Company Registration No. 1500876

Animalcare Ltd

Annual Report and Financial Statements

18 month period ended 31st December 2017

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Contents

Officers and professional advisers

Directors

Lord Downshire
C J Brewster

Secretary

C J Brewster

Solicitor

Squire Patton Boggs (UK) LLP
6 Wellington Place
Leeds
LS1 4AP

Banker

Barclays Bank Plc
PO Box 190
1 Park Row
Leeds
LS1 5WU

Independent Auditors

PricewaterhouseCoopers LLP
Central Square
29 Wellington St,
Leeds
LS1 4DL

Registered Office

10 Great North Way
York Business Park
Nether Poppleton
York
YO26 6RB

Strategic Report

On 1st August 2017, following the reverse acquisition of Ecuphar NV which completed on 13th July 2017, Animalcare Group plc, together with the Company, changed its financial year end from 30th June to 31st December. This Annual Report and Financial Statements therefore provides figures for the 18 month period ended 31st December 2017 versus a comparative of the year ended 30th June 2016.

Results and dividends

The profit for the period, after taxation, amounted to £4.9m (2016 - £3.1m). Ordinary dividends of £4.8m and £3.0m were paid to Animalcare Group plc on 21st September 2016 and 10th May 2017 respectively.

Business review and principal activity

Principal activity

The Company's principal activity is the supply of veterinary medicines, identification and other products and services principally for use on companion animals.

Business Review

Introduction

The Company has delivered another period of solid top line growth whilst we continue to invest in the business. Operating profit increased to £5.7m (2016: £3.7m) reflecting the longer financial period together with underlying annualised growth of 3.9%.

Revenues for the 18 month period increased to £23.8m (2016: £14.7m). Our export focus continued to deliver strong growth outside of our core UK market which remains competitive due to the continued consolidation of our customer base.

We have been in an investment phase for over five years now and we continue to invest in our product development pipeline from which we expect to see meaningful benefits during 2019 and beyond.

Cash balances decreased to £3.2m (2016: £5.5m) as at 31st December 2017, largely due to the £7.8m of dividends paid during the period. Operating cash generation remains strong, providing the business with the funds we need to continue the momentum of our product development pipeline and support future growth.

Revenue

Revenue £'000	**18 month period ended 31st December 2017**	Year ended 30th June 2016	% change
Licensed Veterinary Medicines	16,030	9,238	73.5%
Companion Animal Identification	3,252	2,680	21.3%
Animal Welfare Products	4,511	2,783	62.1%
Total	23,793	14,701	61.8%

Revenue increased by 61.8% to £23.8m (2016: £14.7m) driven by the longer accounting period together with pro-forma annualised growth in the UK of 3.8% and outside the UK of 53.2%. As a result, export revenues contributed 11.7% (2016: 8.2%) of Company revenues.

Strategic Report (continued)

The Licensed Veterinary Medicines group, which represents 67.4% (2016: 62.8%) of total revenue, continued its strong track record of growth, with sales up 73.5% to £16m, primarily reflecting the longer accounting period and annualised sales of new products launched during the 2016 calendar year including Acecare, a sedative from our in-house development pipeline which has performed strongly.

Companion Animal Identification sales increased by 21.3% however on a pro-forma 12 months like for like basis declined by 15.7%. This fall was primarily as a result of the £0.30m incremental sales benefit observed in FY16 following the introduction of compulsory microchipping legislation in the UK in April 2016, together with the expected reduction in sales volumes as result of the smaller addressable dog microchipping market.

Our Animal Welfare Products group grew by 62.1%, again principally due to the additional six months sales period, together with underlying growth of our infusion accessories range.

Gross Profit

	18 month period ended 31st December 2017	Year ended 30th June 2016	% change
Gross Profit (£'000)	13,370	7,999	67.1%
Gross Margin %	56.2%	54.4%	1.8ppts

The strong sales performance led to gross profit increasing by 67.1% on prior year to £13.4m (11.4% on a pro-forma annualised basis) and our gross margin increased by 1.8%. This margin improvement was primarily driven by favourable sales mix as a higher % of sales were derived from our Licensed Veterinary Medicines group.

