



ECO ANIMAL
HEALTH GROUP PLC
ANNUAL REPORT & ACCOUNTS FOR
THE YEAR ENDED 31 MARCH 2019



ECO Animal Health Group Plc

ECO ANIMAL HEALTH GROUP LTD

DIRECTORS AND ADVISERS



Directors	Richard Wood	Non-Executive Chairman (appointed 7 March 2019)
	Marc Loomes	Chief Executive
	Kevin Stockdale	Finance Director
	Brett Clemo	Executive Director
	Julia Trowse	Executive Director
	Andrew Jones	Senior Non Executive Director
	Anthony Rawlinson	Non Executive Director
Secretary	Julia Trowse	
Company Number	1818170	
Registered Office	78 Coombe Road New Malden, Surrey KT3 4QS	
Registered Auditors	Kreston Reeves LLP Third Floor, 24 Chiswell Street, London EC1Y 4YX	
Registrars	Share Registrars Limited The Courtyard, 17 West Street Farnham, Surrey GU9 7DR	
Lawyers	Mills and Reeve Monument Place, 24 Monument Street London EC3R 8AJ	
Bankers	Natwest plc Tooting Branch, 30 High Street London SW17 0RG	
Nominated Adviser And Broker	N+1 Singer One Bartholomew Lane London EC2N 2AX	
Joint Broker	Peel Hunt Moor House, 120 London Wall London EC2Y 5ET	



CONTENTS

4	Highlights
6	Operations
10	Chairman's Statement
12	Chief Executive's Report
14	Finance Director's Report
19	Strategic Report
20	Corporate Governance Report
38	Directors' Report
40	Independent Auditor Report
48	Consolidated Income Statement
49	Consolidated Statement Of Comprehensive Income
50	Consolidated Statement Of Changes In Equity
51	Statement Of Changes In Equity
52	Statements Of Financial Position (Co. Number: 01818170)
53	Statement Of Cash Flows
54	Notes To The Consolidated Financial Statements

HIGHLIGHTS



SALES 11% HIGHER

AT £74.6m

(2018: £67.2m)



ADJUSTED EBITDA HIGHER

AT £20.1m

(2018: £19.6m)




PROFIT BEFORE TAXATION

10% HIGHER

AT £15.2m

(2018: £13.9m)



EARNINGS PER SHARE

24% HIGHER

AT 17.60p

(2018: 14.19p)



DIVIDEND 20% HIGHER

AT 11.04p
(2018: 9.2p)



SPECIAL DIVIDEND OF

3.5p PAID
IN JANUARY 2019



STRONG CASH GENERATION FROM

OPERATIONS
OF £13.3m
(2018: £15.8m)



NET CASH LOWER

AT £18.1m
(2018: £21.3m)

OPERATIONS

- DEMAND FOR AIVLOSIN®
- CONTINUED TO
- GROW STRONGLY,
- with new marketing authorisations gained in Europe, Vietnam and India.

- REVENUE IN CHINA FLAT
- DESPITE CHALLENGING
- MARKET CONDITIONS
- triggered by the African Swine Fever (ASF) outbreak.

- STRONG SALES GROWTH IN THE
- OTHER STRATEGICALLY
- IMPORTANT MARKETS;
- North America, Latin America, Thailand and India.

- FIVE NEW VACCINE AND PRODUCT
- DEVELOPMENT LICENSING
- AGREEMENTS SIGNED
- for pigs and poultry.

- ACCELERATED INVESTMENT IN
- VACCINE DEVELOPMENT
- PROGRAMME
- and people to drive future growth.



Marc Loomes, CEO of ECO Animal Health Group plc, commented:

“

These are credible results for a year that was adversely depressed by both ASF and a trade war between the USA and China, our two largest markets. We are confident that our accelerated development programmes in vaccines and other products will add long term growth. For the year ahead we expect to report continued growth and to perform in line with the Board's expectations.

”

ECO GLOBAL OFFICES





: SALES IN MORE THAN
: 70 COUNTRIES

Head Office

- New Malden, London

Regional Offices

- Southgate, London
- Princeton, USA
- Wilmington, USA
- Ontario, Canada
- Queretaro, Mexico
- Sao Paulo, Brazil
- Buenos Aires, Argentina
- Dublin, Ireland
- Shanghai, China
- Zhejiang, China
- Johannesburg, South Africa
- Tokyo, Japan
- Kuala Lumpur, Malaysia
- Bangalore, India

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 MARCH 2019

I am delighted to have joined the Board in March 2019 as Chairman and look forward to leading the Board in the next exciting phase of the Group's development. Although not involved with the business last year, I am pleased to be able to report that ECO had another successful year and the business is in good heart.



Sales were 11 per cent higher than in 2017/8. Profit after taxation rose by 16 per cent to £13.6m, and earnings per share increased by 24 per cent to 17.6p. Dividends paid in the year totalled 12.7p per share including the 'one off' distribution in January 2019. The Group cash balance remained strong at the year-end at £18.1m.

Our strategy of concentrating on growth opportunities in the important and growing markets of the USA, Latin America, China and the Far East paid off but the outbreak of African Swine Fever (ASF) in China curtailed sales in China in the second half of the year. This constraint is likely to continue in 2019 until the disease has been contained, at which point we would expect to see further market growth, as the herd is rebuilt. In the meantime, Chinese food shortages will probably be bridged by imports particularly from Latin America and the USA if trade restrictions are lifted, so opportunities in those markets should improve in tandem.

Mid-year, when the Board was reviewing the potential of the Company's R&D investment, the science team brought forward a compelling list of opportunities that convinced the Board that R&D expenditure should be increased to drive both medium term growth and business diversity. From the opportunities presented, the Board selected a mix of medium and long-term projects that comprise an affordable balance of risk and opportunity.

For 2019/20, development expenditure will rise above £9 million (2019: £5.3 million) to accelerate the development of our new vaccine range.

However, it should be noted that even with this new investment, the development and regulatory timelines are such that we do not expect to see sales before 2022/23.

SALES FOR THE YEAR	INCREASED 11 PER CENT ON LAST YEAR	£74.6m
PROFIT AFTER TAXATION	INCREASED 16 PER CENT ON LAST YEAR	£13.6m
EARNINGS PER SHARE	INCREASED 24 PER CENT ON LAST YEAR	17.6p



Last year, the Board decided to recommend to shareholders that it should use some of the accumulated cash balances to pay a one-off exceptional dividend of 3.5p per share and that was paid to shareholders on 9 January 2019.

There is no intention to repeat last year's special distribution. The Board is now proposing a dividend for the year of 11.04p per share, which subject to shareholder approval will be paid on 16 October 2019 to shareholders on the register on 27 September 2019. The ex-dividend date will be 26 September 2019. **This dividend represents an increase of 20 per cent over the previous year after finalisation, in line with our progressive dividend policy.**

We have completed the transfer of our Aivlosin® API manufacturing process to a new facility in China which has greater capacity and the latest environmental controls. The purpose-built plant was validated and approved by the EU and US regulators.

After many years as a successful Chairman and continued substantial shareholder in the Company, Peter Lawrence, the founder of ECO, decided to retire during the final quarter of the year. The Board and the staff of the Company would like to thank him for his excellent stewardship during his tenure.

Looking forward, I will be reviewing, with the Board, the three-year corporate strategy over the next six months and will report more to shareholders with the interim results.

In my short time with the Company, I can report that the documenting of our corporate governance processes is well in hand and further work will continue during the current year.

In this regard, we have already made some changes to our annual reporting and shareholders will see these changes in this report. Reporting will evolve further during 2019.

“

The beginning of the year will remain challenging because of the continued impact of African Swine Fever in China but we believe that there will be some compensating buoyancy elsewhere as other nations move to fill the food shortages in China.

”

In closing, I would like to say how much I am looking forward to helping guide ECO through its next stage of business development and growth.

Outlook

The beginning of the year will remain challenging because of the continued impact of African Swine Fever in China but we believe that there will be some compensating buoyancy elsewhere as other nations move to fill the food shortages in China.

We are excited by our accelerated development programmes in vaccines and other products which are expected to result in long term growth.

For the full year ahead, we expect to report continued growth and to perform in line with the Board's expectations.

Richard Wood
Chairman
18 June 2019

**THE GROUP
CASH BALANCE
REMAINED
STRONG
AT YEAR END
AT £18.1m**

CHIEF EXECUTIVE'S REPORT

FOR THE YEAR ENDED 31 MARCH 2019



Global revenue grew by 11 per cent to £74.6 million in a year dominated by an outbreak of African Swine Fever (ASF) in China and an ongoing trade war between the USA and China, our two principal markets. This year's result, once again, demonstrated both the value of our global footprint, with sales generated in more than seventy countries, and the commoditised nature of pork and poultry production.

Sales of Aivlosin®, our patented molecule for the treatment of economically important diseases in pigs and poultry, increased by 14 per cent, accounting for 78 per cent of total revenue. Sales of the smaller Ecomectin® anti-parasitic range, which were adversely affected by European manufacturing issues and altered distribution purchasing patterns, declined by 7 per cent. **Sales of all other products rose by 6 per cent, principally driven by increased sales in Mexico.**

The Chinese subsidiary's revenue was held at last year's level, despite the ASF outbreak which exploded in August 2018 and spread rapidly throughout China. The severe movement restrictions, imposed by both the authorities and producers whose herds had remained free of disease, curtailed on-farm selling but our team found new and innovative ways to reach customers. Margins did soften and credit terms were adjusted to retain business during this period, resulting in Group debtors increasing by over £12 million during the year under review.

Recent analysis by Rabobank indicates that China has lost up to 200 million pigs (30 per cent of Chinese swine production). This figure exceeds the total USA production of about 120 million pigs per year. The 30 per cent loss of the breeding herd equates to double the total number of sows in the USA.

To combat this downturn and continued uncertainty in the short term, our focus for Aivlosin® in China has now shifted from being almost exclusively directed at the pig sector, to include poultry. In this new area, we are making good progress and look forward to reporting on developments.

North American revenue increased by 20 per cent. In the USA, revenue was 17 per cent higher, driven by Aivlosin® for use in Swine Respiratory Disease. Margins softened as market pig prices were low and swine producers were making trading losses, in what was a difficult year for farmers. However, by March 2019, the \$20 loss per market pig being experienced at the end of 2018 had reversed to a \$30 per pig profit, because of a combination of cheapening feed prices and global supply shortages brought about by ASF in China. **Canadian revenue rose 27 per cent, buoyed by the introduction of new veterinary prescription regulations for in-feed medication and adjusted commercial terms.**

In South and Southeast Asia, revenue was 4 per cent higher. Highlights from the region included strong growth in India, Thailand and Pakistan. The improvement in India was a consequence of the establishment of ECO India and an adjustment to our route to market. For Thailand the improvement was as a result of implementing key account management strategies for both pig and poultry producers with our local third-party distributor. In Pakistan a number of accounts were switched to Aivlosin® from a competing product.

These results were tempered by challenging conditions in Indonesia, Vietnam and Malaysia. In Indonesia a ban on all in-feed antimicrobial medication in early 2018 suspended trading for 8 months until Aivlosin® was successfully re-registered. Weak pork prices and the shutting of exports to China from Vietnam reduced potential in that territory.

Latin America revenue rose strongly by 62 per cent, with buoyant trade through the subsidiaries in Mexico and in Brazil, up 34 per cent and 47 per cent respectively.

In both cases the benefits of following key account management strategies were increasingly evident. New business was written in Chile, tenders were won in Cuba and Colombia also performed particularly strongly.

European revenue declined by 4 per cent. Although sales in the United Kingdom, which represent just under 2 per cent of global revenue, rose 24 per cent, across all products. Aivlosin® sales were strong in key markets such as Denmark, Poland and Germany but were offset by a change in stock holding policy by a regional distributor for a number of other key markets such as Spain and Italy. This reduced sales potential from ECO but not on sales in the market. The total value of product supplied to European distributors before the end of March to mitigate any potential Brexit related supply interruption risks, was negated by production issues. These resulted in some sales being postponed into the new financial year. Delays to the inspection of manufacturing facilities and laboratories, and delays in receiving licences in Russia, also impacted negatively on revenue. These issues are expected to be fully resolved within the coming year.

Sales in the Rest of the World rose 14 per cent, principally through increased sales of Aivlosin® for use in the poultry sector in Egypt and Aivlosin® sales for pigs in South Africa.

Revenue in Japan rose by 14 per cent, driven by growth in the swine business to large producers.



Product pipeline

The Board made a strategic decision to increase annual investment in product research and development to ensure that the new product pipeline has a mix of well-established concepts as well as novel, potentially highly competitive technologies and approaches. Rather than carry the significant cost of an in-house R&D function, the Company's early stage R&D activities are outsourced to leading research institutions. However, all on-farm development work is managed in-house. External development expenditure in the year rose by 43 per cent to £5.3 million (2018: £3.7 million) and will be increased by more than 70 per cent to over £9 million in 2019/20. This will ensure that we have several mid and late stage projects able to deliver revenues from 2022/23. The pipeline is focused on pigs and poultry, targeting both viral and bacterial diseases of economic importance in both species. However, there will be a shift in emphasis towards developing a range of vaccines and new products to complement our existing antimicrobial business.

During the year, two new international Aivlosin® marketing authorisations were secured, notably Aivlosin® 625 mg/g Water Soluble Granules (WSG) for chickens laying eggs for human consumption with a zero-day drug withdrawal period in India, and in Vietnam for the treatment of pigs and poultry. A further licence was obtained from the European Medicines Agency for the use of Aivlosin® WSG in breeding chickens just after the year end and this approval will now be rolled out beyond the EU into the multi-million-dollar international poultry markets.

ECO established a joint venture called ECO-Pharm Limited, in the Republic of Ireland, with Pharmgate LLC of Wilmington, North Carolina, USA. The JV company will progress the registration and commercialisation of several swine vaccine products already licensed in the USA and Canada for use in the United Kingdom, the EU, the Commonwealth of Independent States, Brazil and Japan.

A further four licensing deals have been signed (including University of Georgia in the USA and the University of Ghent, for poultry vaccine development, and with Agrinnovation and Yissum Research Development Company

of the Hebrew University of Jerusalem for a swine antimicrobial). All of these opportunities are currently being taken through rigorous proof-of-concept evaluations in well-designed studies before any commitment to further development funding is made.

Competition

The veterinary market is consolidating rapidly at all levels. The top 10 veterinary pharmaceutical companies accounted for 88 per cent of the global market and had an average growth rate of 7 per cent in 2018.

We believe that ECO's key competition comes from the branded antimicrobial products for pig and poultry supplied by the major multinationals.

During 2018/9, we believe that the Aivlosin® global market share rose by 2 per cent to 10 per cent. This gain arose from displacing older branded products in this sector.

Brexit

ECO has successfully transferred all EU marketing authorisations to a new European subsidiary, ECO Animal Health Europe Limited with registered address in Dublin, Republic of Ireland. All contingency planning is in place and the financial and operational impact of Brexit is expected to be minimal.

People

ECO's achievements are a direct result of the hard work, dedication and professionalism of our staff, now numbering more than 200 globally. We would like to thank all our employees for their individual and team contributions to ECO's continued success.

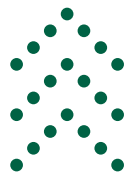
Marc Loomes
Chief Executive Officer
18 June 2019



LATIN AMERICA REVENUE
ROSE BY 62%

CANADIAN REVENUE
ROSE BY 27%

REVENUE IN JAPAN
ROSE BY 14%



FINANCE DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 MARCH 2019

ECO has traded well in tough market conditions with revenues increasing 11 per cent to £74.6 million. Whilst some markets performed well, the trading challenges of ASF and the US trade war highlighted in the CEO's report resulted in pressure on margins which fell 2.5 per cent to 45.4 per cent.

Management's early intervention to control overheads minimised the impact on operating profit which rose by 4 per cent to £14.7 million (2018 £14.1 million). ASF reduced the Chinese subsidiary's reported operating profit by over £1 million, to £5.2 million, (2018: £6.4 million). The Group's global footprint enabled us to compensate for this as operating profit in the rest of the Group increased.

Adjusted EBITDA (the profits before tax adjusted for share based payments, foreign exchange, net finance income, depreciation, amortisation and impairment charges) increased by 3 per cent to £20.1 million (2018: £19.6 million). Excluding the Chinese subsidiary's adjusted EBITDA decrease of £1.0 million, the remainder of the Group contributed £1.5 million to the increase in adjusted EBITDA. An explanation of how adjusted EBITDA is calculated, and the rationale for each adjustment can be found in the accounts.

Profit before taxation rose by 10 per cent to £15.2 million (2018: £13.9 million) supported by currency gains arising from the reversal of non-cash currency losses, particularly the US Dollar, from the previous year. As we purchase most of our raw materials in US Dollars, it is necessary to hold significant operational balances in that currency. These act as an economic hedge against movements in the exchange rate of Sterling against the Dollar.

The taxation charge for the year of £1.7 million was 24 per cent lower than in 2018. The UK trading company makes significant use of enhanced tax allowances for R&D expenditure and, more recently, has used the Patent Box regulations on profits deriving from Aivlosin®, with the result that it currently has over £10 million of accumulated tax losses in the UK.

The lower margins in China that arose from the challenging market conditions have also contributed in a lower tax charge when compared to last year.

Profit after taxation rose 16 per cent to £13.6 million. The share of profit attributable to non-controlling interests (minorities) was £0.5 million lower so that profit attributable to the Group rose by the equivalent amount.

Retained profit rose to £11.8 million compared to £9.3 million for 2018, an increase of over 26 per cent. Basic earnings per share rose by 24 per cent due to a lower minority charge.

The Group invested just over £5 million in clinical trials for both existing and new projects. As we approach the end of the Aivlosin® development programme expenditure has started to shift away from Aivlosin® to other projects such as vaccines and other new products. As a result, amortisation will increase in future years, but this is necessary for the continued development and diversification of the business.

The Group adopted IFRS 16 for the first time in the year. This brings most leased assets onto the balance sheet along with the corresponding lease liabilities. More details can be found in the notes to the financial statements. The effect on the Group's reported profits and on net assets has not been significant.

Group capital expenditure was £0.5 million (2018: £0.3 million), spent on IT systems and barcoding equipment to meet new Chinese product regulations.



RETAINED PROFIT ROSE TO £11.8m

THE GROUP INVESTED JUST OVER £5m IN CLINICAL TRIALS





Inventory fell from £17.7 million at the end of financial year 2018 to £16.1 million as at 31 March 2019. As a Group, to act as a strategic buffer, we normally hold around 6 months' sales of Aivlosin® in inventory but since March's sales in the USA and in China were ahead of the levels achieved in March 2018, inventory levels at the year-end were reduced to under 5 months' sales. Inventory has been restored to normal levels subsequent to the year end.

