

Press Announcement



FOR IMMEDIATE RELEASE

TUESDAY, 30 September 2008

Animalcare Group PLC (“Animalcare”)

Animalcare, a leading supplier of veterinary medicines, identification and other products to the animal veterinary and livestock markets, announces results for the year ended 30 June 2008.

Highlights

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

* Excluding intangible asset amortisation costs and impairment of goodwill.

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

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

James Lambert, Chairman.

CONTACTS

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CHAIRMAN'S STATEMENT

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

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

Financial Highlights

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

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

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

Dividend

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

Board Changes

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

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

People

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

Prospects

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

J.S. Lambert
Chairman

CHIEF EXECUTIVE'S REVIEW

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

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

Animalcare Ltd

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

	Year ended 30 June 2008			Year ended 30 June 2007		
	Current Product Range	New Licensed Veterinary Medicines	Total	Current Product Range	New Licensed Veterinary Medicines	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Pre-acquisition	4,024	86	4,110	4,046	42	4,088
Post acquisition	3,683	288	3,971	3,469	39	3,508
Total revenue	<u>7,707</u>	<u>374</u>	<u>8,081</u>	<u>7,515</u>	<u>81</u>	<u>7,596</u>

New Licensed Veterinary Medicines

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

Current range (existing veterinary medicines and companion animal products)

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

Ritchey

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

Integration

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

Future Developments

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

We are confident that the Group is well placed to deliver substantial profitable sales growth behind the introduction of generic veterinary medicines. We have recently received EU Marketing Authorisations for Buprecare, a generic version of the popular analgesic based on buprenorphine, and first shipments of the product have been made to veterinary practices in the UK and Ireland and to distribution partners in other key EU countries. The UK market size is about £2.2m, growing at about 10% p.a., and we believe that our European distribution partners represent

similar sales potential as the UK. Additional generic veterinary medicines are already progressing through the development and regulatory process and further marketing authorisations are anticipated across the next three months to two years.

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

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

S.F. Riddell
Chief Executive

FINANCIAL REVIEW

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

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

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

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

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

	2008 Animalcare Ltd Division £'000	2008 Ritchey Divisio n £'000	2008 Unallocate d Group £'000	2008 Total £'000	2007 * Total £'000
Operating profit	881	460	(63)	1,278	319
Depreciation, amortisation, impairment	103	244	-	347	495
EBITDA	984	704	(63)	1,625	814

*In 2007 all activities related to the Ritchey division.

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

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

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

Capital Structure

The Company's authorised share capital as at 30 June 2008 was £5,000,000 divided into 25,000,000 ordinary shares of 20p each. The Company's issued share capital as at 30 June 2008 was 19,756,225 ordinary shares of 20p each, each credited as fully paid. Details of the changes that took place to the share capital of the Company on admission to AIM are set out in the Director's Report.

J. Tobin

Group Finance Director

ANIMALCARE GROUP PLC
CONSOLIDATED INCOME STATEMENT
Year ended 30 June 2008

	Note	Before other items 2008 £'000	Other Items (* 2008 £'000	Total 2008 £'000	Before other items 2007 £'000	Other items (* 2007 £'000	Total 2007 £'000
Revenue							
Existing operations		7,784	-	7,784	8,301	-	8,301
Acquisitions		3,971	-	3,971	-	-	-
	1	11,755	-	11,755	8,301	-	8,301
Cost of sales		(5,070)	-	(5,070)	(3,504)	-	(3,504)
Gross profit		6,685	-	6,685	4,797	-	4,797
Distribution costs		(440)	-	(440)	(362)	-	(362)
Administrative expenses		(4,869)	(98)	(4,967)	(3,810)	(306)	(4,116)
Operating profit							
Existing operations		421	(24)	397	625	(306)	319
Acquisitions		955	(74)	881	-	-	-
	2	1,376	(98)	1,278	625	(306)	319
Finance costs	3	(250)	-	(250)	(34)	-	(34)
Finance income	3	85	-	85	17	-	17
PROFIT BEFORE TAX		1,211	(98)	1,113	608	(306)	302
Income tax expense	4	(237)	17	(220)	(73)	21	(52)
PROFIT FOR THE YEAR		974	(81)	893	535	(285)	250
Basic earnings per share	5	8.4p	0.7p	7.7p	9.5p	5.1p	4.4p
Diluted earnings per share	5	8.3p	0.7p	7.6p	9.4p	5.0p	4.4p