We anticipate gross margins to return to around the levels observed during FY16 due to a combination of lower margin sales mix and maintaining or growing market share in a competitive environment.

Operating results

£'000	**18 month period ended 31st December 2017**	Year ended 30th June 2016	% change
EBITDA	**6,191**	3,968	56.0%
Depreciation & amortisation	**(497)**	(314)	
Operating profit	**5,694**	3,654	55.8%
Operating margin %	**23.9%**	24.9%	(1.0ppts)
Profit after tax	**4,881**	3,129	56.0%

Operating profit increased by 56.0% to £5.7m however our operating margin reduced by 1.0 basis points to 23.9%, the latter reflecting the continuing investment in our business, in particular our people for which employee costs increased by £1.6m, to position the business for future growth.

Our effective tax rate at 14.4% has reduced versus last year largely as a result of higher research and development tax credits are claimed for qualifying expenditure.

Strategic Report (continued)

Reflecting all of the above, reported profit after tax was up 56% to £4.9m (2016: £3.1m).

Cash flow

The cash position reduced by £2.3m to £3.2m as at 31st December 2017, with the business continuing to generate strong levels of operating cash. This is due to investment in capitalised development costs and dividend payments to Animalcare Group plc.

The strong momentum in building value within our product development pipeline continued, with investment substantially increasing as shown in the chart below.

Period ended	Capitalised development costs (£m)
30th June 2015	£0.8m
30th June 2016	£1.6m
31st December 2017	£2.9m

Research and Development

Approximately four years ago we overhauled our product development activities and embarked on a number of new projects. These projects were expected to take approximately three to five years to commercialise including Acecare which was launched in the period. We expect to move a number of projects through their regulatory phase during 2018, with commercial launch during 2019 and 2020.

Principal risks and uncertainties

Product development risk

In line with the Group's strategy, we currently plan to commit a significant amount of resources to expand our portfolio of licensed veterinary medicines, the success of which could be compromised by a number of factors.

Pharmaceutical development is complex, involving technical, regulatory and financial risk. Failure to successfully deliver new product development projects could have a material impact on the Company's results and damage our market position and relationship with our customers. Complete failure of a project or failure to meet commercial expectations due to, for example, competitor launches (generic or novel) would result in impairment of capitalised development costs.

To manage these risks, following careful selection of development strategy, each new product development project undergoes rigorous review by the cross-discipline senior management team with final sign off by the Board. The pipeline is reviewed regularly, with corresponding updates provided to the Board, to ensure each project is progressing according to plan. External consultants, where deemed necessary, are employed to aid effective management of the development and regulatory process.

Market risk

The UK veterinary market continues to see a customer-base that is consolidating via the emergence of buying groups and corporate customers who are looking for value from the products and services we provide. The growth of corporate customers presents an opportunity for growth but at the expense of margins.

We continue to develop and strengthen our sales and marketing teams in respect of key account support and achieve our goal to better serve our changing customer-base.

Strategic Report (continued)

Reliance on third parties risk

The supply of products to our customers in a timely manner is vital to the success of the Company.

The Company does not manufacture any of its own products and is solely reliant on an increasing third party supplier and contract manufacturer base across the UK and Europe.

Any disruption to the relationship with our key supply partners, whether commercial or via change of control, or interruption to the supply chain could result in significant loss of revenue and damage the Company's reputation with its customers.

Given the increasing complexity and diversity in our supply chain, we identified the need for increased specialist resource in this area, recruitment for which completed late in 2016.

We monitor supplier performance and maintain adequate inventories, including safety stock held by our suppliers, based on risk assessments.

People risk

Animalcare Group plc (the "Group"), the parent undertaking of the Company, has a small Executive and senior management team whose skills, knowledge, experience and performance make a large contribution to the success of the Group. Failure to retain and attract high calibre individuals could impact the successful implementation of our strategy and have an adverse impact on results.

Remuneration packages are reviewed annually to help ensure that the Group has the right mix of base salary, short-term and long-term incentives to attract retain and reward key employees to execute our growth strategy.

Financial instruments

The Company 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.

