Animalcare Group plc

Annual Report
for the year ended 30th June 2013
www.animalcaregroup.co.uk
Stock Code: ANCR

Developing & Supplying

Veterinary Products for Companion Animals

Welcome to Animalcare Group plc

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

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

It develops and sells goods and services to veterinary professionals principally for use in companion animals; operating 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.

Look Out For These Icons

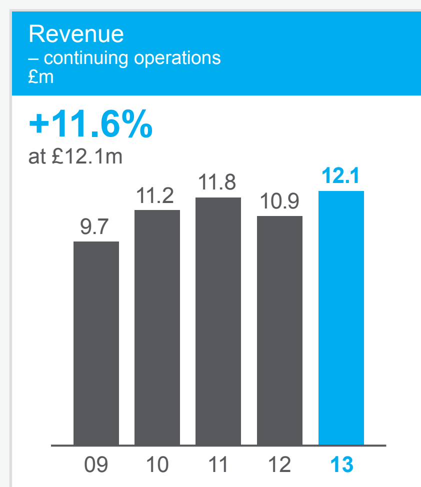
See further content for the Annual Report and Accounts 2013 online at **animalcare.annualreport2013.com**

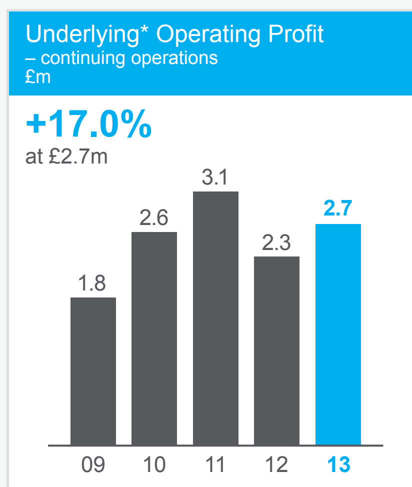
View more content within this report

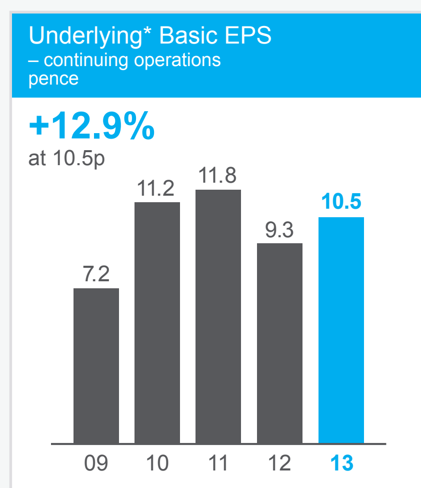
Animalcare Group plc

Highlights

Financial Highlights







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

Read more about our performance on page 7

View our interactive highlights at **animalcare.annualreport2013.com**

Operational Highlights

- Strong revenue growth from Licensed Veterinary Medicines against a flat UK companion animal pharmaceuticals market
- Focus on Companion Animal Identification has stabilised the decline in sales of microchips. Associated services derived from microchip database growing
- Three new products launched in the year and a fourth gained its Marketing Authorisation during the year
- Relocation to new premises with better facilities and increased capacity and with no disruption to trading
- Executive and senior management changes successfully completed according to plan
- Continued strong cash generation with year end cash of £3.7m (up from £2.3m)

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Our Business and Strategy
Group at a Glance

Revenue profile

91% UK

Geographic Growth Opportunities

NPD & Manufacturing across EU

9% EU

Licensed Veterinary Medicines
59.4%
55% (2012) 48% (2011)

Companion Animal Identification
18.5%
21.5% (2012) 27.4% (2011)

Animal Welfare Products
22.0%
23.5% (2012) 23.7% (2011)

View our Group at a Glance at
animalcare.annualreport2013.com/our-business/group-at-a-glance

Our Business and Strategy continued
Business Model

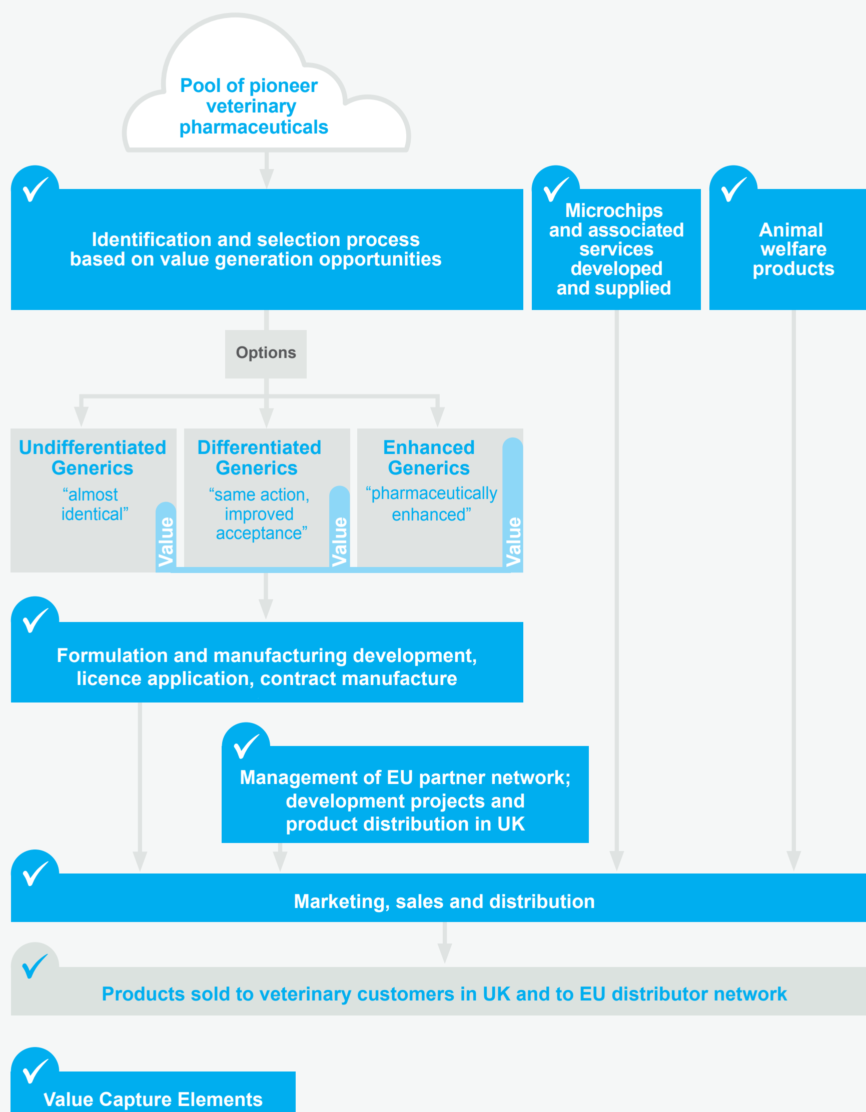
This is the Animalcare Group plc Business Model, which seeks to outline how we create, deliver and capture shareholder value.

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

Animal Types: Primarily companion animals.

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

Geographic Reach: Currently 91% revenue in the UK; 9% in EU with expansion plans further into EU.



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

Our Business and Strategy continued
Investment Case & Strategy

Investment case
Over the last 10 years the strategy to license and sell generic veterinary medicines has delivered significant growth; demonstrated by the increasing dominance of the product group in 2013 versus 2003 (59% of £12.1m revenue versus 44% of £6.8m, respectively).

	2003	**2013**
Licensed Veterinary Medicines	£3.0m (44%)	**£7.2m (59%)**
Total	£6.8m	**£12.1m**

Where 5 or 10 years ago Animalcare was one of only a few companies pursuing a generics strategy that was protected from competition by several barriers to entry; this is no longer the case with a proliferation of companies across Northern Europe that have gained this know-how and capability.

