news feeds. Market research is carried out with trusted veterinary customers and more formally with agencies.

Each project is assessed against many criteria to determine its suitability to be taken into the next stage of the development process. The main criteria include:

- size of market
- technical and regulatory feasibility
- number of competitors
- competitor profile
- fit to existing and future range

Feasibility

If an opportunity satisfies a mix of these criteria the team will start to put together a project file that will include the regulatory requirements and strategy, and a shortlist of facilities able to develop and manufacture the product. Where appropriate, early stage feasibility work is undertaken.

An investment proposal is prepared and submitted to the Board to gain approval for each development project. All necessary sections are covered to allow the Board to assess the investment case for the project including a detailed risk assessment and forecast financial return.

Buprecare

Development

In most cases the product will be developed at the Contract Manufacturing Organisation (CMO) which will ultimately manufacture the product. Work will start immediately to source the Active Pharmaceutical Ingredient (API) and develop analytical methods. Small scale development batches will be manufactured for setting aside on stability under set temperatures and humidity levels and for use in any clinical studies required.

Regulatory

Once all necessary data has been compiled and meets the required regulations the dossier is assembled by the regulatory team and external consultants. The completed dossier is submitted to the regulatory authorities and is monitored through the process by the Animalcare team. The regulatory assessment process is controlled by a strict timetable; for most of our projects this is 210 days, typically with 30 to 60 days to respond to questions from the authority. Therefore in our experience it takes 12 months from submitting the dossier to launching the product on the UK market, be it for a new application for either an undifferentiated or enhanced generic.

Launch

Once the marketing authorisation is received, and packaging layouts have been approved by the authorities, launch batches can be manufactured and packed ready for commercial launch.

In all, the process outlined above may take between three and five years depending on the project's complexity and the development and clinical trials required.

Projects currently in our development pipeline are listed in the table below.

Identification	Feasibility	Development	Regulatory	Commercial	2-3 years to maturity
Continuing process of identification Main Criteria: • Size of market • Technical / regulatory feasibility • No. of competitors • Competitor profile • Fit to existing and future range	**4** candidates undergoing feasibility studies	**7** candidates in development Target species ranging from dogs,cats, equine, small mammals and exotics All products addressing EU markets	**2** candidates; dossiers being prepared for submission	First products to launch from 2016 onwards	

Existing Product Development

Whilst the model and stages outlined above are followed for new product development, from time to time we identify an opportunity to modify an existing pharmaceutical product in our range, which would provide additional features to increase sales or prolong the product life cycle.

These types of projects are termed Existing Product Development (EPD) and necessitate trials, studies and regulatory fees, therefore an investment proposal would still be considered by the Board as with the NPD process.

New Product Distribution

Animalcare continues to attract novel opportunities across the three product groups.

Animalcare stands out in its market with a sales team of 16 field-based staff with an emphasis on technical and sales training. Furthermore, we strive to enhance our relationship with our veterinary customers through continuing professional development (CPD) provision and product support for practices and veterinary professionals, often with support materials for them to use with their pet-owning clients, making the veterinary practice and client bond stronger and helping to make the veterinary professionals life easier.

Dog Health Check

Chairman's Statement

James Lambert Chairman

"I am pleased to announce that all three product areas have continued to show solid performance during the 2014 financial year."

Introduction

Animalcare is made up of three product groups: Licensed Veterinary Medicines, Companion Animal Identification and Animal Welfare products that are sold mainly through veterinary practices. I am pleased to announce that all three product areas have continued to show solid performance during the 2014 financial year. The Licensed Veterinary Medicines group, which is the main focus of our investment, has grown strongly in the current year by 9.5%.

Financial Trading

Group revenues increased by 6.3% from £12.1m to a record £12.9m, driven by increasing our market share in the Licensed Veterinary Medicines market and continuing to grow in the animal identification market. This performance has resulted in pre tax profits increasing by 14.7% from £2.3m to £2.7m and basic earnings per share increased from 9.1 pence per share to 10.3 pence per share, or 13.2%. Year end cash increased by £0.1m to £3.8m, with the decision taken during the year to increase stock levels of certain licensed veterinary medicines with long lead times.

People

Under Chief Executive Iain Menneer's leadership, we invested in increasing the quality and strength of the senior management team to position your Company for much increased product development in future years. I am therefore delighted that we have a new Head of Sales, Director of Business Development and several new colleagues across the business to support their work. This as we announced with our interim results will allow a step change in our ability to bring an increased number of new and important generic veterinary medicines to market from 2016-2017 onwards. This should make a real difference to Animalcare's future prospects.

Dividend

Your Board proposes, subject to shareholder approval, an increased final dividend of 4.0 pence per share (2013: 3.8 pence). With 1.5 pence per share being paid as the interim dividend, this brings the total dividend for 2014 to 5.5 pence per share, representing growth over the prior year of 4%, in line with our underlying earnings.

Prospects

Your Board, I believe, has totally repositioned Animalcare over the past year or so to allow the use of the Company's cash to rapidly grow the business organically from 2016 onwards. We are working to develop a high quality, experienced senior management team to deliver this growth plan. With the new share incentive scheme that has been introduced during the year for both executive directors, the interests of shareholders and colleagues are aligned to deliver an exciting and profitable growth phase for your business.

James Lambert
Chairman

Chief Executive's Review

Iain Menneer Chief Executive Officer

Introduction

Animalcare has again delivered record sales, up 6.3% to £12.9m, continuing its track record of top line growth.

This result has been achieved against a backdrop of a veterinary market that is very slowly responding to the strengthening economy.

Activities in the period can be split into the following three main areas: revenue delivery, product development pipeline and business infrastructure. I am very pleased with the progress we have made in all these areas.

Animalcare has changed significantly in the last decade and achieved much; as we move into the next stage of the journey the business must change further for it to achieve even more.

The veterinary market is evolving and consolidating; it is imperative therefore that Animalcare develops a new approach too, whilst not losing sight of its core strengths that set it apart from its competitors.

Our objective is to deliver further growth from the current core business and to accelerate that growth with the introduction of enhanced generic veterinary medicines. In response to the number of opportunities available, we have developed a more structured approach for managing and monitoring progress in our development pipeline.

Market Review

Whilst surveys have shown consumers are generally feeling better off now than a year ago, this nascent confidence has been slow to flow through to veterinary practices. Results from a survey carried out annually show that 37% of UK veterinary practices believe that "things are still the same", with 35% saying things had improved and 29% that they had got worse. (CM Research July 2014)

In contrast, according to the latest available data, the pet medicines market reportedly grew by 10.7% for the year ending December 2013 (National Office of Animal Health www.noah.co.uk).

The veterinary industry has seen further consolidation during the period under review on two fronts: veterinary practices and pharmaceutical manufacturers and suppliers.

Listed and private equity backed consolidators have continued to swell their estates with double digit percentage acquisition growth. These key accounts offer an opportunity for Animalcare to negotiate significant revenues and buy-in from the centre; though of course this comes at a cost. Buying groups have also grown during the period, however as this model matures this growth has been mainly in member numbers and inter-group switching rather than number of buying groups. The crowded space has prompted an increasing number of buying groups to seek to differentiate themselves through premium service offerings which gives Animalcare an opportunity to engage more.

There has been a 9% growth in the number of independent small animal practices in the UK over the last three years, with a 25% increase in the number of corporate and charity practices. The number of practices joining a buying group has grown by 74% over the same period (Veterinary Record, January 2014).

The European animal health (AH) sector has experienced unprecedented merger and acquisition activity during the past 12 months, most notably with the sale of Novartis AH to Elanco (Ely Lilly) for $5.4bn. Within the UK, one competitor, Alstoe AH, was purchased by the French company Sogeval, only for the latter to be purchased itself by Ceva Santé Animale (Fr). There are unlikely to be many product acquisition possibilities from this activity but the industry consolidation and distraction does give Animalcare other opportunities in the marketplace as a result.

Chief Executive's Review continued

Business Review

Licensed Veterinary Medicines

Our Licensed Veterinary Medicines product group grew by 9.5% to £7.9m and gross profit by 6.2% to £4.4m representing a strong result against the prior period and in line with the companion animal pharmaceutical market.

The proportion of total Group revenue from veterinary pharmaceuticals has grown again in the year, up almost 2%, to 61.2%. Sales of products from our development pipeline grew in the period and importantly the group of older, lower margin legacy medicines has experienced strong growth too.

The change in sales mix as a result of the strength of our lower gross margin older products has had a modest effect on the gross profit of the product group compared to the prior period. The consolidation in our customer base has also meant that margins are under some pressure from the increased buying power.

Our strategy of progress through new products has continued with three launches in the period.

The first, early in the period, was an extension to the range of Phenoleptil tablets, the epileptic treatment for dogs. The addition of 25mg and 100mg tablet strengths to the existing range launched previously and gives veterinary surgeons a range of options to fine tune the dosing of patients. As expected, Phenoleptil sales have been increasing slowly as patients must be transferred very carefully from other therapies.

> "In response to the number of opportunities available, we have developed a more structured approach for managing and monitoring progress in our development pipeline."