Going concern

The Company continues to have strong operating cash generation with net cash decreasing by £2.3m during the period to £3.2m, largely due to dividend payments. The Company is a subsidiary of Animalcare Group plc therefore for the purposes of the assessment of going concern the Group as a whole needs to be considered.

During the year the Group met its day-to-day general corporate and working capital requirements through existing cash resources. At 31st December 2017 the Group had cash on hand of £7.6m of which £3.2m was attributable to the Company. The Group's net debt position at 31st December 2017 was £25.9m, with £14.9m of headroom available. All covenants governing the facilities were met and taking into account reasonable possible changes in trading performance, the Group's forecasts indicate the business should have sufficient cash and debt resources to meet its requirements for at least the next 12 months.

Summary

From a financial performance perspective, the Company has delivered a solid set of results in a growing but increasingly competitive market. Sterling weakness has impacted on our costs of goods, in particular our pharmaceutical products imported from mainland Europe. The UK operations have and are continuing to take steps to mitigate certain of this exposure via growth of our export business which will provide some natural

Strategic Report (continued)

hedge. Investment in the product development pipeline continues with a number of commercial launches anticipated during 2019 which we expect to see benefit in profit.

On behalf of the Board

Chris Brewster

C Brewster
Chief Financial Officer

10 Great North Way
York Business Park
Nether Poppleton
York
YO26 6RB

25th September 2018

Directors' Report

Directors

The directors, who served throughout the year and up to the date of signing the financial statements, except as noted, are as follows:

I D Menneer (resigned 26th April 2018)
C J Brewster
Lord Downshire

Financial Instruments
Financial instruments have been discussed in the Strategic Report.

Future Developments
In line with the Group's strategy, we currently plan to commit a significant amount of resources to expand our portfolio of licensed veterinary medicines. We expect to move a number of projects through their regulatory phase during 2018, with commercial launch during 2019 and 2020.

Financial Risk Management
Financial risk management has been discussed in the Strategic Report.

Political and charitable contributions

The Company made no political contributions during the period *(2016: £nil).* Donations to UK charities amounted to £44 *(2016: £71).*

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP were appointed as the Company's auditor with effect from 15th January 2018 and have indicated their willingness to continue in office. A resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved by the board of directors on 25th September 2018 and signed on behalf of the Board

C J Brewster
Director and Company Secretary

10 Great North Way
York Business Park
Nether Poppleton
York
YO26 6RB

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent auditors' report to the members of Animalcare Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Animalcare Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the 18 month period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2017; the income statement, and the statement of changes in equity for the 18 month period then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If,

Independent auditors' report to the members of Animalcare Ltd

based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Animalcare Ltd

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Ian Morrison

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
25th September 2018

Income Statement
Period ended 31st December 2017

	Note	18 month period ended 31st December 2017 £'000	Year ended 30th June 2016 £'000
Turnover	2	23,793	14,701
Cost of sales		(10,423)	(6,702)
Gross profit		**13,370**	7,999
Distribution costs		(352)	(255)
Administrative expenses		(7,252)	(4,090)
Exceptional costs		(72)	-
Operating profit		5,694	3,654
Finance costs	6	(14)	
Other finance income	6	20	58
Profit before taxation	3	5,700	3,712
Tax on profit	7	(819)	(583)
Profit for the financial period/year		4,881	3,129

All activities derive from continuing operations.

The Company has no other comprehensive income expenditure other than those included in the profits above and therefore no separate statement of comprehensive income has been presented.

The notes on pages 15 to 30 form part of these financial statements.

Statement of Financial Position
As at 31st December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	8	4,962	2,612
Tangible assets	9	219	281
		5,181	2,893
Current assets			
Stocks	10	1,959	1,604
Debtors	11	5,061	7,155
Cash at bank and in hand		3,244	5,542
		10,264	14,301
Creditors: amounts falling due within one year	12	(4,298)	(3,431)
Net current assets		5,966	10,870
Total assets less current liabilities		11,147	13,763
Creditors: amounts falling after more than one year	14	(781)	(762)
Deferred tax liability	7	(468)	(280)
Net assets		9,898	12,721
Capital and reserves			
Called up share capital	15	619	619
Capital contribution reserve		439	353
Profit and loss account		8,840	11,749
Total shareholders' funds		9,898	12,721

The notes on pages 15-30 form part of these financial statements.