In order to grow the profitability of its Licensed Veterinary Medicines group against new entrants to the market, increasng competition and greater pressure on margins, Animalcare is evolving its strategy to develop differentiated products and services. This will be achieved through implementation of our new product development strategy, Project Sustain.

Through Project Sustain we will select well-established veterinary medicines and reformulate them to create a new range of enhanced generics. This will create the opportunity to deliver protectable products with increased margins and greater market share.

We will utilise our strong cash flow to invest in Sustain projects. The more complex development and regulatory requirements will result in a time to market of 4 to 5 years compared with an undifferentiated generic typically taking 3 years. We will manage the development risk by focusing on enhanced generic medicines based on known active ingredients or common delivery platforms.

The table opposite details the product development pipeline showing both differentiated and Project Sustain enhanced generic medicines. This is an evolving programme; as products are commercialised more are added into development.

A dog being scanned for a microchip

View our Investment Case & Strategy at
animalcare.annualreport2013.com/our-business/strategy

Our Business and Strategy continued

Product development pipeline

Project	Sector	Expected launch*	Target Markets	Years to Maturity
Differentiated and undifferentiated generics				
Stone 1	Livestock	Q3 13†	Limited EU	5
Stone 2	Companion Animal	Q2 14	Limited EU	3
Poppy II	Companion Animal	Q2 13†	Selected EU	2
High	Companion Animal	Q4 15	Selected EU	3
Pavot	Companion Animal	Q1 16	Limited EU	2
Amigo	Companion Animal	Q2 16	Selected EU	3
Trowel	Companion Animal	Q2 16	Limited EU	2
Raleigh	Companion Animal	Q2 16	EU and others	3
Beat	Companion Animal	Q2 16	EU and others	3
Isle	Companion Animal	Q3 16	EU and others	3
Sustain Projects – enhanced generics				
Archipelago	Companion Animal	Q2 17	EU and others	2
Team	Companion Animal	Q4 17	EU and others	2
Cardinal	Companion Animal and Livestock	Q2 18	EU and others	—

* All dates are financial year † Launched as planned

At maturity UK sales are expected to be between £5 to £7 million per annum

Strategy

Our strategy for 2013–14 is to:

- continue our development of differentiated generic medicines at the current frequency
- focus on Project Sustain, to develop enhanced generic medicines
- increase the sales of our current products outside the UK
- through existing distribution in current markets
- by adding geographic cover with new distribution in new markets
- selectively strengthen UK Companion Animal Identification range of goods and services
- continue to rationalise non-core product groups

What is a generic medicine?

In order to obtain a Marketing Authorisation for a licensed generic medicine it has to be “essentially similar” to the originator product. In particular, pharmaceutical performance must be almost identical, i.e. not substantially better or worse than the originator product.

Animalcare classifies generic veterinary medicines into three broad categories:

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

Chairman's Statement

Your Board is pleased with the return to growth of the business over the past 12 months and believes it is in a strong position to deliver its stated strategy.

James Lambert Chairman

Introduction
I am pleased to announce that during the past financial year, Animalcare has returned to growth and is now in a much stronger position to build on this in both the current and subsequent years. Animalcare is made up of three product groups: Licensed Veterinary Medicines, Companion Animal Identification and Animal Welfare products that are all sold mainly through veterinary practices. The Licensed Veterinary Medicines group, which continues to be the main focus of our investment, has grown strongly in the current year with sales up by 20.6%. The Management has stabilised the Companion Animal Identification group after a difficult year in the previous period.

Financial Trading
Group revenues during the financial year increased by 11.6% from £10.9m to a record £12.1m. This is in the context of latest market statistics which indicate that sales of veterinary medicines in the UK have been flat. This performance has resulted in an increase in underlying operating profits, pre-exceptional and other items, from £2.3m to £2.7m, a full 17.0%. Basic underlying earnings per share increased to 10.5p from 9.3p. The Group continued to be strongly cash generative during the year with the cash position increasing from £2.3m to £3.7m at the year-end which demonstrates the strength of the business model. Additional sales coming from the Licensed Veterinary Medicine group enabled us to improve margins from 54% to 56%. The main driver of the increased licensed veterinary sales was a replacement supply of 'single-dose' Buprecare ampoules and the launch of two new licensed generic veterinary medicines.

Dividend
With the increase in cash generation during the year and the return to profitable growth, your Board proposes to increase the final dividend to 3.8 pence per share. With this increase of 0.8 pence per share, and the maintained first half dividend of 1.5 pence per share, this gives a total dividend for the year of 5.3 pence per share, an increase of 17.8%.

The Board
During the financial year, your Board announced that Stephen Wildridge would step down as Group CEO, to be replaced by Dr Iain Menneer, formerly Managing Director of Animalcare Ltd, and that Stephen would remain on the Board as Director of Strategy and Business Development until the end of October. This has allowed a smooth transition for Iain into the role of CEO and the appointment of a senior management team to head up sales, marketing and product development. The Board wishes to thank Stephen for all his endeavours in building your business over the past ten years into one of the leading UK animal health companies. Iain is ideally qualified to take on the CEO role with experience in a number of positions within the business over the past ten years including marketing, sales and business development.

Prospects
Your Board is pleased with the return to growth of your business over the past 12 months and believes it is in a strong position to deliver its stated strategy. Your Board is also encouraged by trading at the beginning of the current financial year.

James Lambert
Chairman

Chief Executive's Review

The Group is firmly in the transition to a new strategy to bring enhanced generic products into the development pipeline which will deliver protectable and sustainable commercial benefits over the long-term.

Iain Meneer Chief Executive Officer

Introduction

Animalcare Group plc has delivered a strong performance for the year to 30th June 2013. This noteworthy result has been achieved during a year of transition; transition that has placed Animalcare in a strong position to grow and succeed into the next decade. Executive and senior management changes have been completed alongside a long-anticipated change of premises, both of which give us capacity for the future.

In addition, the Group is firmly in the transition to a new strategy to bring enhanced generic products into the development pipeline which will deliver protectable and sustainable commercial benefits over the long-term.

Business Overview

The UK companion animal medicines market decreased by 0.02% in the year to December 2012, making our performance all the more significant (reference: National Office of Animal Health, www.NOAH.co.uk). Output from the current in-house and EU partner pipelines has continued to drive growth with three launches in the period, of which the principal launch was the re-introduction of Buprecare 'single-dose' ampoules.

Revenues derived from services marketed to pet owners on our microchip pet database, Anibase, continued to rise in the period. Microchip sales volumes were marginally ahead of management expectations despite competitive pressure. The Animal Welfare group continued to perform steadily in line with management expectations.

Animalcare launched three products in 2013 (Vitofyllin, Buprecare ampoules and Marbocare injection). A fourth product received its Marketing Authorisation in the last month of the financial year and will be launched in H1 of the current year.

Licensed Veterinary Medicines

The importance of the contribution from new product launches is clear, of less obvious impact is the critical mass that has been achieved by launching such a range of new products. Animalcare now has a much more comprehensive range of companion animal pharmaceuticals in more therapeutic areas than 10 years ago, giving its UK sales team greater significance in UK veterinary practices.

Since the launch of Benazecare in 2006, the first licensed generic veterinary pharmaceutical in the recent strategy, Animalcare has launched 17 further new products that have either been products of our highly successful new product development pipeline, collaboration projects with our EU partners or straightforward distribution opportunities from our EU partners.

	12 months to 30 June 2013 £'000	12 months to 30 June 2012 £'000	% change
Licensed Veterinary Medicines	**7,200**	5,972	20.6%
Companion Animal Identification	**2,244**	2,338	(4.0%)
Animal Welfare Products	**2,674**	2,546	5.0%

Chief Executive's Review continued

Vitofyllin

Vitofyllin (project Quattro), the first of the three products to be launched in the period, is a treatment for the symptoms of old age in dogs. Good sales have been achieved through the year exceeding our expectations in this £2m market. Whilst Animalcare is looking to grow its market share we also believe that there is potential to grow this market as the symptoms are often overlooked by owners and veterinary professionals alike.

