

Directors' Report

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

Principal Activities

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

Business Review and Future Developments

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

Research and Development

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

Dividends

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

Capital Structure

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

Directors

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

C J Brewster

Lord Downshire

R B Harding

J S Lambert

I D Menneer

S M Wildridge (resigned 31st October 2013)

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

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

Principal Risks and Uncertainties

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

Directors' Report continued

Creditor Payment Policy

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

Corporate Governance

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

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

Charitable and Political Donations

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

Employees

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

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

Prednicare Tablets



Substantial Shareholdings

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

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

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

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

Going Concern

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

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

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

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

Auditor

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

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

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

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

Animalcare Group plc

By order of the Board,

Chris Brewster

Company Secretary

14th October 2014