In January, Animalcare launched Thiafeline, a treatment for hyperthyroidism in cats, a chronic disease affecting an estimated 12% of the UK cat population. Thiafeline is the first generic to be launched in this therapy area in the UK. Sales are growing steadily and we believe there is good potential for the product as hyperthyroidism is under-diagnosed, which gives Animalcare the opportunity to penetrate the existing market and also grow the total market through education and technical support.

The third launch of the year was Marbocare tablets, the associated in-house development of Marbocare injection launched last period. Marbocare contains an antibiotic for the treatment of infections in dogs and cats. Restrictions on the use of antibiotics in production animals are having an impact on their use in companion animals too. Several other generic products were also launched in the year having an impact on the anticipated growth of Marbocare.

Companion Animal Identification

Cat Health Check

Our Companion Animal Identification group sales and marketing strategy has started to deliver results with revenue growth of 7.8% to £2.4m, and gross profit up by 6.0% to £1.7m, an even more pleasing result against the backdrop of uncertainty over new legislation and the Dogs Trust free microchipping campaign through veterinary practices.

Microchip sales grew by 8.2% whilst our database of pet owners, Anibase, has now grown to 4.0 million. The revenues derived from services sold to these owners also grew in line with microchip sales revenues, at 7.1%.

In February 2013, the English Parliament announced that it would be compulsory for all dogs in England to be implanted with a microchip and have up-to-date owner contact details on a database from April 2016 onwards. This was soon followed by the Welsh Assembly announcing the same legislation would be introduced in March 2015 for dogs in Wales. It is already compulsory in Northern Ireland and the Scottish Parliament is reviewing the situation.

At the same time as the English Parliament's announcement the Dogs Trust announced it would fund a million free microchips in a year-long campaign leading up to April 2016.

As a result of this activity the microchip market has seen some price pressure in the short-term.

The lack of clarity and disruption in the market around both announcements has now settled and we better understand how both will be implemented, however uncertainty remains as to what extent owners and veterinary practices will engage in either the legislation or free microchipping campaign respectively.

Animal Welfare Products

We further rationalised some of our lower margin, commoditised lines in the Animal Welfare Products group resulting in a fall in revenue of 3.6% to £2.6m but gross profit increasing by 0.5% to £1.1m. Approximately half of the revenue from this group is generated from our growing infusions accessories range which complements our intravenous fluids portfolio.

Operational Overview

As one of the three focus areas over the past twelve months, a lot of work has gone into building a strong foundation to underpin our investment phase over the next three to five years.

These infrastructure improvements outlined below have all been implemented in a planned and measured way, keeping control of our cost base whilst not restricting our growth.

People

Sales

Our sales team is a rare asset in the animal health sector and vital for our success. Our new Head of Sales, Samantha Williamson, joined us from a senior sales role in Novartis human health and has had an immediate impact on the shape and culture of the team. The UK sales team has been split into two geographic territories with stronger management support and coaching. In addition, Animalcare has embarked on a long-held plan and is introducing a telesales team. The breadth of products across all three product groups means we need to identify new channels to better address our market. The new structure has allowed our Head of Sales to invigorate our approach to key accounts, the corporate, charity and buying groups mentioned earlier. All three elements of our rejuvenated sales operations will take time to show full effect, however the early signs in all areas are promising.

Vitofyllin

Chief Executive's Review continued

Technical and Business Development

Karolyn Tapper, Director of Business Development, was appointed at the start of August 2013, allowing for a thorough hand over of projects and responsibilities from Stephen Wildridge, Animalcare's previous Director of Strategy and Business Development who left the Company in October 2013. Karolyn joined Animalcare from Catalent, the global pharmaceutical manufacturer, with a wealth of formulation, project management and development experience. At the same time, Torben Orskov was promoted to Director of Technical and Regulatory Affairs. Torben was a practising large and small animal veterinary surgeon for ten years before joining Animalcare in 2007. It became clear that the number of opportunities available to Animalcare meant more resource was required in our Technical and Business Development departments. In the second half of the period both departments were enlarged. These appointments have not only increased the capacity of both teams but this has in turn allowed both senior managers more time to drive our product development strategy.

Moreover, the addition of more veterinary qualified staff across technical, marketing and sales functions means our expertise and service to our customers will improve further still.

General

Animalcare recognises the dedication and calibre of its employees. The growth in the business has opened up internal promotions and career progression opportunities; hard earned expertise being retained, complemented by the freshness of a 'new' career.

Underpinning our growing business, our suite of personnel systems and policies has been brought up-to-date to further reinforce commitment to our valued team.

IT

We have carried out upgrades to our computing infrastructure during the period to both the core business and the microchip database, Anibase. Virtualised servers, which provide smooth and uninterrupted operation, have drastically reduced the risk of downtime.

In the second half of the period we started the roll out of a new sales Customer Relationship Management (CRM) software system. This is now implemented and beginning to add value to many areas of the business.

Inventories

During the period Animalcare increased its inventory levels of certain key products. The increase applied particularly to two product lines, microchips and Buprecare. In the case of the former, this was in readiness for an anticipated surge in demand following the announcement of planned compulsory microchipping by the English Parliament and Welsh Assembly. Now that we understand more of the dynamics of this legislation and the activities of the Dogs Trust we will manage stock levels accordingly. Buprecare ampoules were reintroduced into the market in January 2013 and we have built stock of this key product line to ensure continuity of supply.

We will continue to balance having sufficient stocks to meet demand and contingency to protect us from unexpected eventualities in our supply chain, whilst at the same time, keeping our working capital at an acceptable level. The nature of a highly regulated industry with prescribed batch sizes, and prohibitively expensive regulatory costs to maintain a second supplier, means that this process has to be managed carefully.

Vetasept in use

Future Developments

Vet Examines Dog

Animalcare will be launching two new veterinary medicines in the second half of the new financial year on distribution from one of our key European partners. These complement existing products within the range very well. A third distribution product may be launched towards the end of the second half of the current financial year dependent on exact timing of regulatory packaging approvals.

Development of new non-pharmaceutical products and services is still commercially attractive where this can build on our core strengths and improve profitability; where this is not possible we will continue to review and potentially remove more products from our Animal Welfare Products range.

Outlook

In the short-term there is still great potential in our existing product range and imminent launches to keep our momentum and grow further. Moreover, there is capacity for Animalcare to grow sales through building better relationships with the key account market.

The strength of our business will continue to generate the necessary cash to meet our development and dividend targets, particularly through our investment phase.

I am confident that we can keep our pipeline well stocked with new product candidates into the medium-term.

I have outlined above the dynamics in the European animal health space, leading to a more crowded medicines market and pressure on margins from veterinary channel consolidation. Our strategy to complement (un)differentiated generic medicine launches with enhanced generic product development will enable us to grow market share and protect margin.

Additions we have made to our team and improved structure to our development process will ensure we are on course to meet our objectives.

Iain Menneer
Chief Executive Officer

Financial Review

Chris Brewster Chief Financial Officer

The Group delivered another solid performance during the financial year to 30th June 2014. Underlying operating profit, our measure of trading performance excluding exceptional costs, grew by 4.4% to £2.8m. This reflects our continued strong revenue growth together with increased investment in our business to provide a solid platform for future growth.

We continue to operate a strong, debt-free, balance sheet. This not only provides us with the ability to invest significantly in new product development opportunities to drive long-term growth, but also maintenance of the dividend during our planned investment cycle.

Revenue and gross profit

Group revenues increased by 6.3%, broadly comparable to the 5.9% delivered in the first half of the financial year. Our Licensed Veterinary Medicines product group continues to be the main driver for growth, with sales up 9.5% on prior year to £7.9m, 8.5% of which is like-for-like growth.

Our Companion Animal Identification grouping has returned to growth, delivering an overall increase in sales of 7.8% to £2.4m. This growth rate was approximately evenly spread across both microchips and database services.

“Building on the strong, solid foundations laid down during the year, we will continue to invest in the long-term growth and development of the business”.

As stated in the Chief Executive’s Review, we took action to rationalise some of the older, uncompetitive and less profitable products from the Animal Welfare Products group. This planned rationalisation led to a reduction in revenues of 3.6% to £2.6m however with gross margins improving, overall gross profitability has been maintained.

Gross profit increased by 5.2% to £7.1m. Our gross margins fell modestly to 55.4% (2013: 56.0%) reflecting the higher proportion of export sales, which are generally at lower margin, together with the continued competitive market conditions.

Operating results

	2014	2013	% change
Underlying* EBITDA	**3,162**	2,916	8.4%
Depreciation & amortisation	**(360)**	(232)	
Underlying* operating profit	**2,802**	2,684	4.4%
Profit before tax	**2,672**	2,330	14.7%

Underlying* operating profit increased by 4.4% to £2.8m which was achieved by increasing gross profits whilst maintaining overheads (excluding research and development expenses) at around 32% of revenue. This was in part achieved through a thorough review of selected operational overheads which generated an average of 5% to 10% savings on an annualised basis.

As noted in the Chairman’s Statement, the business took a decision during the last financial year, in light of our continued solid trading performance, to invest in the infrastructure and senior management team to position ourselves for future growth. This investment included the relocation to our new premises during March 2013 together with the increase and strengthening of our employee base, in particular, our senior management, sales and product development teams.