A new, more robust manufacturer has been found for Buprecare ampoules and in December the product was relaunched on schedule following a successful registration process. Revenues from sales in the second half have been strong and in line with our expectations. Buprecare ampoules complement the multi-dose presentation that was launched in the second half of last year (ended 30th June 2012). The two Buprecare products generated combined revenues in the UK of £0.9m in the year ended 30th June 2013.

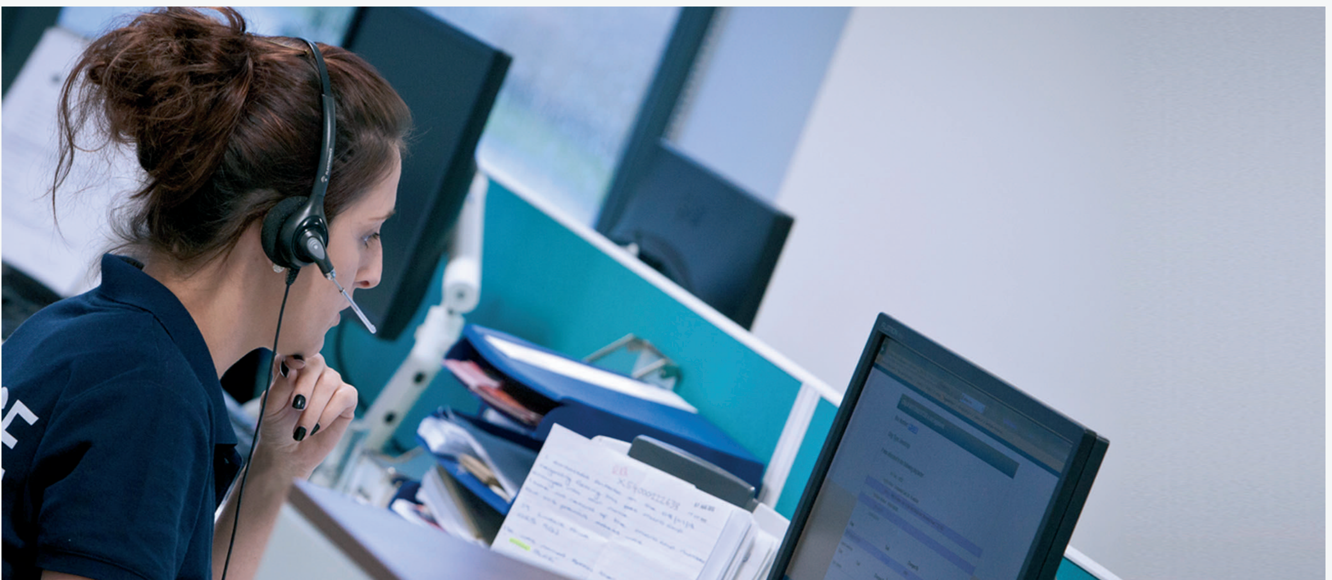
The third launch in the year was Marbocare injection (project Stone 1), a codevelopement with one of our EU partners. It is used in the treatment of respiratory infections in cattle and pigs. Whilst not significant target species for Animalcare, this successful registration will allow us to develop this active ingredient into our core species market.

Companion Animal Identification

Continuing sales and marketing efforts which have significantly slowed the decline in microchips sales to 6% in the period are set to maintain a positive effect. Over 3.5 million owners have their pets registered on our microchip database, Anibase. Improvements in the way we are able to market associated goods and services to these pet owners has allowed us to increase revenues and at improved margins as efficiencies have been achieved in operational and marketing activities.

Animal Welfare Products

The Animal Welfare product group is made up of a variety of product sub-groups. Half of this group's revenue is generated from infusion accessories that complement the sale of our intravenous infusion fluids. The infusion accessories sub-group grew by 3% in the year to 30th June 2013. The remaining half is made up of unconnected legacy products that are increasingly difficult to differentiate from their competitor products. They also continue to require operational support. Most of these products are in decline and it is our strategy to selectively withdraw from these markets. During the year, the first of these products was discontinued from sale.



Database Operative, Anibase

Operational Overview

Animalcare had outgrown its leased warehouse and offices some time ago. In March, after a programme of refurbishment, the business was moved to the new premises, still in the York area, with no disruption to trading. The new warehouse operation has approximately 70% more capacity than the old facility, allowing for the planned business growth to 2020 and beyond. The office move has allowed IT infrastructure to be upgraded resulting in a much more capable and robust system. Overall, our operations are now in good shape for the years ahead.

In January, the Company announced that Stephen Wildridge would leave the business in October 2013. In the intervening period he assumed the role of Director of Strategy and Business Development. In August 2013 Karolyn Tapper joined the business as Director of Business Development. Karolyn has 19 years' experience working in a global contract manufacturing company with experience in pharmaceutical formulation, project management and business development. There has been a thorough handover to ensure the momentum of new product development is maintained.

Also in August, Torben Orskov was promoted to Director of Technical and Regulatory Affairs. Torben is a qualified veterinary surgeon with 10 years' experience in companion and large animal practice before he joined Animalcare in 2006. Torben has been heavily involved in the technical and regulatory aspects of the product development pipeline.

Both appointments reflect our continued emphasis on the new product development strategy and more specifically the increasing importance of Project Sustain.

Future Developments

Animalcare will continue to launch undifferentiated generic licensed veterinary medicines from its in-house development pipeline, co-developed projects with our European partners or simple distribution products from our existing partners in Europe.

In July 2013, we launched an enhanced presentation of Phenoleptil, a product used in the prevention of epileptic seizures in dogs. Phenoleptil was originally launched in June 2011. The enhanced presentation makes accurate dosing of patients easier and will allow us to gain faster market penetration as it has practical prescribing advantages for the veterinary surgeon.

Two further products, one from our own development pipeline and one a distribution product, are in the final commercialisation planning stages for launch in Q2 of this year. Both products are for use in companion animal medicine.

Depending on the time required to fully develop the market for the three products outlined above we may also launch a fourth product in H2.

During this financial year we will be upgrading the software tools available to our sales team. We have identified a partner who will be able to enhance the management information we can derive from our sales data; as well as reducing the administrative work by the wider team.

We also expect to see significant progress on Project Sustain that will crystalise the work already undertaken. We forecast the first products to launch in 2017-18.

In addition, we expect to take the first steps in this period to expand the geographic footprint of territories in which Animalcare distributes outside the UK.

A dog being implanted with a microchip

Aqupharm intravenous fluids in use

Outlook

In February, the UK Parliament announced that it will be compulsory for all dogs in England to be microchipped by April 2016. Furthermore, the Welsh Assembly has now announced that it will introduce similar legislation for implementation in March 2015. Whilst there will be some undoubted commercial opportunities as a result of this legislation, in the short to medium-term, it is not yet clear how the initial implementation will impact Animalcare. However, as a company selling microchips and also administering the Anibase pet database of over 3.5million pets and their owners, Animalcare remains in a strong position in this market for the medium-term after a potential initial disruptive period.

We have commented in previous reports that competition is strong in the Licensed Veterinary Medicines market, however, we have consistently outperformed the UK market and we believe this will continue.

Over the past seven years, since the launch of the first product from the Animalcare new product pipeline, the Group has achieved increased revenues and profitability. However, with this upside comes the requirement to invest further in the routine maintenance of the associated Marketing Authorisations. The number of Marketing Authorisation licences that Animalcare owns and therefore must maintain was 14 in 2003 rising to 136 in 2013.

Having delivered a successful undifferentiated and differentiated generics strategy, the Company is moving into a period of investment for the future. We intend to invest more in research and development, particularly in enhanced generics, than we have to date. In this context, we expect limited growth in the coming 12 to 36 months, however this will put the foundations in place to deliver the next phase in our strategy.

As these projects are commercialised from 2017 onwards we believe the rewards will be significant and ensure the future growth and success of the Group.

