# Animalcare Group plc

## Annual Report for the year ended 30th June 2012

Stock code: ANCR

# Developing and Supplying

## Veterinary Products for Companion Animals

## **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 directly in the UK and through 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.

Read more online at
**www.animalcaregroup.co.uk**

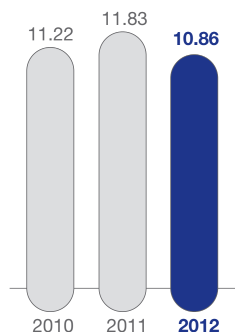
# Financial Highlights

| | Year ended June 2012 | Year ended June 2011 |
|---|---|---|
| Revenue — continuing operations | **£10.86m** | £11.83m |
| Profit for the year | **£1.73m** | £2.33m |
| Underlying* operating profit — continuing operations | **£2.29m** | £3.05m |
| Underlying* profit before tax — continuing operations | **£2.30m** | £3.00m |
| Underlying* profit for the year — continuing operations | **£1.90m** | £2.29m |
| Underlying* fully diluted earnings per share — continuing operations | **9.2p** | 11.2p |
| Interim dividend paid | **1.5p** | 1.0p |
| Proposed final dividend | **3.0p** | 3.0p |
| Cash and cash equivalents | **£2.31m** | £1.18m |

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

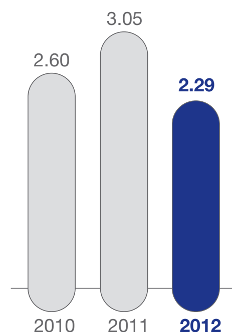
**Revenue**
**— continuing operations**
£m

**-8.2%**
at £10.86m



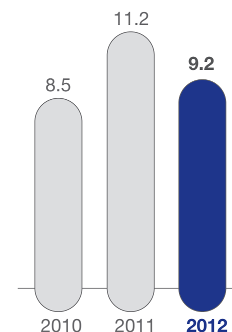

**Underlying operating profit**
**— continuing operations**
£m

**-24.9%**
at £2.29m




**Underlying fully diluted earnings per share**
**— continuing operations**
pence

**-17.9%**
at 9.2p




Read more about our performance **Page 04**

# Operational Highlights

- Launch of five new generic veterinary medicines during the year
- Growth in UK sales of licensed veterinary medicines significantly ahead of market
- Development pipeline on track for products already in regulatory review and new products in development
- Successful development and implementation of new identification microchip database
- Strong net cash flow from operating activities with year-end cash balances at £2.3m

Read more about our strategy **Page 02**

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# Our Business and Strategy

**"The targeted growth opportunities will bring sustainability to the Group through the inclusion of intellectual property protected processes and technology."**

The overall strategy for the Animalcare Group changed to reflect the success of Animalcare Ltd, the veterinary supplies activity of the Group. The non-profitable, underperforming business of the old Ritchey Group has now been disposed of leaving only Animalcare Ltd. All the Group's efforts are now focused in driving this business forward.

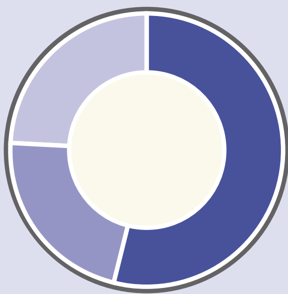
The growth of Animalcare Ltd was based on strategies designed to build a sustainable high performing business in the UK through the development and sale of generic veterinary medicines and other complementary products. The success of those strategies has now given the Group a platform from which it is now capable of making stepwise changes in the rate of development of the business. In addition, the targeted growth opportunities, both in businesses and product areas, will bring sustainability to the Group through the inclusion of intellectual property protected processes and technology.

The strategies we will follow during 2012–13 are:

- continue our new product development of differentiated generic medicines at the current rhythm
- increase the sales of our current products outside the UK
  - with existing distribution in current markets
  - increased geographic cover with new distribution in new markets particularly within the EU and North America
- selectively strengthen UK Companion Animal Identification range of goods and services
- continue to rationalise other product groups
- accelerate Project Sustain initially in enhanced generics
- reorganise business leadership and operational management to reflect our focus and concentration on the pharmaceutical side of the veterinary supplies business

See an example of our strategy in action Page 06

## Percentage of total Company Revenue



**Licensed and Veterinary Medicines**
55.0% £5.97m

**Companion Animal Identification**
21.5% £2.34m

**Animal Welfare Products**
23.5% £2.55m

## What is a generic veterinary medicine?

To obtain a Marketing Authorisation a licensed generic has to be "essentially similar" to the originator product. Pharmaceutical performance in particular must be almost identical, i.e. not substantially better or worse than the originator product.

Within Animalcare we classify generic veterinary medicines in three broad types:

- *undifferentiated generics* — these are generics whose pharmaceutical action is the same as the originator product and are almost identical in all aspects (packaging, composition, dosage size) to the originator product
- *differentiated generics* — these are generics whose pharmaceutical action is the same as the originator product but have one or more aspect of packaging, flavouring, coating, tablet size, etc. modified to improved its acceptance by vets, owners or pets
- *enhanced generics* — these are generics using well-established veterinary medicines but which have been formulated in such a way that their pharmaceutical performance is enhanced in use.

# Veterinary Medicines New Product Development Pipeline

Our new product development (NPD) pipeline is key to the future success of the Group. We maintain our target of the introduction of four new licensed veterinary medicines per year originating from our NPD pipeline and that of our development and distribution partners in Europe.

In a dynamic and diverse market such as veterinary medicine it is important that our development direction is reviewed regularly and targets adjusted accordingly. Unlike many larger organisations with resource and fixed asset commitments in defined areas, our development model allows great flexibility of approach and direction.

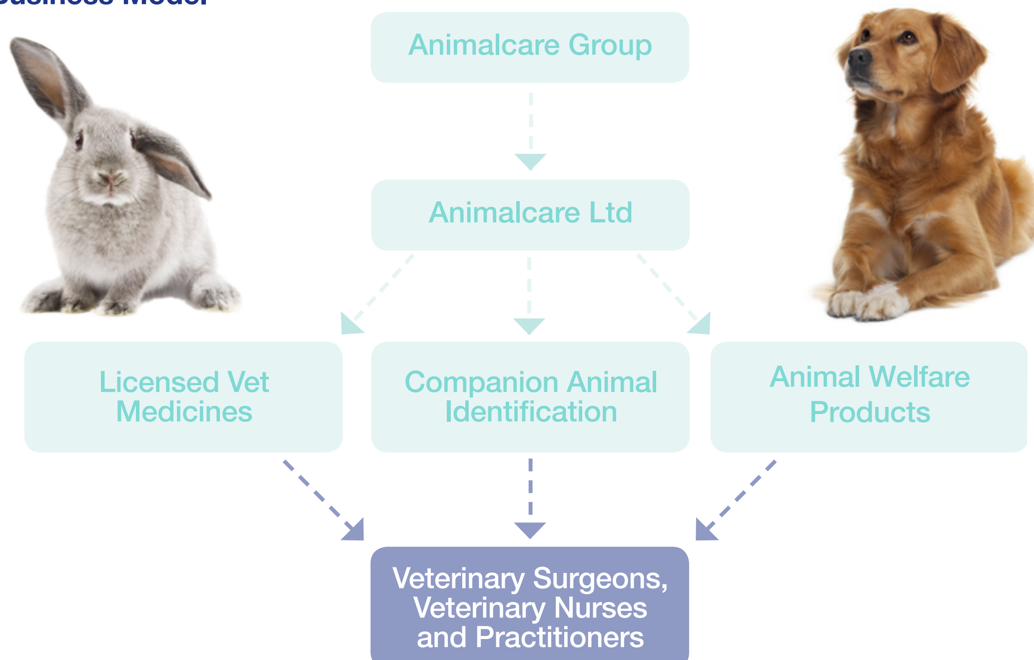
Our NPD pipeline reflects our focus on the companion animal market but also our strategies to increase our geographic reach and to introduce products with the potential to deliver sustained intellectual property protected growth to the Group.

| Project | Sector | Expected launch date* | Target markets | Years to maturity from launch |
|---|---|---|---|---|
| Simple and differentiated generics | | | | |
| Stone 1 | Livestock | 2013 | Limited EU | 5 |
| Stone 2 | Companion Animal | 2013 | Limited EU | 3 |
| Poppy II | Companion Animal | 2013 | Selected EU | 2 |
| Raleigh | Companion Animal | 2014 | EU and others | 3 |
| Amigo | Companion Animal | 2014 | Selected EU | 3 |
| Calm | Companion Animal | 2014 | Selected EU | 3 |
| Isle | Companion Animal | 2015 | EU and others | 3 |
| Beat | Companion Animal | 2015 | EU and others | 3 |
| Sustain Projects | | | | |
| Archipelago | Companion Animal | 2016 | EU and others | 2 |
| Phoenix | Companion Animal | 2016 | Selected EU | 3 |
| Sally | Companion Animal | 2017 | EU and others | 2 |
| Cardinal | Companion Animal and Livestock | 2018 | EU and others | |

*All dates are calendar year

**"The expected revenue from these projects in the UK alone is between £5 million and £7 million at maturity."**

## Our Business Model



# Chairman's Statement

## Introduction

This has been a difficult year for Animalcare but I believe the measures the Board has taken will see it beginning to grow again during the current financial year. Animalcare is currently made up of three product groups, Licensed Veterinary Medicines, Companion Animal Identification and Animal Welfare products that are all sold mainly through veterinary practices. Whilst the Licensed Veterinary Medicines have continued to grow, albeit slower than anticipated, there has been a marked reduction in sales of both Identichip and Animal Welfare products during the year. Your Board is refocusing the management on these two areas, plus the continued development of new licensed veterinary products and this should return your Company to growth during the current year.