The financial statements of Animalcare Ltd, registered number 1500876, were approved by the Board of directors and authorised for issue on 25th September 2018.

Signed on their behalf by

Chris Brewster

C J Brewster

Director

Statement of Changes in Equity for the period ended 31st December 2017

	Share capital £'000	Capital contribution reserve £'000	Profit and loss account £'000	Total shareholder's funds £'000
At 1st July 2015	619	281	8,620	9,520
Profit for the year	-	-	3,129	3,129
Transactions with owners, recorded directly in equity				
Share-based payments	-	72	-	72
At 30th June 2016	619	353	11,749	12,721
Profit for the period	-	-	4,881	4,881
Dividends	-	-	(7,790)	(7,790)
Transactions with owners, recorded directly in equity				
Share-based payments	-	86	-	86
At 31st December 2017	**619**	**439**	**8,840**	**9,898**

Notes to the accounts
Period ended 31st December 2017

1. ACCOUNTING POLICIES

Animalcare Ltd (the "Company") is a private limited company incorporated and domiciled in the UK.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101")*. The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's parent undertaking, Animalcare Group plc includes the Company in its consolidated financial statements. The consolidated financial statements of Animalcare Group plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of Animalcare Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Notes to the accounts
Period ended 31st December 2017

1. **ACCOUNTING POLICIES (continued)**

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 19.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

New Standards, Amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the period 31 December 2017 have had a material impact on the Company.

Going Concern

Overall, the directors believe the Company is well placed to manage its business risks (as outlined in the Strategic Report) successfully despite the current challenges within the veterinary market and wider economy. The Company's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group and Company should have sufficient cash resources to meet its requirements for at least the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Intangible assets - research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the year in which it is incurred. An internally generated intangible asset arising from the Company's new product development is recognised only if all the following conditions are met:

- an asset is created that can be identified (such as a new pharmaceutical product)
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably

Internally generated intangible assets are amortised on a straight line basis over their expected useful lives, which is normally estimated at 4-7 years.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes to the accounts
Period ended 31st December 2017

1. ACCOUNTING POLICIES (continued)

Tangible assets

Tangible assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is provided on all tangible assets at rates calculated to write off the cost less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Plant, machinery and equipment 3 to 10 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving and defective items where appropriate.

Share based payments

The share option programme allows employees to acquire shares of the parent Company, Animalcare Group Plc. As the Company grants rights to its parent's equity instruments, these share based payment awards are treated as equity-settled. This results in a share based payment charge with a corresponding entry to the capital contribution reserve.

The grant date fair value of share-based payment awards is recognised as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Turnover

Turnover represents net invoiced sales of goods and services, excluding value added tax, recognised as the goods are despatched and risks and benefits are transferred or the services are provided. Profit is recognised on long term contracts over the period of the contract, with any advance payments being deferred over its period.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Notes to the accounts
Period ended 31st December 2017

1. **ACCOUNTING POLICIES (continued)**

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined..

Pension costs

The Company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Notes to the accounts
Period ended 31st December 2017

1. ACCOUNTING POLICIES (continued)

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Non-underlying items

Non-underlying 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.

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

2. TURNOVER

Turnover, which is stated net of value added tax, is attributable to one continuing activity of the Company, the distribution of veterinary products and provision of related services. An analysis of turnover by geographical market is given below:

	18 month period ended 31st December 2017 £'000	Year ended 30th June 2016 £'000
United Kingdom	**21,011**	13,490
Overseas	**2,782**	1,211
	23,793	14,701

Notes to the accounts
Period ended 31st December 2017

3. PROFIT BEFORE TAXATION

This is stated after charging/(crediting):

	18 month period ended 31st December 2017 £'000	Year ended 30th June 2016 £'000
Auditor remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	29	21
Fees payable to the Company's auditor for tax services	-	8
Depreciation of owned tangible assets	96	65
Amortisation of intangible assets	401	249
Operating lease rentals – plant and equipment	197	133
Operating lease rentals – land and buildings	100	66
Research and development costs	657	156
Foreign exchange losses	29	43

