CVS Group plc

Annual report

for the year ended 30 June 2009

Registered number 06312831

CVS Group plc

Annual report
for the year ended 30 June 2009

Contents

CVS Group plc

Financial highlights

	Year ended 30 June 2009	Year ended 30 June 2008	Growth %
Adjusted results before income tax, net finance expense, depreciation, amortisation, other gains, share option expense and exceptional items			
Adjusted EBITDA [1]	**£12.50m**	£9.61m	30
Adjusted Earnings per share [2]	**11.5p**	8.0p*	44
Reported results:			
Revenue	**£76.61m**	£62.15m	23
Operating profit	**£7.01m**	£4.08m	72
Profit before income tax	**£4.44m**	£0.12m	n/a
Profit/(loss) after income tax	**£3.04m**	£(0.34m)*	n/a
Cash generated from operations	**£12.38m**	£6.50m	90
Basic earnings/(loss) per share	**5.9p**	(0.7p)*	n/a
Diluted earnings/(loss) per share	**5.8p**	(0.7p)*	n/a

[1] See page 24 of the financial statements for a reconciliation of profit before income tax for the period to adjusted earnings before income tax, net finance expense, depreciation, amortisation, other gains, share option expense and exceptional items ("adjusted EBITDA").
[2] See note 12 of the financial statements, for a reconciliation of basic and diluted earnings per share to adjusted earnings per share.
* Restated – see note 2 to the financial statements for details.

- Significant improvement in Group revenue and profits.
- Like-for-like sales growth of 2%.
- Cash generated from operations increased by 90%.
- Successfully acquired and integrated 17 surgeries, bringing the total to 168 at the year end.
- First pet crematorium and cemetery acquired during year.
- Over 60% of financial year's acquisition consideration funded by internally generated cash.

Commenting on these results, CEO Simon Innes said:

"**The Group has delivered significant growth in revenue, profits and operating cashflows in the year. Our track record of achieving improvements in adjusted EBITDA margin together with the growth opportunities available to us, underpins the Board's confidence in the Group's future. The resilience of the business to the current recession augurs well for the time when more normal economic conditions return**."

CVS Group plc

Chairman's statement

Introduction and review of operations

I am pleased to announce the results of CVS Group plc ("CVS", "the Group", or "the Company") for the year ended 30 June 2009. This is a very strong set of results despite the recent turbulent economic climate. The Group has continued to grow and deliver significant improvements in all financial metrics.

CVS is one of the leading providers of veterinary and related services in the UK with 168 veterinary surgeries, 6 laboratories and a pet crematorium. The Group is comprised of three operating divisions and a central support function. We have seen growth across all three operating divisions during the year.

Veterinary services
This is the primary division generating 88.6% (£67.88m) of Group revenues. The division has delivered 20% revenue growth (£11.21m) over the prior year, and includes the impact of the acquisition of 17 new surgeries.

Laboratory services
The laboratory division generated 10.8% (£8.29m) of Group revenues. The laboratory division delivered 51% revenue growth (£2.81m), a key factor of which was the full year impact of the significant expansion of this division through the acquisition of Axiom Laboratories in the prior year.

Crematorium services
In the current period, the Group expanded into the crematorium market with the acquisition of its first site near Bolton. The crematorium contributed £0.44m of revenue in the current year, of which 15% was derived from the Group's veterinary surgeries.

Central administrative function
The central administrative function of the Group provides support to the operating divisions, relieving them of the majority of their administrative burden and enabling local staff to focus on clinical care and other value added services.

Cash flow and funding position

Operating profit for the year amounted to £7.01m. Adjusted EBITDA (as defined on page 1) of £12.50m demonstrates the underlying financial performance of the Group and the ability to turn this into cash is reflected in cash generated from operations of £12.38m. In the first half of the year cash generated was used in conjunction with bank financing to fund acquisitions. In the second half of the year the Group has funded all of its acquisitions from cash whilst also reducing net debt by £1.55m. The Group will continue to use cash from operations to fund acquisitions and will commence making repayments of debt in December 2009 (see note 24).

The Group has complied with all bank covenants throughout the period.

Dividends

The Board, at this point in time, believes that cash generated from operations should continue to be reinvested in the business, and as such the Directors propose that no dividend should be declared for the year ended 30 June 2009. The Board will continue to review its dividend policy on an ongoing basis.

Profit after tax and earnings per share

Profit after tax was £3.04m, a substantial increase from a loss of £0.34m (as restated) in the prior year. The increase is due to organic growth, growth from acquisitions and exceptional IPO related costs incurred in the prior year. Earnings per share have increased significantly compared to the prior year. Basic and diluted earnings per share were 5.9p and 5.8p respectively, compared to a loss per share of 0.7p (as restated) in the prior year. Adjusted EPS (as defined on page 1) was 11.5p compared to 8.0p (as restated) in the prior year.

Chairman's statement (continued)

Our people

The Group continues to be the largest employer in the UK veterinary profession with 1,750 staff. The Group currently employs around 393 vets out of an estimated total of 12,312 practising vets in the UK, giving further indication of the significant scope left for expansion in the UK market. Our people continue to be key to the Group in delivering its strategy. I would like to thank each of them for their skill and professionalism in providing the best possible care and service.

Strategy

We will continue our strategy of growth through acquisition in the fragmented UK veterinary market combined with organic growth of existing surgeries. We aim to continue to deliver improved returns from the acquisition of veterinary related businesses by growing and managing them more efficiently, centralising administration and utilising the buying power of the Group. In addition, the ability to provide laboratory and crematorium services facilitates vertical integration and drives further efficiencies.

The Directors believe that CVS has 7-8% of the UK small animal veterinary market measured by wholesaler spend, which demonstrates the significant opportunity for further consolidation.