## Financial trading

Sales during the financial year fell by 8.2 per cent from £11.8 million to £10.9 million. This resulted in a reduction in underlying profit before tax from £2.3 million to £1.8 million and fully diluted earnings per share from continuing operations fell 18 per cent from 11.2p to 9.2p. However, your Company continues to be strongly cash generative and the year-end cash position has grown from £1.18 million to £2.31 million which helps improve the strength of our balance sheet. The reduction of sales was mainly caused by the delay to relaunch a replacement "single dose Buprecare ampoule" in the veterinary medicine market, a 28 per cent fall in sales in our Companion Animal Identification business, and a 9 per cent reduction in sales in Animal Welfare products. To reverse this trend your Board promoted Dr Iain Menneer from Marketing Director to Managing Director Animalcare Ltd in charge of all sales and marketing in the UK. This allows Stephen Wildridge, Chief Executive Officer, to concentrate on increasing and delivering our product development pipeline and sales of our Licensed Veterinary Medicines through our European partners.

## Dividend

With the increase in cash and the strong underlying cash flow of your business the Company increased the interim dividend from 1.0 pence per share to 1.5 pence per share which was paid on 4th May 2012. With this in mind the Board proposes to maintain the final dividend at 3 pence per share. This gives a total dividend for the year of 4.5 pence per share, an increase of 12.5 per cent over the previous financial year and is covered 2.1 times by earnings. The dividend, which is subject to shareholders' approval at our Annual General Meeting, to be held on 6th November 2012, will be paid on 16th November 2012 to the shareholders on the register on 19th October 2012.

**"This has been a difficult year for Animalcare but I believe the measures the Board has taken will see it beginning to grow again during the current financial year."**

Buprecare Multi Dose Vial launched during the financial year

### The Board

Your Board has been considerably strengthened during the year with the appointment to the Board of Dr Iain Menneer, Managing Director of Animalcare Ltd and also Ray Harding as a Non-Executive Director. Until 2010 Ray was an owner and Managing Director of Cyton Bioscience Ltd, a leading company in multi-service consultancy to both the animal health and pharmaceutical industries, and he remains as a part-time consultant to it. Chris Brewster also joined the Board towards the end of the financial year as Chief Financial Officer and Company Secretary. He gained considerable commercial experience as Group Accounting Manager at Findus Group. Prior to this Chris was a senior manager in the KPMG audit department in the Leeds office. I would like to thank, on behalf of the Board, all our customers, suppliers and colleagues who have helped support and develop Animalcare during the year.

### Prospects

The Board believes with the focus on growing our Companion Animal Identification business, the resumption of supply of Buprecare ampoules, and the planned launch of four new licensed veterinary products during the financial year Animalcare should return to growth.

Your Board is encouraged by current trading for the beginning of the financial year.

**James Lambert**
*Chairman*

# Chief Executive's Review

## Introduction

The Animalcare Group is now fully focused on serving the professional veterinary industry through its expanding Licensed Veterinary Medicines portfolio and highly profitable Companion Animal Identification range. At a time when temporary supply difficulties with one key product strongly affected the business, our proven strategy of growth through the introduction of generic licensed veterinary medicines has meant that our performance in this key segment has been significantly better than the overall market (see below).

Our pipeline for new products remained productive with our target of four new licensed generic veterinary medicines launched in the year being surpassed with the introduction of five new products. The remainder of our development programme continued on track with other products in development meeting their milestones and other target products being brought forward into the pipeline.

It is clear, however, that the competition in licensed generic veterinary medicines will accelerate and intensify over the short-term and although we remain very well placed to continue to compete and grow we have been adapting our strategy to deliver even more durable success in the future. Our efforts in this regard, referred to as Project Sustain, focus on accelerating our development activities beyond differentiated generics initially in enhanced generics. The work we have been doing during 2011-12 on Project Sustain is designed to provide the sustained, protected growth of the Animalcare Group. Project Sustain will become a more evident and important part of the business from here on in.

## Business Overview

The Animalcare business was strongly affected by the abrupt loss for the whole year of one of our key products, Buprecare ampoules. At the same time rationalisation of lower margin products and a downturn in sales within our Companion Animal Identification products negatively affected the business. Overall revenues were down £0.9m (8.2 per cent) and gross profit was down £0.5m (8.3 per cent) on last year. Although it will take a little longer than we had initially hoped to reintroduce Buprecare ampoules we are now significantly along the way to achieving this in the current financial year. We have made significant progress in strengthening our Companion Animal Identification segment through cost of goods and cost to serve reductions and the implementation of improved data handling capabilities which lead to increased selling opportunities.

It is very encouraging that in a period when the overall economic climate has been troubled the resilience of the market for licensed veterinary medicines in key markets has been notable and our growth in the segment has been strong. In the UK, which remains the Animalcare Group's largest market (92.2 per cent of revenue and 91.9 per cent of GP), excluding Buprecare ampoules, the growth in revenue from our Licensed Veterinary Medicines was 16.8 per cent. Even when Buprecare ampoules are included growth was still 3.3 per cent year on year.

| | 2011 | 2012 | % change |
|---|---|---|---|
| UK market* | £272.6m | £269.1m | -1.3% |
| Animalcare† | £5.1m | £5.9m | +16.8% |

* NOAH website — NOAH members 12 months to March 2012 net of all discounts.

† Animalcare results — financial years 2011 and 2012 excluding Buprecare ampoules.

**"Animalcare Group is well placed to deliver a strong performance in the year moving back to the growth levels recently experienced."**

Revenue from our sales outside the UK were 1.3 per cent lower than the previous financial year, affected by the loss of Buprecare ampoules and the continued poor market conditions in Spain. Gross profit was, however, 29.5 per cent higher as a result of increased sales in higher value markets.

It is our target to launch four new licensed generic veterinary medicines in course of each financial year, a rate which is at the forefront for the market. During the course of financial year 2011–12 we launched a total of five new licensed veterinary medicines:

- Torphosol, a sedative and short-term analgesic for use in horses
- Detonervin, a deep sedative and mild analgesic for use in horses
- Emdocam, an anti-inflammatory for use in horses, cattle and pigs
- Tilmodil, an antibacterial for use in cattle and sheep
- Buprecare MDV, a multidose vial version of our successful severe pain analgesic for cats and dogs

In addition, our currently marketed range of companion animal licensed generic medicines continued to perform well.

Sales revenue from the Companion Animal Identification products group was £0.9 million (27.7 per cent) below last year principally due to the one-off effect of ending the low margin distribution of Sureflap cat flaps (-£0.51m) and the reduced sales of Identichip our pet identification microchips (-£0.25m). Gross profit in the segment was £0.38 million (18.8 per cent) lower than last year.

# Chief Executive's Review continued

During the course of the year we took the important step of reorganising the senior management team to meet the needs of the business now and for the future. Chris Brewster joined the Group as Chief Financial Officer and Dr Iain Menneer took over the role of Managing Director for Animalcare Ltd with the primary responsibility of managing the UK business to achieve its short-term operational targets. This concentration of the UK business with Iain has allowed other members of the senior management team to concentrate on another three key areas of the business:

- increased penetration of our current products in existing markets
- controlled expansion of the geographic reach of the business
- driving the development programme, notably project Sustain.

## Future Developments

In the short-term, licensed generic medicines for companion animals in our main target markets (UK, France and Germany) will provide the engine for growth of the Animalcare Group. This growth will be supplemented by better penetration of our existing products in markets outside the UK where we currently operate. We will improve sales through the selective geographic expansion of the markets we address.

In early September we launched Vitofyllin in the UK and Ireland in a market worth approximately £1.5 million per annum. It is a product which fits well into our growing portfolio of products to treat chronic diseases and conditions of old age, in this case a central nervous system stimulant for older dogs. Our next two products are in the final stages of development and have almost completed regulatory review. We expect to be able to launch both products in the UK in Q3 of the financial year. A fourth product has just entered regulatory review and should be available for launch in Q4 of the financial year. We are therefore confident of once more achieving our target of the launch of four new licensed generic veterinary medicines in financial year 2012–13.

We have moved two projects to the next phase in development and remain confident that through our own product development pipeline and that of our development partners this rate of product innovation and introduction can be maintained for the foreseeable future.

## Outlook

In my CEO's statement last year I commented that 2011–12 "may be a difficult year". It was. Although challenging, the difficulties were, however, uncomplicated market issues which have been recognised and addressed or are well in the course of resolution. 2012–13 will not be without its challenges but the Animalcare Group is well placed to deliver a strong performance in the year, in line with expectations moving back to the growth levels recently experienced. Current trading is in line with expectations and comfortably above last year.

The Group has moved away from its previous position as an undifferentiated supplier of low value animal welfare products into a predominantly veterinary pharmaceutical based business. That trend must continue and intensify. I believe that with the support it needs in terms of product development expenditure and leadership evolution that we are well positioned to move to the next level and provide even higher levels of sustained, IP protected growth in the future.

**Stephen Wildridge**
*Chief Executive Officer*

# Financial Review

## Group Overview — Revenue and Profit

Overall revenue from continuing operations reduced by 8.2 per cent to £10.9 million driven principally by our Companion Animal Identification group (-£0.9 million) together with the full year loss of Buprecare ampoules (-£0.8 million). This was partially offset by the strong performance within our Licensed Veterinary Medicines segment which benefited from the launch of five new medicines during the year.

Despite the increased competition in licensed veterinary medicines, gross margin remained consistent with prior year at 54 per cent.

Distribution costs reduced by 10.3 per cent compared to 2011, broadly in line with the reduction in revenues. Administrative expenses increased by 8.6 per cent reflecting, in particular, investment in personnel (including Non-Executive Directors).