4. INFORMATION REGARDING DIRECTORS

	18 month period ended 31st December 2017 £'000	Year ended 30th June 2016 £'000
Directors' emoluments	-	-
Contributions to defined contribution pension schemes	-	-

	18 month period ended 31st December 2017 No.	Year ended 30th June 2016 No.
Members of defined contribution pension schemes	-	-

The remuneration of the Directors has been borne by the parent Company, Animalcare Group plc, in the years ended 31st December 2017 and 30th June 2016. The directors do not consider it practical to apportion their emoluments between services to the parent Company and to Animalcare Ltd. Full details of the directors' emoluments are shown in the accounts of Animalcare Group plc.

Notes to the accounts
Period ended 31st December 2017

5. STAFF COSTS

The aggregate employee remuneration was as follows:	18 month period ended 31st December 2017 £'000	Year ended 30th June 2016 £'000
Wages and salaries	3,213	1,871
Social security costs	286	184
Defined contribution pension costs	202	110
Share based payment charge (note 17)	86	72
	3,787	2,237

The monthly average number of employees during the year was as follows:

	18 month period ended 31st December 2017 No.	Year ended 30th June 2016 No.
Distribution	4	4
Sales and administration	58	54
	62	58

6. FINANCE COSTS AND OTHER FINANCE INCOME

	18 month period ended 31st December 2017 £'000	Year ended 30th June 2016 £'000
Interest receivable on cash balances	20	22
Fair value of financial instruments	(14)	36
	6	58

Notes to the accounts
Period ended 31st December 2017

7. **TAX ON PROFIT**

(a) Analysis of tax charge on profit on ordinary activities

The tax charge is made up as follows:

	18 month period ended 31st December 2017 £'000	Year ended 30th June 2016 £'000
Current tax:		
United Kingdom corporation tax	787	572
Adjustment in the current year in respect of prior years	(155)	(148)
Total current tax	632	424
Deferred tax:		
Origination and reversal of temporary differences	187	161
Adjustment in the current year in respect of prior years	-	(2)
Total tax expense for the year	819	583

(b) Reconciliation of the total tax charge

The total tax expense for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.5% (2016: 20%). The differences are reconciled below:

	18 month period ended 31st December 2017 £'000	Year ended 30th June 2016 £'000
Profit on ordinary activities before taxation	5,700	3,712
Profit on ordinary activities at standard rate of UK corporation tax	1,112	742
Expenses not deductible for tax purposes	6	40
Innovation related tax credits	(187)	(65)
Depreciation in excess/(less than) capital allowances	73	13
Tax effect of share-based deductions	(27)	3
Adjustment in respect of prior years	(158)	(150)
Total tax expense for the year	819	583

The corporation tax charge for the year will be partially relieved by tax losses surrendered from Animalcare Group plc, and the group relief will be paid for at the standard rate of UK corporation tax of 19% (2016: 20%). The prior year current tax credits in respect of both 2017 and 2016 primarily relate to research and development tax credits.

Notes to the accounts
Period ended 31st December 2017

7. TAX ON PROFIT (CONTINUED)

Reductions in the UK corporation tax rate from 19% (effective from 1 April 2017) to 17% (effective 1 April 2020) were substantively enacted on 6 September 2016. The deferred tax liability at 31st December 2017 has been calculated based on these rates. This will reduce the Company's future current tax charge accordingly.

(c) Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2017 £000	2016 £000	Liabilities 2017 £000	2016 £000	Net 2017 £000	2016 £000
Tangible assets	-	-	31	44	31	44
Intangible assets	-	-	512	323	512	323
Share-based payments	(70)	(80)		-	(70)	(80)
Other	(5)	(7)		-	(5)	(7)
Net tax (assets) / liabilities	(75)	(87)	543	367	468	280

Movement in deferred tax during the year

	1 July 2016 £000	Recognised in income £000	31 December 2017 £000
Tangible assets	44	(13)	31
Intangible assets	323	189	512
Share-based payments	(80)	10	(70)
Other	(7)	2	(5)
	280	187	468

Movement in deferred tax during the prior year

	1 July 2015 £000	Recognised in income £000	30 June 2016 £000
Tangible assets	45	(1)	44
Intangible assets	159	164	323
Share-based payments	(77)	(3)	(80)
Other	(6)	(1)	(7)
	121	159	280