Trade receivables increased from £15.8 million to £27.8 million predominately due to extended credit terms in China.

The high USA sales before year-end also contributed to the increase. The year-end figure represented less than 3 months' sales in respect of both 2018 and 2019.

The Group's cash balance was held at above £18 million, net of the special dividend of £2.4 million paid in January. In addition, the normal dividends were 20 per cent higher than 2018, in line with the Group's stated progressive dividend policy. Together with dividend payments to the joint owners of the Chinese subsidiary and an £8 million investment in product development, the cash balance demonstrates the strong cash-generating capability of the Group.

Having substantial cash reserves, the Group does not have any bank borrowing facilities. The Group's Treasury Management Function (TMF) therefore seeks to ensure that funds necessary for the implementation of approved activities are always available. It also aims to increase the net worth of the Company by managing funds in the most appropriate manner.

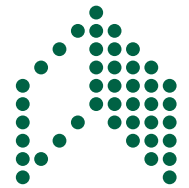
The main processes used for achieving this are:

- Updating 12 months cash flow forecasts every 3 months so that potential shortages are addressed in a timely manner
- Working (with the sales function) to ensure that all amounts due to the Group are received in a timely manner
- Ensuring as far as possible that all funds are held centrally, thus minimising the amounts held by subsidiaries, while not impeding their operations
- Ensuring that all funds received are deposited with appropriate and financially stable institutions, while at the same time maximising returns on those deposits
- Ensuring that funds are held only in currencies to the extent that it is anticipated those currencies will be required for use in the future, thus minimising foreign exchange risk
- Ensuring that suppliers are paid promptly for goods and services rendered, which in turn ensures continuity of supply of those goods and services

The Board keeps these procedures under review but is satisfied that the TMF worked effectively in the year.

NORMAL DIVIDENDS
20% HIGHER
THAN 2018

SPECIAL
DIVIDEND
OF £2.4M
PAID IN JANUARY

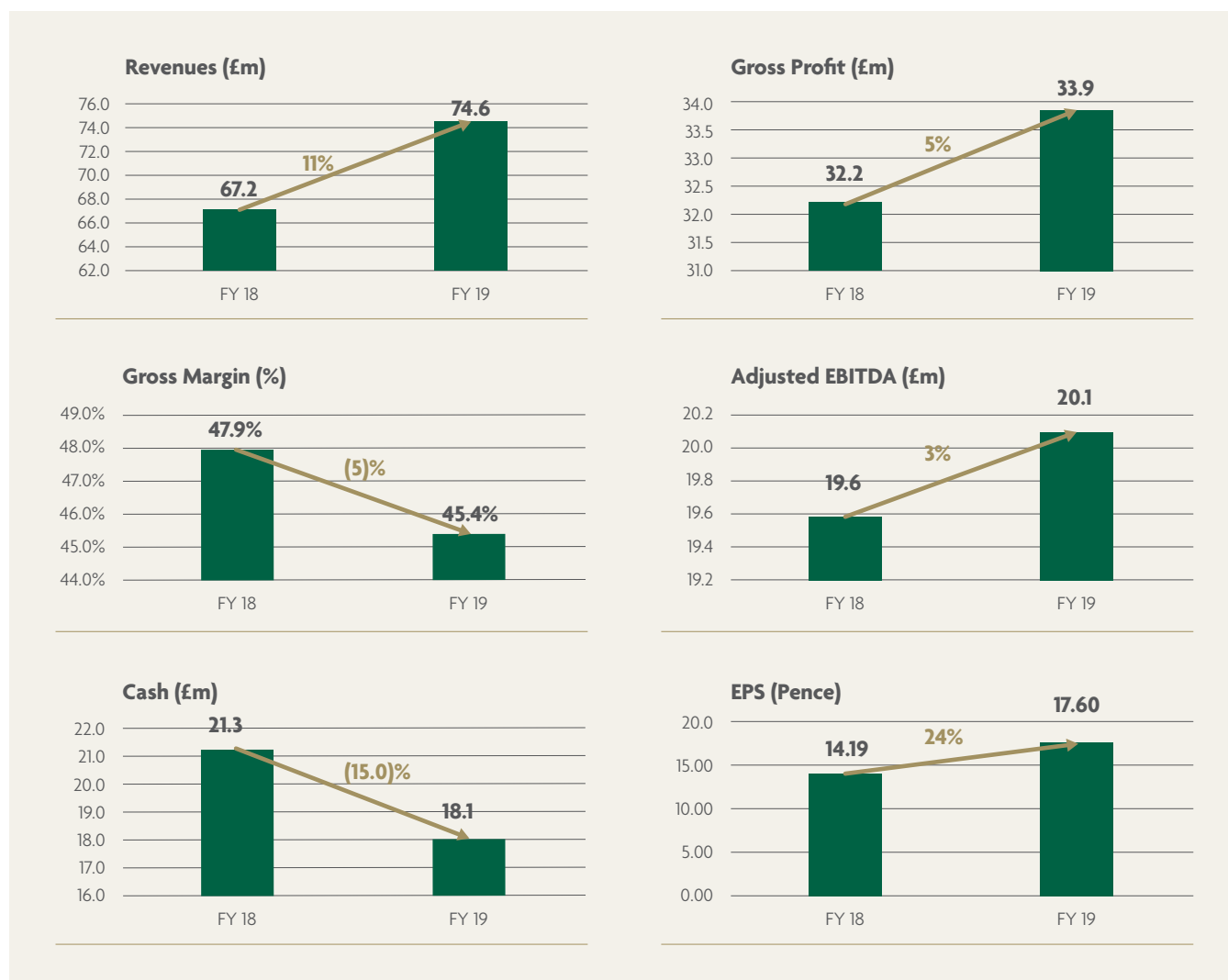


FINANCE DIRECTOR'S REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Key performance indicators

A summary of the KPIs is as follows:



An explanation of the various trends in the KPIs above is included in the CEO's and Finance Director's reports.

Post balance sheet event

The Company paid a dividend of £2,697,725 on 12 April 2019 to its shareholders.

K.A. Stockdale

Kevin Stockdale
Finance Director
18 June 2019





STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The business strategy is to generate shareholder value by achieving the maximum sales potential from the existing product portfolio whilst investing in Research and Development (R&D) for new products, particularly vaccines, and seeking to license-in new products. We also seek to diversify by acquisition. The Company will continue to invest in skilled people.

Growth of existing product portfolio

ECO prioritises sales and development activities for existing products through ECO companies in key growth markets, principally China, North America, South and Southeast Asia and selected Latin American countries. Third party distributors are used in smaller markets to contain costs, recognising that this approach does lead to margin sacrifice for ECO. The cost base is managed to reflect achievable growth rates particularly when individual markets experience slowdowns. In all markets, Key Account management frameworks are adopted with major producers. The primary competitive targets for our portfolio are branded, well established, first generation products, concentrating on the additional value added by our products.

Increased investment in R&D

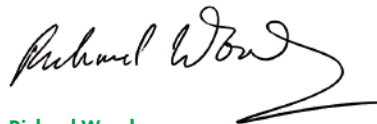
ECO's increase in R&D investment is focused on several late, mid and early stage projects which collectively provide a mix of well-established concepts and novel technologies and approaches. This investment in the pipeline will lead to additional approvals for Aivlosin® in key markets, an acceleration and broadening of the introduction potential for vaccines in pigs and poultry and to an expansion of the search for new products in collaboration with leading universities and research institutions where an exclusive position can be obtained for any invention made.

Licensing and acquisition

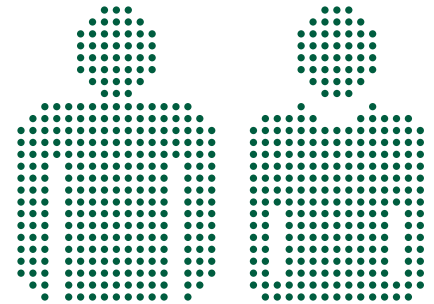
ECO seeks to both license-in new products for pigs and poultry and to diversify by acquisition to complement our organic growth and provide breadth in core markets.

Skilled people

ECO has highly professional and committed staff throughout the business. Our strategy is to build on this core strength and to develop an organisational culture that attracts and rewards top talent.



Richard Wood
Chairman
18 June 2019



ECO HAS
**HIGHLY
PROFESSIONAL
AND COMMITTED STAFF**

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2019

A strong business requires strong governance



The Board is committed to enhancing ECO's Corporate Governance and will hasten the progress it has made to date.



Chairman's introduction

Dear Shareholders

I am delighted to have joined the Company Board in March 2019, as independent Non-Executive Chairman, and look forward to leading the Board in the next exciting phase of the Group's development.

I believe corporate governance to be a core consideration for the ECO Board and recognise its important role in promoting sound risk management and business performance. During the coming year, we will be striving to improve further the Group's systems and resources.

As growth continues, I believe strongly that our corporate governance practices should grow. Last year, in line with new AIM Rules, the Board adopted the new QCA Corporate Governance Code which provides a framework for considering the various governance keystones. During the reporting year, the Board made progress in addressing weaker areas but more remains to be done. Since I joined the Board in March, I have accelerated this process of improvement. However, we aspire beyond this and also expect to adopt key elements of the UK Corporate Governance Code in so far as they are appropriate for a business of our size and stage of development.

I have already carried out a full Board effectiveness evaluation survey and will be looking to make changes to the composition and balance of the team so that Non-Executives will be in the majority, so that the Board will become fully independent. We have also appointed a Non-Executive Director as Senior Non-Executive Director.

I have also introduced new operating and reporting systems to improve Board effectiveness. We have reviewed the composition and remits of all the Board Committees and have begun to enhance the risk management processes that will become embedded into the Company's structure, including establishing an internal audit function.

After many years of good service from Kreston Reeves as the Company's external auditor, we have also decided to change firm prior to our next financial year end and will be looking to appoint a leading international audit firm to perform the Group's audit as we enter the next phase of ECO's development.

People are key to our business. Accordingly, we will be reviewing whether we are making optimal use of the existing personnel and seeking to recruit additional specialists, where needed, to ensure effective succession planning. Training and personnel development programmes will also be reviewed.

The corporate governance report that follows includes details about the Board and its various responsibilities. Details are also provided on the composition of the Board Committees and the reports on their activities for the year.

Your support as Shareholders is vital to our success and, in this respect, we intend to remain responsive to shareholders' views and to engage with you so that the Company will deliver on its objectives.

I very much look forward to updating you on the progress we have made at our AGM in September.

Richard Wood
Chairman
18 June 2019

Corporate governance report

The Company's shares are traded on the AIM market of the London Stock Exchange and as such, the Company is subject to the continuing requirements of the AIM Rules for Companies. As stated in the Chairman's introduction, the Board adopted the QCA's Corporate Governance Code in September 2018 but will also be looking to adopt elements of the UK Corporate Governance Code on a phased basis insofar as they are appropriate for the Company.

The Board of Directors is committed to high standards of corporate governance and recognises that it is accountable to shareholders for the Group's performance in this area.

This report aims to address the main subject areas of the QCA Code, namely leadership, effectiveness, accountability and relations with shareholders.

Remuneration is dealt with in the Remuneration Report on pages 33 to 36.

The Board

The Board currently comprises four Executive Directors and three Non-Executive Directors (including the Chairman). Dr Andrew Jones is Senior Independent Director. The biographical details of individual Directors are set out on pages 30 to 31.

The Board considers both of the current Non-Executive Directors to be independent in judgement and character and considered the newly appointed Chairman, Richard Wood, to be independent on his appointment as Chairman in March 2019.

The special position and role of the Chairman under the QCA Code is recognised by the Board and a written statement of the division of responsibilities of the Chairman and the Chief Executive Officer has been agreed. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chief Executive Officer manages the Group and has the prime role with the assistance of the Board of developing and implementing business strategy.

One of the roles of the Non-Executive Directors under the leadership of the Chairman is to undertake detailed examination and discussion of strategies proposed by the Executive Directors so as to ensure that decisions are in the best long-term interests of all shareholders and that proper account has been taken of the interests of the Group's other stakeholders. The Board will be reviewing a new three-year strategy for the Group during the coming year.

The Chairman ensures that meetings are held between the Non-Executive Directors without the Executive Directors present and two such meetings have already been held under the new Chairmanship.

Rules concerning the appointment of replacement Directors of the Company are contained in the Articles of Association.

Amendments to the Articles must be approved by a special resolution of shareholders. Under the Articles, all Directors are subject to election by shareholders at the first annual general meeting following their appointment and to re-election thereafter at intervals of no more than three years. However, in line with best practice as reflected in the UK Corporate Governance Code (to which the Board aspires) all Directors will be standing for reappointment at the forthcoming AGM of the Company to be held on 19 September 2019.

The Non-Executive Directors are appointed by the Board on terms which allow for termination on three months' notice.



**BOARD ADOPTED
THE QCA'S
CORPORATE
GOVERNANCE
CODE
IN SEPTEMBER 2018**



CORPORATE GOVERNANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

How the Board operates

The Chairman ensures, through the Company Secretary, that the Board agenda and all relevant information is provided to the Board sufficiently in advance of meetings and that adequate time is available for discussion of all agenda items, in particular strategic issues. Improvements are being made to the presentation of data so that it will be easier for the Board to home in on salient facts. The Chief Executive Officer and the Company Secretary discuss the agenda ahead of every meeting. At meetings, the Chairman ensures that all Directors are able to make an effective contribution and every Director is encouraged to participate and provide opinions on each agenda item. The Chairman always seeks to achieve unanimous decisions of the Board following due discussion of agenda items. The Non-Executive Directors review the Group's operational performance and, with a view to reinforcing its oversight and control, the Board as a whole has agreed a reserved list of powers solely to itself which are not to be delegated to management.

The list includes appropriate strategic financial organisation and compliance issues, including the approval of high-level announcements, circulars, the Annual Report and Accounts and certain strategic and management issues.

Examples of strategic and management issues include the following:

- Approval of the annual operating budget and the three-year strategic plan
- The extension of the Group's activities into new business and their geographic areas (or their cessation)
- Changes to the corporate or capital structure
- Financial issues, including changes in accounting policy, the approval of dividends, bank facilities and guarantees
- Changes to the constitution of the Board
- The approval of significant contracts, for example the acquisition or disposal of assets worth more than £1,000,000 or the exposure of the Company or the Group to a risk greater than £1,000,000
- The approval of unbudgeted capital expenditure exceeding £250,000
- Consideration and approval of all proposed acquisitions or mergers.

Each Director has full and timely access to all relevant information and the Board meets regularly with appropriate contact between meetings.

Agreed procedures are in place for Directors, where necessary in the furtherance of their duties, to take independent professional advice at the Company's expense and all Directors have access to the Company Secretary.

The Company Secretary is responsible to the Board for ensuring that Board procedures and governance requirements are complied with. The removal of the Company Secretary is a decision for the Board as a whole.

As at the date of this report, the Board comprised an Independent Non-Executive Chairman, four executive Directors and two Independent Non-Executive Directors. A brief biography of each Director in office is set out on pages 30 to 31. During the financial year under review, on 7 March 2019, Richard Wood was appointed to the Board as Non-Executive Chairman replacing Peter Lawrence in that role.

The composition of the Board is monitored by the Nomination Committee. Subsequent to the Committee's decision to appoint the new Chairman, the Non-Executive Directors with the CEO in attendance decided to reduce the size of the Board while ensuring that it retains an effective and appropriate balance of skills and experience, so that a majority of the Board comprises independent Non-Executive Directors. The Committee will ensure that the Board will comprise a suitable balance between independence and knowledge of the Group in order to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to apply their independent judgement and constructively challenge other Directors where appropriate.



Committees of the Board

Of particular importance in a governance context are the three Committees of the Board, namely the Remuneration Committee, the Nomination Committee and the Audit Committee. Each Committee operates under clear terms of reference, copies of which are available on our website www.ecoanimalhealthgroupplc.com. Detail of the operation of each Committee is provided within the relevant Committee report.

The members of the Committees comprise the Chairman and both the Non-Executive Directors.

The Non-Executive Directors regard the Chairman as adding significant value to the deliberations of the Committees.

Anthony Rawlinson is Chairman of the Audit Committee. The Board is satisfied that Mr Rawlinson has recent relevant financial experience.

Richard Wood is Chairman of the Nomination Committee but in accordance with the Committee's terms of reference is not permitted to chair meetings when the Committee is dealing with matters relating to the Board Chairman position.

Dr Andrew Jones is Chairman of the Remuneration Committee.

Attendance at meetings

All Committee and Board meetings held in the year were quorate. Director's attendance during the year ended 31 March 2019 was as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Peter Lawrence	4/4	-	2/2	1/1
Marc Loomes	4/4	-	1/1	1/1
Brett Clemo	4/4	-	-	1/1
Kevin Stockdale	4/4	-	-	-
Julia Trowse	4/4	-	-	-
Anthony Rawlinson	4/4	2/2	2/2	1/1
Andrew Jones	4/4	2/2	2/2	1/1
Richard Wood (appointed 7 March 19)	-	-	-	-

CORPORATE GOVERNANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Performance evaluation

The Board strives to improve its effectiveness and to this end has conducted a review of its performance and that of its Committees and the individual Directors.

The 2019 Board evaluation process has been conducted internally using questionnaires. The process was led by the Chairman and facilitated by the Company Secretary. The questionnaire provided Directors with the opportunity to express their views on a variety of topics including: Board Leadership, Effectiveness and Accountability. The detailed findings of the evaluation have been reviewed and actions generated. The Board and Committee reviews are in progress.

Accountability and audit

The Board is in the process of updating its documentation of internal financial and non-financial controls. In addition, a process for identifying, evaluating and managing significant business risks faced by the Group is being formalised. This process was reviewed during the year and its implementation is being accelerated. This is another area where we aspire to the recommendations in the UK Corporate Governance Code.

The Code requires that Directors review the effectiveness of the Group's system of internal controls on a continuing basis. The scope of this review, which is ongoing, covers all controls including financial, operational and compliance controls as well as risk management.

The Board, through the Audit Committee, keeps the systems under review and will consider their content and effectiveness on an annual basis. Such a process can provide only reasonable, but not absolute, assurance against material misstatements or losses.

The Board is currently working on plans to provide for the creation of three-year plans and annual budgets with monthly reports to enable the Board to compare performance against budget and to take action where appropriate.

Procedures are in place to identify key business risks and to evaluate their potential impact on the Group. These risks are described within the Strategic Report on page 19.