Both underlying* operating profit and underlying* profit before tax were £2.3 million for the year compared to £3.1 million and £3.0 million respectively in 2011.

## Exceptional and other items

Exceptional and other items in the year comprised executive severance costs and amortisation of acquired intangible assets. Full details are provided in note 6.

## Finance income and costs

Following the repayment of bank debt on 31st March 2011, the Group has continued to maintain healthy positive cash balances hence has eliminated its borrowing costs in full during 2012.

## Taxation

The Group's effective tax rate reduced from 23 per cent to 17.9 per cent primarily due to the current year benefit of prior year research and development tax credits.

## Earnings per share and dividends

The Group achieved 9.3 pence (2011 — 11.8 pence) underlying basic earnings per share.

An interim dividend of 1.5 pence per share was paid on 4th May 2012 (2011 — 1.0 pence per share). The Board proposes the payment of a final dividend of 3.0 pence per share (2011 — 3.0 pence per share) given the satisfactory cash flow performance of the business during 2012, giving a total dividend of 4.5 pence per share, up 12.5 per cent (2011 — 4.0 pence per share).

## Cash flows

The Group generated £1.1 million (2011 — cash outflow £0.4 million) cash during the year, resulting in a strong net cash position at 30th June 2012 of £2.3 million (2011 — £1.2 million). Working capital reduced by £0.1 million (2011 — £0.5 million increase) in line with the reduced year end sales and phasing of strategic inventory purchases.

Income taxes paid were £0.4 million (2011 — £0.8 million) the reduction principally reflecting the decrease in the Group's taxable profits together with the benefit of prior year research and development tax credits.

We have increased our investment by 75 per cent in new product development of licensed veterinary medicines compared to 2011 and will continue this trend during the next financial year. New product development will continue to be funded from operational cash flows.

*Underlying results are before the effect of exceptional costs and other items disclosed in note 6 to the financial statements.

**Chris Brewster**
*Chief Financial Officer*

**"The Group generated £1.1 million cash during the year, resulting in a strong net cash position at 30th June 2012 of £2.3 million."**

# Board of Directors

## James Lambert

**Non-Executive Chairman**

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

## Ray Harding

**Non-Executive Director**

Ray Harding was until 2010 owner Managing Director of Cyton Bioscience Ltd., a multi-service consultancy for both animal health and pharmaceutical industries. Ray remains a Consultant for Cyton advising and providing training on new product development and registration in Europe. Ray has been both Chairman of the Association of Veterinarians in Industry and President of the Federation of European Veterinarians in Industry and Research. In addition, Ray is a member of the Institute of Directors and is a Fellow of The Organisation for Professionals in Regulatory Affairs. Earlier in his career, Ray has held positions at Glaxo Animal Health in the United Kingdom and Rhône Mérieux in France.

## Lord Downshire

**Non-Executive Director**

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

## Chris Brewster

**Chief Financial Officer and Company Secretary**

Chris was appointed Chief Financial Officer on 1st June 2012. Chris joined Animalcare from Findus Group where he has worked since 2010 as Group Accounting Manager. In this role, Chris's responsibilities included the consolidation and preparation of the management accounts across the business units within the UK and Europe. Prior to joining Findus, Chris was a Senior Manager at KPMG within the Leeds audit practice. Chris qualified as an Associate Chartered Accountant in 2003 and holds a chemistry degree from the University of Sheffield.

## Stephen Wildridge

**Group Chief Executive Officer**

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

## Iain Menneer

**Managing Director, Animalcare Limited**

Iain has a PhD in chemistry from the University of Newcastle and worked in the brewing industry for six years in research at an independent brewing consultancy and then in new product and technical development roles at Bass Brewers. Subsequently, he spent two years in the Research and Innovation Office at the University of York working with academics to commercialise their research via licensing or spin-out companies. He joined Animalcare Ltd in December 2003, and has worked in marketing and business development roles, notably working on the new product development pipeline. Iain has been Head of Marketing since July 2009 and Director of Marketing from June 2011, being promoted to the Board on 1st July 2011. Iain was appointed Managing Director of Animalcare Ltd on 12th March 2012.

# Directors' Report

The Directors present their annual report on the affairs of the Group together with the financial statements and auditors' report for the year ended 30th June 2012.

## Principal activities

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

## Business Review and Future Developments

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

## Research and Development

The Group is committed to the development of new and innovative products to meet the needs of its customers. During the year to 30th June 2012 the Group invested in developments in veterinary medicines and in enhancements to its pet owner database.

## Dividends

A final dividend of 3.0 pence per share will be proposed at the Annual General Meeting on 6th November 2012 and is proposed to be paid on 16th November 2012 to all shareholders on the share register at 19th October 2012. This will combine with an interim dividend of 1.5 pence per share paid on 4th May 2012 to give a total of 4.5 pence for the year.

## Capital Structure

The Company's issued share capital as at 30th June 2012 was 20,720,204 ordinary shares of 20 pence each, each credited as fully paid.

## Directors

The following Directors held office during the year ended 30th June 2012 and subsequently:

J S Lambert
Lord Downshire
R B Harding (appointed 11th November 2011)
S M Wildridge
P O R Warner (resigned 11th November 2011)
I D Menneer (appointed 1st July 2011)
C J Brewster (appointed 21st June 2012)

Details of Directors' share options and long-term incentive plans are provided in note 9 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 2012 and remains in place at the date of this report.

## Principal risks and uncertainties

**New product development**

A key element of the Group's strategy is to expand its portfolio of veterinary medicines, the success of which depends on these products meeting the required regulatory standards and achieving the necessary marketing authorisations. Rejection of applications or delays in the regulatory process could have an important impact on the Group's results. Also there can be no guarantee of the commercial success of these products following their launch. The risks of failure, rejection or delay are mitigated or reduced by the careful selection of development strategies that, although they may increase initial cost or time of development, reduce the likelihood of complete unexpected failure of a project. At the same time the overall risk of any one project failure having a major influence on the performance of the business is reduced by having a product development pipeline that has numerous projects within it at various stages of development.

### Key customers

The Group derives a substantial proportion of its revenue from a number of key customers. In the event that these relationships are lost the effect on the Group's revenue could be significant. In the UK, however, such effect is likely to be temporary as the supply chain would rapidly adjust to take up the slack brought about by any catastrophic failure. Equally, as our business develops its scope into new markets the key customer base continues to grow.

### Key suppliers and contract manufacturers

The Group purchases goods for resale under supply and distribution agreements with a number of key suppliers and contract manufacturers. Failure of supply under these arrangements could result in significant loss of Group revenue. We however endeavour to have where possible more than one supplier for key elements of the range and where that is not possible, different parts of the range with different suppliers.

### Retention of key employees

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

### Financial instruments

The Group's exposure to and arrangements for the management of financial risks are described in notes 20 and 22 to the accounts.

## Creditor payment policy

It is the Group's policy to maintain good relationships with its suppliers. Suppliers are made aware of the terms of payment which are agreed with them in advance and these terms are adhered to. The number of days purchases included in trade creditors at 30th June 2012 was 50 days (2011: 48 days).

## Corporate governance

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

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

## Charitable and Political Donations

During the year the Group made charitable donations of £166 (2011 — £178). No political donations were made during the year (2011 — £nil).

## Employees

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

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

# Directors' Report

## Substantial Shareholdings

On 14th September 2012 the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as shareholders of the Company.

**Significant shareholders (3 per cent or more of the ordinary share capital) as at 14th September 2012**

| Name of holder | No. of ordinary shares | Percentage of holding |
|---|---|---|
| Investec Wealth Management Limited | 2,739,889 | 13.22% |
| *Including the beneficial shareholding of S F Riddell of 942,500 shares (4.6 per cent)* | | |
| Brewin Dolphin | 2,278,798 | 11.0% |
| *Including the beneficial shareholding of J S Lambert of 1,363,691 shares (6.6 per cent)* | | |
| Octopus Investments | 1,681,691 | 8.1% |
| Cazenove Capital Management‡ | 1,682,595 | 8.1% |
| Liontrust Asset Management | 1,531,924 | 7.4% |
| Lord Downshire | 1,420,029 | 6.9% |
| Unicorn Asset Management | 1,250,500 | 6.0% |
| Hargreave Hale | 1,199,997 | 5.8% |
| N R Sale | 613,400 | 3.0% |

* S F Riddell's shareholding includes a non-beneficial interest in 310,000 ordinary shares

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

‡ Cazenove Capital Management's shareholding includes Lord Downshire's non-beneficial interest in 273,636 ordinary shares

## Going concern

The principal risks and uncertainties facing the Group are set out on page 12.

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, the availability of bank facilities and forecasts of future trading including working capital requirements.

As previously noted, the Group continues to be strongly cash generative and the year-end cash position has grown from £1.18 million to £2.31 million. In addition, the Group has an undrawn overdraft facility of £100,000 which is available for general corporate and working capital requirements if required. In the Directors' opinion, the Group's working capital requirements can be met from operating cash flow.

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

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

## 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 auditors are unaware; and
— The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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

Animalcare Group plc
By order of the Board,

**Chris Brewster**
*Company Secretary*

4th October 2012

# Statement of Directors' Responsibilities

## in respect of the Annual Report and the Financial Statements for the year ended 30th June 2012

The Directors are responsible for preparing the Annual Report and the Group and parent Company 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 and parent Company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

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

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

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

# Independent Auditors' Report to the Members of Animalcare Group plc

We have audited the financial statements of Animalcare Group plc for the year ended 30th June 2012 set out on pages 17 to 48. 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 15, 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 (APB's) Ethical Standards for auditors.