Iain Menneer
Chief Executive Officer

Financial Review

Chris Brewster Chief Financial Officer

The Group has made good progress during the financial year, achieving a 17.0% increase in underlying* operating profit to £2.7m (2012 — £2.3m) and a £0.6m increase in cash generated by operations to £3.1m (2012 — £2.5m). We continue to have a robust balance sheet to support the strategy and invest in our long-term future.

Revenue and gross profit

Group revenues increased by 11.6% to £12.1m (2012 — £10.9m), the key driver of which was the strong growth achieved in our Licensed Veterinary Medicines product group. For further analysis of the Group's revenue performance please refer to our Chief Executive's Review.

The gross profit margin for 2013 was 56%, representing a year-on-year increase of 2%. This was achieved through a combination of successful new product launches and a shift towards a larger proportion of Group sales being generated by our Licensed Veterinary Medicines product group.

Operating profit

Underlying* operating profit increased by 17.0% to £2.7m (2012 — £2.3m) reflecting the improved trading performance offset in part by an increase in administrative costs of £0.5m. The increase primarily resulted from additional staff costs of £0.3m, reflecting the strengthening of the senior management team and higher performance-related pay, together with a £0.1m increase in share based payment charges. Notwithstanding the increase, the Group continues to maintain a firm control on costs.

During the year we incurred exceptional costs of £0.3m (2012 — £0.1m) largely as a result of executive Board changes and one-off head office relocation costs. Further details are provided in note 4.

Reflecting all of the above, Group operating profit was up 8.9% to £2.3m (2012 — £2.1m).

Taxation

The tax charge for the year of £0.4m (2012 — £0.4m) takes into account prior year research and development tax credits totalling £0.2m. Hence the effective tax rate of 19.1% (2012 — 17.9%) is again below the headline rate of corporation tax.

Earnings per share (“EPS”)

Basic underlying* EPS increased by 12.9% to 10.5 pence (2012 — 9.3 pence). The statutory basic EPS increase was lower at 8.3% to 9.1 pence (2012 — 8.4 pence), principally due to the higher exceptional items in the year.

Dividend

Subject to shareholder approval at the Annual General Meeting on 5th November 2013, the Board proposes paying a final dividend of 3.8 pence per share on 14th November 2013 to shareholders on the register on 4th October 2013. This would make a total dividend of 5.3 pence per share for 2013, an increase of 17.8%, reflecting the growth in earnings and cash generated from operations. The total dividend for the year is covered 2.0 times by underlying* earnings (2012 — 2.1 times).

Cash flow

Cash flows generated by operations were £3.1m (2012 — £2.5m). £0.2m of this increase is attributable to favourable working capital movements which reversed in the first week of 2014.

Net income taxes paid at £0.3m (2012 — £0.4m) include a £0.2m cash benefit in relation to prior year research and development tax credits.

Capital expenditure increased to £0.5m (2012 — £0.3m), driven primarily by the Group's relocation to its newly refurbished head office and warehouse which were occupied from March 2013. Expenditure on new product development during 2012 at £0.1m (2012 — £0.2m) was lower than anticipated due to delays in certain project schedules. However, in line with our strategy we plan to accelerate capital spending in 2014 and during the last 6 months, the Board has approved 3 new development projects.

Net cash increased by £1.4m to £3.7m (2012 — £2.3m). This strong cash flow is enabling the Group to fund its new product development pipeline from internal resources.

Chris Brewster
Chief Financial Officer

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

Board of Directors

1

Chris Brewster
Chief Financial Officer and Company Secretary

Age: 38

Board Committee membership:
None

Experience:
Chris was appointed Chief Financial Officer in June 2012. A chartered accountant by profession, Chris worked at KPMG for 10 years before assuming the role of Group Accounting Manager at Findus Group during 2010.

2

Lord Downshire
Non-Executive Director

Age: 54

Board Committee membership:
Audit Committee and Remuneration Committee

Experience:
He joined the board of Animalcare in 2008 when it was acquired by Ritchey plc for whom he acted as a director since 1998. Nicholas is a qualified accountant who has worked in corporate finance and venture capital, plus holding non-executive directorships in a diverse range of businesses.

3

James Lambert
Non-Executive Chairman

Age: 55

Board Committee membership:
Nomination Committee

Experience:
James was appointed Chairman in 2008 when it was acquired by Ritchey plc for whom he was chairman since 2005 and non-executive director since 2003. James started at Richmond Foods in 1998 leading a series of acquisitions to make Richmond the largest ice cream manufacturer by volume in the UK. James is now chairman of R & R Ice cream.

View our interactive Board of Directors online at
animalcare.annualreport2013.com/our-governance/board-of-directors

4

Iain Menneer
Chief Executive Officer

Age: 43

Board Committee membership:
Secretary Remuneration Committee from January 2013, Secretary Nomination Committee from January 2013

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

5

Ray Harding
Non-Executive Director

Age: 63

Board Committee membership:
Remuneration Committee (Chair), Nomination Committee (Chair)

Experience:
Ray Harding was appointed to the Board in 2011. He has worked in the veterinary pharmaceutical industry since 1979 in many technical and product related roles for several international 'blue chip' companies. He established Cyton Biosciences Ltd. in 1997 to provide specialist services in new product development and registration for bioscience industries in Europe. Ray left in 2012 and is now an independent consultant.

6

Stephen Wildridge
Director of Strategy and Business Development

Age: 57

Board Committee membership:
Secretary Remuneration Committee until January 2013

Experience:
Stephen Wildridge joined Animalcare Ltd as Managing Director in April 2003 and joined the Board of Animalcare Group plc on its formation in January 2008. He was appointed Chief Executive Officer of the Group in April 2010 and stepped down in January 2013 to become Director of Strategy and Business Development. He will resign from the Group in October 2013.

Directors' Report

The Directors present their Annual Report on the affairs of the Group together with the financial statements and auditor's report for the year ended 30th June 2013.

Principal Activities

The principal activity of the Group during the year was the sales 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

Our new product development programme is key to the future success of the Group and we are committed to the development of new and innovative products to meet the needs of our customers.

Further information in relation to product development can be found in the Our Business and Strategy section of this report. During the year to 30th June 2013 the Group incurred research and development expenses of £138,000 (2012 — £89,000) and a further £102,000 (2012 — £169,000) was capitalised as development costs.

Dividends

Subject to shareholder approval at the Annual General Meeting on 5th November 2013, the Board proposes paying a final dividend of 3.8 pence per share on 14th November 2013 to shareholders on the register on 4th October 2013. This would make a total dividend of 5.3 pence per share for 2013.

Capital Structure

The Company's issued share capital as at 30th June 2013 was 20,745,204 ordinary shares of 20 pence each, each credited as fully paid.

Directors

The following Directors held office during the year ended 30th June 2013 and subsequently:

C J Brewster
Lord Downshire
R B Harding
J S Lambert
I D Menneer
S M Wildridge

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

The Company maintains Directors' and Officers' liability insurance for the benefit of its Directors, which was in place throughout the year ended 30th June 2013 and remains in place at the date of this report.

Principal Risks and Uncertainties

Risk	Description and Mitigation
Failure of new product development projects	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.
Reliance on a small number of 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.
Failure of a major supplier or contract manufacturer	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. Dual sourcing is implemented where practicable for key elements of the range and where that is not possible, different parts of the range are sourced from different suppliers. Our increased warehouse capacity now allows us the ability to maintain contingency stocks where deemed appropriate.
Loss of key employees	The Group has a small senior Executive and management team whose skills, knowledge and experience are key to the success of the Group's performance. Succession planning is given consideration by the Board and remuneration policies are designed to attract, retain and reward key employees with ability and experience to execute the Group's strategy. We have recently implemented a single performance appraisal process to help align Executive remuneration with individual performance.