Research and development costs, which incorporate a share of the enhanced product development team, are separately analysed in the income statement for the first time in preparation for the expected significant increase from FY15.

Non-underlying items of £0.2m are £0.2m lower than prior year, principally reflecting the one-off costs incurred during 2013 in respect of executive Board changes and head office relocation costs. Further details are provided in note 4.

Reflecting all of the above, Group profit before tax was up 14.7% to £2.7m.

Cash flow

Cash flows generated by operations were £1.6m (2013: £3.1m). During the year, the Group increased its stock levels by £1.0m to ensure we have the inventory depth to improve surety of supply of key products and in addition, to support certain strategic projects.

The increase in our stock levels was planned; similarly we expect to see a reduction of circa £0.3m during the next financial year as the run up to compulsory microchipping concludes.

Net income taxes paid increased by £0.3m to £0.6m, the movement primarily reflecting the lower cash benefit in relation to prior year research and development tax credits. We continue to take full advantage of the UK's R&D tax relief where appropriate.

Following the relocation of our offices in March 2013, total capital expenditure reduced by £0.3m to £0.2m. The 2014 expenditure primarily related to product development which remained broadly in line with prior year. Whilst our spend was lower than anticipated, the positive impact of the enhanced focus on our product pipeline is clear.

Group cash balances at 30th June 2014 were £3.8m (2013: £3.7m).

Earnings per share ("EPS")

Basic underlying* EPS improved by 2.9% to 10.8 pence (2013: 10.5 pence). Basic earnings per share rose more significantly by 13.2% to 10.3 pence (2013: 9.1 pence) reflecting the lower cost of exceptional items incurred during 2014.

Dividend

As stated during our interim reporting at 31st December 2013, the Board intends to maintain the dividend flow during the investment cycle. This reflects the continuing strength of our balance sheet and cash position. The Board will monitor the Group's cash balances, paying particular regard to future investment opportunities.

As a result, the Board is proposing a final dividend in respect of the year of 4.0 pence per share, giving a total dividend of 5.5 pence per share for 2014 (2013: 5.3 pence per share). This final dividend is subject to shareholder approval at the Annual General Meeting on 18th November 2014 and will be paid on 28th November 2014 to shareholders on the register at the close of business on 24th October 2014. The ordinary shares will become ex-dividend on 23rd October 2014. The total dividend is covered 2.0 times underlying* earnings (2013 - 2.0 times)

Summary and outlook

Current trading during the first three periods of the year is in line with management expectations.

Building on the strong, solid foundations laid down during the year, we will continue to invest in the long-term growth and development of the business. In the shorter term, this will lead to higher research and development costs, which will impact both our cost base as well as capital expenditure. Nonetheless, short-term revenue growth is important to the business, and we expect to benefit from the sales and marketing investments made in the second half of 2014.

Chris Brewster
Chief Financial Officer

* Underlying measures are before the effect of exceptional costs and other items. These are disclosed in note 4 to the financial statements.

Board of Directors

James Lambert OBE
Non-Executive Chairman

Length of service
6 years; appointed to the Board in 2008

Committee membership
Nomination Committee

Key skills and experience
James was appointed Chairman of Animalcare in 2008 when Animalcare was acquired by Ritchey plc for whom he was chairman since 2005 and non-executive director since 2003. Under James' leadership, R&R Ice Cream made a series of acquisitions to become the largest ice cream manufacturer by volume in the UK. James is now chairman of Burton's Biscuits, a company he helped Ontario Teachers' Pension Plan acquire in 2013. He was also awarded the EY UK Entrepreneur of the Year award in 2014.

Lord Downshire
Non-Executive Director

Length of service
6 years; appointed to the Board in 2008

Committee membership
Audit Committee and Remuneration Committee

Key skills and experience
Nick joined the Board of Animalcare when it was acquired by Ritchey plc for whom he acted as a director since 1998. Nick is a qualified chartered accountant who has worked in corporate finance and venture capital, plus holding non-executive directorships in a diverse range of businesses in the insurance, agricultural, hospitality, education and technology sectors. He runs an estate in Yorkshire with a range of activities including quarrying, renewables, forestry and a hotel as well as agriculture and property. He is also Chairman of the CLA for Yorkshire and sits on their national policy committee, as well as acting as a Trustee for a number of charitable and land related trusts.

Ray Harding
Non-Executive Director

Length of service
3 years; appointed to the Board in 2011

Committee membership
Chair of the Nomination Committee and Remuneration Committee

Key skills and experience
Ray has worked in the veterinary pharmaceutical industry since 1979 in many technical and product related roles for several international 'blue chip' companies. He established Cyton Biosciences Ltd in 1997 to provide specialist services in new product development and registration for bioscience industries in Europe. Ray left Cyton in 2012 and is now an independent consultant.

Being a qualified veterinary surgeon Ray brings unique technical expertise to the Board. He has extensive experience in the development of veterinary medicines and in the European regulatory environment. His knowledge encompasses the complete range of veterinary medicines and the market in which they compete in Europe.

Iain Menneer
Chief Executive Officer

Length of service
11 years; appointed to the Board in 2011

Committee membership
Secretary of the Nomination Committee and Remuneration Committee and by invitation

Key skills and experience
Iain joined Animalcare Ltd in 2003, working in sales, marketing and business development roles, including an instrumental role in the new product development pipeline. Iain was promoted to the Board as Director of Marketing in July 2011. Iain was appointed Managing Director of Animalcare Limited in March 2012 and subsequently Chief Executive Officer in January 2013.

Chris Brewster
Chief Financial Officer and Company Secretary

Length of service
2 years; appointed to the Board in 2012

Committee membership
By invitation

Key skills and experience
Chris has been Chief Financial Officer since June 2012. He qualified as a chartered accountant in 2003 and spent ten years at KPMG, working across a number of functions including Audit, Transaction Services and Corporate Finance, gaining a broad range of experience across a diversified portfolio of clients. Prior to joining Animalcare, Chris was Group Accounting Manager at Findus Group where he was responsible for the UK and European financial accounting, taxation and reporting requirements.

Directors' Report

The Directors present their Annual Report on the affairs of the Group together with the financial statements and auditor's report for the year ended 30th June 2014.

Principal Activities

The principal activity of the Group during the year was the sales and distribution of licensed veterinary medicines and companion animal identification products and services to companion animal veterinary markets.

Business Review and Future Developments

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

Research and Development

Our new product development programme is key to the future long-term growth and success of the Group and we are committed to the development of new and innovative products to meet the needs of our customers. Further information in relation to product development can be found in the Our Business and Strategy section of this report. During the year to 30th June 2014 the Group incurred research and development expenses of £260,000 (2013: £207,000) and a further £156,000 (2013: £102,000) was capitalised as development costs.

Dividends

Subject to shareholder approval at the Annual General Meeting on 18th November 2014, the Board proposes paying a final dividend of 4.0 pence per share on 28th November 2014 to shareholders on the register on 24th October 2014. This will make a total dividend of 5.5 pence per share for 2014.

Capital Structure

The Company's issued share capital as at 30th June 2014 was 20,960,204 ordinary shares of 20 pence each, each credited as fully paid.

Directors

The following Directors held office during the year ended 30th June 2014 and subsequently:

C J Brewster

Lord Downshire

R B Harding

J S Lambert

I D Menneer

S M Wildridge (resigned 31st October 2013)

Details of Directors' share options and long-term incentive plans are provided in note 7 to the financial statements.

The Company maintains Directors' and Officers' liability insurance for the benefit of its Directors, which was in place throughout the year ended 30th June 2014 and remains in place at the date of this report.

Principal Risks and Uncertainties

Risk	Description and Mitigation	Trend
Failure of new product development projects	In line with the Group's strategy, we plan to commit a significant amount of resources to expand our portfolio of licensed veterinary medicines, the success of which would be comprised by a number of factors. Firstly, delay or failure to achieve the required regulatory standards could have a material impact on the Group's results, both for future revenues as well as, in the result of regulatory failure, accelerated write off of capitalised development costs. Also the commercial success of these products following their launch may not meet expectations. Following careful selection of development strategy, each new product development project undergoes rigorous review by the cross-discipline senior management team with final sign off by the Board. The pipeline is reviewed regularly, with corresponding updates provided to the Board, to ensure each project is progressing according to plan. External consultants, where deemed necessary, are employed to aid effective management of the development and regulatory process. The overall risk of any one project failing is reduced by having numerous projects in the pipeline at various stages of development.	↑
Reliance on a small number of key customers	Due to the supply chain model, the Group derives a substantial proportion of its revenue from three main UK wholesalers that serve the circa 4,000 veterinary practices within the UK. Sales to these wholesalers represent 82% of total revenues. In the event that these relationships are lost the effect on the Group's revenue could be significant. However, such effect is likely to be temporary as the supply chain would rapidly adjust to take up the slack brought about by any significant failure of one wholesaler. Equally, as our business develops its scope into new geographical markets the customer base will grow.	→
Continuity of supply	The Group purchases goods for resale under contract manufacturer supply and distribution agreements. Any disruption to the relationship with our key supply partners or interruption to the supply chain could result in significant loss of Group revenue. Generally, it is not in the commercial interests of the Group to implement dual sourcing for finished product. Supply chain risk mitigation strategies include close monitoring of supplier performance, dual sourcing of raw material and, due to our increased warehouse capacity, the maintenance of contingency stocks where appropriate.	↑
Loss of key personnel	The Group has a small Executive and senior management team whose skills, knowledge, experience and performance make a large contribution to the success of the Group. Succession planning is given consideration by the Board and remuneration policies are designed to attract, retain and reward key employees with ability and experience to execute the Group's strategy. We have recently implemented a new Long Term Incentive Plan to ensure that (i) key members are appropriately compensated for their contributions (ii) their interests are closely aligned to delivering shareholder value and (iii) they are incentivised to continue their careers with the Group.	→

Directors' Report continued

Creditor Payment Policy

We endeavour to maintain strong trading relationships with our suppliers. Terms of payment are agreed with suppliers in advance and it is the Group's policy to settle its liabilities in accordance with these terms. The number of days purchases included in trade creditors at 30th June 2014 was 54 days (2013: 61 days).