## Scope of the audit of the financial statements

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

## 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 2012 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;
- 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 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 where the Companies Act requires us to report to you if, in our opinion:

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

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

4 October 2012

# Consolidated Statement of Comprehensive Income

Year ended 30th June 2012

| | Note | Underlying results before exceptional and other items 2012 £'000 | Exceptional and other items* 2012 £'000 | Total 2012 £'000 | Underlying results before exceptional and other items 2011 £'000 | Exceptional and other items* 2011 £'000 | Total 2011 £'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | 7 | **10,856** | **—** | **10,856** | 11,825 | — | 11,825 |
| Cost of sales | | **(4,994)** | **—** | **(4,994)** | (5,435) | — | (5,435) |
| **Gross profit** | | **5,862** | **—** | **5,862** | 6,390 | — | 6,390 |
| Distribution costs | | **(262)** | **—** | **(262)** | (292) | — | (292) |
| Administrative expenses | | **(3,306)** | **(190)** | **(3,496)** | (3,045) | (118) | (3,163) |
| **Operating profit/(loss)** | 6, 8 | **2,294** | **(190)** | **2,104** | 3,053 | (118) | 2,935 |
| Finance costs | 11 | **—** | **—** | **—** | (51) | (1) | (52) |
| Finance income | 11 | **2** | **—** | **2** | 2 | — | 2 |
| **Profit/(loss) before tax** | 6, 8 | **2,296** | **(190)** | **2,106** | 3,004 | (119) | 2,885 |
| Income tax (expense)/credit | 12 | **(395)** | **18** | **(377)** | (717) | 52 | (665) |
| **Total comprehensive income/(loss) for the year from continuing operations** | | **1,901** | **(172)** | **1,729** | 2,287 | (67) | 2,220 |
| Total comprehensive income for the year from discontinued operations | 4 | **—** | **—** | **—** | 105 | — | 105 |
| **Total comprehensive income/(loss) for the year** | | **1,901** | **(172)** | **1,729** | 2,392 | (67) | 2,325 |
| | | | | | | | |
| Total basic earnings per share | 14 | **9.3p** | | **8.4p** | 11.8p | | 11.5p |
| Total fully diluted earnings per share | 14 | **9.2p** | | **8.4p** | 11.4p | | 11.1p |
| Basic earnings per share from continuing operations | 14 | **9.3p** | | **8.4p** | 11.3p | | 11.0p |
| Fully diluted earnings per share from continuing operations | 14 | **9.2p** | | **8.4p** | 11.2p | | 10.8p |

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

* In order to aid understanding of underlying business performance, the Directors have presented underlying results before the effect of exceptional and other items. These exceptional and other items are analysed in detail in note 6 to these financial statements.

# Statements of Changes in Shareholders' Equity

Year ended 30th June 2012

| Group | Note | Share Capital £'000 | Share Premium Account £'000 | Retained Earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| Balance at 1st July 2010 | | 4,010 | 5,931 | 4,140 | 14,081 |
| Total comprehensive loss for the year | | — | — | 2,325 | 2,325 |
| Transactions with owners of the Company, recognised in equity: | | | | | |
| Dividends paid | 13 | — | — | (812) | (812) |
| Issue of share capital | 25 | 65 | 114 | — | 179 |
| Share-based payments | | — | — | 16 | 16 |
| Balance at 1st July 2011 | | 4,075 | 6,045 | 5,669 | 15,789 |
| Total comprehensive profit for the year | | — | — | 1,729 | 1,729 |
| Transactions with owners of the Company, recognised in equity: | | | | | |
| Dividends paid | 13 | — | — | (926) | (926) |
| Issue of share capital | 25 | 69 | 128 | — | 197 |
| Share-based payments | | — | — | 48 | 48 |
| **Balance at 30th June 2012** | | **4,144** | **6,173** | **6,520** | **16,837** |

| Company | Note | Share Capital £'000 | Share Premium Account £'000 | Retained Earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| Balance at 1st July 2010 | | 4,010 | 5,931 | 2,286 | 12,227 |
| Total comprehensive profit for the year | | — | — | 3,570 | 3,570 |
| Transactions with owners of the Company, recognised in equity: | | | | | |
| Dividends paid | 13 | — | — | (812) | (812) |
| Issue of share capital | 25 | 65 | 114 | — | 179 |
| Share-based payments | | — | — | 10 | 10 |
| Balance at 1st July 2011 | | 4,075 | 6,045 | 5,054 | 15,174 |
| Total comprehensive loss for the year | | — | — | (438) | (438) |
| Transactions with owners of the Company, recognised in equity: | | | | | |
| Dividends paid | 13 | — | — | (926) | (926) |
| Issue of share capital | 25 | 69 | 128 | — | 197 |
| Share-based payments | | — | — | 22 | 22 |
| **Balance at 30th June 2012** | | **4,144** | **6,173** | **3,712** | **14,029** |

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 2012

| | Note | Group 2012 £'000 | Group 2011 £'000 | Company 2012 £'000 | Company 2011 £'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Goodwill | 15 | **12,711** | 12,711 | **—** | — |
| Other intangible assets | 16 | **1,728** | 1,820 | **—** | — |
| Property, plant and equipment | 17 | **83** | 47 | **—** | — |
| Investments in subsidiary companies | 18 | **—** | — | **14,361** | 14,361 |
| Deferred tax asset | 24 | **—** | — | **31** | 156 |
| | | **14,522** | 14,578 | **14,392** | 14,517 |
| **Current assets** | | | | | |
| Inventories | 19 | **1,420** | 1,346 | **—** | — |
| Trade and other receivables | 20 | **1,297** | 1,681 | **866** | 652 |
| Cash and cash equivalents | 20 | **2,305** | 1,179 | **1,738** | 207 |
| | | **5,022** | 4,206 | **2,604** | 859 |
| **Total assets** | | **19,544** | 18,784 | **16,996** | 15,376 |
| **Current liabilities** | | | | | |
| Trade and other payables | 21 | **(1,316)** | (1,566) | **(2,967)** | (202) |
| Current tax liabilities | | **(169)** | (320) | **—** | — |
| Deferred income | 23 | **(207)** | (182) | **—** | — |
| **Current liabilities** | | **(1,692)** | (2,068) | **(2,967)** | (202) |
| **Net current assets/(liabilities)** | | **3,330** | 2,138 | **(363)** | 657 |
| **Non-current liabilities** | | | | | |
| Deferred income | 23 | **(844)** | (862) | **—** | — |
| Deferred tax liabilities | 24 | **(171)** | (65) | **—** | — |
| | | **(1,015)** | (927) | **—** | — |
| **Total liabilities** | | **(2,707)** | (2,995) | **(2,967)** | (202) |
| **Net assets** | | **16,837** | 15,789 | **14,029** | 15,174 |
| **Capital and reserves** | | | | | |
| Called up share capital | 25 | **4,144** | 4,075 | **4,144** | 4,075 |
| Share premium account | | **6,173** | 6,045 | **6,173** | 6,045 |
| Retained earnings | | **6,520** | 5,669 | **3,712** | 5,054 |
| **Equity attributable to equity holders of the parent** | | **16,837** | 15,789 | **14,029** | 15,174 |

The financial statements of Animalcare Group plc, registered number 1058015, were approved by the Board of Directors and authorised for issue on 4th October 2012.

They were signed on its behalf by:

**Chris Brewster**
*Chief Financial Officer*

# Cash Flow Statements

Year ended 30th June 2012

| | Note | Group 2012 £'000 | Group 2011 £'000 | Company 2012 £'000 | Company 2011 £'000 |
|---|---|---|---|---|---|
| Comprehensive income/(loss) for the year before tax | 12 | **2,106** | 2,936 | **(528)** | (723) |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | 17 | **19** | 88 | **—** | 35 |
| Amortisation of intangible assets | 16 | **307** | 317 | **—** | 16 |
| Finance costs | 11 | **—** | 55 | **—** | 52 |
| Finance income | 11 | **(2)** | (2) | **(2)** | (2) |
| Share-based payment award | 28 | **48** | 16 | **22** | 10 |
| Release of deferred income | 23 | **7** | 53 | **—** | — |
| (Profit)/loss on disposal of property, Plant and equipment | | **—** | (2) | **—** | |
| Loss on sale of businesses | 5 | **—** | 94 | **—** | 366 |
| Operating cash flows before movements in working capital | | **2,485** | 3,555 | **(508)** | (246) |
| (Increase)/decrease in inventories | 19 | **(74)** | (596) | **—** | (77) |
| Decrease in receivables | 20 | **384** | 572 | **1** | 750 |
| Increase/(decrease) in payables | 21 | **(250)** | (471) | **2,765** | (1,745) |
| Cash generated by operations | | **2,545** | 3,060 | **2,258** | (1,318) |
| Income taxes (paid)/received | | **(422)** | (805) | **—** | |
| Interest paid | | **—** | (110) | **—** | (108) |
| **Net cash flow from operating activities** | | **2,123** | 2,145 | **2,258** | (1,426) |
| **Investing activities:** | | | | | |
| Payments to acquire intangible assets | 16 | **(215)** | (134) | **—** | (1) |
| Payments to acquire property, plant and equipment | 17 | **(55)** | (18) | **—** | (1) |
| Interest received | 11 | **2** | 2 | **2** | 2 |
| Dividends received | | **—** | — | **—** | 4,072 |
| Receipts from sale of property, plant and equipment | | **—** | 4 | **—** | 1 |
| Receipts from sale of businesses | 5 | **—** | 2,705 | **—** | 2,425 |
| **Net cash (used in)/generated by investing activities** | | **(268)** | 2,559 | **2** | 6,498 |
| **Financing:** | | | | | |
| Receipts from issue of share capital | | **197** | 179 | **197** | 179 |
| Equity dividends paid | 13 | **(926)** | (812) | **(926)** | (812) |
| Repayment of bank loans | | **—** | (4,456) | **—** | (4,456) |
| **Net cash used in financing activities** | | **(729)** | (5,089) | **(729)** | (5,089) |
| Net increase/(decrease) in cash and cash equivalents | | **1,126** | (385) | **1,531** | (17) |
| **Cash and cash equivalents at start of year** | | **1,179** | 1,564 | **207** | 224 |
| **Cash and cash equivalents at end of year** | | **2,305** | 1,179 | **1,738** | 207 |
| Comprising: | | | | | |
| Cash and cash equivalents | 20 | **2,305** | 1,179 | **1,738** | 207 |
| | | **2,305** | 1,179 | **1,738** | 207 |

# Notes to the Accounts

Year ended 30th June 2012

## 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 7 and within the Directors' Report.

The IASB and IFRIC have issued the following standards and interpretations, 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 |
|---|---|
| IAS 1 Presentation of Items in Other Comprehensive Income (amended) | July 2012 |
| IFRS 10 Consolidated Financial Statements | January 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | January 2013 |
| IFRS 13 Fair value measurement | January 2013 |
| IAS 19 Post-employment benefits | January 2013 |
| IFRS 9 Financial Instruments | January 2015 |

## 2. Significant Accounting Policies

### Basis of preparation

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

### Going concern

The principal risks and uncertainties facing the Group are set out on pages 12.