Creditor Payment Policy

We endeavour to maintain strong trading relationships with our suppliers. Terms of payment are agreed with suppliers in advance and it is the Group's policy to settle its liabilities in accordance with these terms. The number of days purchases included in trade creditors at 30th June 2013 was 61 days (2012 — 50 days).

Corporate Governance

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

Formally constituted audit, remuneration and nominations committees, with membership comprising two of 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 £50 (2012 — £166). No political donations were made during the year (2012 — £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 the opportunity to participate in approved sharesave schemes. During the financial year the Company granted options under the Animalcare Group plc Savings Related Share Option Scheme (SAYE) to all employees.

Substantial Shareholdings

On 13th September 2013 the Company had been notified, in accordance with the Disclosure Rules and Transparency Rules, of the following interests exceeding the 3% notification threshold:

Name of holder	No. of ordinary shares	% holding
Investec Wealth Management Limited *including the beneficial shareholding of S F Riddell of 927,000 shares (4.5%)**	3,035,239	14.6%
Brewin Dolphin *including the shareholding of J S Lambert of 1,413,691 shares (6.8%)*	2,169,417	10.5%
Liontrust Asset Management	2,059,251	9.9%
Octopus Investments	1,670,216	8.1%
Lord Downshire**	1,420,029	6.9%
Unicorn Asset Management	1,250,500	6.0%
Hargreave Hale	1,219,997	5.9%
Allianz Global Investors KAG	1,068,000	5.2%
N R Sale	613,400	3.0%

* S F Riddell's shareholding includes a non-beneficial interest in 565,500 ordinary shares

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

Directors' Report continued

Going Concern

The principal risks and uncertainties facing the Group are set out on page 14.

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

During the year the Group met its day-to-day general corporate and working capital requirements through existing cash resources. At 30th June 2013 the Group had cash on hand of £3.75 million (30th June 2012 — £2.31 million).

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

Auditors

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

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Our auditors, KPMG Audit Plc, have instigated an orderly wind down of their business. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning their appointment will be put to the members at the forthcoming Annual General Meeting.

Animalcare Group plc
By order of the Board,

Chris Brewster
Company Secretary
24th September 2013

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements for the year ended 30th June 2013

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

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

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

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

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

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

We have audited the financial statements of Animalcare Group plc for the year ended 30th June 2013 set out on pages 19 to 44. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 17 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30th June 2013 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

24th September 2013

Consolidated Statement of Comprehensive Income

Year ended 30th June 2013

	Note	Underlying results before exceptional and other items 2013 £'000	Exceptional and other items(i) 2013 £'000	Total 2013 £'000	Underlying results before exceptional and other items 2012 £'000	Exceptional and other items(i) 2012 £'000	Total 2012 £'000
Revenue	5	**12,118**	**—**	**12,118**	10,856	—	10,856
Cost of sales		**(5,337)**	**—**	**(5,337)**	(4,994)	—	(4,994)
Gross profit		**6,781**	**—**	**6,781**	5,862	—	5,862
Distribution costs		**(271)**	**—**	**(271)**	(262)	—	(262)
Administrative expenses		**(3,826)**	**(392)**	**(4,218)**	(3,306)	(190)	(3,496)
Operating profit/(loss)	4, 6	**2,684**	**(392)**	**2,292**	2,294	(190)	2,104
Finance income	9	**27**	**11**	**38**	2	—	2
Profit/(loss) before tax	4, 6	**2,711**	**(381)**	**2,330**	2,296	(190)	2,106
Income tax (expense)/credit	10	**(535)**	**90**	**(445)**	(395)	18	(377)
Total comprehensive income/(loss) for the year		**2,176**	**(291)**	**1,885**	1,901	(172)	1,729
Earnings per share							
Basic	12	**10.5p**		**9.1p**	9.3p		8.4p
Fully diluted	12	**10.4p**		**9.0p**	9.2p		8.4p

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

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

Statements of Changes in Shareholders' Equity

Year ended 30th June 2013

Group	Note	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Total £'000
Balance at 1st July 2011		4,075	6,045	5,669	15,789
Total comprehensive loss for the year		—	—	1,729	1,729
Transactions with owners of the Company, recognised in equity:					
Dividends paid	11	—	—	(926)	(926)
Issue of share capital	23	69	128	—	197
Share-based payments		—	—	48	48
Balance at 1st July 2012		4,144	6,173	6,520	16,837
Total comprehensive profit for the year				1,885	1,885
Transactions with owners of the Company, recognised in equity:					
Dividends paid	11			(932)	(932)
Issue of share capital	23	5	19	—	24
Share-based payments		—	—	148	148
Balance at 30th June 2013		**4,149**	**6,192**	**7,621**	**17,962**

Company	Note	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Total £'000
Balance at 1st July 2011		4,075	6,045	5,054	15,174
Total comprehensive loss for the year		—	—	(438)	(431)
Transactions with owners of the Company, recognised in equity:					
Dividends paid	11	—	—	(926)	(926)
Issue of share capital	23	69	128	—	197
Share-based payments		—	—	22	22
Balance at 1st July 2012		4,144	6,173	3,712	14,029
Total comprehensive loss for the year		—	—	(471)	(471)
Transactions with owners of the Company, recognised in equity:					
Dividends paid	11	—	—	(932)	(932)
Issue of share capital	23	5	19	—	24
Share-based payments		—	—	90	90
Balance at 30th June 2013		**4,149**	**6,192**	**2,399**	**12,740**

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 2013

	Note	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Non-current assets					
Goodwill	13	**12,711**	12,711	**—**	—
Other intangible assets	14	**1,538**	1,728	**—**	—
Property, plant and equipment	15	**412**	83	**—**	—
Investments in subsidiary companies	16	**—**	—	**14,361**	14,361
Deferred tax asset	22	**—**	—	**32**	31
		14,661	14,522	**14,393**	14,392
Current assets					
Inventories	17	**1,418**	1,420	**—**	—
Trade and other receivables	18	**1,662**	1,297	**578**	866
Cash and cash equivalents	19	**3,745**	2,305	**1,791**	1,738
		6,825	5,022	**2,369**	2,604
Total assets		**21,486**	19,544	**16,762**	16,996
Current liabilities					
Trade and other payables	19	**(1,982)**	(1,316)	**(4,022)**	(2,967)
Current tax liabilities		**(362)**	(169)	**—**	—
Deferred income	21	**(231)**	(207)	**—**	—
Current liabilities		**(2,575)**	(1,692)	**(4,022)**	(2,967)
Net current assets/(liabilities)		**4,250**	3,330	**(1,653)**	(363)
Non-current liabilities					
Deferred income	21	**(790)**	(844)	**—**	—
Deferred tax liabilities	22	**(159)**	(171)	**—**	—
		(949)	(1,015)		—
Total liabilities		**(3,524)**	(2,707)	**(4,022)**	(2,967)
Net assets		**17,962**	16,837	**12,740**	14,029
Capital and reserves					
Called up share capital	23	**4,149**	4,144	**4,149**	4,144
Share premium account		**6,192**	6,173	**6,192**	6,173
Retained earnings		**7,621**	6,520	**2,399**	3,712
Equity attributable to equity holders of the parent		**17,962**	16,837	**12,740**	14,029

The financial statements of Animalcare Group plc, registered number 1058015, were approved by the Board of Directors and authorised for issue on 24th September 2013.