Corporate Governance

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

Formally constituted audit, remuneration and nominations committees, with membership comprising two of the Group's three Non-Executive Directors, were established on the Group's admission to AIM and are active in the conduct of internal financial control, Executive performance and remuneration and Board appointments respectively.

Charitable and Political Donations

During the year the Group made charitable donations of £100 (2013: £50). No political donations were made during the year (2013: £nil).

Employees

The Board recognises that the Group's performance and success are directly related to our ability to attract, retain and motivate high calibre employees. We are committed to linking reward to business and individual performance, thereby giving employees the opportunity to share in the financial success of the Group. Employees are typically provided with financial incentives related to the performance of the Group in the form of annual bonuses. The Board also recognises employees for their contribution through the use of employee incentive plans and share plans within overall remuneration.

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.

Prednicare Tablets

Substantial Shareholdings

In accordance with the Disclosure Rules and Transparency Rules, the Company has been notified of the following interests exceeding the 3% notification threshold as at 30th September 2014, a date not more than one month before the date of the notice of the Annual General Meeting:

Name of holder	No. of ordinary shares	% holding
Investec Wealth Management Limited *including the beneficial shareholding of S F Riddell of 905,600 shares (4.3%)**	2,323,587	11.1%
Liontrust Asset Management	2,059,251	9.8%
Octopus Investments	1,423,984	6.8%
Lord Downshire**	1,420,029	6.8%
Mr J S Lambert	1,413,691	6.7%
Unicorn Asset Management	1,250,500	6.0%
Lazard Freres Gestion	1,150,000	5.5%
Hargreave Hale	1,074,542	5.1%

* S F Riddell's shareholding includes a non-beneficial interest in 560,600 ordinary shares

** Lord Downshire's interest includes a non-beneficial interest in 310,446 ordinary shares

Going Concern

The principal risks and uncertainties facing the Group are set out above.

For the purposes of their assessment of the appropriateness of the preparation of the Group's accounts on a going concern basis, the Directors have considered the current cash position and forecasts of future trading including working capital and investment requirements.

During the year the Group met its day-to-day general corporate and working capital requirements through existing cash resources. At 30th June 2014 the Group had cash on hand of £3.8m (30th June 2013: £3.7m).

Overall, the Directors believe the Group is well placed to manage its business risks successfully and continue to be profitable and cash generative. The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should have sufficient cash resources to meet its requirements for at least the next 12 months. Accordingly, the adoption of the going concern basis in preparing the financial statements remains appropriate.

Auditor

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 auditor is unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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

A resolution to re-appoint KPMG LLP as auditors and to authorise the Directors to determine their remuneration will be put to the members at the forthcoming Annual General Meeting.

Animalcare Group plc

By order of the Board,

Chris Brewster
Company Secretary
14th October 2014


Janine Hutchison
Head Veterinary Nurse

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements for the year ended 30th June 2014

Vetasept Range

The Directors are responsible for preparing the Strategic Report, the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Independent Auditor's Report to the Members of Animalcare Group plc

We have audited the financial statements of Animalcare Group plc for the year ended 30th June 2014 set out on pages 25 to 53. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 auditor

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30th June 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006 and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Chris Hearld (Senior Statutory Auditor)
For and on behalf of
KPMG LLP
Statutory Auditor
Chartered Accountants
1 The Embankment
Leeds
LS1 4DW
14th October 2014

Consolidated Statement of Comprehensive Income

Year ended 30th June 2014

	Note	Underlying results before exceptional and other items 2014 £'000	Exceptional and other items(i) 2014 £'000	Total 2014 £'000	Underlying results before exceptional and other items 2013 £'000	Exceptional and other items(i) 2013 £'000	Total 2013 £'000
Revenue	5	**12,881**	**—**	**12,881**	12,118	—	12,118
Cost of sales		**(5,739)**	**—**	**(5,739)**	(5,337)	—	(5,337)
Gross profit		**7,142**	**—**	**7,142**	6,781	—	6,781
Distribution costs		**(257)**	**—**	**(257)**	(271)	—	(271)
Administrative expenses		**(3,823)**	**(119)**	**(3,942)**	(3,619)	(392)	(4,011)
Research & development expenses		**(260)**	**—**	**(260)**	(207)	—	(207)
Operating profit/(loss)	4, 6	**2,802**	**(119)**	**2,683**	2,684	(392)	2,292
Finance income		**27**	**—**	**27**	27	11	38
Finance expense	9	**—**	**(38)**	**(38)**	—	—	—
Profit/(loss) before tax	4, 6	**2,829**	**(157)**	**2,672**	2,711	(381)	2,330
Income tax (expense)/credit	10	**(570)**	**35**	**(535)**	(535)	90	(445)
Total comprehensive income/ (loss) for the year		**2,259**	**(122)**	**2,137**	2,176	(291)	1,885
Earnings per share							
Basic	12	**10.8p**		**10.3p**	10.5p		9.1p
Fully diluted	12	**10.8p**		**10.2p**	10.4p		9.0p

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

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

Statements of Changes in Shareholders' Equity

Year ended 30th June 2014

Group	Note	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Total £'000
Balance at 1st July 2012		4,144	6,173	6,520	16,837
Total comprehensive profit for the year		—	—	1,885	1,885
Transactions with owners of the Company, recognised in equity:					
Dividends paid	11	—	—	(932)	(932)
Issue of share capital	23	5	19	—	24
Share-based payments		—	—	148	148
Balance at 1st July 2013		4,149	6,192	7,621	17,962
Total comprehensive profit for the year		—	—	2,137	2,137
Transactions with owners of the Company, recognised in equity:					
Dividends paid	11	—	—	(1,103)	(1,103)
Issue of share capital	23	43	199	—	242
Share-based payments		—	—	215	215
Balance at 30th June 2014		**4,192**	**6,391**	**8,870**	**19,453**

Company	Note	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Total £'000
Balance at 1st July 2012		4,144	6,173	3,712	14,029
Total comprehensive loss for the year		—	—	(471)	(471)
Transactions with owners of the Company, recognised in equity:					
Dividends paid	11	—	—	(932)	(932)
Issue of share capital	23	5	19	—	24
Share-based payments		—	—	90	90
Balance at 1st July 2013		4,149	6,192	2,399	12,740
Total comprehensive profit for the year		—	—	2,166	2,166
Transactions with owners of the Company, recognised in equity:					
Dividends paid	11	—	—	(1,103)	(1,103)
Issue of share capital	23	43	199	—	242
Share-based payments		—	—	86	86
Balance at 30th June 2014		**4,192**	**6,391**	**3,548**	**14,131**

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

Balance Sheets

30th June 2014

	Note	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Non-current assets					
Goodwill	13	**12,711**	12,711	**—**	—
Other intangible assets	14	**1,327**	1,538	**—**	—
Property, plant and equipment	15	**372**	412	**—**	—
Investments in subsidiary companies	16	**—**	—	**14,361**	14,361
Deferred tax asset	22	**—**	—	**39**	32
		14,410	14,661	**14,400**	14,393
Current assets					
Inventories	17	**2,420**	1,418	**—**	—
Trade and other receivables	18	**1,883**	1,662	**144**	578
Cash and cash equivalents	19	**3,812**	3,745	**1,315**	1,791
		8,115	6,825	**1,459**	2,369
Total assets		**22,525**	21,486	**15,859**	16,762
Current liabilities					
Trade and other payables	19	**(1,606)**	(1,982)	**(1,728)**	(4,022)
Current tax liabilities		**(385)**	(362)	**—**	—
Deferred income	21	**(242)**	(231)	**—**	—
Current liabilities		**(2,233)**	(2,575)	**(1,728)**	(4,022)
Net current assets/(liabilities)		**5,882**	4,250	**(269)**	(1,653)
Non-current liabilities					
Deferred income	21	**(730)**	(790)	**—**	—
Deferred tax liabilities	22	**(109)**	(159)	**—**	—
		(839)	(949)	**—**	—
Total liabilities		**(3,072)**	(3,524)	**(1,728)**	(4,022)
Net assets		**19,453**	17,962	**14,131**	12,740
Capital and reserves					
Called up share capital	23	**4,192**	4,149	**4,192**	4,149
Share premium account		**6,391**	6,192	**6,391**	6,192
Retained earnings		**8,870**	7,621	**3,548**	2,399
Equity attributable to equity holders of the parent		**19,453**	17,962	**14,131**	12,740

The financial statements of Animalcare Group plc, registered number 1058015, were approved by the Board of Directors and authorised for issue on 14th October 2014.