Principal risks and risk management

The Group has an established process for the identification and management of risk, working within the governance framework. Ultimately, the management of risk is the responsibility of the Board of Directors, and our system of risk management, which is intended to be comprehensive and robust, continues to evolve as the Group and the environment in which it operates increases in size and complexity.

The Board's role in risk management includes promoting a culture that emphasises integrity at all levels of business operations and setting the overall policies for risk management and control.

During the year the principal risks affecting the Group were comprehensively reviewed and re-categorised by the Executive Directors and approved by the Board.

Each risk area continues to have priority controls allocated to it that are the responsibility of the Executive Directors to manage and review during the financial year. This process inherently manages risk by ensuring the principal risks are being mitigated by prioritised business activity.

As we move forward, increased focus is being given to how effectively risk is also being mitigated by the control structures embedded throughout the Group.

The Executive Directors are undertaking a quarterly review of the key risks and controls and will report any changes in trends to the Board.

The principal risks are listed on the following pages in order of significance by category. We have made this assessment by reference to the likelihood of each risk occurring and assessing the potential severity of impact it would have on the business from high to low. We have also assessed the future trend of each risk as far as we can predict. As there are a range of impacts in all areas which are mitigated to a high degree, the mitigations in the form of control structures are shown next to each identified risk.








CORPORATE GOVERNANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

TABLE KEY: H = HIGH M = MEDIUM L = LOW

Strategy risks

Risk	Likelihood	Controls	Impact	Forward Trend
High reliance on one supplier for key products	M	New API manufacturing plant built, commissioned and approved in China. Business Interruption insurance with 6 months' strategic safety stock in place. Investing in supply chain dual supply capacity.	H	
Reliance placed on key staff	M	Performance management, structured Bonus and LTIP for staff and Executive Directors. Salary benchmarking and staff development. New RemCom policies being implemented.	H	
High dependency on a single product	M	Innovation fund and pipeline of new products – vaccines and other products. Generic defence plans.	H	
Potential threat from Generic Producers	M	Generic defence strategy – combining strong regulatory and legal stance in country with patent and trademark infringement enforcement.	M	
Disease impact to growth in emerging markets	H	Experienced international and local management teams. Global organisation with driving strategy in other geographical territories. Strategy to increase focus on poultry.	M	

Operational risks

Risk	Likelihood	Controls	Impact	Forward Trend
Brexit	M	European legal entity established and marketing authorisations transferred. Pharmacovigilance, Site of Quality Control Testing and Site of Batch Release arrangements in place.	L	
Operational activities result in environmental pollution	L	Virtual supply chain – use of third parties limits our own exposure. Internal audits of third party facilities. Staff training.	H	
Failure to achieve/maintain GMP quality standard	L	Regular competent authority. Independent and internal QA function. Audits of third party facilities.	H	
Risk of trial failure impeding registration and approval of pipeline products	L	High calibre staff recruitment. Use of only reputable and well established laboratories and subcontractors.	M	



TABLE KEY: H = HIGH M = MEDIUM L = LOW

Operational risks (continued)

Risk	Likelihood	Controls	Impact	Forward Trend
Continuity of IT services	M	Retained IT consultancy monitor, investigate and improve the IT infrastructure. Servers hosted on Azure cloud-based system with multiple daily back-ups to a second remote server. Active monitoring and correction of system issues. Roll out of laptop encryption.	M	↓
Risk of business interruption due to fire, flood, explosion, natural disaster impacting ECO premises	L	Business risk insurance cover. Business continuity plan. Cloud-based servers with immediate backup restoration. High level of staff with remote working capability.	M	↔
Risk of corporate manslaughter	L	Maintain adequate health and safety procedures and insurances. Only responsible for one manufacturing plant, all other facilities are third party contracted services.	M	↔
Seasonal demand impact on supply chain responsiveness	M	Forecasting Project, Implementation of MRP on the SAGE ERP system, monthly Regional S&OP meetings, increased manufacturing capacity in USA, strategic review of lead times/responsiveness and the value benefit of last minute customisation.	M	↘

Financial risks

Risk	Likelihood	Controls	Impact	Forward Trend
Fraud and depletion of company funds	M	Implementing robust systems and controls. Keep international cash balances to a minimum. Daily/weekly monitoring of all bank account cash balances with explanations for material increases and depletions of balances. Change overseas local bank accounts to international banks with internet access.	M	↔
Cyber attack	M	Strong firewalls in place. Regular back up of data on duplicate servers. Continual review and strengthening of controls and security.	H	↔
Insufficient funding for business growth	L	Cashflow and working capital management. Close monthly monitoring of budget to actual results. Robust credit control in place.	H	↘
Currency	M	Monitoring of exchange rates and report in constant currency. Operationally transact in multiple currencies which are held and switched when appropriate. In-house treasury function to hedge when necessary.	M	↔
Risk of bank deposits being lost through collapse of bank	M	Daily monitoring of bank balances. Spread cash deposits over a number of stable and internationally recognised banks.	M	↔

CORPORATE GOVERNANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019



Internal controls

There is a clearly defined delegation of authority from the Board to the business units, with appropriate reporting lines to individual Executive Directors. There are procedures for the authorisation of capital expenditure and investment, together with procedures for post-completion appraisal.

Internal controls are in place which are intended to provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business. The process of documenting these controls is in progress as referred to in the Audit Committee Report.

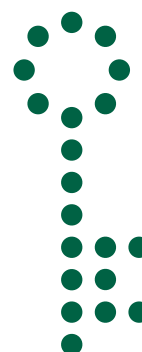
The Group Finance department manages the financial reporting process to ensure that there is appropriate control and review of the financial information including the production of the consolidated annual accounts. Group Finance is supported by the operational finance team throughout the Group, who have responsibility and accountability for providing information in keeping with the policies, procedures and internal best practices.

The Board has issued a Code of Conduct to all staff which reinforces the importance of a robust internal control framework throughout the Group. The Board recognises that an open and honest culture is key to understanding concerns within the business and to uncovering and investigating any potential wrongdoing.

The Code of Conduct sets out the procedure whereby staff may raise concerns in matters of financial reporting or any other matter of concern with management and directly with the Chairman of the Audit Committee to ensure independent investigation and appropriate follow-up action.

Although the Board itself retains the ultimate power and authority in relation to decision making, the Audit Committee meets at least twice a year with external auditors to review specific accounting, reporting and financial control matters. The Committee also reviews the interim and final accounts and has primary responsibility for making a recommendation on the appointment, reappointment and removal of external auditors.

THE BOARD
RECOGNISES
AN OPEN AND
HONEST CULTURE
IS KEY





Relations with shareholders

The Directors regard regular communications with shareholders as extremely important. Members of the Board receive copies of analysts' reports of which the Company is made aware.

The Board reports to shareholders in a number of ways, including regulatory news announcements or press releases in response to events or routine reporting obligations, the Annual Report and Accounts and at the half year, the interim report.

Regular dialogue takes place with institutional shareholders, including presentations after the Company's preliminary announcements of the half and full year results. The Board receives comments from analyst meetings and shareholder meetings after both interim and final results and at other times during the year.

Shareholders are given the opportunity to ask questions at the AGM and also have the opportunity to leave written questions with the Company Secretary for response by the Directors. The Directors also make themselves available after the AGM to talk informally to shareholders, should they wish to do so and respond throughout the year to any correspondence from individual shareholders.

At the AGM on the 19 September 2019, the Board will be following the recommendations in the UK Corporate Governance Code regarding the constructive use of the annual general meetings. The agenda will include a presentation by the Chief Executive Officer on aspects of the Group's business and an opportunity for shareholders to ask questions. The proxy votes received for each AGM resolution will be announced after the resolution has been dealt with on a show of hands, providing no poll has been called for. The Board has no plans to introduce poll voting on all business at general meetings as a substitute for using proxy votes.

The Non-Executive Directors, having considered the guidelines in the UK Corporate Governance Code with regard to relations with shareholders, are of the view that it is most appropriate for the shareholders to have

regular dialogue with the Executive Directors. The results of all dialogue with shareholders are communicated to the Board and reviewed by all Non-Executive Directors. However, should shareholders have concerns, which they feel cannot be resolved through normal shareholder meetings, the Chairman and the Non-Executive Directors may be contacted through the Company Secretary.

Disclosures and transparency rules (DTR)

Disclosures in respect of the DTR requirements under DTR 7.2.6 are given in the Directors' Report on pages 38 to 39 and have been included by reference.

Going concern

After making appropriate enquiries, the Directors have, at the time of approving the financial statements, formed a judgement that there is a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

This conclusion is based on a review of the resources available to the Group, taking account of the Group's financial projections together with available cash and committed borrowing facilities.

In reaching this conclusion, the Board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the Directors would consider undertaking.

REGULAR DIALOGUE TAKES PLACE WITH INSTITUTIONAL SHAREHOLDERS



CORPORATE GOVERNANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Directors



Richard Wood
Non-Executive
Independent Chairman
Year of birth 1944

Richard joined the Board as Non-Executive Independent Chairman on 7 March 2019.

Richard has considerable global animal health experience having built Genus plc from a small Company privatised by the government, into a world-leading animal genetics Company. Richard currently sits on the Board of Anpario plc as Senior Independent Director. Richard was previously Senior Non-Executive Director of Avon Rubber plc and was also: Chairman of Ocean Harvest Technology Inc, a manufacturer of therapeutic animal feeds using seaweeds, Chairman of Atlantic Healthcare plc in IBS pharmaceutical development and Chairman of Silent Herdsman Ltd in information technology for agriculture.



Marc Loomes
Chief Executive
Appointed 1 December 2005
Year of birth 1961

Marc joined ECO Animal Health in 2004, became MD in 2005 and CEO in 2010.

Marc, a qualified veterinarian and Member of the Royal College of Veterinary Surgeons, has extensive international senior management experience of the animal health and crop protection industries obtained with blue chip multinational companies in South Africa, Germany, Switzerland and the UK.

He brings the ability to balance strategic vision and operational delivery to the business.



Kevin Stockdale
Finance Director
Appointed 3 August 2007
Year of birth 1965

Kevin qualified as a Chartered Accountant in 1990 and was Finance Director of Interpet Ltd responsible for the audited accounts of Lawrence PLC while Interpet was a subsidiary Company in the Group. Interpet was sold in 2004 and Kevin remained with it as Finance Director. He rejoined the Group in September 2007 as Finance Director.

Kevin has been a qualified Chartered Accountant for over 25 years, initially in practice but has spent more than 20 of those years in the companion animal and animal health industries. The initial training and the subsequent experience have left him in a position to report accurately on the Group's current and projected performance and identify potential accounting, commercial and regulatory issues relating to the matters under discussion.



Brett Clemo

Executive Director
Appointed 1 December 2009
Year of birth 1962

Brett joined ECO Animal Health in 2006 as Director of Global Operations. He was appointed to the Board in 2009 and became Head of China and Japan in 2010.

He has over 30 years' experience in the life science sector in ICI, AstraZeneca and Syngenta and has held a number of senior international roles across Engineering, Manufacturing, Supply Chain and General Management. He is a results-orientated team leader who brings a wealth of experience in business processes and strategy.



Julia Trowse

Executive Director
and Company Secretary
Appointed 19 May 2004
Year of birth 1966

Julia joined the Group in 1993 as Financial Controller of Petworld Superstores Ltd and became Group Financial Controller of the Company in 1999 and Company Secretary in 2004. She joined the Board in August 2007.

Julia has a wealth of management accounting experience and internal auditing. She is also on the Board of Zhejiang ECO Biok Animal Health Products Ltd in China and ECO Animal Health Japan Inc. and is the Group's Internal Auditor.



Anthony Rawlinson

Independent
Non-Executive Director
Appointed 1 January 2015
Year of birth 1957

Anthony is a Chartered Accountant with over 30 years corporate finance experience advising smaller quoted companies. After spending 14 years at Henry Ansbacher & Co and Strand Partners, he co-founded Dowgate Capital Advisers in 2001 and led its growth and development. He was also Chairman of its AIM quoted parent Company, Dowgate Capital, which was sold to a competitor in a recommended transaction in 2009. In 2010 he co-founded Cairn Financial Advisers LLP, a Nominated Adviser to a number of AIM companies and a corporate advisory firm.



Andrew Jones

Senior Independent
Non-Executive Director
Appointed 1 December 2017
Year of birth 1960

Andrew has over 32 years of experience in international life science-based businesses including Syngenta AG., Arysta Lifesciences Inc. and Phoqus Pharmaceuticals Plc. During this time, he worked in product development, international sales and marketing, merger and acquisition and general management.

He currently runs his own consulting Company, Trioza Limited, which provides strategic advice to the animal health, crop protection and seeds sectors.

Andrew has a BSc degree and PhD in agricultural biology.

Andrew brings substantial strategic marketing and business development experience and skills to the business.

CORPORATE GOVERNANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Audit Committee report

Dear Shareholder

The Audit Committee comprises Anthony Rawlinson (Chairman), Dr Andrew Jones and from 16 April 2019 Richard Wood joined the Committee. All Committee members are independent Directors of the Company and have appropriate skills and expertise to enable them to carry out their role effectively.

The Committee meets at least twice a year linked to the timing of the Company's half year and full year results and also meets on an ad hoc basis.

Terms of reference of the audit committee

The terms of reference of the Committee are shown on the Company's website.

The Audit Committee operates within specific terms of reference including:

- Considering the appointment of external auditors
- Reviewing the relationship with external auditors
- Reviewing the financial reporting and internal control procedures
- Reviewing the management of financial matters and focusing upon the independence and objectivity of the external auditors and
- Reviewing the consistency of accounting policies both on a year to year basis and across the Group

The Audit Committee can call for information from the Executive management and consults with the external auditors directly if they are required to do so.

Committee report

The Committee met with the external auditors during the course of the year to discuss various issues and monitor progress. The current year's audit has been discussed and I am pleased to report that no significant issues were reported.

Last year the Committee carried out an audit tender during the early summer and we would like to thank those firms who tendered. Following completion of the process and after careful deliberation, the Board decided not to change auditor for the 2019 accounts but instead to review the scope of work with the existing auditor and to request that they carry out additional work in areas where the Committee perceived significant potential exposures. This year additional work was carried out at the Group's Chinese joint venture and we are pleased to report that no significant issues arose. The area of focus for next year will be decided over the course of the Summer and in discussion with the new audit firm.

As planned, the interim results were reviewed by the auditors prior to publication.

Following completion of the audit for 2019, the Committee will initiate a second audit tender process, the outcome of which will be reported to shareholders in due course.

We reported last year that a review of the Company's financial controls and procedures had been initiated and this continues to be work in progress. Significant effort has been put into this in recent months but to some extent the work, which is reliant on inputs from key Executives, has been held in abeyance while the new SAGE accounting system is established and its extensive management reporting capabilities are realised, as highlighted in the Committee's 2018 report. The plan is to document the latest systems and procedures following completion of this work. The Board will then review this document and request that the new auditors carry out an independent review.

An internal audit function is in the process of being established and last year, terms of reference were adopted. The Audit Committee will now agree the work programme for the year together with the nature and frequency of the reports to the Committee. The internal audit function is intended to provide us with valuable insight into operating procedures and enable us to monitor and control risk more effectively.

I am pleased to report that Richard Wood, who was recently appointed Independent Chairman of the Board, has also been appointed a member of the Audit Committee.

The priorities for next year have been highlighted above. The Committee will continue its efforts to ensure a healthy and effective internal control environment and a challenging and effective external audit process.



Anthony Rawlinson
Audit Committee Chairman
18 June 2019



Remuneration Committee report

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee Report for the year ended 31 March 2019. The objective of the report is to provide shareholders with information on the Company's remuneration policy to enable them to understand the link between remuneration structures and the Company's financial performance.

The responsibilities of the Remuneration Committee are summarised in the following report and are set out in full in the Terms of Reference for the Remuneration Committee which are available on the Company's website.

It has been some years since the current remuneration structure for Executive Directors has been put in place and so we have implemented a review and are in the process of making changes to the remuneration policy and remuneration structure during the financial year ending 31 March 2020.

We are using published survey data as benchmarks, and the guiding principles in the review are:

- Base salary levels to be competitive with median levels for companies of similar size on the AIM
- An annual bonus opportunity, with a maximum pay-out defined, aimed at intensifying the efforts of the Executive team to deliver demanding new targets for the Company

- A new Long Term Incentive Plan (LTIP) structure will be introduced which will aim to support the achievement of demanding targets in the new three-year strategy plan. The Company currently exceeds the recommended ceiling of 10 per cent of issued share capital for granted share options over a rolling 10 year period. We will consult with shareholders on a limited extension of the LTIP, based on nil or nominal cost options in a Performance Share Plan structure to reduce the impact of further dilution. Any extension will be subject to a proportion of shares being retained for a period after vesting and claw-back in certain circumstances

The remuneration of Non-Executive Directors has been reviewed, again with reference to published survey data. In the past this has comprised a low salary and a small number of share options intended to equate to the balance of a market rate salary over a 3 year period. This policy was changed two years ago such that Non-Executive Directors are no longer granted options and this has prompted the need for a salary review as the final tranche of share options was exercised in 2018.

The Report below sets out the existing remuneration policy and we will provide a full update of the new policy in next year's Annual report.

The Remuneration Committee believes that the actions it plans to take on remuneration matters in the coming year will support the Company's strategy and long-term value creation and are in the best interests of shareholders.

We hope that we will continue to receive your support at the forthcoming AGM.

Committee report

The Remuneration Committee, at the time of writing this report, is comprised of Andrew Jones (Chairman), Anthony Rawlinson and Richard Wood.

Role of the Remuneration committee

The Remuneration Committee reviews and determines on behalf of the Board and shareholders of the Company the pay, benefits and other terms of service of the Executive Directors of the Company and the broad pay strategy with respect to senior Company employees.

Remuneration policy

The objective of the Company's remuneration policy is to facilitate the recruitment and retention of Executives of an appropriate calibre, to ensure that the senior Executives of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Strategic alignment

The Remuneration Committee aim is that the reward that can be earned is appropriate for a Company of comparable size and complexity, at each level of performance. The delivery of the Company's short term corporate goals is incentivised by offering a cash-settled bonus linked to the achievement of pre-defined levels of EBITDA, which is the key metric the Board considers in monitoring corporate performance. Long term value generation is underpinned by a Long Term Incentive Plan. All of the Executive Directors have significant exposure to the Company's share price through shares and options over the Company's shares.