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, the availability of bank facilities and forecasts of future trading including working capital requirements.

The Group has an undrawn overdraft facility of £100,000 which is available for general corporate and working capital requirements. At 30th June 2012 the Group had cash on hand of £2.31 million (30th June 2011 — £1.18 million). In the Directors' opinion, the Group's working capital requirements can be met from operating cash flow.

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

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

# Notes to the Accounts

Year ended 30th June 2012

## 2. Significant Accounting Policies (continued)

### 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.

### Discontinued operations

The livestock businesses were disposed of during the previous financial year and represented a discontinued operation as defined in IFRS 5 *Non-Current Assets Held For Sale and Discontinued Operations*.

### Business combinations

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

### Exceptional and other items

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

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

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

### Goodwill

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

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

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

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

## 2. Significant Accounting Policies (continued)

### 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 | Useful life of the software |
| Research and development | Estimated economic life, normally 4–7 years |

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

### Internally generated intangible assets — research and development expenditure

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

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

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

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

### Revenue recognition

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

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

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

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

### Leasing

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

#### *The Group as lessee*

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

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

# Notes to the Accounts

Year ended 30th June 2012

## 2. Significant Accounting Policies (continued)

### 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.

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

### Inventories

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

### Dividends

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

### Share-based payments

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

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

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

## 2. Significant Accounting Policies (continued)

### 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 |
| Motor vehicles | 4 years |

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

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

### Provisions

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

# Notes to the Accounts

Year ended 30th June 2012

## 2. Significant Accounting Policies (continued)

### Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the 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.

### 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.

#### *Derivative financial instruments*

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

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

## 3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

### Critical judgements in applying the Group's accounting policies

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

***Capitalised research & development expenditure***

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

— certain costs associated with preparing regulatory dossiers in support of applications for generic veterinary medicine Marketing Authorisations.

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

***Capitalised software expenditure***

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

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

### Key sources of estimation uncertainty

***Impairment of non-current assets***

Determining whether a non-current asset is impaired requires an estimation of the "value in use" and/or the "fair value less costs to sell" of the cash-generating units ("CGUs") to which the non-current asset has been allocated. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The key assumptions for these value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU. In the current year the Directors estimated the applicable rate to be 11.3 per cent (2011 — 12 per cent). The Directors' sensitivity analysis indicates that the headroom in the impairment test of 11.3 per cent is robust to significant changes in discount factors.

The Group prepares cash flow forecasts derived from the most recent financial budgets and projections approved by management for the next three years, thereafter assuming an estimated growth rate of 1.9 per cent (2011 — 1 per cent). The growth rates for the three year period covered by financial budgets and projections prepared by management are based on the current performance of the existing product portfolio and the contribution from new products, currently in development, which will be launched in the short term. The Directors believe that the long-term growth rate does not exceed the average long-term growth rate for the relevant markets.

***Impairment of slow-moving and obsolete inventory***

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

# Notes to the Accounts

Year ended 30th June 2012

## 4. Consolidated Statement of Comprehensive Income – Discontinued Operations

On 17th September 2010 the Company disposed of the business and assets of its trading division, Ritchey, and the shares of its wholly owned subsidiary Fearing International (Stock Aids) Limited. On 17th November 2010 the Group sold the trade and certain assets of its loss making subsidiary Travik Chemicals Limited (now Naychem Limited). These sales comprised the whole of the Group's Livestock division.

| | Note | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Revenue** | | – | 2,038 |
| Cost of sales | | – | (923) |
| **Gross profit** | | – | 1,115 |
| Distribution costs | | – | (84) |
| Administrative expenses | | – | (883) |
| **Operating profit** | 6, 8 | – | 148 |
| Finance costs | | – | (3) |
| **Profit before tax** | 6, 8 | – | 145 |
| Income tax expense | | – | (7) |
| **Profit after tax for the period from discontinued operations** | | – | 138 |
| Loss on sale of discontinued operations | 5 | – | (94) |
| Income tax credit on loss on sale of discontinued operations | | – | 61 |
| **Total comprehensive profit for the period from discontinued operations** | | – | 105 |

## 5. Disposal of Businesses

| | Total 2012 £'000 | Total 2011 £'000 |
|---|---|---|
| **Consideration and Costs** | | |
| Cash consideration | – | 2,819 |
| Costs | – | (114) |
| | – | 2,705 |
| **Assets and liabilities sold** | | |
| Goodwill | – | 316 |
| Other intangible assets | – | 102 |
| Property, plant and equipment | – | 1034 |
| Inventories | – | 1,065 |
| Trade and other receivables | – | 1,165 |
| Trade and other payables | – | (733) |
| Income tax payable | – | (29) |
| Deferred taxation | – | (121) |
| **Net assets sold** | – | 2,799 |
| **Loss on sale of businesses** | – | (94) |
| Net cash flow from operating activities | – | (136) |
| Net cash used in investing activities | – | (3) |
| Net cash used in financing activities | – | (180) |

## 6. Exceptional and Other Items

| | Note | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| Executive severance payments | | **71** | — |
| Amortisation of acquired intangible assets | 16 | **119** | 118 |
| Fair value movements on interest rate hedging | 11 | **—** | 1 |
| **Total exceptional and other items** | | **190** | 119 |

On 11th November 2011 Peter Warner resigned from the Board. On termination of this contract, he received a compensation package totalling £71,000 including associated employers national insurance.

## 7. 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.

Following the disposal of the Livestock business during September 2010, the Group solely comprises one reportable segment, being Companion Animal.

During 2011, the Group comprised two segments, Companion Animal and Livestock (discontinued).

| 2012 | Note | Companion Animal 2012 £'000 |
|---|---|---|
| **Revenue** | | **10,856** |
| **Gross Profit** | | **5,862** |
| | | |
| Underlying Operating Profit | | **2,294** |
| Other Items | 6 | **(119)** |
| Exceptional items | 6 | **(71)** |
| **Operating Profit** | | **2,104** |
| Finance Income | 11 | **2** |
| **Profit before tax** | | **2,106** |

# Notes to the Accounts

Year ended 30th June 2012

## 7. Revenue and Operating Segments (continued)

| 2011 | Note | Companion Animal (continuing) 2011 £'000 | Livestock (discontinued) 2011 £'000 | Eliminations 2011 £'000 | Segment Total 2011 £'000 | Unallocated 2011 £'000 | Total 2011 £'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External sales | | 11,812 | 2,038 | — | 13,850 | — | 13,850 |
| Inter-segment sales | | 13 | — | (13) | — | | — |
| Total revenue | | 11,825 | 2,038 | (13) | 13,850 | — | 13,850 |
| **Gross Profit** | | 6,390 | 1,115 | — | 7,505 | — | 7,505 |
| Underlying Operating Profit/(Loss) | | 3,426 | 148 | — | 3,574 | (373) | 3,201 |
| Other Items | 6 | (118) | — | — | (118) | — | (118) |
| Operating Profit — discontinued operations | 4 | | | | | | (148) |
| **Operating profit** | | | | | | | 2,935 |
| Finance income | 11 | | | | | | 2 |
| Finance Costs | 11 | | | | | | (52) |
| **Profit before tax** | | | | | | | 2,885 |

| 2012 | Note | Companion Animal (continuing) 2012 £'000 |
|---|---|---|
| **Products and Services** | | |
| Licensed veterinary | | **5,972** |
| Animal identification | | **2,338** |
| Animal welfare | | **2,546** |
| | | **10,856** |
| **Other information** | | |
| Intangible asset additions | 16 | **215** |
| Property, plant and equipment additions | 17 | **55** |
| Depreciation and amortisation | 16, 17 | **326** |
| Consolidated assets | | **19,544** |
| Consolidated liabilities | | **(2,707)** |
| Consolidated net assets | | **16,837** |