They were signed on its behalf by:

Chris Brewster
Chief Financial Officer

Our Business

Our Performance

Our Governance

Our Financials

Cash Flow Statements

Year ended 30th June 2014

		Group		Company	
	Note	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000
Comprehensive income/(loss) for the year before tax	10	**2,672**	2,330	**(519)**	(596)
Adjustments for:					
Depreciation of property, plant and equipment	15	**69**	32	**—**	—
Amortisation of intangible assets	14	**410**	319	**—**	—
Finance income	9	**(27)**	(27)	**(20)**	(25)
Share-based payment expense	25	**152**	149	**86**	90
Release of deferred income	21	**(49)**	(30)	**—**	—
Loss on disposal of property, plant and equipment		**—**	21	—	—
Operating cash flows before movements in working capital		**3,227**	2,794	**(453)**	(531)
(Increase)/decrease in inventories	17	**(1,002)**	2	**—**	—
(Increase)/decrease in receivables	18	**(221)**	(365)	**7**	413
Decrease/(increase) in payables	19	**(376)**	665	**(2,294)**	1,056
Cash generated by operations		**1,628**	3,096	**(2,740)**	938
Income taxes (paid)/received		**(561)**	(265)	**552**	—
Net cash flow from operating activities		**1,067**	2,831	**(2,188)**	938
Investing activities:					
Payments to acquire intangible assets	14	**(199)**	(129)	**—**	—
Payments to acquire property, plant and equipment	15	**(32)**	(379)	**—**	—
Receipts from sale of property, plant and equipment		**2**	—	**—**	—
Dividends received		**—**	—	**2,553**	—
Interest received		**27**	25	**20**	23
Net cash (used in)/generated by investing activities		**(202)**	(483)	**2,573**	23
Financing:					
Receipts from issue of share capital		**305**	24	**242**	24
Equity dividends paid	11	**(1,103)**	(932)	**(1,103)**	(932)
Net cash used in financing activities		**(798)**	(908)	**(861)**	(908)
Net increase in cash and cash equivalents		**67**	1,440	**(476)**	53
Cash and cash equivalents at start of year		**3,745**	2,305	**1,791**	1,738
Cash and cash equivalents at end of year		**3,812**	3,745	**1,315**	1,791
Comprising:					
Cash and cash equivalents	18	**3,812**	3,745	**1,315**	1,791

Notes to the Accounts

Year ended 30th June 2014

1. General Information

Animalcare Group plc ("the Company") is a company incorporated in England and Wales under the Companies Act 2006 and is domiciled in the United Kingdom. The Group comprises Animalcare Group plc and its subsidiaries. The nature of the Group's operations and its principal activities are set out in note 5 and within the Directors' Report.

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

International Financial Reporting Standards	Applies to periods beginning after
IFRS 10 Consolidated Financial Statements	January 2014
IFRS 12 Disclosure of Interests in Other Entities	January 2014
IFRS 13 Fair value measurement	January 2014
IAS 27(Revised) Separate Financial Statements	January 2014

2. Significant Accounting Policies

Basis of preparation

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

Going concern

An analysis of the factors likely to impact on the Group's future business activities, performance and strategy are set out in the Chief Executive's Review and Financial Review. The principal risks and uncertainties facing the Group are set out in the Directors' Report.

For the purposes of their assessment of the appropriateness of the preparation of the Group's accounts on a going concern basis, the Directors have considered the current cash position and forecasts of future trading including working capital and investment requirements.

During the year the Group met its day-to-day general corporate and working capital requirements through existing cash resources. At 30th June 2014 the Group had cash on hand of £3.8m (30th June 2013 — £3.7m).

Overall, the Directors believe the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should have sufficient cash resources to meet its requirements for at least the next 12 months. Accordingly, the adoption of the going concern basis in preparing the financial statements remains appropriate.

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 30th June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

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

Notes to the Accounts continued

Exceptional and other items

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

Other items relate to the amortisation of acquired intangible assets and fair value movements on foreign exchange hedging.

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

Goodwill

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

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

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

Intangible assets

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. Intangible assets arise both as a result of applying IFRS 3 which requires the separate recognition of intangible assets from goodwill on all business combinations from 1st 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	Estimated useful life, typically 2-4 years
New product development costs	Estimated economic life, normally 4–7 years

Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the year in which it is incurred.

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

- an asset is created that can be identified (such as a new pharmaceutical product);
- 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 estimated economic 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.

Revenue recognition

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

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

Income received in relation to long-term service contracts is deferred and subsequently recognised over the life of the relevant contracts. Further details are contained in note 21.

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

Leasing

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

The Group as lessee

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

Retirement benefit costs

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

Foreign currencies

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 comprehensive income for the year.

Segment reporting

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

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 first-in, first-out principle. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Notes to the Accounts continued

Dividends

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

Share-based payments

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

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

The fair value of the shares issued under the new Long Term Incentive Plan were valued on a discounted cash flow basis in conjunction with a third party valuation specialist.

Taxation

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

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

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

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

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

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

Property, plant and equipment

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

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

Straight-line

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

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

Provisions

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Notes to the Accounts continued

Financial instruments

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

Trade receivables

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

Investments

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

Cash and cash equivalents

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

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.

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 new product development expenditure

It is the Group's policy, where the relevant criteria of IAS 38 "Intangible Assets" are met, to capitalise new product development expenditure and to amortise this expenditure over the estimated economic life of the asset (product). Judgement is required when assessing the technical and commercial feasibility of new product development projects including whether regulatory approval will ultimately be achieved.

Capitalised software expenditure

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

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

Key sources of estimation uncertainty

Impairment of non-current assets

Determining whether a non-current asset is impaired requires an estimation of the "value in use" and/or the "fair value less costs to sell" of the cash-generating units ("CGUs") to which the non-current asset has been allocated. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The key assumptions for these value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU. In the current year the Directors estimated the applicable rate to be 10.2% (2013 : 11.9%). The Directors' sensitivity analysis indicates significant headroom to the carrying value of the CGU when taking into account a reasonably possible change in any one of the key assumptions used in the value in use calculations.

The Group prepares cash flow forecasts derived from the most recent financial budgets and projections approved by management for the next five years, thereafter assuming an estimated growth rate of 2% (2013: 1.3%). The growth rates for the five year period are based on current performance of the existing product portfolio and the estimated contribution from the Group's new product development pipeline. The Directors believe that the long-term growth rate does not exceed the average long-term growth rate for the UK economy.

Impairment of slow-moving and obsolete inventory

The Group performs regular stockholding reviews, in conjunction with sales and market information, to help determine any slow-moving or obsolete lines. Where identified, adequate provision is made in the financial statements for writing down or writing off the value of such lines in order to reflect the realisable value of its stock.

4. Exceptional and Other Items

	Note	**2014 £'000**	2013 £'000
Executive and management severance payments		**—**	152
Amortisation of acquired intangible assets	14	**119**	119
Head office relocation		**—**	121
Fair value movements on foreign currency hedging	9	**38**	(11)
Total exceptional and other items		**157**	381

During the previous financial year, Stephen Wildridge stepped down from the position as Group CEO and remained in the Group until 31st October 2013 as Director of Strategy and Business Development. The total compensation package agreed on 11th January 2013 in relation to Stephen stepping down as CEO of £71,000 was paid on 31st October 2013. In addition, an accelerated share based payments charge of £39,000 was recognised to reflect Stephen's ability to exercise early any outstanding share options at 31st October 2013. These options, where Stephen chose to do so, were exercised during FY14. The balance of £42,000 related to other management severance payments.

During March 2013, the Group relocated to its new premises. Associated relocation costs principally comprised the costs of the new premises whilst unoccupied together with an estimate of the one-off regulatory costs associated with changing the address on our pharmaceutical licences. The latter has been fully settled during FY14.

The amortisation charge totalling £119,000 (2013: £119,000) relates to brand and customer relationship intangible assets recognised on the acquisition of Animalcare Ltd in January 2008.

Notes to the Accounts continued

5. Revenue and 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 Chief Operating Decision Maker to allocate resources and assess performance. The Chief Operating Decision Maker is considered to be the Chief Executive Officer of Animalcare Group plc. Performance assessment is based on underlying operating profit.

The Group solely comprises one reportable segment, being Companion Animal.

	Note	**Companion Animal 2014 £'000**	Companion Animal 2013 £'000
Revenue		**12,881**	12,118
Gross Profit		**7,142**	6,781
Underlying Operating Profit		**2,802**	2,684
Other Items	4	**(119)**	(119)
Exceptional items	4	**—**	(273)
Operating Profit		**2,683**	2,292
Finance income	9	**27**	38
Finance expense	9	**(38)**	—
Profit before tax		**2,672**	2,330

	Note	**Companion Animal 2014 £'000**	Companion Animal 2013 £'000
Products and Services			
Licensed veterinary		**7,883**	7,200
Animal identification		**2,418**	2,244
Animal welfare		**2,580**	2,674
		12,881	12,118
Other information			
Intangible asset additions	14	**199**	129
Property, plant and equipment additions	15	**32**	379
Depreciation and amortisation	14,15	**479**	351
Consolidated assets		**22,525**	21,486
Consolidated liabilities		**(3,072)**	(3,524)
Consolidated net assets		**19,453**	17,962

	2014 £'000	2013 £'000
Key customers		
Number	**3**	3
Percentage of total revenue	**82%**	80%

Key customers, all within the Companion Animal segment, are those responsible for 10% or more of segmental revenue.