Remuneration in practice

The remuneration that the Company offers to its Executive Directors has been based on the following components:

- **Basic Salaries** – Basic salaries are determined by the Remuneration Committee bearing in mind the salaries paid in comparable businesses of similar size and complexity and other AIM-traded companies.
- **Other Compensation** – Executive Directors benefit from private medical and critical illness insurance. In addition, all Executive Directors are covered under the Company's life insurance policy.
- **Pensions** – The government contribution scheme is available to all Executive Directors and employees. In addition, Kevin Stockdale has a defined contribution arrangement in place.
- **Short-term incentives** – Bonuses are payable to staff (including the Executive Directors) according to the achievement by the Group of certain predetermined profit targets, principally EBITDA. The amount of bonus payable on achievement of the target is set at the level felt appropriate to provide the necessary incentive, with appropriate adjustments to the bonus payable in the event of over or under-achievement against those targets. In addition, bonuses may be adjusted for personal performance and the amount of bonus paid can also reflect any substantial periods of absence or unavailability of the employee.
- **Long-term incentives** – The Company operates a share option scheme under which share options have been granted once in each year, or in some circumstances can be granted on promotion. Options vest on the third anniversary of the date of grant, approved options can then be exercised until the tenth anniversary of grant and unapproved options until the seventh anniversary of grant. The exercise price of the options is set at the market value of the Company's shares at the time of grant, so that the individual only benefits if there has been share price growth. Employees are responsible for all taxes and NI (including those arising on the Company) arising on the exercise of options. The share option scheme is overseen by the Remuneration Committee which determines the terms under which eligible individuals may be invited to participate, including the level of awards. The scheme utilises HMRC approved options to the extent possible and tax unapproved options thereafter. As mentioned above, the number of share options issued over the last 10 years has exceeded the Investment Association guideline ceiling of 10 per cent of issued share capital in a rolling 10 year period.

In order to work towards meeting the recommendation, the Remuneration Committee therefore decided for the 2018-19 financial year to put in place a cash based scheme, payable in 2022, linked to EBITDA growth targets over the three financial years commencing April 2019. The CEO was not included in the cash scheme, but received a grant of 3,900 approved options from the Company and as, announced on 7 March 2019, a grant of options, from persons connected with Peter Lawrence, over 200,000 existing ordinary shares with vesting conditional on continued employment by the Company for three years from the date of grant.

Directors' remuneration

The aggregate remuneration payable to the Directors in respect of the period was as follows:

	Salary or Fees		Other		Pension		Bonus		Total Remuneration		Share Based Payments		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
M. Loomes	222	216	2	2	10	10	342	376	576	604	191	196	767	800
J. Trowse	99	95	1	1	1	-	83	93	184	189	53	56	237	245
K. Stockdale	85	81	12	11	5	5	83	93	185	190	53	56	238	246
B.Clempo	117	146	1	1	-	-	150	172	268	319	103	106	371	425
P.Lawrence	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R.Wood	4	-	-	-	-	-	-	-	4	-	-	-	4	-
A.Rawlinson	16	16	-	-	-	-	-	-	16	16	4	6	20	22
A.Jones	25	7	-	-	-	-	-	-	25	7	-	-	25	7
D.Danson	-	15	-	-	-	-	-	-	-	15	-	4	-	19

Notes

- The bonus values are for payments made in the financial year 2018/19 for performance in the 2017/18 year.
- Peter Lawrence retired from the Board on 7 March 2019. He received no remuneration from the Company for role as Chairman or any other role, but he and persons connected with him are substantial shareholders in the Company with holdings of 10 per cent at 31 March 2019. Richard Wood joined the Board on 7 March 2019.

Directors' interests

Details of share options held by Directors as at 31 March are set out below:

	Option Price (pence per share)	31-Mar-19	31-Mar-18
M. Loomes	545.0	3,900	-
	435.0	400,000	400,000
	312.5	350,000	350,000
	265.0	-	400,000
	200.5	-	100,000
B.Clempo	435.0	150,000	150,000
	312.5	250,000	250,000
	265.0	250,000	250,000
	200.5	60,000	60,000
K. Stockdale	435.0	120,000	120,000
	312.5	50,000	50,000
	265.0	150,000	150,000
	200.5	-	40,000
J. Trowse	435.0	120,000	120,000
	312.5	50,000	50,000
	265.0	75,000	150,000
	200.5	-	40,000
A.Rawlinson	265.0	-	30,000
	200.5	-	30,000

CORPORATE GOVERNANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

The shareholdings held by Directors who served during the period, as at 31 March 2019, in the ordinary shares of the Company were as follows:

	Ordinary shares of 5p each	
	31-Mar-19	31-Mar-18
P Lawrence and family	6,948,477	6,948,477
B Clemo and family	7,972	7,972
K Stockdale and family	8,051	8,051
J Trowse	146	146

Other information

All Executive Directors are employed under employment agreements.

Remuneration of the Non-Executive Directors is determined by the Chairman and the Chief Executive Officer. The Non-Executive Directors are not entitled to annual bonuses, employee benefits or participation in the LTIP.

The Chairman's remuneration is determined by Remuneration Committee in conjunction with the Chief Executive Officer. However, the Chairman is not entitled to vote on the matter.

The Non-Executive Directors are retained under Letters of Appointment.



Andrew Jones
Remuneration Committee Chairman
18 June 2019





Nomination Committee report

The Nomination Committee comprises all the Non-Executive Directors.

Main responsibilities

The main responsibilities of the Committee are as follows;

- Regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board
- Giving full consideration to succession planning
- Keeping under review the leadership needs of the organisation
- Being responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise
- Reviewing the results of the Board performance evaluation process that relate to the composition of the Board
- Formulating plans for succession for both Executive and Non-Executive Directors
- Nominating membership of the Audit and Remuneration Committees
- The re-election by shareholders of Directors under the annual re-election provisions of the retirement by rotation provisions in the Company's Articles of Association
- Any matters relating to the continuation in office of any Director at any time including the appointment or removal of any Director to Executive or other office

The Nomination Committee is also responsible for the Board's policy on diversity. The Board recognises the benefits of diversity. Diversity of skills, background knowledge, international and industry experience and gender, among many other factors, will be taken into consideration when seeking to appoint new Directors to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit.

Activities during the year

During the year the Committee focused on the work carried out within the business on succession planning, talent development and leadership at the senior management level. In addition, the Board discussed succession planning for the Chairman.

The Committee agreed that all Directors should be put forward for re-appointment by shareholders on a three-year rotational basis as set out in the Articles of Association of the Company, taking into account the performance and value each Director has brought to the Board. However, in line with best practice as reflected in the UK Corporate Governance Code (to which the Board aspires) all Directors will be standing for reappointment at the forthcoming AGM of the Company to be held on 19 September 2019.

During the year, Peter Lawrence retired as Chairman and was succeeded by Richard Wood.

Richard Wood
Chairman
18 June 2019

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The Directors present their report and financial statements for the year ended 31 March 2019.

Directors

The following Directors have held office since 1 April 2018:

Richard Wood (appointed 7 March 2019)	Non-Executive Chairman
Peter Lawrence (retired 7 March 2019)	Non-Executive Chairman
Marc Loomes	Chief Executive
Kevin Stockdale	Finance Director
Brett Clemo	Executive Director
Julia Trowse	Executive Director
Anthony Rawlinson	Non-Executive Director
Andrew Jones	Senior Non-Executive Director

Principal activities

The principal activities of the Group in the year under review were those of manufacturers and suppliers of animal health products. These activities were conducted on a global scale, through a network including both regional offices, (notably in Shanghai and Princeton) and overseas subsidiaries.

Results and dividends

The consolidated income statement for the year is set out on page 48.

The profit for the year after tax was £13,567,000 (2018: £11,647,000). The Company has paid a dividend of 6p per share making a total for the year of 12.7p (2018: 7.10p), including a special distribution of 3.5p per share.

Future developments

The likely future development of the business is covered in the Chairman's Statement and in the Strategic Report.

Substantial shareholdings

At 6 June 2019, the Company had been notified of the following holdings of 3 per cent or more of its issued share capital.

Name	No. of ordinary shares	Per cent
Liontrust Asset Management	8,850,399	13.12
P A Lawrence and family	6,948,477	10.30
AXA Investment Managers	6,411,506	9.51
M & G Investment Management	5,356,802	7.94
Schroder Investment Management	4,739,803	7.03
Aberdeen Standard Investments plc	3,637,188	5.39
Merian Global Investors	2,950,383	4.37
BlackRock Investment Management	2,939,123	4.36
Canaccord Genuity Group Inc	2,925,000	4.34
Dansk Bank A/S	2,098,832	3.11

Group research and development activities

The Group is continually researching into and developing new products and markets. Details of expenditure incurred and written off during the year are shown in the notes to the financial statements. The Group remains committed to obtaining further authorisations of its Aivlosin® products in other key territories and for additional disease applications, while at the same time expanding its product offering to include vaccines and other biologicals relevant to the swine and poultry markets.

Directors' insurance

The Company maintains Directors' and Officers' liability insurance for the benefit of its Directors which remained in place at 31 March 2019 and throughout the preceding year.

Financial instruments

The Group's accounting policies for financial instruments and strategy for management of those financial instruments are given in notes 2 and 32 to the financial statements respectively.

Internal financial controls

The Board of Directors is responsible for the Group's system of internal financial control. Internal control systems are designed to meet the particular needs of the companies concerned and the risks to which they are exposed. This provides reasonable, but not absolute, assurance against material misstatement or loss. Strict financial and other controls are exercised by the Group over its subsidiary companies by day to day supervision of the businesses by the Directors.

Stockbrokers

N+1 Singer were the Company's nominated adviser and stockbroker at the year end. Peel Hunt is joint broker. The closing share price on 31 March 2019 was 440.0p per share (2018: 531.0p). During the year the average share price was 481.41p (2018: 587.34p).

Auditors

The auditors Kreston Reeves LLP are not being proposed for reappointment at the forthcoming Annual General Meeting of the Company.

Statement of Directors' responsibilities

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 financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

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 the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure to auditors

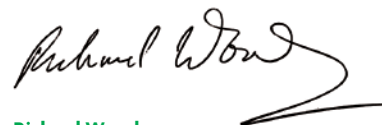
So far as each of the Directors at the date of approval of this report are aware;

- a. there is no relevant audit information of which the Company's auditors are unaware, and
- b. they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Forward-looking statements

This document contains certain forward-looking statements. The forward-looking statements reflect the knowledge and information available to the Company and Group during preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future and thereby involving a degree of uncertainty. Therefore, nothing in this document should be construed as a profit forecast by the Company or Group.

On behalf of the Board



Richard Wood
Chairman
18 June 2019

INDEPENDENT AUDITOR REPORT

TO THE SHAREHOLDERS OF ECO ANIMAL HEALTH GROUP PLC FOR THE YEAR ENDED 31 MARCH 2019

Opinion

We have audited the financial statements of ECO Animal Health Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 March 2019 which comprise the consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and company statements of cashflow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union in accordance with the provisions of the Companies Act 2006.

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 31 March 2019 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- 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 group's or 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.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

We performed a full scope audit on the main components of the business representing 78% of the Group's revenue and 99% of the Group's net assets.

Our audit approach is consistent with the previous year.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

KEY AUDIT MATTER

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Revenue recognition

The Group had one main source of revenue during the year (in the comparative period, there were two).

- a. Direct sales of animal pharmaceutical products into UK, European and global markets. The Group's flagship patented product continuing to be Aivlosin® which accounted for 78% of total Group Sales. The Group recognised these sales on despatch of the goods, at which point the risks and rewards of ownership is substantially transferred to the buyer.
- b. Sundry income in the prior year financial statements is primarily from the profit on sale of assets and rents receivable. These were recognised on an accruals basis. There was no such income for the year ended 31 March 2019.

We have focused on these income streams due to their value and the potential for misstatement of revenue whether caused by fraud or error.

We discussed the revenue recognition policies with management and independently with sales staff clarifying any discrepancies.

For direct product sales a sample of order numbers were traced through to sales invoice and ledger confirming the treatment of VAT and exchange rate differences for each. In addition, a comprehensive analytical review was undertaken comparing reported sales in the year to both prior period and budgeted monthly sales development.

The analysis by significant geographical sales markets was also reviewed with explanations for performance confirmed to be consistent with other audit evidence obtained.

KEY AUDIT MATTER

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Ownership and valuation of intangibles

Goodwill arose on the acquisition of subsidiaries and is included within the consolidated statement of financial position at cost less impairment.

There is historical capitalised goodwill on the balance sheet totalling £17.9 million in relation to this.

The Group also retains distribution rights as well as drug registrations, patents and capitalised licence costs.

For internally generated and externally acquired assets the Group recognises these at cost less accumulated depreciation and impairment losses. For assets acquired as part of a business combination these are recognised at fair value. Drug registrations, patents and licences are amortised over a useful economic life of between 10 and 20 years, with distribution rights being amortised over 20 years.

A breakdown of the goodwill by company was obtained and agreed to the nominal ledger and expectations. A comparison of the goodwill amount and the historical profitability/net assets figure of each company was undertaken and an initial assessment of any required impairment was noted. The Directors provided a paper on the impairment of goodwill taking into account forecasts for a period of 5 years looking at the profitability along with any potential impairment. Sensitivity analysis was undertaken on the forecasts to stress test different levels of revenue drop. Prior budgets and forecasts were compared to actual results and any inaccuracies in turnover or profits were also used to stress test the forecasts provided. The assumptions applied to generate the 5 year forecasts were reviewed and audited to help determine the accuracy of these forecasts.

Schedules for other intangible assets were obtained and agreed to nominal ledger and expectation, useful economic lives assigned were reviewed to confirm as reasonable with amortisation charges recalculated. Assets were also assessed for indicators of impairment and forecasts were obtained and reviewed to confirm the assumption that assets will continue to generate income for the Group.

INDEPENDENT AUDITOR REPORT (CONTINUED)

TO THE SHAREHOLDERS OF ECO ANIMAL HEALTH GROUP PLC FOR THE YEAR ENDED 31 MARCH 2019

KEY AUDIT MATTER

Valuation of share options

The Group operates an Executive share option scheme, with approved and unapproved share options granted to Directors and employees who devote at least 25 hours per week to the performance of duties or employment.

The exercise price of the options is equal to the market price of the shares at the date of grant, with the options vesting after three years. For instances of an option holder ceasing employment during this time for any reason the option can be exercised 6 months after date of cessation with approval of the Board.

We have focused on this area due to the increased complexity of accounting and exposure to higher risk accounting estimates in accounting for such a scheme.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

The company utilised external experts to assist with the accounting for share based payment. Their report was obtained and the qualifications and experience of the valuer assessed.

Sensitivity analysis was undertaken on the report's assumptions to stress test different levels of lever rates to review for potentially material variances.

The charge to the income statement was agreed to the audited report and it was confirmed all necessary disclosures were included in the accounts.

KEY AUDIT MATTER

Valuation and existence of inventory

The Group held inventories valued at £16.1 million at the year end, this being in relation to raw materials and consumables (£10.5 million) and finished pharmaceutical products (£5.6 million).

Such inventories are valued at the lower of cost and net realisable value; cost being determined using the first-in-first-out method. The cost of finished goods comprises raw materials as well as direct labour and other costs. The net realisable value is taken to be selling price for the product in the ordinary course of business.

We have focused on this area due to the value of inventories held, and the fact that there was judgement involved in estimating the value of obsolete products.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Stocktakes were attended at selected sites with material levels of inventory. A sample of stock was also selected for substantive valuation testing, confirming that inventory was held at the lower of cost and net realisable value.

Third parties who have completed stocktakes were assessed to confirm their competence and the reliability of their results. Variance testing was performed where stock sheets at year end were agreed to stock listing obtained. A sample of the final March 2019 and first April 2019 sales were reviewed to determine cut-off was applied correctly.

Inventory in transit was also reviewed to confirm it was accurately recorded as such at the year end.



KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p>IFRS – Amendments to the standards</p> <p>There have been key changes within IFRS which were effective from 1 January 2018. In addition to this, the client has opted to early adopt IFRS 16: leases.</p> <p>We have focused on this area due to the potential scope for material error in the Initial implementation of these changes.</p>	<p>IFRS 15: Revenue from contracts with customers. We have reviewed management’s assessment of the impact of this new standard on the financial statements and considered if this is appropriate.</p> <p>IFRS 9: Financial instruments. We have reviewed management’s consideration of the impact of the new standard on the classification of the financial instruments and assessed whether this was appropriate.</p> <p>Additionally, we have reviewed management’s calculation of expected credit losses over the life of its trade receivables and assessed the inputs considered and assumptions made within this calculation.</p> <p>IFRS 16: Leases – We have reviewed management’s calculation of the impact of IFRS 16 and vouched the various elements to the lease agreements. Additionally, assessed any assumptions made for appropriateness.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls, and the industry in which they operate.

Our scoping considerations for the Group audit were based both on financial information and risk. In addition to ECO Animal Health Group PLC the below subsidiaries were subject to a statutory or limited assurance audits:

- ECO Animal Health Limited (statutory audit)
- Zhejiang ECO BLOK Animal Health Products Limited (statutory audit)
- Pharmgate Animal Health LLC (statutory audit)
- ECO Animal Health do Brasil Comercio de Productos Veterinarios (limited assurance)
- ECO Animal Health (USA) Corporation (limited assurance)

The remaining subsidiaries have been deemed immaterial to the Group and were not subject to audit procedures.

INDEPENDENT AUDITOR REPORT (CONTINUED)

TO THE SHAREHOLDERS OF ECO ANIMAL HEALTH GROUP PLC FOR THE YEAR ENDED 31 MARCH 2019

Our application of materiality

Overall Group Materiality	£757,000 (2018: £692,000)
How we determined it	5 per cent of Group profit before tax
Rationale for benchmark	Given the Group is AIM listed, the number of users and the level of interest in the financial statements is expected to be higher than average. Therefore, the significance of balances is expected to be greater and consequently 5 per cent of profit before tax has been assessed as the most appropriate basis for materiality.

We reported all audit differences found in excess of performance materiality of £530,000 to the Directors and the management board.

For each Group Company within the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across each Group Company was between £25,300 and £448,000. The scope of our audit was influenced by our application of materiality as we set certain quantitative thresholds for performance materiality and use these thresholds as a consideration tool to help to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

We determined component materiality for the parent Company to be 1 per cent of net assets and for each of the trading Group companies between 1-2 per cent of turnover based upon the companies' principal activities and risk profile. Performance materiality was set in the range of 70-80 per cent of component materiality.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, 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 in this regard.



Opinions on other matters prescribed by the companies act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Group and parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement (set out on page 39), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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 Group's and parent 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 Group or parent Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR REPORT (CONTINUED)

TO THE SHAREHOLDERS OF ECO ANIMAL HEALTH GROUP PLC FOR THE YEAR ENDED 31 MARCH 2019

Auditor's 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 auditor 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.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the parent Company to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor 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.