## 7. Revenue and Operating Segments (continued)

| 2011 | Note | Companion Animal (continuing) 2011 £'000 | Livestock (discontinued) 2011 £'000 | Eliminations 2011 £'000 | Segment Total 2011 £'000 | Unallocated 2011 £'000 | Total 2011 £'000 |
|---|---|---|---|---|---|---|---|
| **Products and Services** | | | | | | | |
| Licensed veterinary | | 5,784 | — | — | 5,784 | — | 5,784 |
| Animal identification | | 3,232 | 907 | (13) | 4,126 | — | 4,126 |
| Animal welfare | | 2,809 | 916 | | 3,725 | — | 3,725 |
| Other | | — | 215 | — | 215 | — | 215 |
| | | 11,825 | 2,038 | (13) | 13,850 | — | 13,850 |
| **Other information** | | | | | | | |
| Intangible asset additions | 16 | 134 | | — | 134 | | 134 |
| Property, plant and equipment additions | 17 | 16 | 3 | — | 19 | — | 19 |
| Depreciation and amortisation | 16, 17 | 333 | 72 | — | 405 | — | 405 |
| Consolidated assets | | 18,784 | — | — | 18,784 | — | 18,784 |
| Consolidated liabilities | | (2,995) | — | | (2,995) | | (2,995) |
| Consolidated net assets | | 15,789 | — | — | 15,789 | | 15,789 |

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Key customers** | | |
| Number | **3** | 3 |
| Percentage of total revenue | **74%** | 86% |

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

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Geographical market** | | |
| United Kingdom | **10,023** | 12,879 |
| Other European countries | **833** | 984 |
| | **10,856** | 13,863 |

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:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Revenue from sale of goods | **10,052** | 12,873 |
| Revenue from provision of services | **804** | 990 |
| | **10,856** | 13,863 |
| Finance income | **2** | 2 |
| | **10,858** | 13,865 |

# Notes to the Accounts

Year ended 30th June 2012

## 8. Total Comprehensive Income/(Loss) for the Year

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Total comprehensive income/(loss) for the year has been arrived at after charging/(crediting): | | |
| Cost of inventories recognised as expense | **4,911** | 6,309 |
| Depreciation of tangible assets | **19** | 88 |
| Amortisation of intangible assets | **307** | 317 |
| Research and development | **89** | 86 |
| Operating lease rentals | **206** | 185 |
| Profit on disposal of tangible assets | **—** | (2) |
| Loss on sale of businesses | **—** | 94 |
| Foreign exchange losses/(gains) | **2** | (12) |
| Decrease in provision for receivables | **—** | (13) |
| Decrease in provision for inventories | **—** | (143) |

The above items are those charged/(credited) to total comprehensive income only. Full details on items charged/(credited) to exceptional and other items are contained in note 6.

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

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | **25** | 18 |
| Fees payable to the Company's auditors for other services to the Group | **3** | 15 |
| The audit of the Company's subsidiaries pursuant to legislation | **28** | 16 |
| Total audit fees | **56** | 49 |
| Tax services | **26** | 9 |
| Other services | **4** | 12 |
| Total non-audit fees | **30** | 21 |
| Total auditors' remuneration | **85** | 70 |

## 9. Directors' Remuneration and Interests

### Emoluments

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

| Year ended 30th June 2012 | Salary £'000 | Bonus £'000 | Company pension contributions £'000 | Benefits £'000 | Compensation for loss of office £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| J S Lambert* | **31** | — | — | — | — | **31** |
| Lord Downshire* | **21** | — | — | **2** | — | **23** |
| R B Harding* | | | | | | |
| (appointed 11th November 2011) | **13** | — | — | — | — | **13** |
| S M Wildridge | **151** | **34** | **11** | — | — | **196** |
| P O R Warner | | | | | | |
| (resigned 11th November 2011) | **29** | **5** | **4** | — | **66** | **104** |
| Dr I D Menneer (appointed1st July 2011) | **71** | **8** | **9** | **6** | — | **94** |
| C J Brewster (appointed 21st June 2012) | **8** | — | — | — | — | **8** |
| Total | **324** | **47** | **24** | **8** | **66** | **469** |

| Year ended 30th June 2011 | Salary £'000 | Bonus £'000 | Company pension contributions £'000 | Benefits £'000 | Compensation for loss of office £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| J S Lambert* | 30 | — | — | — | — | 30 |
| Lord Downshire* | 20 | — | — | 2 | — | 22 |
| S M Wildridge | 143 | 26 | 16 | — | — | 185 |
| P O R Warner | | | | | | |
| (appointed 13th October 2010) | 61 | 18 | 5 | 1 | — | 85 |
| G C Rhodes* | | | | | | |
| (resigned 30th November 2010) | 9 | — | — | 1 | — | 10 |
| J Tobin (resigned 31st December 2010) | 43 | — | 21 | — | 35 | 99 |
| Total | 306 | 44 | 42 | 4 | 35 | 431 |

* Indicates Non-Executive Directors.

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

# Notes to the Accounts

Year ended 30th June 2012

## 9. Directors' Remuneration and Interests (continued)

### Share options

The Directors had the following beneficial options:

#### S M Wildridge

| Scheme | EMI | Unapproved | Unapproved | Unapproved | EMI | Unapproved | Total |
|---|---|---|---|---|---|---|---|
| Exercise Price | £0.575 | £0.575 | £0.575 | £0.975 | £1.675 | £1.675 | |
| Date of Grant | 2nd July 2008 | 2nd July 2008 | 3rd July 2008 | 9th July 2009 | 14th Oct 2011 | 14th Oct 2011 | |
| Outstanding at 30th June 2011 | 89,500 | 100,000 | 100,000 | 100,000 | — | — | 389,500 |
| Granted during the year | — | — | — | — | 71,600 | 28,400 | 100,000 |
| Exercised during the year | (89,500) | (100,000) | (100,000) | — | — | — | (289,500) |
| Outstanding at 30th June 2012 | — | — | — | 100,000 | 71,600 | 28,400 | 200,000 |

#### I D Menneer

| Scheme | EMI | EMI | Total |
|---|---|---|---|
| Exercise Price | £0.975 | £1.675 | |
| Date of Grant | 9th July 2009 | 14th Oct 2011 | |
| Outstanding at 30th June 2011 | 5,000 | — | 5,000 |
| Granted during the year | — | 60,000 | 60,000 |
| Outstanding at 30th June 2012 | 5,000 | 60,000 | 65,000 |

#### C J Brewster

| Scheme | EMI | Total |
|---|---|---|
| Exercise Price | £1.30 | |
| Date of Grant | 22nd June 2012 | |
| Granted during the year | 30,000 | 30,000 |
| Outstanding at 30th June 2012 | 30,000 | 30,000 |

#### P O R Warner

| Scheme | EMI | SAYE | EMI | EMI | Total |
|---|---|---|---|---|---|
| Exercise Price | £0.575 | £0.440 | £0.975 | £1.675 | £0.575 |
| Date of Grant | 2nd July 2008 | 19th Aug 2008 | 9th July 2009 | 14th Oct 2011 | 2nd July 2008 |
| Outstanding at 30th June 2011 | — | 1,709 | 5,000 | — | 6,709 |
| Granted during the year | — | — | — | 30,000 | 30,000 |
| Exercised during the year | — | (1,709) | (5,000) | | (6,709) |
| Lapsed during the year | — | — | — | (30,000) | (30,000) |
| Outstanding at 30th June 2012 | — | — | — | — | — |

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

| | Ordinary shares of 20p | Ordinary shares of 20p |
|---|---|---|
| J S Lambert | **1,363,691** | 1,286,691 |
| Lord Downshire | **1,109,583** | 1,109,583 |
| S M Wildridge | **200,068** | 129,068 |
| I D Menneer | **9,381** | n/a |

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

P O R Warner, who resigned as Director on 11th November 2011, had interests in 10,000 shares of the Company at 30th June 2012 (2011 — 5,000 shares).

## 10. Staff Costs

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Number of employees** | | |
| The average monthly number of employees (including Directors) during the year was: | | |
| Production and distribution | **4** | 13 |
| Selling and administration | **54** | 70 |
| | **58** | 83 |

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Related costs** | | |
| Wages and salaries | **1,511** | 2,015 |
| Social security costs | **176** | 196 |
| Other pension costs | **71** | 99 |
| | **1,758** | 2,310 |

## 11. Finance Costs and Finance Income

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Interest expense on financial liabilities held at amortised cost: | | |
| Bank interest | **–** | 54 |
| Fair value losses on financial instruments* | **–** | 1 |
| Finance costs | **–** | 55 |
| Other net finance income | | |
| Interest income on bank deposits | **(2)** | (2) |
| Finance income | **(2)** | (2) |
| Net finance (income)/costs | **(2)** | 53 |
| Finance costs above include the following amounts relating to discontinued operations | | |
| Bank interest | **–** | 3 |

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

# Notes to the Accounts

Year ended 30th June 2012

## 12. Income Tax Expense

| | Note | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| The income tax expense/(credit) comprises: | | | |
| Current tax expense | | **470** | 728 |
| Adjustment in the current year in relation to prior years | | **(199)** | (53) |
| | | **271** | 675 |
| The deferred tax expense/(credit) comprises: | | | |
| Origination and reversal of temporary differences | 24 | **81** | (64) |
| Adjustment in the current year in relation to prior years | 24 | **25** | — |
| | | **106** | (64) |
| **Total tax expense for the year** | | **377** | 611 |
| The total tax expense for the year comprises: | | | |
| Income tax expense in the statement of comprehensive income | | **377** | 665 |
| Income tax expense/(credit) on discontinued operations | 4 | **—** | 7 |
| Income tax credit on loss on sale of discontinued operations | 4 | **—** | (61) |
| **Total tax expense for the year** | | **377** | 611 |
| The total tax charge can be reconciled to the accounting profit as follows: | | | |
| Total comprehensive income/(loss) for the year | | **1,729** | 2,325 |
| Total tax expense | | **377** | 611 |
| Profit before tax | | **2,106** | 2,936 |
| Income tax calculated at 25.5% (2011 — 27.5%) | | **537** | 807 |
| Effect of expenses not deductible | | **3** | 3 |
| Effect of share-based deductions | | **28** | (80) |
| Change in UK tax rate | | **(13)** | (32) |
| Effect of unprovided temporary differences | | **—** | (2) |
| Effect of write-back of deferred tax (assets)/liabilities | | **(4)** | (32) |
| Effect of adjustments in respect of prior years | | **(174)** | (53) |
| | | **377** | 611 |

The tax credit of £18,000 (2011: £52,000) shown within "exceptional and other items" on the face of the statement of comprehensive income relates to the amortisation of acquired intangibles, fair value movements on interest rate hedging and severance costs, details of which are contained in note 6.