	2014 £'000	2013 £'000
Geographical market		
United Kingdom	**11,557**	11,061
Europe and Rest of World	**1,324**	1,057
	12,881	12,118

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

An analysis of total Group revenue is as follows:

	2014 £'000	2013 £'000
Revenue from sale of goods	**11,951**	11,250
Revenue from provision of services	**930**	868
	12,881	12,118
Finance income	**27**	27
	12,908	12,145

6. Total Comprehensive Income for the Year

	2014 £'000	2013 £'000
Total comprehensive income for the year has been arrived at after charging:		
Cost of inventories recognised as expense	**5,639**	5,218
Depreciation of tangible assets	**69**	32
Amortisation of intangible assets	**410**	319
Research and development	**260**	207
Operating lease rentals	**187**	211
Foreign exchange losses	**21**	24
Increase in provision for receivables	**9**	6
Increase in provision for inventories	**34**	18

The above items are those charged to total comprehensive income only. Full details on items charged/(credited) to exceptional and other items are contained in note 4.

The analysis of remuneration paid to the Company’s auditor is as follows:

	2014 £'000	2013 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**12**	13
Fees payable to the Company's auditor for other services to the Group	**—**	—
The audit of the Company's subsidiaries pursuant to legislation	**20**	17
Total audit fees	**32**	30
Tax services	**16**	11
Other services	**44**	3
Total non-audit fees	**60**	14
Total auditors' remuneration	**93**	44

Notes to the Accounts continued

7. Directors' Remuneration and Interests

Emoluments

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

Year ended 30th June 2014	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J S Lambert*	**33**	**—**	**—**	**—**	**—**	**33**
Lord Downshire*	**22**	**—**	**—**	**2**	**—**	**24**
R B Harding*	**22**	**—**	**—**	**—**	**—**	**22**
S M Wildridge (resigned 31st October 2013)	**30**	**34**	**—**	**—**	**66**	**130**
Dr I D Menneer	**135**	**23**	**16**	**7**	**—**	**181**
C J Brewster	**102**	**16**	**11**	**1**	**—**	**130**
Total	**344**	**73**	**27**	**10**	**66**	**520**

Year ended 30th June 2013						
J S Lambert*	33	—	—	—	—	33
Lord Downshire*	22	—	—	2	—	24
R B Harding*	22	—	—	—	—	22
S M Wildridge	128	—	—	—	—	128
Dr I D Menneer	100	—	12	6	—	118
C J Brewster	92	8	11	1	—	112
Total	397	8	23	9	—	437

* Indicates Non-Executive Directors.

All Company pension contributions relate to defined contribution pension schemes. Benefits consist of company car and private medical insurance. The compensation for loss of office in relation to S M Wildridge was settled on 31st October 2013.

Share options

The Directors had the following beneficial options:

S M Wildridge

Scheme	Unapproved	EMI	Unapproved	EMI	Total
Exercise Price	£0.975	£1.675	£1.675	£1.30	
Date of Grant	9th July 2009	14th October 2011	14th October 2011	2nd August 2012	
Outstanding at 30th June 2013	100,000	71,600	28,400	100,000	300,000
Exercised during the year	(100,000)	—	—	(100,000)	(200,000)
Lapsed during the year	—	(71,600)	(28,400)	—	(100,000)
Outstanding at 30th June 2014	**—**	**—**	**—**	**—**	**—**

I D Menneer

Scheme	EMI	SAYE	EMI	EMI	EMI	Unapproved	SAYE	Unapproved	Total
Exercise Price	£0.975	£1.34	£1.675	£1.30	£1.325	£1.40	£1.03	£1.415	
Date of Grant	28th August 2009	4th October 2011	14th October 2011	2nd August 2012	20th November 2012	21st February 2013	22nd May 2013	20th June 2013	
Outstanding at 30th June 2013	5,000	3,358	60,000	60,000	50,000	90,000	4,377	90,000	362,735
Exercised during the year	(5,000)	—	—	—	—	—	—	—	(5,000)
Outstanding at 30th June 2014	**—**	**3,358**	**60,000**	**60,000**	**50,000**	**90,000**	**4,377**	**90,000**	**357,735**

C J Brewster

Scheme	EMI	EMI	SAYE	EMI	Total
Exercise Price	£1.30	£1.30	£1.03	£1.415	
Date of Grant	22nd June 2012	2nd August 2012	22nd May 2013	20th June 2013	
Outstanding at 30th June 2013 and 30th June 2014	**30,000**	**30,000**	**8,754**	**40,000**	**108,754**

The Directors' interests in the shares of the Company as at 30th June are set out below:

	2014	2013
	Ordinary shares of 20p	Ordinary shares of 20p
J S Lambert	**1,413,691**	1,413,691
Lord Downshire	**1,109,583**	1,109,583
I D Menneer	**14,381**	9,381
C J Brewster	**4,079**	4,079

In addition to the above, Lord Downshire had a non-beneficial interest in 310,446 shares.

S M Wildridge, who resigned as Director on 31st October 2013, had interests in 287,068 shares of the Company at 30th June 2014 (2013 - 177,068 shares).

New Long Term Incentive Plan

As part of the Animalcare board's consideration of its overall growth strategy, its Remuneration Committee has been reviewing the most effective means of providing a mechanism for senior executives to participate in the Company's equity at a meaningful level.

In this regard, on 20th June 2014, the Board approved the Company's new senior executive Long Term Incentive Plan (the "Plan"). On 27th June 2014, Iain Menneer, Chief Executive Officer, and Chris Brewster, Chief Financial Officer, subscribed for growth shares in the capital of Animalcare Ltd, a subsidiary of the Company, under the Plan as follows:

- Iain Menneer – 31,955 A Ordinary Shares of £1.00 each ("A Shares") for a total cash subscription of £31,955, representing 5.2% of Animalcare Ltd's issued share capital; and
- Chris Brewster – 19,173 A Shares, representing 3% of Animalcare Ltd's issued share capital and 11,800 B Ordinary Shares of £1.00 each ("B Shares"), representing a further 2% of Animalcare Ltd's issued share capital, for a total cash subscription of £30,973.

Notes to the Accounts continued

Dr Menneer and Mr Brewster have the right to sell their A Shares to the Company at any time after 27th June 2017 in exchange for Ordinary Shares of 20 pence each in the Company ("Ordinary Shares"). The rights of Dr Menneer and Mr Brewster to sell their A Shares are subject to, amongst other provisions, the Company having a market capitalisation in excess of £39.0m ("the Hurdle") at the time of sale. The Hurdle was determined by Animalcare's Remuneration Committee and broadly represented a 20% premium to the Company's market capitalisation on 27th June 2014.

Each holder of A Shares would, on a sale of his entire holding to the Company, be entitled to receive Ordinary Shares representing a percentage of the increase in the Company's market capitalisation above the Hurdle; being 5% for Dr Menneer and 3% for Mr Brewster.

The B Shares are not entitled to participate in any increase in the value of the Company above the Hurdle but can be exchanged for Ordinary Shares of an equal value at any time after 27th June 2017.

Further details of the Plan, including the Hurdle, anti-dilution and other provisions, are set out in Animalcare Ltd's articles of association, which is available on the investor relations section of the Company's website http://www.animalcaregroup.co.uk.

8. Staff Costs

	2014	2013
Number of employees		
The average monthly number of employees (including Directors) during the year was:		
Production and distribution	**4**	4
Selling and administration	**53**	53
	57	57

	2014 £'000	2013 £'000
Related costs		
Wages and salaries	**1,820**	1,810
Social security costs	**166**	191
Other pension costs	**89**	78
	2,075	2,079

9. Finance Costs and Finance Income

	2014 £'000	2013 £'000
Fair value losses on financial instruments*	**38**	—
Finance costs	**38**	—
Other net finance income:		
Fair value gains on financial instruments*	**—**	(11)
Interest income on bank deposits	**(27)**	(27)
Finance income	**(27)**	(38)
Net finance costs/(income)	**11**	(38)

* Finance gains and losses arising from derivatives held at fair value through profit and loss relate to fair value movements on the Group's foreign exchange hedges. These gains and losses are included within "other items" on the face of the statement of comprehensive income.