Stephen Tanner BSc (Econ) FCA
(Senior Statutory Auditor)
For and on behalf of Kreston Reeves LLP
Statutory Auditor and Chartered Accountants
London
18 June 2019

The maintenance and integrity of the Group's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.



CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2019

		2019	2018
	Notes	£'000's	£'000's
Revenue	2,3	74,578	67,201
Cost of sales		(40,725)	(34,986)
Gross profit		33,853	32,215
Other income	4	35	436
Administrative expenses		(19,217)	(18,539)
Profit from operating activities	5	14,671	14,112
Finance income	6	631	138
Finance costs	6	(69)	(385)
Net finance (cost)/income		562	(247)
Share of profit of associate	15	14	7
		14	7
Profit before income tax		15,247	13,872
Income tax (charge)	8	(1,680)	(2,225)
Profit for the year		13,567	11,647
Profit attributable to:			
Owners of the parent company		11,755	9,315
Non-controlling interests	25	1,812	2,332
Profit for the year		13,567	11,647
Earnings per share (pence)	7	17.60	14.19
Diluted earnings per share (pence)	7	17.35	14.06
Earnings before Interest, Tax, Depreciation, Amortisation, Share Based Payments and Foreign Exchange Differences	5	20,087	19,571

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

		2019	2018
	Notes	£'000's	£'000's
Profit for the year		13,567	11,647
Other comprehensive (losses) (net of related tax effects):			
Items that will or may be reclassified to profit/(loss) in future periods:			
Foreign currency translation differences		(8)	(372)
Items that will not be reclassified:			
Defined benefit plan actuarial (losses)	22	(36)	(15)
Other comprehensive (losses) for the year		(44)	(387)
Total comprehensive income for the year		13,523	11,260
Attributable to:			
Owners of the parent Company		11,694	9,028
Non-controlling interest	25	1,829	2,232
		13,523	11,260

All items listed in other comprehensive income have gone through reserves and are shown in the consolidated statement of changes in equity.

The notes on pages 54 to 98 form part of these financial statements.

CONSOLIDATED	Attributable to the owners of the Parent							
	Share Capital	Share Premium Account	Revaluation Reserve	Other Reserves	Retained Earnings	Total	Non-controlling Interest	Total Equity
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance as at 31 March 2017	3,271	58,154	664	2,449	29,293	93,831	4,342	98,173
Profit for the year								
Other comprehensive income:								
Foreign currency differences	-	-	-	-	9,315	9,315	2,332	11,647
Actuarial (losses) on pension scheme assets	-	-	-	-	(272)	(272)	(100)	(372)
Total comprehensive income for the year	-	-	-	-	(15)	(15)	-	(15)
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Issue of shares in the year	20	693	-	-	-	713	-	713
Share-based payments	-	-	-	778	-	778	-	778
Transfers on expiry of options	-	-	-	(404)	404	-	-	-
Dividends relating to 2018	-	-	-	-	(4,660)	(4,660)	(1,389)	(6,049)
Transactions with owners	20	693	-	374	(4,256)	(3,169)	(1,389)	(4,558)
Balance as at 31 March 2018	3,291	58,847	664	2,823	34,065	99,690	5,185	104,875
Adjustment on implementation of IFRS 16	-	-	-	-	(17)	(17)	1	(16)
IFRS 16 adjusted balance as at 1 April 2018	3,291	58,847	664	2,823	34,048	99,673	5,186	104,859
Profit for the year	-	-	-	-	11,755	11,755	1,812	13,567
Other comprehensive income:								
Foreign currency differences	-	-	-	-	(17)	(17)	9	(8)
Actuarial (losses) on pension scheme assets	-	-	-	-	(36)	(36)	-	(36)
Total comprehensive income for the year	-	-	-	-	11,702	11,702	1,821	13,523
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Issue of shares in the year	81	3,803	-	-	-	3,884	-	3,884
Share-based payments	-	-	-	631	-	631	-	631
Transfers on expiry of options	-	-	-	(112)	112	-	-	-
Dividends relating to 2019	-	-	-	-	(8,485)	(8,485)	(1,643)	(10,128)
Transactions with owners	81	3,803	-	519	(8,373)	(3,970)	(1,643)	(5,613)
Balance as at 31 March 2019	3,372	62,650	664	3,342	37,377	107,405	5,364	112,769

COMPANY

	Share Capital	Share Premium Account	Revaluation Reserve	Other Reserves	Retained Earnings	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Balance as at 31 March 2017	3,271	58,154	395	2,449	11,384	75,653
Profit for the year	-	-	-	-	76	76
Other comprehensive income:						
Actuarial (losses) on pension scheme assets	-	-	-	-	(15)	(15)
Total comprehensive income for the year	-	-	-	-	61	61
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares in the year	20	693	-	-	-	713
Share-based payments	-	-	-	778	-	778
Transfers on expiry of options	-	-	-	(404)	404	-
Dividends relating to 2018	-	-	-	-	(4,660)	(4,660)
Transactions with owners	20	693	-	374	(4,256)	(3,169)
Balance as at 31 March 2018	3,291	58,847	395	2,823	7,189	72,545
Profit for the year	-	-	-	-	15,041	15,041
Other comprehensive income:						
Actuarial (losses) on pension scheme assets	-	-	-	-	(36)	(36)
Total comprehensive income for the year	-	-	-	-	15,005	15,005
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares in the year	81	3,803	-	-	-	3,884
Share-based payments	-	-	-	631	-	631
Transfers on expiry of options	-	-	-	(112)	112	-
Dividends relating to 2019	-	-	-	-	(8,485)	(8,485)
Transactions with owners	81	3,803	-	519	(8,373)	(3,970)
Balance as at 31 March 2019	3,372	62,650	395	3,342	13,821	83,580

	Notes	Group		Company	
		2019	2018	2019	2018
		£000's	£000's	£000's	£000's
Non-current assets					
Intangible assets	11	62,734	57,631	-	-
Property, plant and equipment	12	2,144	1,866	769	716
Investment property	13	200	200	200	200
Right of use assets	14	1,930	-	30	-
Investments	15	116	98	20,077	20,077
Amounts due from subsidiary Company	17	-	-	58,510	46,326
		67,124	59,795	79,586	67,319
Current assets					
Inventories	16	16,107	17,663	-	-
Trade and other receivables	17	29,537	17,193	46	213
Income tax recoverable		466	113	-	-
Other taxes and social security		462	1,160	145	518
Cash and cash equivalents	19	18,068	21,261	4,236	4,959
		64,640	57,390	4,427	5,690
Liabilities					
Trade and other payables	20	(13,809)	(10,715)	(181)	(234)
Income tax		(1,000)	(152)	-	-
Other taxes and social security		(533)	(108)	(90)	(98)
Amounts due under leases	27	(415)	-	(16)	-
Dividends		(49)	(42)	(49)	(42)
		(15,806)	(11,017)	(336)	(374)
Net current assets		48,834	46,373	4,091	5,316
Total assets less current liabilities		115,958	106,168	83,677	72,635
Non-current liabilities					
Provisions					
Deferred tax	18	(1,616)	(1,293)	(85)	(90)
Amounts due under leases	27	(1,573)	-	(12)	-
TOTAL ASSETS LESS TOTAL LIABILITIES		112,769	104,875	83,580	72,545
EQUITY					
Issued share capital	24	3,372	3,291	3,372	3,291
Share premium account		62,650	58,847	62,650	58,847
Revaluation reserve		664	664	395	395
Other reserves	26	3,342	2,823	3,342	2,823
Retained earnings		37,377	34,065	13,821	7,189
Shareholders' funds		107,405	99,690	83,580	72,545
Non-controlling interests	25	5,364	5,185	-	-
		112,769	104,875	83,580	72,545

Approved by the Board and authorised for issue on 18 June 2019

Richard Wood, Chairman.

The notes on pages 54 to 98 form part of these financial statements.

	Notes	Group		Company	
		2019 £000's	2018 £000's	2019 £000's	2018 £000's
Cash flows from operating activities					
Profit before income tax		15,247	13,872	15,050	89
Adjustment for:					
Net finance cost/(income)	6	(562)	247	(937)	(911)
Depreciation	12, 14	720	297	19	17
Revaluation of freehold property		(55)	-	(55)	-
Revaluation of investment property	13	-	(15)	-	(15)
Amortisation of intangible assets	11	3,982	3,428	-	-
Pension payments	22	(59)	(39)	(59)	(39)
Share of associate's results	15	(14)	(7)	-	-
Impairment of investments	15	-	-	-	5
Share based payments	23	631	778	631	778
Operating cash flows before movements in working capital		19,890	18,561	14,649	(76)
Change in inventories		1,556	2,012	-	-
Change in receivables		(11,646)	(1,298)	(11,644)	(231)
Change in payables		3,540	(3,432)	(39)	(373)
Cash generated from/(absorbed by) operations		13,340	15,843	2,966	(680)
Finance costs		(69)	(14)	(2)	(3)
Income tax		(862)	(1,763)	(13)	(11)
Net cash from/(absorbed by) operating activities		12,409	14,066	2,951	(694)
Cash flows from investing activities					
Acquisition of property, plant and equipment	12	(566)	(324)	(2)	(2)
Disposal of property, plant and equipment		5	1	-	-
Purchase of intangibles	11	(9,085)	(7,176)	-	-
Finance income	6	127	138	938	914
Net cash (used in)/from investing activities		(9,519)	(7,361)	936	912
Cash flows from financing activities					
Proceeds from issue of share capital		3,884	713	3,884	713
Finance lease borrowings		67	-	1	-
Finance lease repayments		(406)	-	(17)	-
Dividends paid		(10,121)	(6,046)	(8,478)	(4,656)
Net cash (used in) financing activities		(6,576)	(5,333)	(4,610)	(3,943)
Net(decrease)/increase in cash and cash equivalents		(3,686)	1,372	(723)	(3,725)
Foreign exchange movements		493	(713)	-	-
Balance at 1 April 2018		21,261	20,602	4,959	8,684
Balance at 31 March 2019	19	18,068	21,261	4,236	4,959

A net debt reconciliation has been provided in note 21

1. General information

ECO Animal Health Group plc (“the Company”) and its subsidiaries (together “the Group”) manufacture and supply animal health products globally.

The Company is traded on the AIM market of the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is 78 Coombe Road, New Malden, Surrey, KT3 4QS.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Group has presented its annual report and accounts in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements, in conformity with IFRS as adopted by the European Union, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The principal accounting policies of the Group are set out below and have been applied consistently in dealing with items which are considered material in relation to the Group’s financial statements.

2.2 Adoption of new and revised standards

The following amendments to existing standards and interpretations were effective for periods beginning after 1 January 2018, but the adoption of these amendments to existing standards and interpretations did not have a material impact on the financial statements of the Group:

- IFRS 2 – Classification and Measurement of Share Based Payment Transactions
- IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 9 – Financial Instruments (see note 2.19)
- IFRS 15 – Revenue from Contracts with Customers
- IAS 40 – Transfers of Investment Property
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration
- IFRS 1 and IAS 28 – Amendments under 2014-16 Cycle of Annual Improvements

The following new standard has been implemented in the current period:

- IFRS 16 – Leases

Further details on the implementation of this standard and its effect on the reported results for the period can be found in note 2.15.

The following new standards, amendments and interpretations for existing standards have been published that are mandatory for accounting periods beginning after 1 January 2019 (unless otherwise stated) and have not been applied in preparing these consolidated financial statements.

- IFRS 9 – Financial Instruments (amendments)
- IFRS 17 – Insurance contracts (effective 1 January 2021)
- IAS19 – Employee benefits
- IAS 28 – Investments in associates and joint ventures
- IFRIC 23 – Uncertainty over income tax
- IFRS 3, IFRS 11, IAS 12 and IAS 23- Amendments under 2015-2017 Cycle of Annual Improvements

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2.3 Basis of consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries drawn up to 31 March 2019.

An entity is classed as a subsidiary of the Company when as a result of contractual arrangements, the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value, the difference is recognised directly in the income statement.

Accounting policies have been changed where material to ensure consistency with the policies adopted by the Group. Although the subsidiaries in Brazil and China and the joint operations in the USA and Canada all have December year ends, the Group uses management accounts to the end of March to prepare the Group accounts.

Subsidiaries are wholly consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board.

2.5 Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and the Group's presentational currency.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the rates of exchange ruling at the date of the financial statements.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowing and cash and cash equivalents are presented in the income statement within finance income or finance costs.

(c) Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of the balance sheet
- income and expenses for each income statement are translated at average exchange rates unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are translated at the rate on the dates of the transaction and
- all resulting exchange differences are recognised as a separate component of equity

When a foreign operation is partially disposed or sold, exchange differences that were recognised in equity are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

2.6 Financial instruments

a) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets:

b) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

c) Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group has the following non-derivative financial liabilities: bank overdrafts and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

2.7 Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the costs of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised 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 is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal. Goodwill arising before the date of transition to IFRS, on 1 April 2004, has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

2.8 Other intangible assets

Drug registrations, patents and licences

The Group recognises internally generated or externally acquired intangible assets at cost and subsequently recognises them at cost less accumulated amortisation and impairment losses. Intangible assets acquired as part of a business combination are recognised at fair value.

Expenditure on drug registrations and licences is recognised as an internally generated or externally acquired intangible asset only if all the following conditions are met:

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits and
- the development cost of the asset can be measured reliably

All drug registrations and licences have previously been amortised on a straight-line basis over their useful economic life of 10 years. However, following the granting of Aivlosin's first marketing authorisation in the USA in July 2012, which greatly increased the economic potential of the product, management revised their estimate of the useful life of the Aivlosin® drug registrations only from 10 to 20 years and in accordance with IAS 8 have amortised the remaining book value of the Aivlosin registrations over the remainder of the useful life of these registrations from that date.

Distribution rights

Distribution rights are recognised at cost and amortised on a straight line basis over their estimated useful economic life of 20 years. They are reviewed for impairment when any indication of potential impairment exists.

2.9 Property, plant and equipment and depreciation

Plant and equipment are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows;

Plant and machinery	20% on cost	Freehold land and buildings are stated at valuation less depreciation. The property is professionally valued by a qualified surveyor at least once every three years. Surpluses (which are not reversals of previous deficits) arising from the periodic valuations are taken to the Statement of Other Comprehensive Income, and deficits are taken to the income statement. Depreciation is provided at a rate calculated to write off the valuation less estimated residual value over the remaining useful life of the building at a rate of 2% per annum. Land is not depreciated.
Fixtures, fittings and equipment	20% on cost	
Motor vehicles	25% on cost	

2.10 Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each year end, to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the impairment loss if any. The recoverable amount is the higher of its fair value and its value in use. For intangible assets with an indefinite useful life, an impairment test is performed at each year end.

In assessing value in use, the expected future cash flows from the asset 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. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

2.11 Investment property

The investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value.

The property is professionally valued by a qualified surveyor at least once every three years. Surpluses and deficits arising from the periodic valuations are taken to the income statement.

2.12 Investments

Non-current asset investments are stated at fair value. They are recognised or derecognised on the date when the contract for acquisition or disposal requires the delivery of that investment.

Investments in subsidiaries are stated at cost less impairment in the Parent Company's statement of financial position.

An impairment is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate adjusted for a risk premium. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised costs would have been had the impairment not been recognised.

2.13 Interest in joint operations

A joint operation is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control; that is, when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

The Group accounts for its interest in joint operations using proportional consolidation, as it has rights to substantially all of the economic benefits of the assets and obligations for the liabilities shown in these financial statements relating to those operations. The Group's share of the assets, liabilities, income, expenses and cash flows of jointly controlled entities are combined with the equivalent items in the results on a line by line basis.

2.14 Investments in associates

An associate is an entity in which an investor has significant influence but not control or joint control. Significant influence is defined as "the power to participate in the financial and operating policy decisions but not to control them".

The Group reports its interests in associates using the equity method of accounting. Under this method, an equity investment is initially recorded at cost (subject to initial fair value adjustment if acquired as part of the acquisition of a subsidiary) and is subsequently adjusted to reflect the Group's share of the net profit or loss of the associate. If the Group's share of losses of an associate equals or exceeds its "interest in the associate", the Group discontinues recognising its share of further losses. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

2.15 Leasing

The Group leases certain property, plant and equipment.

Assets obtained under finance leases, where the Group has substantially all the risks and rewards of ownership are capitalised as property, plant and equipment and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in borrowings net of the financial charge allocated to future periods. The financial element of the rental payment is charged to the income statement so as to produce constant periodic rates of charge on the net obligations outstanding in each period.

Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases were charged to the income statement for the year end 31 March 2018 on a straight-line basis over the period of the lease.

The Group has adopted the provisions of IFRS 16 – “Leases” during the year. All material leases with an initial term of more than one year are now classified as finance leases. The Group has elected to use the transitional arrangements specified in IFRS 16, in that it has not restated results from prior periods. Instead, it has introduced the assets held under qualifying leases as at the beginning of the period onto the Balance Sheet at cost less accumulated depreciation. The corresponding liability under the terms of the lease, (discounted at the Group’s marginal cost of borrowing) at the same date has also been introduced onto the Balance Sheet. The difference between these two figures has been shown as an adjustment to opening reserves.

The following table gives details of the amounts introduced into the Group Balance Sheet at 1 April 2018, split by category of asset.

	Land and Buildings (freehold)	Motor Vehicles	Fixtures, fittings and equipment	Total
	£'000's	£'000's	£'000's	£'000's
Assets introduced:				
Cost:	2,297	203	7	2,507
Accumulated Depreciation	(328)	(70)	(2)	(400)
Net Book Value	1,969	133	5	2,107
Finance Lease Liabilities Introduced	(1,987)	(132)	(5)	(2,124)
Adjustment to opening reserves:	(18)	1	-	(17)

The effect of the provisions of IFRS 16 “Leases” on net profit for the year was a reduction in reported profit of £43,000 and the effect on net assets as at 31 March 2019 was a reduction of £60,000.

2.16 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods comprises raw materials, direct labour and other direct costs. Net realisable value is the estimated selling price in the ordinary course of business, less any costs which would be incurred in completing the goods and rendering them ready for sale.

2.17 Trade receivables

Trade receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowance for estimated, irrecoverable amounts are recognised in profit or loss 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.

2.18 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.19 Adoption of IFRS 9 financial instruments

The Group has applied IFRS 9 for the year to 31 March 2019 and this did not have a material impact on the Group's classification, measurement and impairment at or from the date of initial application namely 1 April 2018. This conclusion was reached after a review of the Group's recent loss experience and an assessment of likely future market changes determined that the credit risk of the Group's Financial Instruments has not increased since initial recognition, either over the next twelve months, or for the lifetime of the Financial Instrument concerned.