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

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

ANIMALCARE GROUP PLC
STATEMENTS OF CHANGES IN EQUITY
Year ended 30 June 2008

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

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

ANIMALCARE GROUP PLC
BALANCE SHEETS
30 June 2008

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

ANIMALCARE GROUP PLC
CASH FLOW STATEMENTS
Year ended 30 June 2008

	Note	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
Operating profit		1,278	319	510	245
Adjustments for:					
Depreciation of property, plant and equipment		249	189	155	127
Amortisation of intangible assets		98	69	24	69
Goodwill impairment charge		-	237	-	237
Share based payment award		42	33	42	33
Release of deferred income		59	-	-	-
(Profit)/loss on disposal of property, plant and equipment		(6)	21	2	-
Operating cash flows before movements in working capital		1,720	868	733	711
(Increase)/decrease in inventories		(27)	(161)	22	(95)
Decrease/(increase) in receivables		93	390	(89)	(177)
Increase/(decrease) in payables		19	(24)	611	10
Cash generated by operations		1805	1,073	1,277	449
Income taxes paid		(123)	(57)	(58)	(54)
Interest paid		(247)	(32)	(246)	(24)
Interest received		23	15	212	95
Net cash flow from operating activities		1,458	999	1,185	466
Investing activities:					
Payments to acquire intangible assets		(216)	(45)	(106)	(45)
Payments to acquire property, plant and equipment		(186)	(281)	(150)	(181)
Receipts from sale of property, plant and equipment		19	4	8	23
Acquisition of Animalcare Limited	6	(14,395)	-	(14,362)	-
Settlement of deferred consideration		(54)	(155)	(54)	(155)
Net cash used in investing activities		(14,832)	(477)	(14,664)	(358)
Financing:					
Receipts from issue of share capital		7,700	130	7,700	130
Equity dividends paid		(127)	(102)	(127)	(102)
New bank loans		6,900	-	6,900	-
Repayment of bank loans		(217)	(214)	(217)	-
Capital element of finance lease repayments		-	(5)	-	-
Net cash used in financing activities		14,256	(191)	14,256	28
Net increase in cash and cash equivalents		882	331	777	136
Cash and cash equivalents at start of year		502	171	18	(118)
Cash and cash equivalents at end of year		1,384	502	795	18
Comprising:					
Cash and cash equivalents		1,420	562	795	73
Bank overdrafts		(36)	(60)	-	(55)
		1,384	502	795	18

ANIMALCARE GROUP PLC
NOTES TO THE ACCOUNTS
Year ended 30 June 2008

1. REVENUE AND OPERATING SEGMENTS

For management purposes, the Group is currently organised into two operating divisions – the Animalcare Ltd division and the Ritchey division. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

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

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

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

	Animalcare Ltd	Ritchey	Eliminations	Consolidated
	Year	Year	Year	Year
	ended	ended	ended	ended
	2008	2008	2008	2008
	£'000	£'000	£'000	£'000
2008				
Revenue				
External sales	3,971	7,784	-	11,755
Inter-segment sales	-	-	-	-
Total revenue	<u>3,971</u>	<u>7,784</u>	<u>-</u>	<u>11,755</u>
Result				
Segment result	<u>881</u>	<u>460</u>	<u>-</u>	1,341
Unallocated corporate expenses				<u>(63)</u>
Operating profit				1,278
Net finance costs				<u>(165)</u>
Profit before tax				1,113
Tax				<u>(220)</u>
Profit after tax				<u>893</u>

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

	Animalcare Ltd	Ritchey	Eliminations	Consolidated
	Year ended	Year ended	Year ended	Year ended
	2008	2008	2008	2008
	£'000	£'000	£'000	£'000
Other information				
Capital additions	<u>119</u>	<u>283</u>	<u>-</u>	<u>402</u>
Depreciation and amortisation	<u>103</u>	<u>244</u>	<u>-</u>	<u>347</u>
Balance sheet				
Assets				
Segment assets	<u>15,486</u>	<u>9,912</u>	<u>(467)</u>	24,931
Unallocated corporate assets				<u>-</u>
Consolidated total assets				<u>24,931</u>
Liabilities				
Segment liabilities	<u>(2,458)</u>	<u>(1,576)</u>	<u>467</u>	(3,567)
Unallocated corporate liabilities				<u>(6,719)</u>
Consolidated total liabilities				<u>10,286</u>
Consolidated net assets				<u>14,645</u>

Unallocated corporate liabilities are the Group's bank borrowings.