During the year the Group has reflected the reduction in the enacted UK corporation tax rate from 26 per cent to 24 per cent, which is effective from 1st April 2012. A further reduction to 23 per cent (effective from 1st April 2013) was substantively enacted on 3rd July 2012.

The future 1 per cent standard tax rate reduction to 22 per cent (effective from 1st April 2014) is not expected to have a material impact on the financial statements.

## 13. Dividends

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Ordinary final dividend paid in respect of prior year | **615** | 609 |
| Ordinary interim dividend paid | **311** | 203 |
| | **926** | 812 |

The final dividend paid during the year ended 30th June 2012 was 3.0 pence per share (2011: 3.0 pence per share). The interim dividend paid during the year ended 30th June 2012 was 1.5 pence per share (2011: 1.0 pence per share).

The proposed final dividend was approved by the Board of Directors on 27th September 2012 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 2012, in accordance with IAS10 "Events After the Balance Sheet Date".

## 14. 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 2012 £'000 | Underlying earnings before exceptional and other items 2011 £'000 | Total earnings 2012 £'000 | Total earnings 2011 £'000 |
|---|---|---|---|---|
| Total comprehensive income attributable to equity holders of the Company | **1,901** | 2,392 | **1,729** | 2,325 |
| Total comprehensive income from continuing operations attributable to equity holders of the Company | **1,901** | 2,287 | **1,729** | 2,287 |
| Total comprehensive income/(loss) from discontinued operations attributable to equity holders of the Company | **–** | 105 | **–** | 10 |
| | 2012 No. | 2011 No. | 2012 No. | 2011 No. |
| Basic weighted average number of shares | **20,546,961** | 20,225,635 | **20,546,961** | 20,225,63 |
| Dilutive potential ordinary shares | **58,085** | 239,891 | **58,085** | 239,891 |
| | **20,605,046** | 20,465,526 | **20,605,046** | 20,465,526 |
| Total earnings per share: | | | | |
| Basic | **9.3p** | 11.8p | **8.4p** | 11.5p |
| Fully diluted | **9.2p** | 11.7p | **8.4p** | 11.4p |
| Earnings per share from continuing operations: | | | | |
| Basic | **9.3p** | 11.3p | **8.4p** | 11.0p |
| Fully diluted | **9.2p** | 11.2p | **8.4p** | 10.8p |
| Earnings per share from discontinued operations | | | | |
| Basic | **–** | 0.5p | **–** | 0.5p |
| Fully diluted | **–** | 0.5p | **–** | 0.5p |

# Notes to the Accounts

Year ended 30th June 2012

## 15. Goodwill

| | Group £'000 | Company £'000 |
|---|---|---|
| **Cost** | | |
| At 1st July 2010 | 15,949 | 715 |
| Disposals | (3,238) | (715) |
| At 1st July 2011 and 30th June 2012 | 12,711 | — |
| **Accumulated impairment losses** | | |
| At 1st July 2010 | 2,922 | 715 |
| Disposals | (2,922) | (715) |
| At 1st July 2011 and 30th June 2012 | — | — |
| **Net book value** | | |
| At 30th June 2012 | 12,711 | — |
| At 30th June 2011 | 12,711 | — |

The carrying amount of Group goodwill is allocated to 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 three years and thereafter assuming an estimated annual growth rate of 1.9 per cent (2011 — 1.0 per cent).

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

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 ("CGU"). In the current year the Directors estimated the applicable pre-tax rate to be 11.4 per cent (2011 — 12.1 per cent).

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.

## 16. Other Intangible Assets

| Group | Acquired brands and customer relationships £'000 | New product development costs £'000 | Capitalised software £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1st July 2010 | 1,361 | 1,336 | 209 | 2,906 |
| Additions | — | 92 | 42 | 134 |
| Sale of business | — | (200) | (210) | (410) |
| At 30th June 2011 | 1,361 | 1,228 | 41 | 2,630 |
| Additions | — | 161 | 54 | 215 |
| At 30th June 2012 | 1,361 | 1,389 | 95 | 2,845 |
| **Amortisation** | | | | |
| At 1st July 2010 | 297 | 350 | 154 | 801 |
| Charge for the year | 118 | 188 | 11 | 317 |
| Sale of business | — | (145) | (163) | (308) |
| At 30th June 2011 | 415 | 393 | 2 | 810 |
| Charge for the year | 119 | 169 | 19 | 307 |
| At 30th June 2012 | 534 | 562 | 21 | 1,117 |
| **Carrying value** | | | | |
| At 30th June 2012 | 827 | 827 | 74 | 1,728 |
| At 30th June 2011 | 946 | 835 | 39 | 1,820 |

Veterinary medicine product development costs are amortised over 4 to 7 years, acquired brands are amortised over 15 years and acquired customer relationships are amortised over 10 years. The amortisation period for capitalised software relating to the bespoke online ordering system is 4 years.

| Company | Product development costs £'000 | Capitalised software £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1st July 2010 | 145 | 264 | 409 |
| Additions | — | 1 | 1 |
| Sale of business | (145) | (265) | (410) |
| At 1st July 2011 and 30th June 2012 | — | — | — |
| **Amortisation** | | | |
| At 1st July 2010 | 138 | 154 | 292 |
| Charge for the year | 7 | 9 | 16 |
| Sale of business | (145) | (163) | (308) |
| At 1st July 2011 and 30th June 2012 | — | — | — |
| **Carrying value** | | | |
| At 30th June 2011 and 30th June 2012 | — | — | — |

# Notes to the Accounts

Year ended 30th June 2012

## 17. Property, Plant And Equipment

| Group | Freehold land and buildings £'000 | Leasehold improvements £'000 | Plant and equipment £'000 | Office furniture and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1st July 2010 | 1,268 | 73 | 1,874 | 550 | 51 | 3,816 |
| Additions | — | — | 10 | 8 | — | 18 |
| Sale of businesses | (1,268) | (73) | (1,821) | (480) | (19) | (3,661) |
| Disposals | — | — | — | — | (9) | (9) |
| At 1st July 2011 | — | — | 63 | 78 | 23 | 164 |
| Additions | — | — | — | 55 | — | 55 |
| At 30th June 2012 | — | — | 63 | 133 | 23 | 219 |
| **Depreciation** | | | | | | |
| At 1st July 2010 | 609 | 46 | 1,583 | 387 | 38 | 2,663 |
| Charge for the year | 8 | 1 | 36 | 35 | 8 | 88 |
| Sale of businesses | (617) | (47) | (1,589) | (357) | (17) | (2,627) |
| On disposals | — | — | — | — | (7) | (7) |
| At 1st July 2011 | — | — | 30 | 65 | 22 | 117 |
| Charge for the year | — | — | 10 | 8 | 1 | 19 |
| At 30th June 2012 | — | — | 40 | 73 | 23 | 136 |
| **Net book value** | | | | | | |
| At 30th June 2012 | — | — | 23 | 60 | — | 83 |
| At 30th June 2011 | — | — | 33 | 13 | 1 | 47 |

| Company | Freehold land and buildings £'000 | Plant and equipment £'000 | Office furniture and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1st July 2010 | 718 | 1,581 | 409 | 8 | 2,716 |
| Additions | — | — | 1 | — | 1 |
| Sale of business | (718) | (1,581) | (410) | (8) | (2,717) |
| At 1st July 2011 and 30th June 2012 | — | — | — | — | — |
| **Depreciation** | | | | | |
| At 1st July 2010 | 289 | 1,342 | 282 | 8 | 1,921 |
| Charge for the year | 3 | 15 | 17 | — | 35 |
| Sale of business | (292) | (1,357) | (299) | (8) | (1,956) |
| At 1st July 2011 and 30th June 2012 | — | — | — | — | — |
| **Net book value** | | | | | |
| At 30th June 2011 and 30th June 2012 | — | — | — | — | — |

## 18. Investments in Subsidiaries

### Subsidiary undertakings

| | Company 2012 £'000 | Company 2011 £'000 |
|---|---|---|
| **Cost** | | |
| At 1st July 2011 and 2010 | **14,361** | 17,384 |
| Disposals | **—** | (3,023) |
| At 30th June | **14,361** | 14,361 |
| **Accumulated impairment losses** | | |
| At 1st July 2011 and 2010 | **—** | 2,108 |
| Impairment losses for the year | **—** | — |
| Disposals | **—** | (2,108) |
| At 30th June | **—** | — |
| Net book value | **14,361** | 14,361 |

The disposal during 2011 relates to Fearing International (Stock Aids) Limited which was sold in September 2010. The estimate of fair value less costs to sell for this business was substantiated by reference to the disposal proceeds as disclosed in note 5. The impairment charge related to the Company's investments in Fearing International (Stock Aids) Limited and Naychem Limited (formerly Travik Chemicals Limited). The impairments were calculated based on the recoverable amount determined as estimated fair value less costs to sell.

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 | 100 |
| 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 |

On 17th September 2010 the Company disposed of the shares of Fearing International (Stock Aids) Limited. On 17th November 2010 the Company disposed of the trade and certain assets of Naychem Limited.