2.20 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.

2.21 Bank borrowings and loans

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs (which equate to fair value). Finance charges including premiums payable on settlement or redemption and direct issue costs are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

2.22 Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

2.23 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 the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation outstanding at the year end and are discounted to present value where the effect is material.

2.24 Revenue recognition

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" for the year ended 31 March 2019 which did not have any material impact on the Group's transactions or the Group's reported revenue or profit before tax.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The performance obligation is recognised when control of the goods passes to the customer, which is normally upon shipment and when the amount of revenue can be measured reliably. No goods are despatched on a sale or return basis. Distributors trade on their own account and not as agents.

The Group also receives interest, rental income, royalty income and management charges in respect of accounting services supplied to certain ex-subsidiaries. The amounts are small and are recognised on an accruals basis.

2.25 Pensions

Defined contribution scheme

The pension costs charged against operating profits represent the amount of the contributions payable to the schemes in respect of the accounting period.

Defined benefit scheme

The regular cost of providing retirement pensions and related benefits is charged to the income statement over the employees' service lives on the basis of a constant percentage of earnings. The present value of the defined benefit obligation less the fair value of the plan assets is disclosed as an asset or liability in the statement of financial position in accordance with IAS 19. The disclosure of a net defined benefit asset is limited to the present value of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan.

Actuarial gains or losses are taken directly to equity in the statement of comprehensive income.

2.26 Share-based payments

The Group issues equity-settled share-based payments to certain employees in exchange for services from those 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 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 behaviour considerations.

Further details of the inputs to the Black-Scholes model can be found in note 23 to the accounts.

2.27 Taxation

Tax expense for the period comprises current and deferred tax.

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 substantially enacted by the year end. Tax expenses are recognised in the income statement or statement of comprehensive income according to the treatment of the transactions which give rise to them.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amount in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

2.28 Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Amounts arising on the restructuring of equity and reserves to protect creditor interests are credited to the capital redemption reserve.

The cost of its own shares bought into treasury by the Company is debited to retained earnings as required by the Companies Act 2006. A subsequent sale of these shares would result in this entry being wholly or partly reversed with any profit on the sale being credited to share premium.

For each business combination, the Group elects to measure any non-controlling interest in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets which are generally at fair value. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owner. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the statement of profit or loss.

2.30 Dividend distribution

Final dividend distributions to the Company's shareholders are recognised as liabilities in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recognised when they are paid.

2.31 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- **Estimated impairment value of intangible assets**

The Group tests annually whether intangible assets with indefinite life have suffered any impairment. Other intangible assets are reviewed for impairment when an indication of potential impairment exists. Impairment provisions are recorded as applicable based on Directors' estimates of recoverable values. Details of the impairment reviews performed can be found in note 11 of the financial statements.

- **Income taxes**

The Group is subject to income taxes predominantly in the United Kingdom but also in other jurisdictions. Significant estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises assets and liabilities based on estimates of the final agreed position. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Pension scheme**

The Group maintains one defined benefit pension scheme which has been accounted for according to the provisions of IAS 19. Although the assumptions were determined by a qualified actuary, any change in those assumptions may materially impact the financial position and results of the Group. Details of the assumptions used can be found in note 22 of the financial statements.

- **Share-based payments**

The charge to the Income Statement in respect of share-based payments has been externally calculated using management's best estimates of the amount of options expected to vest and various other inputs to the Black-Scholes model, as disclosed in note 23. Any variation in those assumptions may have a material impact on the Group's future results and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

3. Segment information

Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic decisions. The Board considers the business from a geographical perspective. Geographically, management considers the performance in the Corporate/UK and China and Japan, North America, South and South East Asia, Latin America, Europe and the Rest of the World.

Management considers Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA"), adjusted for share-based payments.

	Corporate/ U.K.	China & Japan	North America	S & SE Asia	Latin America	Europe	Rest of World	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Year ended 31 March 2019								
Total segment revenue	1,422	35,861	31,230	11,038	14,287	7,594	1,747	103,179
Inter-segment revenue	-	(7,613)	(17,796)	-	(3,192)	-	-	(28,601)
Revenue from external customers	1,422	28,248	13,434	11,038	11,095	7,594	1,747	74,578
Sale of goods	1,422	28,248	13,434	11,038	11,095	7,594	1,591	74,422
Royalties	-	-	-	-	-	-	156	156
	1,422	28,248	13,434	11,038	11,095	7,594	1,747	74,578
Adjusted EBITDA	(2,818)	9,298	3,589	4,278	2,152	2,750	700	19,949
Total Assets	22,272	33,621	18,197	18,910	19,550	14,907	4,307	131,764
Year ended 31 March 2018								
Total segment revenue	1,147	36,798	26,203	10,623	10,924	8,246	1,536	95,477
Inter-segment revenue	-	(9,198)	(14,990)	-	(4,088)	-	-	(28,276)
Revenue from external customers	1,147	27,600	11,213	10,623	6,836	8,246	1,536	67,201
Sale of goods	1,147	27,600	11,213	10,623	6,836	8,246	1,329	66,994
Royalties	-	-	-	-	-	-	207	207
	1,147	27,600	11,213	10,623	6,836	8,246	1,536	67,201
Adjusted EBITDA	(2,614)	9,908	4,118	3,942	791	1,880	576	18,601
Total Assets	24,429	29,466	12,179	17,209	15,609	14,499	3,794	117,185

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

Goodwill and other intangible assets are initially allocated to the geographical segments on the basis of the proportion of sales achieved by each segment.

A reconciliation of adjusted EBITDA for reportable segments to profit before tax is provided as follows:

	2019	2018
	£000's	£000's
Adjusted EBITDA for reportable segments	19,949	18,601
Depreciation	(720)	(298)
Revaluation of freehold property	55	-
Revaluation of investment property	-	15
Amortisation	(3,982)	(3,428)
Share-based payment charges	(631)	(778)
Finance income/(costs)	562	(247)
Share of associate's results	14	7
Profit before tax on continuing activities	15,247	13,872

4. Other income

	2019	2018
	£000's	£000's
Management charges	30	150
Rental income	-	58
Sundry income	5	228
	35	436

5. Result from operating activities

	2019	2018
	£000's	£000's
Result from operating activities is stated after charging/(crediting)		
Cost of inventories recognised as an expense	40,614	34,887
Employee benefits expenses	8,829	8,567
Amortisation of intangible assets (note 11)	3,982	3,428
Depreciation (notes 12 & 14)	720	298
Revaluation of freehold property (note 12)	(55)	-
Revaluation of investment property (note 13)	-	(15)
Loss on foreign exchange transactions	138	970
Research and development	49	81
Operating lease rentals expensed	-	495
Fees payable to the Company's auditor for the audit of the parent Company and Group annual accounts	18	17
For the audit of the Company's subsidiaries	52	42
Fees payable for audit of the Company's subsidiaries pursuant to legislation	14	14
	2019	2018
	£000's	£000's
Earnings Before Interest, Tax, Depreciation, Amortisation and impairment, share-based payments and foreign exchange differences (adjusted EBITDA)		
Profit from operating activities	14,671	14,112
Depreciation	720	298
Revaluation of freehold property	(55)	-
Revaluation of investment property	-	(15)
Amortisation	3,982	3,428
Share-based payments	631	778
	19,949	18,601
Foreign exchange differences	138	970
	20,087	19,571

Management believe that adjusted EBITDA is the most appropriate measure of the Group's performance as it is the initial source for all re-investment and for all returns to shareholders. Investors, bankers and analysts all focus on this important measure of cash flow because it enables them to make judgements about the Group's ability to generate sufficient cash to meet all the re-investment needs of the business while still providing adequate returns to shareholders. Therefore, adjusted EBITDA has a direct relationship with the value of the Group and is seen by our investors as a Key Performance Indicator for management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The following items are adjusted for in the calculation of adjusted EBITDA as defined by the Group.

Item	Rationale for Adjustment
Depreciation and Amortisation	These items are a result of past investments and therefore, although they are correctly recorded as a cost of the business, they do not reflect current or future cash outflows. Additionally, Depreciation and Amortisation calculations are subject to judgement regarding useful lives and residual values of particular assets and the adjustment removes the element of judgement.
Revaluation of Investment Property	These are subject to judgement and do not reflect cash flows.
Gains and losses on Disposal of Fixed Assets and Impairment of Intangibles	These items are viewed as adjustments to depreciation and amortisation and therefore the rationale for depreciation and amortisation applies.
Share Based Payments	This item is subject to judgement and will never be reflected in the Group's cash flows.
Foreign Exchange differences	Since the key driver of this figure is the revaluation of monetary assets denominated in foreign currency at the period end, which often reverse later, taking this figure out of the EBITDA figure removes volatility from the performance measure. Foreign exchange movements are largely outside of the Group's control, so this gives a better measure of the Group's progress than statutory profit measures which include them.

6. Finance income/(costs)

	2019	2018
	£000's	£000's
Finance income		
Interest received on short term bank deposits	127	138
Foreign exchange differences on bank balances	504	-
	631	138
Finance costs		
Interest paid	(1)	(14)
Interest paid on finance lease obligations	(68)	-
Foreign exchange differences on bank balances	-	(371)
	(69)	(385)
	562	(247)

7. Earnings per share

The calculation of basic earnings per share is based on the post-tax profit for the year divided by the weighted average number of shares in issue during the year.

	2019			2018		
	Earnings	Weighted average number of shares	Per share amount	Earnings	Weighted average number of shares	Per share amount
	£000's	000's	(pence)	£000's	000's	(pence)
Earnings attributable to ordinary shareholders on continuing operations after tax	11,755	66,794	17.60	9,315	65,646	14.19
Dilutive effect of share options	-	943	(0.25)	-	605	(0.13)
Fully diluted earnings per share	11,755	67,737	17.35	9,315	66,251	14.06

Diluted earnings per share takes into account the dilutive effect of share options.

8. Taxation

	2019	2018
Current tax year	£000's	£000's
Foreign corporation tax on profits for the year	1,655	1,852
Withholding tax on intercompany dividend	92	78
Research and development tax credits claimed in the year	(285)	(40)
Research and development tax credits - adjustment for prior year	(104)	69
Deferred tax		
Origination and reversal of temporary differences	411	266
Due to change in effective rate	(89)	-
Income tax charge	1,680	2,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

	2019	2018
Factors affecting the tax charge for the year	£000's	£000's
Profit on ordinary activities before taxation	15,247	13,872
Profit on ordinary activities before taxation multiplied by the applicable rate of UK corporation tax of 19% (2018: 19%)	2,897	2,636
Effects of:		
Non deductible expenses	470	305
Non chargeable credits	(984)	(397)
Withholding tax on inter-company dividends	92	78
Enhanced allowance on research and development expenditure	(928)	(736)
Different tax rate for foreign subsidiaries	348	451
Reduced effective deferred tax rate	(89)	-
Unused tax losses carried forward	141	90
Patent box claim	(267)	(202)
Income tax charge	1,680	2,225
	2019	2018
	%	%
Applicable tax rate per UK legislation	19.00	19.00
Effects of:		
Non deductible expenses	3.08	2.20
Non chargeable credits	(6.45)	(2.86)
Withholding tax on inter-company dividends	0.60	0.56
Enhanced allowance on research and development expenditure	(6.09)	(5.31)
Different tax rate for foreign subsidiaries	2.28	3.25
Reduced effective deferred tax rate	(0.58)	-
Unused tax losses carried forward	0.93	0.65
Patent box claim	(1.75)	(1.45)
Effective tax rate	11.02	16.04

Future tax changes

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured at this rate (2018: hybrid tax rate of 18%).

9. Profit for the financial year

	2019	2018
	£000's	£000's
Parent Company's profit for the financial year	15,041	76

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 not to present the Parent Company income statement.

10. Dividends

	2019	2018
	£000's	£000's
Non-recurring dividend for the year ended 31 March 2019 of 3.5p per ordinary share	2,350	-
Dividend for the year ended 31 March 2018 of 9.2p per ordinary share	6,135	-
Dividend for the period ended 31 March 2017 of 7.1p per ordinary share	-	4,660
	8,485	4,660

The Board is proposing a dividend of 7.04p per ordinary share in respect of the year ended 31 March 2019, which, when taken with the 4.0p per ordinary share paid in April 2019 will total 11.04p per ordinary share, not including the "one-off" dividend (of 3.5p per ordinary share) paid in January 2019.

11. Intangible fixed assets

Group	Goodwill	Distribution rights	Drug registrations, patents and licence costs	Total
	£000's	£000's	£000's	£000's
Cost				
At 1 April 2017	17,930	1,442	67,643	87,015
Additions - internally generated	-	-	7,176	7,176
At 1 April 2018	17,930	1,442	74,819	94,191
Additions - internally generated	-	-	9,085	9,085
At 31 March 2019	17,930	1,442	83,904	103,276
Amortisation				
At 1 April 2017	-	759	32,373	33,132
Charge for the year	-	72	3,356	3,428
At 1 April 2018	-	831	35,729	36,560
Charge for the year	-	72	3,910	3,982
At 31 March 2019	-	903	39,639	40,542
Net Book Value				
At 31 March 2019	17,930	539	44,265	62,734
At 31 March 2018	17,930	611	39,090	57,631
At 31 March 2017	17,930	683	35,270	53,883

The amortisation and impairment charges are included within administrative expenses on the income statement.

Distribution rights are amortised over their estimated useful life of 20 years and reviewed for impairment when any indication of potential impairment exists. The remaining amortisation period at the date of the financial statements ranged from 5 to 15 years.

The carrying value of goodwill is attributable to the following cash generating units:

Entity	Date of acquisition	£000's
ECO Animal Health Limited	1 October 2004	17,359
Zhejiang Eco Biok Animal Health Products Limited	1 April 2007	94
ECO Animal Health Japan Inc	24 December 2009	477
		17,930

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (CGU's) that are expected to benefit from the business combination.

The recoverable amounts of the CGU's are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and the estimated remaining useful life of the asset which is maintained at 30 years through ongoing investment in the cash generating unit.

The Group prepares cashflow forecasts derived from the most recent financial budgets and projections that are approved by management for the year ahead and then extrapolates them assuming a 3% annual growth rate which is well below the current performance of the existing business. The Directors believe that the long-term growth rate assumed does not exceed the average long-term growth rate for the relevant markets.

Management estimates discount rates using the pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU's. In the current year management estimated the applicable rate to be 11%. Management considers that there is adequate headroom when comparing the net present value of the cash flows to the carrying value of goodwill to conclude that no impairment is necessary this year. On current assumptions the excess of recoverable amount over carrying value is over £136 million (2018: £106 million).

Management believes that the most significant assumption in the calculation of value in use is the estimated growth rate. However, even if the growth rate were to be zero, the recoverable amount would still be over £98 million more than the carrying value and no impairment would be necessary.

The net book value of Drug registrations and licenses can be broken down as follows:

	£000's	
Aivlosin®	39,082	Aivlosin is a highly effective antibiotic that treats a range of specific enteric (gut) and respiratory diseases in pigs and poultry, ensuring a rapid return to health. In addition to the welfare benefits, healthy animals gain weight faster, digest food more efficiently and get to market earlier which all bring economic benefit to the farmer. Substantial ongoing product development covering more formulations, species and diseases is expected to substantially further increase its revenue generating potential. The remaining useful life is from 4 to 20 years.
Ecomectin	2,743	
Others	2,440	
	44,265	

Ecomectin is an endectocide that controls worms, ticks, lice and mange in grazing stock and pigs. The remaining useful life is 0 to 10 years.

Drug registrations and licences are amortised over their estimated useful lives of 10 to 20 years, which is the Directors' estimate of the time it would take to develop a new product allowing for the Group's patent protection and the exclusivity period which comes with certain registrations. The Directors have conducted an impairment review in the current year by preparing cash flow projections for the year ahead and extrapolating the results for the remaining life of the registrations assuming zero growth and an 11% discount rate to establish value in use. On the current assumptions, (which assume a remaining life of only 5 years) the excess of the value in use over carrying value is almost £32 million (2018: £23 million).

Fair value calculated as 10 times the annual current cash generated by the registrations gives an even higher value of £195 million and this higher figure determines the recoverable amount, so management has again concluded that no impairment is necessary.

12. Property, plant and equipment

Group	Land and Buildings (freehold)	Plant and machinery	Fixtures, fittings and equipment	Motor Vehicles	Total
	£000's	£000's	£000's	£000's	£000's
Cost or valuation					
At 1 April 2017	730	1,541	865	75	3,211
Additions	-	106	218	-	324
Foreign exchange movements	-	(31)	-	(9)	(40)
Disposals	-	(14)	-	(5)	(19)
At 31 March 2018	730	1,602	1,083	61	3,476
Additions	-	341	198	27	566
Revaluation in the year	30	-	-	-	30
Foreign exchange movements	-	11	1	(6)	6
Disposals	-	(68)	-	-	(68)
At 31 March 2019	760	1,886	1,282	82	4,010
Depreciation					
At 1 April 2017	13	737	587	9	1,346
Charge for the year	13	154	119	12	298
Foreign exchange movements	-	(13)	-	(2)	(15)
Disposals	-	(14)	-	(5)	(19)
At 31 March 2018	26	864	706	14	1,610
Charge for the year	-	171	154	15	340
Revaluation in the year	(26)	-	-	-	(26)
Foreign exchange movements	-	6	-	(1)	5
Disposals	-	(63)	-	-	(63)
At 31 March 2019	-	978	860	28	1,866
Net Book Value					
At 31 March 2019	760	908	422	54	2,144
At 31 March 2018	704	738	377	47	1,866
At 31 March 2017	717	804	278	66	1,865

The freehold property at 78 Coombe Road, New Malden was valued on 4 June 2019 by Mr R Sworn of Kelion Sworn Chartered Surveyors and Valuers, London, W1. The fair value in use of the freehold property was determined at £760,000 by means of applying a 7.5% discount rate to the annual rental value of the property as determined by local market conditions. The property will continue to be valued on a regular basis.

The value of non-depreciable land included within Land and Buildings is £180,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The freehold property of 78 Coombe Road, New Malden is subject to a legal charge held by the Company's bankers dated 20 March 1987.

The value of the freehold property would have been recorded at £259,000 (2018: £270,000) on a historical cost basis giving rise to the current revaluation surplus of £360,000, net of deferred tax provision. This balance is not distributable to shareholders.

Depreciation has been included in the administrative expenses line on the income statement, except for £110,000 (2018: £99,000) of depreciation of production equipment in the Chinese subsidiary ECO Biok, which is included within cost of sales.