1. REVENUE AND OPERATING SEGMENTS (continued)

Geographical segments

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

	2008	2007
	£'000	£'000
Geographical market		
United Kingdom	10,772	7,713
Other European Countries	835	393
Americas	45	96
Australasia	8	-
Rest of the World	65	84
	<hr/>	<hr/>
	11,725	8,286
Other income	30	15
	<hr/>	<hr/>
	11,755	8,301
	<hr/> <hr/>	<hr/> <hr/>

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

An analysis of total group revenue is as follows:

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

2. OPERATING PROFIT

	2008 £'000	2007 £'000
Operating profit is stated after charging/(crediting):		
Cost of inventories recognised as expense	5,191	3,307
Depreciation of tangible assets	249	189
Amortisation of intangible assets	98	69
Research and development	138	3
Operating lease rentals	124	81
Goodwill impairment	-	237
(Profit)/loss on disposal of tangible assets	(6)	21
Foreign exchange (gains)/losses	(30)	8
Operating lease rental income	(12)	(19)
Increase in provision for receivables	26	16
Increase in provision for inventories	14	-
	<u>5,191</u>	<u>3,307</u>

Items disclosed on the face of the income statement include:

	2008 £	2007 £
Amortisation of intangibles	98	69
Impairment of goodwill	-	237
	<u>98</u>	<u>306</u>

3. FINANCE COSTS AND FINANCE INCOME

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

4. INCOME TAX EXPENSE

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

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

5. EARNINGS PER SHARE

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

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

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

	Total earnings before other items (*) 2008 £'000	Total earnings before other items (*) 2007 £'000	Total earnings 2008 £'000	Total earnings 2007 £'000
Net profit attributable to equity holders of the Company	974	535	893	250
	2008	2007	2008	2007
		No.	No.	No.
Basic weighted average number of shares	11,617,422	5,626,628	11,617,422	5,626,628
Dilutive potential ordinary shares:				
Employee share options	160,480	64,242	160,480	64,242
Diluted weighted average number of shares	11,777,902	5,690,870	11,777,902	5,690,870
Adjusted /Earnings per share				
Basic	8.4p	9.5p	7.7p	4.4p
Diluted	8.3p	9.4p	7.6p	4.4p

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

6. ACQUISITION OF SUBSIDIARY UNDERTAKINGS

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

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

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

Total consideration includes expenses of £962,000

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

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

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

7. BANK OVERDRAFTS AND LOANS

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Bank overdrafts	36	60	-	55
Bank loans	6,683	-	6,683	-
	<u>6,719</u>	<u>60</u>	<u>6,683</u>	<u>55</u>

All borrowings are in UK sterling. The bank loan and overdrafts are secured on a fixed and floating charge over the Group's assets. Interest on the bank loan is charged at 2.25 per cent above LIBOR. The carrying values and fair value of the Group's short-term and long-term borrowings are not considered materially different and are as follows:

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

The borrowings are repayable as follows:

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

7. BANK OVERDRAFTS AND LOANS (continued)

Analysis of net debt

References to net debt refer to total borrowings of the Group after offsetting cash and cash equivalents.

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

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

8. DEFERRED TAX LIABILITIES

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

	Property, plant and equipment £	Other £	Intangible fixed assets £	Total £
Balance at 1 July 2006	232	-	-	232
(Credit)/charge to income	(10)	30	-	20
Balance at 1 July 2007	<u>222</u>	<u>30</u>	<u>-</u>	<u>252</u>
On acquisition	(26)	-	381	355
Charge/(credit) to income	7	(17)	(17)	(27)
Balance at 30 June 2008	<u>203</u>	<u>13</u>	<u>364</u>	<u>580</u>

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

	Accelerated tax depreciation £	Share based payment £	Total £
Balance at 1 July 2006	83	-	83
(credit)/charge to income	(6)	30	24
Balance at 1 July 2007	<u>77</u>	<u>30</u>	<u>107</u>
Charge/(credit) to income	6	(17)	(11)
Balance at 30 June 2008	<u>83</u>	<u>13</u>	<u>96</u>

9. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

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:

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

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

10. FIRST TIME ADOPTION OF IFRS BY THE COMPANY

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

Goodwill amortisation

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

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

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

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

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

Cash flow statement

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

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

First-time adoption exemptions applied

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

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

Changes in presentation on transition to IFRS

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

11. ANNUAL REPORT

The Group's report and accounts for the year ended 30 June 2008 are expected to be posted to shareholders on 6 October 2008 and will also be available from the Company's head office at Fearby Road, Masham, Ripon, North Yorkshire HG4 4ES and will be available to download from its website at www.animalcare.co.uk.

12. AUDITORS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 30 June 2007 or 2008, but is derived from those accounts. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s237(2) or (3) Companies Act 1985.