They were signed on its behalf by:

Chris Brewster
Chief Financial Officer

Cash Flow Statements

Year ended 30th June 2013

	Note	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Comprehensive income/(loss) for the year before tax	10	**2,330**	2,106	**(596)**	(528)
Adjustments for:					
Depreciation of property, plant and equipment	15	**32**	19	**—**	—
Amortisation of intangible assets	14	**319**	307	**—**	—
Finance income	9	**(27)**	(2)	**(25)**	(2)
Share-based payment award	25	**149**	48	**90**	22
(Release)/deferral of deferred income	21	**(30)**	7	**—**	—
Loss on disposal of motor vehicles		**21**	—	**—**	—
Operating cash flows before movements in working capital		**2,794**	2,485	**(531)**	(508)
Decrease/(increase) in inventories	17	**2**	(74)	**—**	—
(Increase)/decrease in receivables	18	**(365)**	384	**413**	1
Increase/(decrease) in payables	19	**665**	(250)	**1,056**	2,765
Cash generated by operations		**3,096**	2,545	**938**	2,258
Income taxes paid		**(265)**	(422)		—
Net cash flow from operating activities		**2,831**	2,123	**938**	2,258
Investing activities:					
Payments to acquire intangible assets	14	**(129)**	(215)	**—**	—
Payments to acquire property, plant and equipment	15	**(379)**	(55)	**—**	—
Interest received		**25**	2	**23**	2
Net cash (used in)/generated by investing activities		**(483)**	(268)	**23**	2
Financing:					
Receipts from issue of share capital		**24**	197	**24**	197
Equity dividends paid	11	**(932)**	(926)	**(932)**	(926)
Net cash used in financing activities		**(908)**	(729)	**(908)**	(729)
Net increase in cash and cash equivalents		**1,440**	1,126	**53**	1,531
Cash and cash equivalents at start of year		**2,305**	1,179	**1,738**	207
Cash and cash equivalents at end of year		**3,745**	2,305	**1,791**	1,738
Comprising:					
Cash and cash equivalents	18	**3,745**	2,305	**1,791**	1,738

Notes to the Accounts

1. General Information

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

The IASB and IFRIC have issued the following standards and interpretations, 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
Annual Improvements to IFRSs 2009-2011	January 2013
IAS 19 Post-employment benefits (amended)	January 2013
IFRS 10 Consolidated Financial Statements	January 2013
IFRS 12 Disclosure of Interests in Other Entities	January 2013
IFRS 13 Fair value measurement	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 in the Directors' Report.

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

During the year the Group met its day-to-day general corporate and working capital requirements through existing cash resources. At 30th June 2013 the Group had cash on hand of £3.75m (30th June 2012 — £2.31m).

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30th June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

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

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.

Notes to the Accounts continued

2. Significant Accounting Policies continued

Exceptional and other items

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

Other items relate to the amortisation of acquired intangible assets, 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.

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.

Our Business

Our Performance

Our Governance

Our Financials

2. Significant Accounting Policies continued

Revenue recognition

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

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

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

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

Leasing

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

*The Group as le**ssee***

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).

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.

Notes to the Accounts continued

2. Significant Accounting Policies continued

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.

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.

2. Significant Accounting Policies continued

Provisions

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

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.

Notes to the Accounts continued

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 11.9% (2012 — 11.3%). The Directors' sensitivity analysis indicates significant headroom to the carrying value of the CGU when taking into account a reasonably possible change in any one of the key assumptions used in the value in use calculations.

The Group prepares cash flow forecasts derived from the most recent financial budgets and projections approved by management for the next five years, thereafter assuming an estimated growth rate of 1.3% (2012 — 1.9%). The growth rates for the five year period are based on current performance of the existing product portfolio and the estimated contribution from the Group's new product development pipeline. The Directors believe that the long-term growth rate does not exceed the average long-term growth rate for the UK economy.

Impairment of slow-moving and obsolete inventory

The Group performs 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.

4. Exceptional and Other Items

	Note	**2013 £'000**	2012 £'000
Executive and management severance payments		**152**	71
Amortisation of acquired intangible assets	14	**119**	119
Head office relocation		**121**	—
Fair value movements on foreign currency hedging	9	**(11)**	—
Total exceptional and other items		**381**	190

On 11th January 2013, Stephen Wildridge stepped down from the position as Group CEO and will remain in the Group until the end of October 2013 as Director of Strategy and Business Development. The total compensation package agreed on 11th January 2013 in relation to Stephen stepping down as CEO is £71,000 which is due to be paid on 31st October 2013, and in addition, an accelerated share based payments charge of £39,000 has been recognised to reflect Stephen's ability to exercise early any outstanding share options at 31st October 2013. The balance of £42,000 relates to management severance payments.

Head office relocation costs principally represent operating costs of the new premises whilst unoccupied together with one-off regulatory costs associated with changing the address on our pharmaceutical licences.

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 employer's national insurance.

5. Revenue and Operating Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker to allocate resources and assess performance. The Chief Operating Decision Maker is considered to be the Chief Executive Officer of Animalcare Group plc. Performance assessment is based on underlying operating profit.

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

	Note	**Companion Animal 2013 £'000**	Companion Animal 2012 £'000
Revenue		**12,118**	10,856
Gross Profit		**6,781**	5,862
Underlying Operating Profit		**2,684**	2,294
Other Items	4	**(119)**	(119)
Exceptional items	4	**(273)**	(71)
Operating Profit		**2,292**	2,104
Finance Income	9	**38**	2
Profit before tax		**2,330**	2,106

Notes to the Accounts continued

5. Revenue and Operating Segments continued

	Note	**Companion Animal 2013 £'000**	Companion Animal 2012 £'000
Products and Services			
Licensed veterinary		**7,200**	5,972
Animal identification		**2,244**	2,338
Animal welfare		**2,674**	2,546
		12,118	10,856
Other information			
Intangible asset additions	14	**129**	215
Property, plant and equipment additions	15	**379**	55
Depreciation and amortisation	14, 15	**351**	326
Consolidated assets		**21,486**	19,544
Consolidated liabilities		**(3,524)**	(2,707)
Consolidated net assets		**17,962**	16,837

	2013 £'000	2012 £'000
Key customers		
Number	**3**	3
Percentage of total revenue	**80%**	74%

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

	2013 £'000	2012 £'000
Geographical market		
United Kingdom	**11,061**	10,023
Other European countries	**1,057**	833
	12,118	10,856

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:

	2013 £'000	2012 £'000
Revenue from sale of goods	**11,250**	10,052
Revenue from provision of services	**868**	804
	12,118	10,856
Finance income	**27**	2
	12,145	10,858

6. Total Comprehensive Income/(Loss) for the Year

	2013 £'000	2012 £'000
Total comprehensive income/(loss) for the year has been arrived at after charging:		
Cost of inventories recognised as expense	**5,218**	4,911
Depreciation of tangible assets	**32**	19
Amortisation of intangible assets	**319**	307
Research and development	**138**	89
Operating lease rentals	**211**	206
Foreign exchange losses	**24**	2
Increase in provision for receivables	**6**	—
Increase in provision for inventories	**18**	—

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

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

	2013 £'000	2012 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**13**	25
Fees payable to the Company's auditors for other services to the Group		3
The audit of the Company's subsidiaries pursuant to legislation	**17**	28
Total audit fees	**30**	56
Tax services	**11**	26
Other services	**3**	4
Total non-audit fees	**14**	30
Total auditors' remuneration	**44**	86

Notes to the Accounts continued

7. Directors' Remuneration and Interests

Emoluments

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

Year ended 30th June 2013	**Salary £'000**	**Bonus £'000**	**Company pension contributions £'000**	**Benefits £'000**	**Compensation for loss of office £'000**	**Total £'000**
J S Lambert*	**33**	**—**	**—**	**—**	**—**	**33**
Lord Downshire*	**22**	**—**	**—**	**2**	**—**	**24**
R B Harding*	**22**	**—**	**—**	**—**	**—**	**22**
S M Wildridge	**128**	**—**	**—**	**—**	**—**	**128**
Dr I D Menneer	**100**	**—**	**12**	**6**	**—**	**118**
C J Brewster	**92**	**8**	**11**	**1**	**—**	**112**
Total	**397**	**8**	**23**	**9**	**—**	**437**

Year ended 30th June 2012						
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 (appointed 1st July 2011)	71	8	9	6	—	94
C J Brewster (appointed 21st June 2012)	8	—	—	—	—	8
Total	324	47	24	8	66	469

* Indicates Non-Executive Directors.