Company	Land and Buildings (freehold)	Fixtures, fittings and equipment	Total
Cost or valuation	£000's	£000's	£000's
At 1 April 2017	730	163	893
Additions	-	2	2
At 1 April 2018	730	165	895
Additions	-	2	2
Revaluation in the year	30	-	30
At 31 March 2019	760	167	927
Depreciation			
At 1 April 2017	12	150	162
Charge for the year	13	4	17
At 31 March 2018	25	154	179
Charge for the year	-	4	4
Revaluation in the year	(25)	-	(25)
At 31 March 2019	-	158	158
Net Book Value			
At 31 March 2019	760	9	769
At 31 March 2018	705	11	716
At 31 March 2017	718	13	731

13. Investment property

Group and Company	Land and Buildings (freehold)	Total
	£000's	£000's
Cost/Revaluation		
At 1 April 2017	189	189
Revaluation in 2018	11	11
At 31 March 2018 and 2019	200	200
Depreciation		
At 1 April 2017	4	4
Revaluation in 2018	(4)	(4)
At 31 March 2018 and 2019	-	-
Net Book Value		
At 31 March 2019	200	200
At 31 March 2018	200	200
At 31 March 2017	185	185

The property in Western Road, Mitcham was valued at £200,000 as at 31 March 2018 by Mr R. Sworn of Kelion Sworn Chartered Surveyors, London W1. This property was previously the Head Office of Lawrence plc (now ECO Animal Health Group plc) and is occupied by a charity. The Directors believe that the open market value of this property is not significantly different to the carrying value.

The value of the investment property would have been recorded at £133,000 on a historical cost basis. The current revaluation surplus is £36,000 net of deferred tax provision. This balance is not distributable to shareholders.

14. Right of use assets

Group	Land and Buildings	Motor Vehicles	Other	Total
	£000's	£000's	£000's	£000's
Cost				
Introduction on inception of IFRS 16	2,297	203	7	2,507
Additions	118	85	-	203
Disposals	-	(19)	-	(19)
At 31 March 2019	2,415	269	7	2,691
Depreciation				
Introduction on inception of IFRS 16	328	70	2	400
Charge for the year	318	60	2	380
Disposals	-	(19)	-	(19)
At 31 March 2019	646	111	4	761
Net Book Value				
At 31 March 2019	1,769	158	3	1,930

Company	Motor Vehicles	Other	Total
	£000's	£000's	£000's
Cost			
Introduction on inception of IFRS 16	21	7	28
Additions	26	-	26
At 31 March 2019	47	7	54
Depreciation			
Introduction on inception of IFRS 16	7	2	9
Charge for the year	13	2	15
At 31 March 2019	20	4	24
Net Book Value			
At 31 March 2019	27	3	30

15. Fixed asset investment

Group	Investment in Associate	Unlisted investments	Total
	(Equity)	(Cost)	
	£000's	£000's	£000's
At 1 April 2017	88	9	97
Share of associates' result for the year	7	-	7
Foreign exchange differences	(6)	-	(6)
At 31 March 2018	89	9	98
Share of associates' result for the year	14	-	14
Foreign exchange differences	4	-	4
At 31 March 2019	107	9	116

Company	Unlisted investments	Total
	(Subsidiaries)	
	£000's	£000's
At 1 April 2017	21,273	21,273
Written off in 2018	(1,196)	(1,196)
At 31 March 2018 and 2019	20,077	20,077
Impairment		
At 1 April 2017	1,191	1,191
Eliminated in 2018	(1,191)	(1,191)
At 31 March 2018 and 31 March 2019	-	-
Net Book Value		
At 31 March 2019, 2018 and 2017	20,077	20,077

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The Company holds more than 20% of the share capital of the following companies:

Company	Registered office address	Country of registration or incorporation	Class	Shares held %
Subsidiary undertakings held by Company				
Zhejiang ECO Biok Animal Health Products Limited	Zhongguan Industrial Area, Deqing, Zhejiang Province	P. R. China	Ordinary	3
Shanghai ECO Biok Veterinary Drug Sale Company Ltd (via Zhejiang ECO Biok Animal Products Ltd)	Room 1502-3, Imago Plaza, No. 99 Wuning Road, Ptro District, Shanghai 200063	P. R. China	Ordinary	3
Petlove Limited	78 Coombe Road, New Malden, Surrey, KT3 4QS	Great Britain	Ordinary	91
ECO Animal Health Limited	78 Coombe Road, New Malden, Surrey, KT3 4QS	Great Britain	Ordinary	100
Subsidiary undertakings held by Group				
ECO Animal Health Southern Africa (Pty) Limited	228 Athol Road, Highlands North, Johannesburg 2192	South Africa	Ordinary	100
Zhejiang ECO Biok Animal Health Products Limited	Zhongguan Industrial Area, Deqing, Zhejiang Province	P. R. China	Ordinary	48
Shanghai ECO Biok Veterinary Drug Sale Company Ltd. (via Zhejiang ECO Biok Animal Products Ltd)	Room 1502-3, Imago Plaza, No. 99 Wuning Road, Ptro District, Shanghai 200063	P. R. China	Ordinary	48
ECO Animal Health do Brasil Comercio de Produtos Veterinarios Ltda	Av. Dr. Cardoso de Melo, 1470, Cl311, Villa Olimpia, CEP 04548-005, Sao Paulo	Brazil	Ordinary	100
ECO Animal Health Japan Inc	1-2-1, Hamamatsu-cho, Minato-Ku, Tokyo	Japan	Ordinary	100
ECO Animal Health USA Corp	344 Nassau Street, Princeton, New Jersey, 08540	U.S.A.	Ordinary	100
Interpet LLC	3775 Columbia Pike, Ellicott City, Maryland, 21043	U.S.A.	Ordinary	100
ECO Animal Health de Mexico, S de R.L. de C.V	Av Tecnologico Sur 134-4, Unidad Habitacional Moderna, Queretaro, 76030	Mexico	Ordinary	100
ECO Animal Health de Argentina S.A	Calle 4 E 43/44 N: 581 P.6 D:B La Plata, Buenos Aires	Argentina	Ordinary	100
ECO Animal Health Malaysia Sdn. Bhd	10th Floor, Menara Hap Seng, No 1 & 3, Jalan P Ramlee, 50250 Kuala Lumpur	Malaysia	Ordinary	100
ECO Animal Health India (Private) Ltd	No 33/5, Second Floor, Mount Kailash Building, Meanee Avenue Road, Ulsoor Bangalore, Karnataka, 560042	India	Ordinary	100
ECO Animal Health Europe Ltd	6 Northbrook Road, Dublin 6, Eire	Republic of Ireland	Ordinary	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

The principal activity of these undertakings for the last relevant financial year was as follows:

	Principal activity
ECO Animal Health Limited	Distribution of animal drugs
ECO Animal Health Southern Africa (Pty) Limited	Non-trading
Petlove Limited	Non-trading
Zhejiang ECO Biok Animal Health Products Limited	Manufacture of animal drugs drugs
Shanghai ECO Biok Veterinary Drug Sale Company Ltd	Distribution of animal drugs
ECO Animal Health do Brasil Comercio de Produtos Veterinarios Ltda	Distribution of animal drugs
ECO Animal Health Japan Inc	Distribution of animal drugs
ECO Animal Health USA Corp	Distribution of animal drugs
Interpet LLC	Non-trading
ECO Animal Health de Mexico, S. de R. L. de C. V	Distribution of animal drugs
ECO Animal Health de Argentina S.A	Non-trading
ECO Animal Health Malaysia Sdn. Bhd	Non-trading
ECO Animal Health India (Private) Ltd	Non-trading
ECO Animal Health Europe Ltd	Non-trading

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were:

	Equity	Profit/(loss) for the year	Equity	Profit/(loss) for the year
	2019	2019	2018	2018
	£000's	£000's	£000's	£000's
ECO Animal Health Limited	21,670	10,131	26,556	7,950
ECO Animal Health Southern Africa (Pty) Limited	276	19	258	23
Zhejiang ECO Biok Animal Health Products Ltd	10,942	3,698	10,576	4,758
ECO Animal Health do Brasil Comercio de Produtos Veterinarios Ltda.	312	(163)	525	(442)
ECO Animal Health Japan Inc.	1,254	176	1,081	36
ECO Animal Health de Mexico, S. de R. L. de C. V.	127	62	64	(39)
ECO Animal Health USA Corp.	(350)	(496)	142	122
ECO Animal Health India (Private) Ltd	-	-	-	(1)
ECO Animal Health Europe Ltd	-	-	-	-
ECO Animal Health Malaysia Sdn Bhd	(21)	(7)	(14)	(3)

The equity and results of Shanghai ECO Biok Veterinary Drug Sale Company Ltd are included within those disclosed for Zhejiang ECO Biok Animal Health Products Limited.

All of the subsidiaries listed above were included in the consolidation for the year.

Zhejiang ECO Biok Animal Health Products Limited and ECO Animal Health do Brasil Comercio de Produtos Veterinarios Ltda both have 31 December year ends. The Group receives management accounts for the three months to 31 March for these subsidiaries for use in preparing the consolidated financial statements.

Interpet LLC has been excluded from consolidation as it holds no assets or liabilities and has ceased trading.

The following trading subsidiaries have no requirement for audit under local legislation:

- ECO Animal Health do Brasil Comercio de Produtos Veterinarios Ltda
- ECO Animal Health Japan Inc
- ECO Animal Health USA Corp
- ECO Animal Health de Mexico, S. de R. L. de C. V

Joint operations

The Group also holds (by means of its ownership of ECO Animal Health USA Corp.), a 50% interest in Pharmgate Animal Health LLC, which is resident in the U.S.A. Pharmgate Animal Health LLC distributes the Group's products in the U.S.A.

The Group also holds a 50% interest in Pharmgate Animal Health Canada Inc, which distributes its products into Canada.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The Group also holds (by means of its ownership of ECO Animal Health Europe Limited) a 50% interest in ECO-Pharm Limited, based in the Republic of Ireland. ECO-Pharm Limited has not yet commenced trading.

Both Pharmgate Animal Health LLC and Pharmgate Animal Health Canada Inc. have accounting years which end on 31 December.

The Group's holdings in each of the joint operations' share capital is given in the table below:

Pharmgate Animal Health Canada Inc	Holding (shares)	Shares in issue	Holding %
Common Shares	100	200	50
Class A Shares	100	100	100
Class B Shares	-	100	-
Pharmgate Animal Health Canada Inc	Holding (shares)	Shares in issue	Holding %
Common Shares	100	200	50
Class A Shares	100	100	100
Class B Shares	-	100	-
ECO-Pharm Limited	Holding (shares)	Shares in issue	Holding %
Common Shares	25,000	50,000	50
Class A Shares	1	1	100
Class B Shares	-	1	-

In the case of Pharmgate Animal Health Canada Inc and Pharmgate Animal Health USA LLC, A shares carry the rights to dividends payable out of profits attributable to the Group. These are made up of profits made by products supplied by the ECO Group plus 50% of any profit relating to new products developed jointly by the partners to the joint operation.

In the case of ECO-Pharm Limited, profits attributable to the Group are made up of profits made by products supplied by the ECO Group plus 33% of any profit relating to new products developed jointly by the partners to the joint operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The following amounts included in the Group's financial statements are related to its interest in these joint operations.

	Pharmgate Animal Health LLC		Pharmgate Animal Health Canada Inc	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Current assets	2,065	1,155	1,082	616
Current liabilities	(2,044)	(1,130)	(1,082)	(615)
Sales	9,685	8,299	3,764	2,958
Expenses	(1,736)	(1,386)	(348)	(335)

Associated Company

The Group also holds (by means of its ownership of ECO Animal Health Japan Inc.) a 47.62% interest in EcoPharma.com which is resident in Japan. This Company distributes Animal Health products and other general merchandise within Japan.

ECO Animal Health Japan Inc's holding in EcoPharma.com is 10,000,000 shares out of a total of 21,000,000 shares.

The following amounts included in the Group's financial statements are related to its interests in this associated Company.

	2019	2018
	£000's	£000's
Investments (share of net assets)		
At 1 April	89	88
Share of results for the year	14	7
Foreign exchange movement	4	(6)
At 31 March	107	89

16. Inventories

	Group		Company	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Raw materials and consumables	10,422	12,975	-	-
Finished goods and goods for resale	5,561	4,380	-	-
Work in progress	124	308	-	-
	16,107	17,663	-	-

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £40,614,000 (2018: £34,887,000).

17. Trade and other receivables

Non-current	Group		Company	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Amounts owed by Group undertakings	-	-	58,510	46,236

Current	Group		Company	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Trade receivables	27,841	15,777	-	-
Amounts owed by joint operations	888	361	-	-
Other receivables	339	488	35	186
Prepayments and accrued income	469	567	11	27
	29,537	17,193	46	213

The provisions of IFRS9 "Financial Instruments" have been adopted during the year, using the Expected Credit Loss Model. This has had no material impact on the results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

As at 31 March 2019, trade receivables of £2,592,000 (2018: £4,020,000) due to the Group and £nil (2018: £nil) due to the Company were past due but not impaired. These relate to long standing distributors with whom we have agreed settlement terms and with whom there is no history of default. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Up to 3 months past due	1,547	3,469	-	-
3 to 6 months past due	515	345	-	-
Over 6 months past due	530	206	-	-
	2,592	4,020	-	-

As at 31 March 2019, trade receivables of £280,000 (2018: £470,000) were impaired and provided for. The impaired receivables mainly relate to historic debt for which recovery is still being sought. The Group mitigates its exposure to credit risk by extensive use of commercial credit reference agencies, close management of its customers' trading against terms offered and use of retention of title clauses wherever possible. The ageing analysis of the impaired balances is as follows:

	Group		Company	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Current debt	1	86	-	-
Up to 3 months past due	-	19	-	-
3 to 6 months past due	68	19	-	-
Over 6 months past due	211	346	-	-
	280	470	-	-

Movement on the Group provision for impairment of trade receivables is as follows:

Group	2019	2018
	£000's	£000's
Balance at 1 April	470	501
(Recovered) in the year	(33)	(5)
Written off in the year	(157)	(26)
Balance at 31 March	280	470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Pounds Sterling	1,146	805	46	213
Euros	4,423	3,420	-	-
U S Dollars	10,940	7,314	-	-
Chinese RMB	8,923	3,210	-	-
Brazilian Real	965	363	-	-
Japanese Yen	696	153	-	-
Canadian dollars	817	346	-	-
Mexican Pesos	1,505	1,457	-	-
Other currencies	122	125	-	-
	29,537	17,193	46	213

The carrying amounts of trade and other receivables are not significantly different to their fair values.

18. Deferred tax

Group

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Net	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Drug registration expenditure	(3,265)	(3,031)	(3,265)	(3,031)
Freehold property	(75)	(79)	(75)	(79)
Investment property	(10)	(11)	(10)	(11)
Plant and equipment	(49)	(60)	(49)	(60)
Tax losses carried forward	1,783	1,888	1,783	1,888
Amount (payable) after more than one year	(1,616)	(1,293)	(1,616)	(1,293)

The movement on the deferred tax account can be summarised as follows:

	Drug registration expenditure	Freehold property	Investment property	Plant and machinery	Total
	£000's	£000's	£000's	£000's	£000's
At 1 April 2018	(1,143)	(79)	(11)	(60)	(1,293)
(Charge)/credit for the year through income statement	(339)	4	1	11	(323)
At 31 March 2019	(1,482)	(75)	(10)	(49)	(1,616)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The tax losses carried forward are not expected to expire under current legislation.

Any future dividend received from the Chinese subsidiary Zhejiang ECO Biok Animal Health Products Limited will be subject to a 5% withholding tax. The deferred tax liability in respect of this has not been recognised.

Company	Freehold property	Investment property	Total	Freehold property	Investment property	Total
	2019	2019	2019	2018	2018	2018
	£000's	£000's	£000's	£000's	£000's	£000's
At 1 April	(79)	(11)	(90)	(79)	(8)	(87)
Credit/charge for the year through income statement	4	1	5	-	(3)	(3)
At 31 March	(75)	(10)	(85)	(79)	(11)	(90)

A credit of £5,000 (2018: charge of £3,000) was recognised in the Company's income statement for the year.

19. Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits held by the Group. The carrying amount of these assets are not significantly different to their fair value.

	Group		Company	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Cash and cash equivalents	18,068	21,261	4,236	4,959
Net funds per cash flow	18,068	21,261	4,236	4,959

20. Trade and other payables

	Group		Company	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Trade payables	12,012	8,860	17	33
Other payables	1,303	1,374	132	178
Accruals and deferred income	494	481	32	23
	13,809	10,715	181	234

21. Cash, net of borrowings

Reconciliation of net cash flow to movement in net cash

	Group		Company	
	2019	2018	2019	2018
	£000's	£000's	£000's	£000's
Net (decrease)/increase in cash and cash equivalents	(3,686)	1,372	(723)	(3,725)
New borrowings	(270)	-	(26)	-
Repayment of borrowings	406	-	17	-
Exchange differences on cash and cash equivalents	493	(713)	-	-
Movement in net cash in period	(3,057)	659	(732)	(3,725)
Cash, net of borrowings at start of period	19,137	20,602	4,940	8,684
Adjustment on inception of IFRS 16	-	(2,124)	-	(19)
Restated cash net of borrowings at end of period	16,080	19,137	4,208	4,940
Cash and cash equivalents	18,068	21,261	4,236	4,959
Lease obligations	(1,988)	(2,124)	(28)	(19)
Cash, net of borrowings	16,080	19,137	4,208	4,940

Overdraft facility

The Group has the facility to overdraw in specific currencies but no net facility. The interest rate for all currency overdrafts is 2.75% over the relevant currency base rate and the borrowings are secured by two debentures held over all assets of the Company dated 28 January 1995 and 28 November 2006.

22. Pension and other post-retirement benefit commitments

Defined contribution pension scheme

The Group operates defined contribution pension schemes for the benefit of certain Directors and senior employees. The assets of the schemes are held separately from the Group and independently administered by insurance companies. The pension cost charge represents contributions payable to the funds in the year and amounted to £321,000 (2018: £274,000).

Defined benefit pension scheme

The Group operates a defined benefit scheme in the UK for ex-employees only. A full actuarial valuation was carried out at 6 April 2018 and updated 31 March 2019 for IAS 19 purposes by a qualified independent actuary. The major assumptions used by the actuary were:

	31 March	1 April
	2019	2018
Discount rate	2.15%	2.4%
Rate of increase in pension payment	2.25%	2.05%
Inflation assumption with a maximum of 5% p.a.	2.25%	3.05%

Mortality rates
No pre-retirement mortality is assumed (2018: none)

Post retirement mortality is based on 100% of the SAPS "S2" normal tables, based on the members' year of birth, improving in line with CMI 2018 projections with a 1.25% long term trend rate (2018: same basis).