Notes to the accounts
Period ended 31st December 2017

8. INTANGIBLE ASSETS

	Capitalised Software £000	New product development costs £'000	Total £000
Cost:			
At 1st July 2016	213	3,965	4,178
Additions	125	2,845	2,970
Disposals	-	-	-
At 31st December 2017	338	6,810	7,148
Accumulated Amortisation:			
At 1st July 2016	151	1,415	1,566
Charge for the period	81	320	401
Impairment charge	-	219	219
At 31st December 2017	232	1,954	2,186
Net book value:			
At 31st December 2017	**106**	**4,856**	**4,962**
At 30th June 2016	62	2,550	2,612

9. TANGIBLE ASSETS

	Plant, machinery and equipment £'000
Cost:	
At 1st July 2016	488
Additions	34
At 31st December 2017	522
Accumulated Depreciation:	
At 1st July 2016	207
Charge for the period	96
At 31st December 2017	303
Net book value:	
At 31st December 2017	**219**
At 30th June 2016	281

Notes to the accounts
Period ended 31st December 2017

10. STOCKS

	2017 £'000	2016 £'000
Goods for resale	**1,959**	1,604

The cost of inventories recognised as an expense in the year was £10,233,000 (2016: £6,515,000).

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

11. DEBTORS

	2017 £'000	2016 £'000
Amounts falling due within one year comprise:		
Trade debtors	**2,216**	1,782
Amounts owed by Group companies	**2,303**	4,990
Derivative financial instruments	**4**	18
Prepayments and accrued income	**538**	365
	5,061	7,155

The amounts owed by Group companies are repayable on demand.

Derivative financial instruments represent the fair value of the Company's open foreign exchange contracts at 31st December 2017. The principal value was £189,000 and fair value £4,000.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Trade creditors	**1,361**	1,416
UK Corporation tax and group relief	**564**	410
Other creditors	**643**	448
Other taxation and social security	**616**	392
Accruals	**896**	545
Deferred income (note 14)	**218**	220
	4,298	3,431

13. PENSIONS

The Company operates a defined contribution scheme for eligible employees. The unpaid contributions outstanding at the year ended 31st December 2017 included in 'Other creditors' are £nil (2016: £nil).

Notes to the accounts
Period ended 31st December 2017

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017 £'000	2016 £'000
Deferred income	781	762
	781	762

Movements in the Company's deferred income liabilities during the current and prior years are as follows:

	2017 £'000	2016 £'000
Balance at the beginning of the year	982	958
Income deferred to future years	366	263
Release of income deferred from previous years	(349)	(239)
Balance at the end of the year	999	982

The deferred income liabilities fall due as follows:

	2017 £'000	2016 £'000
Within one year	218	220
After one year	781	762
	999	982

Income recognised during the year is set out below:

	2017 £'000	2016 £'000
Income received	389	282
Income deferred to future years	(366)	(263)
Release of income deferred from previous years	349	239
	372	258

Notes to the accounts
Period ended 31st December 2017

15. CALLED UP SHARE CAPITAL

	Allotted, called up and fully paid			
		2017		2016
	No.	£'000	No.	£'000
556,000 Ordinary shares of £1 each	**556,000**	**556**	556,000	556
51,128 A Ordinary shares of £1 each	**51,128**	**51**	51,128	51
11,800 B Ordinary shares of £1 each	**11,800**	**12**	11,800	12
	618,928	619	618,928	619

Issue of Share Capital - Long Term Incentive Plan

Under the Animalcare Group plc (the Group) LTIP, which was introduced in June 2014, the Directors' interests in the LTIP, which was implemented via a subscription for growth shares in the capital of Animalcare Ltd (the Company) are as follows:

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

On 13th July 2017, following the exercise of the LTIP, the Group acquired the remaining 10% of the Company that it did not own, for a consideration of £3,607,000. This was satisfied by the issue of 918,896 new Ordinary Shares at a price of 392.5 pence per share. On 13th July 2017, the Group completed a reverse acquisition, acquiring 100% of the share capital of Ecuphar NV. Following this, on 19th July 2017, the Company was then transferred to Ecuphar NV as part of a post completion restructuring of the Group. The consideration was £4,000,000 in cash.