All Company pension contributions relate to defined contribution pension schemes. Benefits consist of Company car and private medical insurance. The compensation for loss of office in relation to S M Wildridge will be settled by 28th November 2013. The compensation for loss of office in relation to P Warner was paid in cash during 2012.

Share options

The Directors had the following beneficial options:

S M Wildridge

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

7. Directors' Remuneration and Interests continued

I D Menneer

Scheme	EMI	SAYE	EMI	EMI	EMI	Unapproved	SAYE	Unapproved	Total
Exercise Price	£0.975	£1.34	£1.675	£1.30	£1.325	£1.40	£1.03	£1.415	
Date of Grant	9th July 2009	4th October 2011	14th October 2011	2nd August 2012	20th November 2012	21st February 2013	22nd May 2013	20th June 2013	
Outstanding at 30th June 2012	5,000	3,358	60,000	—	—	—	—	—	68,358
Granted during the year	—	—	—	60,000	50,000	90,000	4,377	90,000	294,377
Outstanding at 30th June 2013	**5,000**	**3,358**	**60,000**	**60,000**	**50,000**	**90,000**	**4,377**	**90,000**	**362,735**

C J Brewster

Scheme	EMI	EMI	SAYE	EMI	Total
Exercise Price	£1.30	£1.30	£1.03	£1.415	
Date of Grant	22nd June 2012	2nd August 2012	22nd May 2013	20th June 2013	
Outstanding at 30th June 2012	30,000	—	—	—	30,000
Granted during the year	—	30,000	8,754	40,000	78,754
Outstanding at 30th June 2013	**30,000**	**30,000**	**8,754**	**40,000**	**108,754**

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

	2013	2012
	Ordinary shares of 20p	Ordinary shares of 20p
J S Lambert	**1,413,691**	1,363,691
Lord Downshire	**1,109,583**	1,109,583
S M Wildridge	**177,068**	200,068
I D Menneer	**9,381**	9,381
C J Brewster	**4,079**	—

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

Notes to the Accounts continued

8. Staff Costs

	2013	2012
Number of employees		
The average monthly number of employees (including Directors) during the year was:		
Production and distribution	**4**	4
Selling and administration	**53**	54
	57	58

	2013 £'000	2012 £'000
Related costs		
Wages and salaries	**1,810**	1,511
Social security costs	**191**	176
Other pension costs	**78**	71
	2,079	1,758

9. Finance Income

	2013 £'000	2012 £'000
Other net finance income:		
Fair value gains on financial instruments*	**11**	—
Interest income on bank deposits	**27**	2
Finance income	**38**	2

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

10. Income Tax Expense

	Note	**2013 £'000**	2012 £'000
The income tax expense comprises:			
Current tax expense		**632**	470
Adjustment in the current year in relation to prior years		**(175)**	(199)
		457	271
The deferred tax (credit)/expense comprises:			
Origination and reversal of temporary differences	22	**(18)**	81
Adjustment in the current year in relation to prior years	22	**6**	25
		(12)	106
Total tax expense for the year		**445**	377
The total tax charge can be reconciled to the accounting profit as follows:			
Total comprehensive income for the year		**1,885**	1,729
Total tax expense		**445**	377
Profit before tax		**2,330**	2,106
Income tax calculated at 23.75% (2012 — 25.5%)		**553**	537
Effect of expenses not deductible		**48**	3
Effect of share-based deductions		**20**	28
Change in UK tax rate		**(7)**	(13)
Effect of write-back of deferred tax liabilities		**—**	(4)
Effect of adjustments in respect of prior years		**(169)**	(174)
		445	377

The tax credit of £90,000 (2012 — £18,000) shown within “exceptional and other items” on the face of the statement of comprehensive income, which forms part of the overall tax charge of £445,000 (2012 — £377,000) relates to the items analysed in note 4.

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1st April 2012) and to 23% (effective 1st April 2013) were substantively enacted on 26th March 2012 and 3rd July 2012 respectively. Further reductions to 21% (effective from 1st April 2014) and 20% (effective from 1st April 2015) were substantively enacted on 2nd July 2013. Deferred tax balances have been calculated at an effective rate of 23%, being the substantively enacted rate at 30th June 2013.

11. Dividends

	2013 £'000	2012 £'000
Ordinary final dividend paid in respect of prior year	**621**	615
Ordinary interim dividend paid	**311**	311
	932	926

The final dividend paid during the year ended 30th June 2013 was 3.0 pence per share (2012 — 3.0 pence per share). The interim dividend paid during the year ended 30th June 2013 was 1.5 pence per share (2012 — 1.5 pence per share).

The proposed final dividend was approved by the Board of Directors on 24th September 2013 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 2013, in accordance with IAS 10 “Events After the Balance Sheet Date”.

Notes to the Accounts continued

12. Earnings per Share

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

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

	Underlying earnings before exceptional and other items 2013 £'000	Underlying earnings before exceptional and other items 2012 £'000	**Total earnings 2013 £'000**	Total earnings 2012 £'000
Total comprehensive income attributable to equity holders of the Company	**2,176**	1,901	**1,885**	1,729
	2013 No.	2012 No.	**2013 No.**	2012 No.
Basic weighted average number of shares	**20,732,636**	20,546,961	**20,732,636**	20,546,961
Dilutive potential ordinary shares	**124,519**	58,085	**124,519**	58,085
	20,857,155	20,605,046	**20,857,155**	20,605,046
Earnings per share:				
Basic	**10.5p**	9.3p	**9.1p**	8.4p
Fully diluted	**10.4p**	9.2p	**9.0p**	8.4p

13. Goodwill

	Group £'000
Cost	
At 1st July 2011, 1st July 2012 and 30th June 2013	12,711
Accumulated impairment losses	
At 1st July 2011, 1st July 2012 and 30th June 2013	—
Net book value	
At 30th June 2013 and 30th June 2012	**12,711**

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets and projections approved by management for the next five years and thereafter assuming an estimated long-term annual growth rate of 1.3% (2012 — 1.9%).

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

The Directors estimate the discount rates using the post-tax rates that reflect the current market assessments of the time value of money and the risks specific to the cash-generating unit. In the current year the Directors estimated the applicable pre-tax rate to be 11.9% (2012 — 11.4%).

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

14. Other Intangible Assets

Group	Acquired brands and customer relationships £'000	New product development costs £'000	Capitalised software £'000	Total £'000
Cost				
At 1st July 2011	1,361	1,228	41	2,630
Additions	—	161	54	215
At 30th June 2012	1,361	1,389	95	2,845
Additions	—	102	27	129
At 30th June 2013	1,361	1,491	122	2,974
Amortisation				
At 1st July 2011	415	393	2	810
Charge for the year	119	169	19	307
At 30th June 2012	534	562	21	1,117
Charge for the year	119	175	25	319
At 30th June 2013	653	737	46	1,436
Carrying value				
At 30th June 2013	**708**	**754**	**76**	**1,538**
At 30th June 2012	827	827	74	1,728

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

Notes to the Accounts continued

15. Property, Plant And Equipment

Group	Leasehold improvements £'000	Plant and equipment £'000	Office furniture and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1st July 2011	—	63	78	23	164
Additions	—	—	55	—	55
Disposals	—	—	—	(13)	(13)
At 1st July 2012		63	133	10	206
Additions	187	44	131	17	379
Disposals			(1)	(27)	(28)
At 30th June 2013	187	107	263		557
Depreciation					
At 1st July 2011	—	30	65	22	117
Charge for the year	—	10	8	1	19
Disposals	—	—	—	(13)	(13)
At 1st July 2012	—	40	73	10	123
Charge for the year	3	2	27	—	32
Disposals	—	—	—	(10)	(10)
At 30th June 2013	3	42	100		145
Net book value					
At 30th June 2013	**184**	**65**	**163**	**—**	**412**
At 30th June 2012	—	23	60	—	83