10. Income Tax Expense

	Note	2014 £'000	2013 £'000
The income tax expense comprises:			
Current tax expense		**690**	632
Adjustment in the current year in relation to prior years		**(105)**	(175)
		585	457
The deferred tax (credit)/expense comprises:			
Origination and reversal of temporary differences	22	**(70)**	(18)
Adjustment in the current year in relation to prior years	22	**20**	6
		(50)	(12)
Total tax expense for the year		**535**	445
The total tax charge can be reconciled to the accounting profit as follows:			
Total comprehensive income for the year		**2,137**	1,885
Total tax expense		**535**	445
Profit before tax		**2,672**	2,330
Income tax calculated at 22.5% (2013 — 23.75%)		**601**	553
Effect of expenses not deductible		**55**	48
Effect of share-based deductions		**(13)**	20
Change in UK tax rate		**(23)**	(7)
Effect of adjustments in respect of prior years		**(85)**	(169)
		535	445

The tax credit of £35,000 (2013 : £90,000) shown within “exceptional and other items” on the face of the statement of comprehensive income, which forms part of the overall tax charge of £535,000 (2013: £445,000) relates to the items analysed in note 4.

The prior year current tax credits in respect of both 2014 and 2013 primarily relate to research and development tax credits.

Reductions in the UK corporation tax rate to 21% (effective from 1st April 2014) and 20% (effective from 1st April 2015) were substantively enacted on 2nd July 2013. Deferred tax balances have been calculated at an effective rate of 20%, being the substantively enacted rate at 30th June 2014. The future rate reductions will affect the Group’s future current tax charges.

11. Dividends

	2014 £'000	2013 £'000
Ordinary final dividend paid in respect of prior year	**788**	621
Ordinary interim dividend paid	**315**	311
	1,103	932

The final dividend paid during the year ended 30th June 2014 was 3.8 pence per share (2013: 3.0 pence per share). The interim dividend paid during the year ended 30th June 2014 was 1.5 pence per share (2013: 1.5 pence per share).

The proposed final dividend was approved by the Board of Directors on 14th October 2014 and is subject to approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 30th June 2014, in accordance with IAS 10 “Events After the Balance Sheet Date”.

Notes to the Accounts continued

12. Earnings per Share

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

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

	Underlying earnings before exceptional and other items 2014 £'00	Underlying earnings before exceptional and other items 2013 £'000	**Total earnings 2014 £'000**	Total earnings 2013 £'000
Total comprehensive income attributable to equity holders of the Company	**2,259**	2,176	**2,137**	1,885
	2014 No.	2013 No.	2014 No.	2013 No.
Basic weighted average number of shares	**20,824,931**	20,732,636	**20,824,931**	20,732,636
Dilutive potential ordinary shares	**126,980**	124,519	**126,980**	124,519
	20,951,911	20,857,155	**20,951,911**	20,857,155
Earnings per share:				
Basic	**10.8p**	10.5p	**10.3p**	9.1p
Fully diluted	**10.8p**	10.4p	**10.2p**	9.0p

13. Goodwill

	Group £'000
Cost	
At 1st July 2012, 1st July 2013 and **30th June 2014**	12,711
Accumulated impairment losses	
At 1st July 2012, 1st July 2013 and **30th June 2014**	—
Net book value	
At 30th June 2014 and 30th June 2013	**12,711**

The carrying amount of Group goodwill is allocated to the Group's sole cash-generating unit ("CGU"), being the Companion Animal segment.

The recoverable amount of goodwill is determined from value in use calculations.

The Group prepares cash flow forecasts derived from the most recent financial budgets and projections approved by management for the next five years and thereafter assuming an estimated long-term annual growth rate of 2.0% (2013: 1.3%).

The financial budgets and projections are based on past experience and actual operating results. The growth rates for the five year period are based on current performance of the existing product portfolio and the estimated contribution from the Group's new product development pipeline. The Directors believe that the long-term growth rate does not exceed the average long-term growth rate for the UK economy.

The Directors estimate the discount rates using the post-tax rates that reflect the current market assessments of the time value of money and the risks specific to the cash-generating unit. In the current year the Directors estimated the applicable pre-tax rate to be 10.2% (2013: 11.9%).

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

14. Other Intangible Assets

Group	Acquired brands and customer relationships £'000	New product development costs £'000	Capitalised software £'000	Total £'000
Cost				
At 1st July 2012	1,361	1,389	95	2,845
Additions	—	102	27	129
At 30th June 2013	1,361	1,491	122	2,974
Additions	—	156	43	199
At 30th June 2014	**1,361**	**1,647**	**165**	**3,173**
Amortisation				
At 1st July 2012	534	562	21	1,117
Charge for the year	119	175	25	319
At 30th June 2013	653	737	46	1,436
Charge for the year	119	253	38	410
At 30th June 2014	**772**	**990**	**84**	**1,846**
Carrying value				
At 30th June 2014	**589**	**657**	**81**	**1,327**
At 30th June 2013	708	754	76	1,538

Veterinary medicine product development costs are amortised over four to seven years, acquired brands are amortised over 15 years and acquired customer relationships are amortised over ten years. The amortisation period for capitalised software, which principally relates to the bespoke online ordering system, is four years.

Notes to the Accounts continued

15. Property, Plant And Equipment

Group	Leasehold improvements £'000	Plant and equipment £'000	Office furniture and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1st July 2012	—	63	133	10	206
Additions	187	44	131	17	379
Disposals	—	—	(1)	(27)	(28)
At 1st July 2013	187	107	263	—	557
Additions	—	27	5	—	32
Disposals	(3)	—	—	—	(3)
At 30th June 2014	**184**	**134**	**268**	**—**	**586**
Depreciation					
At 1st July 2012	—	40	73	10	123
Charge for the year	3	2	27	—	32
Disposals	—	—	—	(10)	(10)
At 1st July 2013	3	42	100	—	145
Charge for the year	19	14	36	—	69
At 30th June 2014	**22**	**56**	**136**	**—**	**214**
Net book value					
At 30th June 2014	**162**	**78**	**132**	—	**372**
At 30th June 2013	184	65	163	—	412

16. Investments in Subsidiaries

Subsidiary undertakings

	Company 2014 £'000	Company 2013 £'000
Cost and net book value		
At 1st July 2012, 2013 and 30th June 2014	**14,361**	14,361

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

	Country of registration or incorporation	Class	Shares held %
Animalcare Ltd	England	Ordinary	90
Naychem Limited	England	Ordinary	100

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

	Principal activity
Animalcare Ltd	Sale of companion animal products and services
Naychem Limited	Non-trading

17. Inventories

	Group	
	2014 £'000	2013 £'000
Finished goods and goods for resale	**2,420**	1,418

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

18. Other Financial Assets

Trade and other receivables

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Trade receivables	**1,577**	1,386	**—**	—
Amounts receivable from subsidiaries	**—**	—	**—**	—
Corporation tax – Group relief	**—**	—	**129**	556
Other receivables	**4**	8	**4**	7
Derivative financial instruments (see note 20)	**—**	11	**—**	—
Prepayments and accrued income	**302**	257	**11**	15
	1,883	1,662	**144**	578

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	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Balance at 1st July	**6**	—	**—**	—
Impairment losses recognised	**9**	6	**—**	—
Balance at 30th June	**15**	6	**—**	—

Ageing of past due but not impaired receivables

	Group	
	2014 £'000	2013 £'000
1–30 days past due	**59**	—
31–90 days past due	**—**	4
91 days and more	**—**	2
	59	6

Notes to the Accounts continued

Cash and cash equivalents

	Group		Company	
	2013 £'000	2013 £'000	**2014 £'000**	2013 £'000
Cash and cash equivalents	**3,812**	3,745	**1,315**	1,791

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

The carrying amount of these assets approximates to (see note 19) 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 36 days (2013: 32days). No interest has been charged on overdue receivables.

19. Other Financial Liabilities

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Trade payables	**858**	983	**63**	62
Amounts payable to subsidiaries	**—**	—	**1,570**	3,757
Other taxes and social security costs	**226**	369	**40**	39
Other creditors	**299**	288	**15**	18
Derivative financial instruments (see note 20)	**28**	—	**—**	—
Accruals	**195**	342	**40**	146
	1,606	1,982	**1,728**	4,022

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

20. Financial Instruments

Capital and liquidity risk management

At 30th 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	3–5 years £'000	More than 5 years £'000	Total £'000
2014					
Trade and other payables	**1,606**	—	—	—	1,606
2013					
Trade and other payables	1,982	—	—	—	1,982

Categories and Fair Value of Financial Instruments Carrying value

	2014 £'000	2013 £'000
Financial assets		
Trade and other receivables (including cash and cash equivalents)	**5,393**	5,139
Financial liabilities		
Trade and other payables	**(1,606)**	(1,982)

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

Notes to the Accounts continued

Foreign Currency Risk Management

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

	Assets		Liabilities	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Euro	**459**	233	**51**	33
US Dollar	**34**	142	**65**	21

Foreign Currency Sensitivity Analysis

At 30th June 2014 the Group is mainly exposed to the Euro and the US Dollar. 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 as at 30th June 2014. A positive number indicates that an increase in profit would arise from a 10% strengthening of Sterling against these currencies, a negative number indicates that a decrease would arise.

	Strengthening £'000	Weakening £'000
Euro	(37)	45
US Dollar	3	(3)

Interest Rate Sensitivity Analysis

This sensitivity analysis was not performed as the Group had no exposure to interest rates for either derivatives or non-derivative instruments at the balance sheet date.