## 19. Inventories

| | Group 2012 £'000 | Group 2011 £'000 |
|---|---|---|
| Finished goods and goods for resale | **1,420** | 1,346 |
| | **1,420** | 1,346 |

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

# Notes to the Accounts

Year ended 30th June 2012

## 20. Other Financial Assets

### Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Trade receivables | **1,134** | 1,520 | **—** | |
| Amounts receivable from subsidiaries | **—** | — | **423** | 420 |
| Corporation tax – Group relief | **—** | — | **431** | 216 |
| Other receivables | **66** | 35 | **4** | 8 |
| Prepayments and accrued income | **97** | 126 | **8** | 8 |
| | **1,297** | 1,681 | **866** | 652 |

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 | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Balance at 1st July | **5** | 20 | **—** | 15 |
| Impairment losses recognised | **(5)** | (15) | **—** | (15) |
| Balance at 30th June | **—** | 5 | **—** | — |

### Ageing of past due but not impaired receivables

| | Group | |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| 1–30 days past due | **31** | 61 |
| 31–90 days past due | **—** | 8 |
| 91 days and more | **—** | 5 |
| | **31** | 74 |

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

### Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Cash and cash equivalents | **2,305** | 1,179 | **1,738** | 207 |

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

The carrying amount of these assets approximates their fair value.

### Credit risk

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

The average credit period on sales of goods is 31 days (2011 — 40 days). No interest has been charged on overdue receivables.

## 21. Other Financial Liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Trade payables | **702** | 958 | **70** | 49 |
| Amounts payable to subsidiaries | **—** | — | **2,821** | 61 |
| Other taxes and social security costs | **338** | 273 | **40** | 45 |
| Other creditors | **227** | 213 | **27** | 40 |
| Accruals | **49** | 123 | **9** | 7 |
| | **1,316** | 1,566 | **2,967** | 202 |

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

## 22. 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 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| Trade and other payables | **1,316** | **—** | **—** | **—** | **1,316** |
| **2011** | | | | | |
| Trade payables and leases | 1,566 | — | — | — | 1,566 |

### Categories and Fair Value of Financial Instruments

### Carrying value

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Financial assets** | | |
| Trade and other receivables (including cash and cash equivalents) | **3,505** | 2,734 |
| **Financial liabilities** | | |
| Trade and other payables | **(1,316)** | (1,566) |

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

### 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 | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Euro | **54** | 245 | **9** | 175 |
| US Dollar | **—** | 29 | **53** | 234 |
| NZ Dollar | **—** | 24 | **—** | — |

# Notes to the Accounts

Year ended 30th June 2012

## 22. Financial Instruments (continued)

### Foreign Currency Sensitivity Analysis

At 30th June 2012 the Group is mainly exposed to the Euro and the US$. The following table details the effect of a 10 per cent increase and decrease in the exchange rate of these currencies against Sterling when applied to outstanding monetary items denominated in foreign currency as at 30th June 2012. A positive number indicates that an increase in profit which would arise from a 10 per cent strengthening of Sterling against these currencies, a negative number indicates that a decrease would arise.

| | Strengthening £'000 | Weakening £'000 |
|---|---|---|
| Euro | (4) | 5 |
| US$ | 5 | (6) |

### Interest Rate Sensitivity Analysis

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

### Forward Foreign Exchange Contracts

The Group had no (2011 — five) open foreign exchange contracts at 30th June 2012. The values are shown below.

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Principal value | — | 245 |
| Fair value | — | — |

### Capital Management

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

## 23. Deferred Income

Deferred income arises from certain services sold by the Group's subsidiary Animalcare Ltd. In return for a single upfront 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:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Balance at the beginning of the period | **1,044** | 991 |
| Income deferred to future periods | **189** | 207 |
| Release of income deferred from previous periods | **(182)** | (154) |
| | **1,051** | 1,044 |

The deferred income liabilities fall due as follows:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Within one year | **207** | 182 |
| After one year | **844** | 862 |
| | **1,051** | 1,044 |

Income recognised during the year is set out below:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Income received | **203** | 220 |
| Income deferred to future periods | **(189)** | (207) |
| Release of income deferred from previous periods | **182** | 154 |
| Income recognised in the year | **196** | 167 |

# Notes to the Accounts

Year ended 30th June 2012

## 24. Deferred Tax Liabilities

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

| | Property, Plant and Equipment £'000 | Share based payments £'000 | Other £'000 | Intangible fixed assets £'000 | Total £'000 |
|---|---|---|---|---|---|
| Balance at 1st July 2010 | 55 | (94) | (3) | 292 | 250 |
| Charge/(credit) to income | 13 | (28) | 3 | (52) | (64) |
| Disposal of businesses | (127) | — | — | 6 | (121) |
| Balance at 30th June 2011 | (59) | (122) | | 246 | 65 |
| (Credit)/charge to income | 45 | 111 | (2) | (48) | 106 |
| **Balance at 30th June 2012** | **(14)** | **(11)** | **(2)** | **198** | **171** |

As set out in note 12 the rate of corporation tax will be reducing to 23 per cent on 1st April 2013. A reduction of 1 per cent would reduce deferred tax liabilities, if applied at 30th June 2012, to £164,000.

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

| | Accelerated tax depreciation £'000 | Share-based payments £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| Balance at 1st July 2010 | 58 | (93) | — | (35) |
| Credit to income | — | (7) | — | (7) |
| Disposal of businesses | (114) | — | — | (114) |
| At 30th June 2011 | (56) | (100) | — | (156) |
| Charge to income | 35 | 92 | (2) | 125 |
| **At 30th June 2012** | **(21)** | **(8)** | **(2)** | **(31)** |

As set out in note 12 the rate of corporation tax will be reducing to 23 per cent on 1st April 2013. A reduction of 1 per cent would reduce deferred tax assets, if applied at 30th June 2012, to £30,000.

## 25. Share Capital

| | 2012 No. | 2011 No. |
|---|---|---|
| Allotted, called up and fully paid ordinary shares of 20p each | **20,720,204** | 20,373,711 |

| | 2012 No. | 2011 No. |
|---|---|---|
| Allotted, called up and fully paid ordinary shares of 20p each | **4,144** | 4,075 |

During the year £69,000 (2011 — £65,000) of ordinary shares were issued for proceeds of £197,000 (2011 — £179,000) resulting in a share premium of £128,000 (2011 — £114,000).

## 26. Contingent Liabilities

Cross guarantees were in place at 30th June 2012 in respect of bank borrowing facilities between the Group companies.

## 27. Operating Lease Arrangements

### The Group as lessee

| | 2012 No. | 2011 No. |
|---|---|---|
| Lease payments under operating leases recognised as an expense in the year | **206** | 185 |

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:

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Within one year | **120** | 108 |
| In the second to fifth years inclusive | **69** | 39 |
| After five years | **—** | 5 |
| | **189** | 152 |

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

## 28. Share-based Payments

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

| | EMI | | SAYE | | Unapproved | |
|---|---|---|---|---|---|---|
| | Options | Price £ | Options | Price £ | Options | Price £ |
| Outstanding at beginning of year | 144,500 | 0.727 | 50,240 | 0.440 | 300,000 | 0.71 |
| Granted during the year | 276,500 | 1.556 | 75,337 | 1.340 | 28,400 | 1.675 |
| Lapsed during the year | (35,000) | 1.640 | (6,470) | 1.340 | — | 0.58 |
| Exercised during the year | (99,500) | 0.615 | (46,993) | 0.440 | (200,000) | — |
| Open at 30th June 2012 | 286,600 | 1.455 | 72,114 | 0.440 | 128,400 | 1.130 |
| Exercisable at the end of the year | — | — | — | — | — | — |

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 | 133p | 88p | 85p |
| Weighted average exercise price | 136p | 69p | 90p |
| Expected volatility | 44% | 40% | 35% |
| Expected life | 3.0 years | 3years | 3.2 years |
| Risk-free rate | 0.7% | 3.8% | 2.4% |

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

The aggregate estimated fair value of the options granted during the year was £nil (2011 — £nil).

The Group recognised total expenses of £48,000 (2011 — £16,000) within administrative expenses.

# Notes to the Accounts

Year ended 30th June 2012

## 29. 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 18:

| 2012 | Animalcare Ltd £'000 | Total £'000 |
|---|---|---|
| Management Charges levied | **192** | **192** |

| 2011 | Animalcare Ltd £'000 | Fearing International (Stock Aids) Limited £'000 | Naychem Limited (formerly Travik Chemicals Limited) £'000 | Total £'000 |
|---|---|---|---|---|
| Sale of Goods | — | 62 | — | 62 |
| Purchase of Goods | — | 13 | 98 | 111 |
| Management Charges levied | 187 | 7 | 21 | 215 |
| Dividends received | 3,892 | 180 | — | 4,072 |

### 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 9.

The Directors' interests in the shares of the Company are contained in note 9.

# Officers and Professional Advisors

| | |
|---|---|
| **Directors** | J S Lambert<br>S M Wildridge<br>Lord Downshire<br>I D Menneer<br>C J Brewster<br>R B Harding |
| **Secretary** | C J Brewster |
| **Company Number** | 1058015 |
| **Registered Office** | Common Road<br>Dunnington<br>York<br>YO19 5RU |
| **Auditors** | KPMG Audit Plc<br>1 The Embankment<br>Neville Street<br>Leeds<br>LS1 4DW |
| **Bankers** | Barclays Bank PLC<br>PO Box 190<br>1 Park Row<br>Leeds<br>LS1 5WU |
| **Solicitors** | Langleys<br>Queens House<br>Micklegate<br>York<br>YO1 6WG |
| **Nominated Advisor and Broker** | N+1Brewin<br>34 Lisbon Street<br>Leeds<br>LS1 4LX |
| **Registrars** | Capita Registrars Ltd<br>34 Beckenham Road<br>Beckenham<br>Kent<br>BR3 4TU |

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