It was agreed between Group, Dr Menneer and Mr Brewster, that the put options did not become exercisable as a result of the reverse acquisition of Ecuphar NV. The Group however, determined that it was appropriate to offer the right to exchange their shares in the Company for Ordinary Shares shortly before completion of the reverse acquisition, and each took up that right. As a consequence, the 918,896 new shares were issued to Dr Menneer and Mr Brewster. The number of new Ordinary Shares issued pursuant to the exercise of these rights was determined using the lower of the closing middle market price for an Ordinary Share on 22nd June 2017, being the dealing day before the date the offer to exchange was made and the average of the closing middle market prices for an Ordinary Share over the dealing days in the 30th day period before that date, being 392.5 pence.

Further details of the Plan, including Hurdle, anti-dilution and other provisions, are set out in Animalcare Ltd's articles of association, which is available within the investors section (constitutional documents) of Animalcare Group plc's website at http://www.animalcaregroup.co.uk.

Notes to the accounts
Period ended 31st December 2017

16. OPERATING LEASE RENTALS

Non-cancellable operating lease rentals are payable as follows:

	Land & Buildings		Other	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Leases expiring within one year	80	66	105	114
Leases expiring in two to five years	313	144	74	97
Leases expiring after five years	-	45	-	-
	393	255	179	211

17. SHARE-BASED PAYMENTS

During the year the Company operated the Animalcare Group plc Executive Share Option Scheme and the Save As You Earn (SAYE) Share Option Scheme as described below:

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

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

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

	EMI		SAYE	
	Options	Price £	Options	Price £
Outstanding at 1st July 2016	340,000	1.733	165,618	1.042
Granted during the year	-	-	87,531	2.28
Lapsed during the year	(47,500)	1.860	(7,835)	1.607
Exercised during the year	(150,000)	1.519	(59,343)	1.028
Open at 31st December 2017	**142,500**	**1.916**	**185,971**	**1.605**
Exercisable at the end of the year	57,500	1.55	-	-

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17. SHARE-BASED PAYMENTS (CONTINUED)

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

	EMI Schemes	SAYE Scheme
Weighted average share price	154p	195p
Weighted average exercise price	154p	157p
Expected volatility	53%	42%
Expected life	3.1 years	3.1 years
Risk-free rate	0.5%	0.5%

The share option programme allows employees to acquire shares of the parent company, Animalcare Group plc.

Expected volatility was determined by calculating the historical volatility of Animalcare Group plc's share price over the previous three years. The expected lives used in the model were estimated based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations. The aggregate estimated fair value of the options granted during the year was £nil (2016: £nil). The Company recognised total expenses of £86,000 (2016: £72,000) within administrative expenses.

18. DIVIDENDS	Period ended 31st December 2017 £'000	Year ended 30th June 2016 £'000
Equity - ordinary		
Interim paid September 2016	4,787	-
Final paid May 2017	3,003	-
	7,790	-

19. ULTIMATE PARENT COMPANY

On 13th July 2017, the Group acquired the remaining 10% of Animalcare Ltd that it did not own for a consideration of £3,607,000. This was satisfied by the issue of 918,896 new Ordinary Shares at a price of 392.5 pence per share. On 19th July 2017, the Company was transferred to Ecuphar NV as part of a post-completion restructuring of the Group. The Company is therefore a wholly owned subsidiary of Ecuphar NV, a company based in Belgium and of it's ultimate parent, Animalcare Group plc, a company registered in England and Wales.

It is included in the consolidated financial statements of Animalcare Group plc, which are publicly available. Copies of Animalcare Group plc accounts may be obtained from 10 Great North Way, York Business Park, Nether Poppleton, York, YO26 6RB.

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Period ended 31st December 2017

20. ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Company's accounting policies, which are described in note 1, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Capitalised new product development expenditure

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

Capitalised software expenditure

The Company has historically capitalised software projects and developments. Expenditure on a bespoke web based system, designed to facilitate online ordering of certain products and services, is currently capitalised in the Company'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.