Forward Foreign Exchange Contracts

The Group had four (2013 — nine) open foreign exchange contracts at 30th June 2014. The values are shown below:

	2014 £'000	2013 £'000
Principal value	**752**	285
Fair value	**(28)**	11

Capital Management

In line with the disclosure requirements of IAS 1, "Presentation of Financial Statements", the Company regards its capital as being the issued share capital together with its banking facilities, used to manage short-term working capital requirements. Note 23 to the financial statements provides details regarding the Company's share capital and movements in the period. There were no breaches of any requirements with regard to any relevant conditions imposed by the Company's Articles of Association during the periods under review.

21. Deferred Income

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

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

	2014 £'000	2013 £'000
Balance at the beginning of the period	**1,021**	1,051
Income deferred to future periods	**182**	177
Release of income deferred from previous periods	**(231)**	(207)
Balance at end of the period	**972**	1,021

The deferred income liabilities fall due as follows:

	2014 £'000	2013 £'000
Within one year	**242**	231
After one year	**730**	790
	972	1,021

Income recognised during the year is set out below:

	2014 £'000	2013 £'000
Income received	**195**	190
Income deferred to future periods	**(182)**	(177)
Release of income deferred from previous periods	**231**	207
Income recognised in the year	**244**	220

Notes to the Accounts continued

22. Deferred Tax Liabilities

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

	Property, Plant and Equipment £'000	Share-based payments £'000	Other £'000	Intangible fixed assets £'000	Total £'000
Balance at 1st July 2012	(14)	(11)	(2)	198	171
Charge/(credit) to income	41	(13)	(5)	(35)	(12)
Balance at 30th June 2013	27	(24)	(7)	163	159
Charge/(credit) to income	14	(19)	—	(45)	(50)
Balance at 30th June 2014	**41**	**(43)**	**(7)**	**118**	**109**

As set out in note 10 deferred tax balances have been calculated at an effective rate of 20%, being the substantively enacted rate at 30th June 2014.

The following are the major components of the deferred tax assets recognised by the Company, and the movements thereon, during the current and prior reporting period:

	Accelerated tax depreciation £'000	Share-based payments £'000	Other £'000	Total £'000
Balance at 1st July 2012	(21)	(8)	(2)	(31)
Charge/(credit) to income	4	(5)	—	(1)
Balance at 30th June 2013	(17)	(13)	(2)	(32)
Charge/(credit) to income	5	(12)	—	(7)
At 30th June 2014	**(12)**	**(25)**	**(2)**	**(39)**

As set out in note 10 deferred tax balances have been calculated at an effective rate of 20%, being the substantively enacted rate at 30th June 2014.

23. Share Capital

	2014 No.	2013 No.
Allotted, called up and fully paid ordinary shares of 20p each	**20,960,204**	20,745,204

	2014 £'000	2013 £'000
Allotted, called up and fully paid ordinary shares of 20p each	**4,192**	4,149

During the year £43,000 (2013: £5,000) of ordinary shares were issued for proceeds of £242,125 (2013: £24,375) resulting in a share premium of £199,125 (2013: £19,375).

24. Operating Lease Arrangements

The Group as lessee

	2014 £'000	2013 £'000
Lease payments under operating leases recognised as an expense in the year	**187**	211

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

	2014 £'000	2013 £'000
Within one year	**162**	165
In the second to fifth years inclusive	**252**	334
After five years	**110**	143
	524	642

Operating lease payments principally represent rentals payable by the Group for its office and warehouse properties and motor vehicles.

Notes to the Accounts continued

25. Share-based Payments

During the year the Group operated the Animalcare Group plc Executive Share Option Scheme, the Save As You Earn (SAYE) Share Option Scheme and the new Long Term Incentive Plan as described below:

Animalcare Group plc Executive Share Option Scheme

Under this scheme, options may be granted to certain Executives and senior employees of the Group to subscribe for new shares in the Company at a fixed price equal to the market value at the time of grant. The options are exercisable three years after the date of grant. Once vested, options must be exercised within six years of the date of grant. The exercise of these options is not subject to any performance criteria.

SAYE Option Scheme

This scheme is open to all UK employees to encourage share ownership. Share options are granted at an option price fixed at a 20% discount to the market value at the start of the savings period. The SAYE options vest and are exercisable three years after the date of grant and must ordinarily be exercised within six months of the completion of the relevant savings period.

Details of the movement in all share option schemes during the year are as follows:

	EMI		Unapproved		Unapproved	
	Options	Price £	Options	Price £	Options	Price £
Outstanding at beginning of year	676,600	1.392	138,845	1.084	308,400	1.292
Granted during the year	105,000	1.524	—	—	—	—
Lapsed during the year	(106,600)	1.575	(26,673)	—	(28,400)	1.618
Exercised during the year	(115,000)	1.258	—	—	(100,000)	0.975
Open at 30th June 2014	**560,000**	**1.413**	**112,172**	**1.084**	**180,000**	**1.408**
Exercisable at the end of the year	**5,000**	**0.975**	**—**	**—**	—	—

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

	EMI Scheme	SAYE Scheme	Unapproved Scheme
Weighted average share price	135p	144p	121p
Weighted average exercise price	137p	115p	125p
Expected volatility	50%	54%	45%
Expected life	3.1 years	3.1 years	3.1 years
Risk-free rate	0.6%	0.5%	0.7%

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

The aggregate estimated fair value of the options granted during the year was £nil (2013: £nil).

The Group recognised total expenses of £152,000 (2013 : £149,000), £152,000 (2013: £110,000) within administrative expenses and £nil (2013 : £39,000) within exceptional and other items as disclosed in note 4.

New Long Term Incentive Plan

On 20th June 2014, the Board approved the Company's new senior executive Long Term Incentive Plan (the "Plan"). On 27th June 2014, Iain Menneer, Chief Executive Officer, and Chris Brewster, Chief Financial Officer, subscribed for growth shares in the capital of Animalcare Ltd, a subsidiary of the Company, under the Plan as follows:

- Iain Menneer – 31,955 A Ordinary Shares of £1.00 each ("A Shares") for a total cash subscription of £31,955, representing 5.2% of Animalcare Ltd's issued share capital; and
- Chris Brewster – 19,173 A Shares, representing 3% of Animalcare Ltd's issued share capital and 11,800 B Ordinary Shares of £1.00 each ("B Shares"), representing a further 2% of Animalcare Ltd's issued share capital, for a total cash subscription of £30,973.

Further details of the Plan are provided in note 7.

The charge for the year to the income statement in respect of the Plan is £nil.

26. Related Party Transactions

Trading transactions

During the year ended 30th June, the following trading transactions took place between the Company and its subsidiaries listed in note 16:

2014	**Animalcare Ltd £'000**	**Total £'000**
Management Charges levied	**240**	240

2013	Animalcare Ltd £'000	Total £'000
Management Charges levied	**240**	240

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 7.

The Directors' interests in the shares of the Company are contained in note 7.

Five Year Summary

	2014	2013	2012	2011	2010
Consolidated Statement of Comprehensive Income					
Revenue	**12,881**	12,118	10,856	11,825	11,223
Underlying EBITDA	**3,162**	2,916	2,501	3,267	2,774
Underlying operating profit	**2,802**	2,684	2,294	3,053	2,597
Profit before tax	**2,672**	2,330	2,106	2,885	2,483
Underlying earnings per share					
basic	**10.8p**	10.5p	9.3p	11.3p	8.7p
diluted	**10.7p**	10.4p	9.2p	11.2p	8.5p
Dividend per share	**5.3p**	5.3p	4.5p	4.0p	3.0p
Balance Sheets					
Non-current assets	**14410**	14661	14522	14578	16285
Current assets	**8115**	6825	5022	4206	6797
Current liabilities	**(2233)**	(2,575)	(1,692)	(2068)	(4341)
Non-current liabilities	**(839)**	(949)	(1015)	(927)	(4660)
Shareholders' funds	**19453**	17962	16837	15789	14081
Cash Flow Statements					
Net cash flow from operating activities	**1066**	2831	2123	2145	1936
Net cash used in investing activities	**(201)**	(483)	(268)	2559	(576)
Net cash used in financing activities	**(798)**	(908)	(729)	(5089)	(1328)
Net increase/(decrease) in cash and cash equivalents	**67**	1440	1126	(385)	32

Advisers

Directors	J S Lambert Lord Downshire I D Menneer C J Brewster R B Harding
Secretary	C J Brewster
Company Number	1058015
Registered Office	Unit 7, 10 Great North Way York Business park Nether Poppleton York, YO26 6RB
Auditors	KPMG LLP 1 The Embankment Neville Street Leeds LS1 4DW
Bankers	Barclays Bank PLC PO Box 190 1 Park Row Leeds LS1 5WU
Solicitors	Langleys Queens House Micklegate York YO1 6WG
Nominated Advisor and Broker	Panmure Gordon & Co One New Change London EC4M 9AF
Registrars	Capita Asset Services 34 Beckenham Road Beckenham Kent BR3 4TU

Shareholder Notes

Animalcare Group plc

Address
10 Great North Way
York Business Park, York
YO26 6RB

Contact
T: +44 (0) 1904 487687
F: +44 (0) 1904 487611
E: Investors@animalcare.co.uk
W: www.animalcaregroup.co.uk