Defined contribution pension scheme

Under these mortality assumptions, the expected future lifetime for a member retiring at age 65 at the year end would be 21.7 years for males (2018: 22.1 years) and 23.7 years for females (2018: 24.1 years). For members retiring in 20 years time, the expectation of life would be 23.0 years for males (2018: 23.4 years) and 25.2 years for females (2018: 25.6 years).

The weighted average term of the liabilities is 10 years (2018: 10 years).

The scheme is exposed to a number of risks including:

- **Interest rate risk:** Movements in the discount rate used could affect the present value of the defined benefit pension obligations.
- **Longevity risk:** Changes in the estimated mortality rates of former employees could affect the present value of the defined benefit pension obligations.
- **Investment risk:** Variations in the actual return from the scheme's investments could affect the scheme's ability to meet its future pension obligations.

Results	2019		2018	
	£000's	£000's	£000's	£000's
Assets at start of year	2,503		2,314	
Defined benefit obligation at start of year	(2,603)		(2,435)	
Net (liability) at 1 April		(100)		(121)
Expected return on assets	61		65	
Interest cost	(62)		(68)	
Past service cost	(19)		-	
		(20)		(3)
(Loss) on asset return	(38)		(6)	
Gain/(loss) on changes in assumptions	2		(9)	
Statement of other comprehensive income		(36)		(15)
Employer contributions (gross)		59		39
Net (liability) at 31 March 2019		(97)		(100)
Actual assets at end of year		1,802		2,503
Actual defined benefit obligation at end of year		(1,899)		(2,603)

The pension fund assets are all held within a policy managed by an insurance company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

Reconciliation of changes in the asset value during the year	2019		2018	
	£000's	£000's	£000's	£000's
Fair value of assets at 1 April	2,503		2,314	
Expected return on assets	61		65	
(Loss) on asset return	(38)		(7)	
Employer contributions (gross)	59		39	
(Decrease)/increase in secured pensioners' value due to scheme experience	(783)		93	
Benefits paid	-		(1)	
Fair value of assets at 31 March 2019		1,802		2,503
Reconciliation of changes in the liability value during the year				
Defined benefit obligation at 1 April	2,603		2,435	
Interest cost	62		68	
Past service cost	19		-	
Loss on changes in assumptions	(2)		8	
(Decrease)/increase in secured pensioners' value due to scheme experience	(783)		93	
Benefits paid	-		(1)	
Defined benefit obligation at 31 March 2019		1,899		2,603

The expected contribution to be paid by the employer during the next accounting year is £59,000.

Year ended 31 March	2019	2018	2017	2016	2015
	£000's	£000's	£000's	£000's	£000's
Fair value of plan assets	1,802	2,503	2,314	2,715	2,985
Present value of defined benefit obligation	1,899	2,603	2,435	2,431	2,782
(Deficit)/Surplus in plan	(97)	(100)	(121)	284	203
Experience (losses)/gains on plan liabilities	-	-	(300)	13	2

Defined benefit obligation – sensitivity analysis

The following amounts are the effect (on the defined benefit obligation) of reasonably possible changes to the key actuarial assumptions, as required by IAS 19.

Actuarial assumption	Reasonably Possible Change	(Decrease)/Increase in Defined Benefit Obligation			
		2019		2018	
		£000's	£000's	£000's	£000's
Discount rate	(+/- 1%)	(170)	190	(27)	32
Members' life expectancy	(+/- 1year)	100	(110)	7	(7)

The Company has given a floating charge dated 1 December 2006 over all of its assets to the trustees of the pension fund to secure all present and future obligations and liabilities to the pension fund.

23. Share-based payments

The measurement requirements of IFRS2 have been implemented in respect of share options that were granted after 7 November 2002. The expense recognised for share-based payments made during the year is shown in the following table:

	2019	2018
	£000's	£000's
Total expense arising from equity settled share-based transactions	631	778

The share-based payment plans are described below:

Movements in issued share options during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in, share options during the period:

	Options		Options	
	2019	2019	2018	2018
	000's	WAEP	000's	WAEP
		£		£
Outstanding at 1 April	5,556	3.26	5,593	2.96
Granted during the period	387	3.82	365	6.20
Expired/cancelled during the period	(33)	3.54	-	-
Exercised during the period	(1,618)	2.40	(402)	1.77
Outstanding at 31 March	4,292	3.62	5,556	3.26
Exercisable at 31 March	2,279	2.78	910	1.97

The average share price during the year was 481.41p (2018: 587.34p).

The maximum aggregate number of shares over which options may currently be granted cannot exceed 10% of the nominal share capital of the Company on the grant date. The options outstanding at 31 March 2019 had a weighted average share price of £3.62 (2018: £3.26) and a weighted average contractual life of 4.4 years (2018: 4.8 years).

ECO Animal Health Group plc executive share option scheme

In accordance with the Executive Share Option Scheme, approved and unapproved share options are granted to Directors and employees who devote at least 25 hours per week to the performance of duties or employment with the Company.

Details of options granted to Directors can be found in the Directors Report and notes 29 (Directors Emoluments) and 31 (Related Party Transactions).

The exercise price of the options is equal to the market price of the shares at the date of grant. The options vest three years from the date of grant and if the option holder ceases to be a Director or employee of the Company due to injury, disability, redundancy or retirement on reaching pensionable age or any other age at which they are bound to retire at in accordance with the terms of their contract of employment, the option may be exercised within a period of six months after the option holders so ceasing, although the Board may, at its discretion, extend this period by up to 36 months after the date of cessation.

If the option holder ceases employment for any other reason, the option may not be exercised unless the Board permits. The approved and unapproved options will be forfeited where they remain unexercised at the end of their respective contractual lives of ten and seven years.

An analysis of the expiry dates of the outstanding options is given below:

Date of grant	Unapproved	Approved	Exercise price (pence)	Expiry date
11 October 2011		11,000	186.50	11 October 2021
09 July 2012	30,000		222.50	09 July 2019
09 October 2013		23,340	196.00	09 October 2023
09 October 2013	13,050		196.00	09 October 2020
21 August 2014		32,900	161.50	07 August 2024
21 August 2014	14,000		161.50	07 August 2021
13 February 2015		41,900	200.50	13 February 2025
13 February 2015	147,100		200.50	13 February 2022
26 August 2015		57,000	265.00	26 August 2025
26 August 2015	822,500		265.00	26 August 2022
18 December 2015	700,000		312.50	18 December 2022
18 January 2016		10,200	315.00	18 January 2026
18 January 2016	300,800		315.00	18 January 2023
17 February 2016		24,600	312.50	17 February 2026
17 February 2016	400		312.50	17 February 2023
01 March 2016		9,600	312.50	01 March 2026
01 March 2016	40,400		312.50	01 March 2023
12 September 2016		26,950	432.50	12 September 2026
12 September 2016	438,050		432.50	12 September 2023
15 September 2016		12,750	435.00	15 September 2026
15 September 2016	777,250		435.00	15 September 2023
11 October 2016		6,000	492.50	11 October 2026
11 October 2016	4,000		492.50	11 October 2023
21 September 2017		55,225	620.00	21 September 2027
21 September 2017	305,775		620.00	21 September 2024
12 April 2018		3,900	545.00	12 April 2028
23 October 2018		78,200	380.00	23 October 2028
23 October 2018	294,800		380.00	23 October 2025
19 December 2018		7,800	380.00	19 December 2028
19 December 2018	2,200		380.00	19 December 2025
	3,890,325	401,365		

The market price of the shares at 31 March 2019 was 440.0p with a range in the year of 367.0p to 581.0p.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The Company uses a Black-Scholes model to value share-based payments and the following table lists the inputs to this model for the last five years.

	2019	2018	2017	2016	2015
Vesting period (years)	3	3	3	3	3
Option expiry (years)	7-10 yrs	7-10 yrs	7-10 yrs	7-10 yrs	7-10 yrs
Dividends expected on the shares	1.90%	1.10%	1.50%	1.50%	2.0-2.3%
Risk free rate (average)	1.00%	1.00%	1.00%	1.00%	1.00%
Volatility of share price	20%	20%	20%	20%	15%
Weighted average fair value (pence)	51.0	98.6	61.4	43.0	19.2

The risk-free rate has been based on the yield from UK Government treasury coupons. The volatility of the share price was estimated based on standard deviation calculations on the historic share price.

24. Share capital

	2019	2018
	£000's	£000's
Authorised		
68,100,000 Ordinary shares of 5p each	3,405	3,405
10,790 Deferred ordinary shares of 10p each	1	1
32,334 Convertible preference shares of £1 each	32	32
	3,438	3,438
Allotted, called up and fully paid		
67,443,126 (2018: 65,824,816) Ordinary shares of 5p each	3,372	3,291

During the year 1,618,310 shares were issued at a premium of £3,803,000 as a result of the exercise of options by employees. (2018: 402,110 shares at a premium of £693,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2019

25. Non-controlling (minority) interests

	2019	2019	2018	2018
	£000's	£000's	£000's	£000's
Balance at 1 April		5,185		4,342
Share of subsidiary's profit for the year	1,812		2,332	
Share of adjustment to reserves on implementation of IFRS 16	1		-	
Share of foreign exchange gain/(loss) on net investment	9		(100)	
		1,822		2,232
Share of dividend paid by subsidiary		(1,643)		(1,389)
Balance at 31 March		5,364		5,185

26. Other reserves

Group and Company	Capital redemption reserve £000's	Reserve for share-based payments £000's	Total £000's
At 1 April 2017	106	2,343	2,449
Share-based payments	-	778	778
Transfer to retained earnings on expiry of options	-	(404)	(404)
At 31 March 2018	106	2,717	2,823
Share-based payments	-	631	631
Transfer to retained earnings on expiry of options	-	(112)	(112)
At 31 March 2019	106	3,236	3,342

The only material other reserve remaining at the year end is the reserve for share-based payments which records the total amount which has been charged to the Group's results in respect of unexpired share-based payment arrangements.

Included in the Group's retained earnings are the following exchange movements which have been taken directly to reserves on consolidation of the subsidiaries and joint operations listed below:

	At 1 April 2018 £000's	Movement in the year £000's	At 31 March 2019 £000's
In respect of:			
Zhejiang ECO Biok Animal Health Products Limited	845	9	854
ECO Animal Health do Brasil Comercio de Produtos Veterinarios Ltda	(330)	(51)	(381)
ECO Animal Health Japan Inc	(22)	17	(5)
ECO Animal Health USA Corp	(26)	5	(21)
ECO Animal Health de Mexico, S. de R. L. de C. V	14	1	15
Pharmgate LLC	3	2	5
Foreign currency differences attributable to owner credited directly to reserves	484	(17)	467

27. Amounts payable under lease arrangements:

	Land and Buildings 2019 £000's	Motor Vehicles 2019 £000's	Other 2019 £000's	Total 2019 £000's
Expiry date:				
Within one year	342	72	1	415
Between the second and fifth year	619	84	2	705
Over five years	868	-	-	868
	1,829	156	3	1,988
Undiscounted lease obligations	2,704	165	3	2,872
Development lease obligations	427	29	5	461

Development lease obligations relate to assets used for development purposes which are separately categorised within intangibles (note 11).

28. Capital commitments

The Group had no authorised capital commitments as at 31 March 2019 (2018: Nil).

29. Directors' emoluments

	2019 £000's	2018 £000's
Emoluments for qualifying services	1,226	1,310
Company pension contributions to money purchase schemes	16	15
Share-based payments	404	425
Benefits in Kind	16	14
	1,662	1,764

During the year the Directors exercised 715,000 (2018: 75,000) share options realising a gain of £1,861,800 (2018: £358,875).

The highest paid Director received £767,000 (2018: £800,000) including £191,000 (2018: £196,000) of share-based payments and £10,000 (2018: £10,000) of pension contributions.

30. Employees

Number of employees

The average number of employees (including Directors) during the year was:

	2019 Number	2018 Number
Directors	7	7
Production and development	70	73
Administration	47	45
Sales	93	82
	217	207

Employment costs (including amounts capitalised)

	2019 £000's	2018 £000's
Wages and salaries	10,254	9,971
Share-based payments	631	778
Social security costs	963	786
Other pension costs	353	286
	12,201	11,821

31. Related party transactions

During the year P Lawrence and his family received dividends to the value of £882,000 (2018: £562,000).

The other Directors and their families received dividends to the value of £2,000 (2018: £1,000).

During the year, the Group provided management services to Anpario plc, a Company in which P A Lawrence is a Director and holds share options. Fees of £7,000 (2018: £40,000) were charged.

During the year, the Group employed two adult children of P A Lawrence and provided their services to Emmelle Construction Limited, a Company in which P A Lawrence is both a Director and shareholder. All employment costs of the two adult children, for five months of the year until August 2018 when the arrangement was terminated, of £18,000 (2018: £44,000) were fully recharged to Emmelle Construction Limited.

Interest and management charges from Parent to the other Group companies

During the year, the Company made management charges on an arm's length basis to ECO Animal Health Limited amounting to £473,000 (2018: £374,000) and charged interest of £910,000 (2018: £900,000) to the Company. Both of these charges were made through the inter-company account and were eliminated on consolidation.

During the year Zhejiang ECO Biok Animal Health Products Limited paid dividends of £131,000 to ECO Animal Health Group plc (2018: £111,000) and £1,578,000 to ECO Animal Health Limited (2018: £1,355,000).

During the year ECO Animal Health Group plc received a dividend of £15,000,000 from ECO Animal Health Limited. (2018: £nil).

Inter Company guarantee

ECO Animal Health Group plc and ECO Animal Health Limited have each given a guarantee dated 28 January 1995 to the Company's bankers in respect of the foreign currency overdraft facility which has been extended to them jointly.

Key management compensation

The Group regards the Board of Directors as its key management.

	2019 £000's	2018 £000's
Salaries and short term benefits	1,242	1,324
Retirement benefits	16	15
Share-based payments	404	425
	<u>1,662</u>	<u>1,764</u>

The number of Directors for which retirement benefits are accruing is 3 (2018: 3).

32. Financial instruments

The Group uses financial instruments comprising borrowings, cash and liquid resources and various items, such as trade receivables, trade payables etc. that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Directors are responsible for the overall risk management.

The main risks arising from the Group's use of financial instruments are capital and liquidity risk, credit risk and foreign currency risks and they are summarised below. The policies have remained unchanged throughout the year.

Capital and liquidity risk

The Group manages its capital to ensure continuity as a going concern whilst maximising returns through the optimisation of debt and equity. As part of this, the Board considers the cost and risk associated with each class of capital. The capital structure of the Group consists of cash and cash equivalents in note 19 and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in the Group's statement of changes in equity.

Liquidity risk is managed by maintaining adequate reserves and banking facilities with continuous monitoring of the latest developments by management.

Within one year or on demand	2019 £000's	2018 £000's
Trade payables	12,012	8,860
	<u>12,012</u>	<u>8,860</u>

At 31 March 2019 the Group was contractually obliged to make repayments as detailed below:

Credit risk is that of financial loss as a result of default by a counterparty on its contractual obligations. The Group's exposure to credit risk arises principally in relation to trade receivables from customers and on short term bank deposits. Customers' creditworthiness is wherever possible checked against independent rating databases and filing authorities or otherwise assessed on the basis of trade knowledge and experience. Exposure and customer credit limits are continually monitored both on specific debts and overall.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2019

The credit risk in relation to short term bank deposits and derivatives is limited because the counterparties are banks with good credit ratings.

The Group operates in certain geographical areas which are from time to time subject to restrictions in the free movement of funds. The Board seeks to minimise the Group's exposure to these markets but the nature of our business makes it impossible to eliminate this exposure completely.

Currency risk

The Group operates in overseas markets particularly through its subsidiaries in China, Brazil, Mexico, the USA and Japan and its joint operation in Canada and is subject to currency exposure on transactions undertaken during the year. The Group does some simple economic hedging of receivables when the Board feels it is appropriate to do so and foreign exchange differences on retranslation of foreign monetary items are taken to the income statement.

The table below shows the extent to which the Group companies have monetary assets and liabilities in currencies other than in Sterling:

Foreign currency of Group operations									
2019	US Dollar	Euros	Rand	Chinese RMB	Japanese Yen	Brazilian Real	Canadian Dollar	Mexican Peso	Other
Sterling equivalent (£000's)	8,296	4,611	112	8,669	741	1,452	1,631	1,755	27
2018									
Sterling equivalent (£000's)	8,025	4,163	178	7,659	448	723	1,506	1,531	(15)

At 31 March 2019 the Group was mainly exposed to the Dollar, Euro, the Chinese RMB, the Japanese Yen, the Brazilian Real, the Canadian Dollar and the Mexican Peso. The following table details the effect of a 10% movement in the exchange rate of these currencies against sterling when applied to outstanding monetary items denominated in foreign currency as at 31 March 2019. A positive number indicates the decrease in profit which would arise from a 10% weakening of the foreign currency concerned.

	2019 £000's	2018 £000's
US Dollar	754	730
Euro	419	378
Chinese RMB	788	696
Japanese Yen	67	41
Brazilian Real	132	66
Canadian Dollar	148	137
Mexican Peso	160	139

Analysis of financial instruments by category

Group			
2019	Loans and receivables £000's	Financial liabilities £000's	Total £000's
Trade and other receivables (excluding prepayments)	29,068	-	29,068
Cash and cash equivalents	18,068	-	18,068
Amounts due under leases	-	(1,988)	(1,988)
2018	Loans and receivables £000's	Financial liabilities £000's	Total £000's
Trade and other receivables (excluding prepayments)	16,626	-	16,626
Cash and cash equivalents	21,261	-	21,261
Company			
2019	Loans and receivables £000's	Financial liabilities £000's	Total £000's
Trade and other receivables (excluding prepayments)	35	-	35
Cash and cash equivalents	4,236	-	4,236
Amounts due under leases	-	(29)	(29)
2018	Loans and receivables £000's	Financial liabilities £000's	Total £000's
Trade and other receivables (excluding prepayments)	186	-	186
Cash and cash equivalents	4,959	-	4,959

All financial liabilities in the Group's and Company's statements of financial position are classified as held at amortised cost for both the current and previous year.

33. Post balance sheet event

The Company paid a dividend of £2,697,725 to shareholders on 12th April 2019.

REGISTERED OFFICE

78 COOMBE ROAD,

NEW MALDEN,

SURREY

KT3 4QS

ENGLAND

TEL: +44 (0)20 8336 2900

FAX: +44 (0)20 8336 0909

WWW.ECOANIMALHEALTHGROUPPLC.COM