16. Investments in Subsidiaries

Subsidiary undertakings

	Company	
	2013 £'000	2012 £'000
Cost and net book value		
At 1st July 2011, 2012 and 30th June	**14,361**	14,361

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

	Country of registration or incorporation	Class	Shares held %
Animalcare Ltd	England	Ordinary	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

Our Business
Our Performance
Our Governance
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17. Inventories

	Group	
	2013 £'000	2012 £'000
Finished goods and goods for resale	**1,418**	1,420

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

18. Other Financial Assets

Trade and other receivables

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Trade receivables	**1,386**	1,134	**—**	—
Amounts receivable from subsidiaries	**—**	—	**—**	423
Corporation tax – Group relief	**—**	—	**556**	431
Other receivables	**8**	66	**7**	4
Derivative financial instruments (see note 20)	**11**	—	**—**	—
Prepayments and accrued income	**257**	97	**15**	8
	1,662	1,297	**578**	866

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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Balance at 1st July	**—**	5	**—**	—
Impairment losses recognised	**6**	(5)	**—**	—
Balance at 30 June	**6**	—	**—**	—

Ageing of past due but not impaired receivables

	Group	
	2013 £'000	2012 £'000
1–30 days past due	**—**	31
31–90 days past due	**4**	—
91 days and more	**2**	—
	6	31

Notes to the Accounts continued

18. Other Financial Assets continued
Cash and cash equivalents

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Cash and cash equivalents	**3,745**	2,305	**1,791**	1,738

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

The carrying amount of these assets approximates of 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 32 days (2012 — 31 days). No interest has been charged on overdue receivables.

19. Other Financial Liabilities

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Trade payables	**983**	702	**62**	70
Amounts payable to subsidiaries	**—**	—	**3,757**	2,821
Other taxes and social security costs	**369**	338	**39**	40
Other creditors	**288**	227	**18**	27
Accruals	**342**	49	**146**	9
	1,982	1,316	**4,022**	2,967

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

20. Financial Instruments
Capital and liquidity risk management
At 30th June the Group was contractually obliged to make repayments of principal and payments of interest as detailed below:

	Within one year or on demand £'000	1–2 years £'000	3–5 years £'000	More than 5 years £'000	Total £'000
2013					
Trade and other payables	**1,982**	**—**	**—**	**—**	**1,982**
2012					
Trade and other payables	1,316	—	—	—	1,316

20. Financial Instruments continued

Categories and Fair Value of Financial Instruments

Carrying value

	2013 £'000	2012 £'000
Financial assets		
Trade and other receivables (including cash and cash equivalents)	**5,139**	3,505
Financial liabilities		
Trade and other payables	**(1,982)**	(1,316)

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	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Euro	**233**	54	**33**	9
US Dollar	**142**	—	**21**	53

Foreign Currency Sensitivity Analysis

At 30th June 2013 the Group is mainly exposed to the Euro and the US Dollar. The following table details the effect of a 10% increase and decrease in the exchange rate of these currencies against Sterling when applied to outstanding monetary items denominated in foreign currency as at 30th June 2013. A positive number indicates that an increase in profit would arise from a 10% strengthening of Sterling against these currencies, a negative number indicates that a decrease would arise.

	Strengthening £'000	Weakening £'000
Euro	(18)	22
US Dollar	(11)	14

Interest Rate Sensitivity Analysis

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

Forward Foreign Exchange Contracts

The Group had nine (2012 — none) open foreign exchange contracts at 30th June 2013. The values are shown below:

	2013 £'000	2012 £'000
Principal value	**285**	—
Fair value	**11**	—

Capital Management

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

Notes to the Accounts continued

21. 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:

	2013 £'000	2012 £'000
Balance at the beginning of the period	**1,051**	1,044
Income deferred to future periods	**177**	189
Release of income deferred from previous periods	**(207)**	(182)
	1,021	1,051

The deferred income liabilities fall due as follows:

	2013 £'000	2012 £'000
Within one year	**231**	207
After one year	**790**	844
	1,021	1,051

Income recognised during the year is set out below:

	2013 £'000	2012 £'000
Income received	**190**	203
Income deferred to future periods	**(177)**	(189)
Release of income deferred from previous periods	**207**	182
Income recognised in the year	**220**	196

22. Deferred Tax Liabilities

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

	Property, Plant and Equipment £'000	Share based payments £'000	Other £'000	Intangible fixed assets £'000	Total £'000
Balance at 1st July 2011	(59)	(122)	—	246	65
Charge/(credit) to income	45	111	(2)	(48)	106
Balance at 30th June 2012	(14)	(11)	(2)	198	171
Charge/(credit) to income	41	(13)	(5)	(35)	(12)
Balance at 30th June 2013	**27**	**(24)**	**(7)**	**163**	**159**

As set out in note 10 the rate of corporation tax will be reducing to 21% (effective from 1st April 2014) and 20% (effective from 1st April 2015). A reduction of 2% would reduce deferred tax liabilities, if applied at 30th June 2013, by £14,000 to £145,000.

22. Deferred Tax Liabilities continued

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

	Accelerated tax depreciation £'000	Share-based payments £'000	Other £'000	Total £'000
Balance at 1st July 2011	(56)	(100)	—	(156)
Charge/(credit) to income	35	92	(2)	125
At 30th June 2012	(21)	(8)	(2)	(31)
Charge/(credit) to income	4	(5)	—	(1)
At 30th June 2013	**(17)**	**(13)**	**(2)**	**(32)**

As set out in note 10 the rate of corporation tax will be reducing to 21% (effective from 1st April 2014) and 20% (effective from 1st April 2015). A reduction of 2% would reduce deferred tax assets, if applied at 30th June 2013, by £3,000 to £29,000.

23. Share Capital

	2013 No.	2012 No.
Allotted, called up and fully paid ordinary shares of 20p each	**20,745,204**	20,720,204

	2013 £'000	2012 £'000
Allotted, called up and fully paid ordinary shares of 20p each	**4,149**	4,144

During the year £5,000 (2012 — £69,000) of ordinary shares were issued for proceeds of £24,375 (2012 — £197,000) resulting in a share premium of £19,375 (2012 — £128,000).

24. Operating Lease Arrangements

The Group as lessee

	2013 £'000	2012 £'000
Lease payments under operating leases recognised as an expense in the year	**211**	206

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:

	2013 £'000	2012 £'000
Within one year	**165**	120
In the second to fifth years inclusive	**334**	69
After five years	**143**	—
	642	189

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

Notes to the Accounts continued

25. Share-based Payments

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

	EMI		Unapproved		Unapproved	
	Options	Price £	Options	Price £	Options	Price £
Outstanding at beginning of year	286,600	1.455	72,114	1.34	128,400	1.130
Granted during the year	445,000	1.334	114,140	1.028	180,000	1.408
Lapsed during the year	(30,000)	1.42	(47,409)	1.34	—	—
Exercised during the year	(25,000)	0.975	—	—	—	—
Open at 30th June 2013	**676,600**	**1.392**	**138,845**	**1.084**	**308,400**	**1.292**
Exercisable at the end of the year	**20,000**	**0.975**	**—**	**—**	**100,000**	**0.975**

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

	EMI Scheme	SAYE Scheme	Unapproved Scheme
Weighted average share price	133p	144p	121p
Weighted average exercise price	135p	115p	125p
Expected volatility	50%	55%	47%
Expected life	3.1 years	3.1 years	3.1 years
Risk-free rate	0.6%	0.5%	0.7%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 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 (2012 — £nil).

The Group recognised total expenses of £149,000 (2012 — £48,000), £110,000 (2012 — £48,000) within administrative expenses and £39,000 (2012 — £nil) within exceptional and other items as disclosed in note 4.

26. Related Party Transactions

Trading transactions

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

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

2012	Animalcare Ltd £'000	Total £'000
Management Charges levied	192	192

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of Directors is provided in note 7.

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

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

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