Outlook

The new financial year has started well with all three operating divisions continuing to trade profitably. In addition there has been a further acquisition of Falkland Veterinary Clinic, Newbury.

The focus on the delivery of growth, both organically and through acquisition, across all divisions as well as the focus on the generation of cash and profit, will continue. The Group has succeeded in establishing a resilient business base from which it can build and will continue to seek ways to extract operational efficiency. Having delivered strong results in a period of general economic uncertainty, we are confident that the Group is well positioned to continue driving the business forward.

Richard Connell

Chairman

21 September 2009

CVS Group plc

Business and financial review

The Group has delivered significant growth in revenues, profitability and cash generation compared to the prior year. Total Group revenue increased by 23% to £76.61m and cash generation increased by 90% to £12.38m. The newly acquired veterinary practices and crematorium contributed revenue of £5.72m during the year.

Divisional performance

Veterinary services

The Group is a leading national veterinary surgery consolidator, operating 168 veterinary surgeries across the UK, primarily focused on the small animal market. Revenue amounted to £67.88m, an increase of 20% over the prior year. The growth comes from a combination of turnover in relation to the 17 surgeries acquired in the year, the full year impact of surgeries acquired in the prior year and like for like sales growth of 2%.

The annualised turnover from these newly acquired surgeries is expected to be in excess of £9m. In addition, a further surgery has been acquired since the year end and it is expected to contribute an annualised turnover of around £1m. The Group also opened its first Greenfield site within the period, the results of which have been encouraging.

The increased scale of this division brings significant benefits in purchasing power on drugs, overheads and equipment. The Directors believe that several factors are currently contributing to the stability of the market for veterinary services in the UK, including growing and ageing pet populations, advances in veterinary medical science, changes in the demographic profile of the human population and growth in the pet insurance industry.

Furthermore, the veterinary services division provides an increasing base of surgeries which are a significant contributor to the growth opportunities of the laboratory and crematorium divisions.

Laboratory services

The Group operates 6 laboratories in the UK which provide laboratory services to the Group's veterinary surgeries (20% of revenues) and also to non-Group veterinary surgeries (80% of revenues). Services are generally provided via postal and courier services allowing complete coverage of the UK.

The laboratory division grew revenues by 51% from £5.48m in the prior year to £8.29m in the current year. This has been achieved through like for like sales growth and the full year impact of Axiom Veterinary Laboratories Limited which was acquired in the prior year.

Crematorium services

The Group generated £0.44m of revenues from its newly acquired crematorium. The performance of this facility has been ahead of management expectations to date. This facility provides services to a large number of the Group's surgeries as well as to non-Group surgeries and to the general public. Since acquisition, pet crematorium work emanating from CVS veterinary practices in the Midlands and North of England have been re-routed to this facility on a phased basis. Of the revenues generated post acquisition, 15% are intra-group.

Central costs

The central administrative costs of the Head Office continue to reduce as a proportion of Group turnover reflecting the synergies that are being achieved from centralising this function. There has also been a focus on improving margins through achieving better procurement deals.

Adjusted EBITDA

The Board considers that adjusted EBITDA and adjusted earnings per share (as described in the financial highlights on page 1) provide the most meaningful basis for assessing the underlying performance of the Group, albeit these terms are not defined by International Financial Reporting Standards and therefore may not be directly comparable with other companies' adjusted profit measures.

Adjusted EBITDA has grown by 30% from £9.61m to £12.50m, increasing from 15.5% to 16.3% of revenue.

Business and financial review (continued)

Adjusted EBITDA (continued)

These increases are due to a combination of factors, including:

- acquisitions
- like for like revenue growth
- improved buying terms so that the cost of drugs margin has improved by 1.5%
- productivity improvements (as % of sales)
- central overhead cost reductions (as % of sales)

Other financial highlights

Operating profit has increased by 72% from £4.08m to £7.01m. The prior year profit was after charging exceptional costs of £1.76m relating to AIM admission costs.

The Group recorded a profit after income tax for the year of £3.04m (2008: loss of £0.34m as restated). There were exceptional administrative and financial expenses of £2.32m in the prior year plus a fair value movement of £0.35m on financial liabilities that did not qualify for hedge accounting. After adjusting for these items profit after tax grew by 30.5%.

Cash generated from operations increased by 90% to £12.38m from £6.50m (increase of 50% after taking into account exceptional items in the prior period). The increased cash generation has allowed the Group to partly fund acquisitions made in the first half of the year and to completely fund acquisitions in the second half. The conversion ratio of profit to cash is nearly 100%, evidenced by an adjusted EBITDA of £12.50m generating £12.38m of cash from operations.

Adjusted earnings per share was 11.5p, 44% up from 8.0p in the prior year (as restated). Basic and diluted earnings per share were 5.9p and 5.8p respectively (2008: basic and diluted: loss of (0.7p) per share (as restated)). A reconciliation of the two numbers is provided in note 12 to the financial statements.

Key performance indicators ('KPIs')

The Directors monitor progress against the Group strategy by reference to the following financial KPIs. Performance during the year, together with the historical trend data, is set out in the table below:

	2009	2008	Definition, method of calculation and analysis
Adjusted EBITDA	**£12.50m**	£9.61m	Adjusted EBITDA represents earnings before income tax, net finance expense, depreciation, amortisation, other gains, share option expense and exceptional items. The increase is attributable to acquisitions and improvements in like for like sales and is in line with expectations.
Adjusted EBITDA margin %	**16.3%**	15.5%	Adjusted EBITDA margin is the ratio of adjusted EBITDA to revenue expressed as a percentage. The improvements in this margin demonstrate the ability of the Group to derive value from acquisitions as well as on-going operational improvements.
Adjusted EPS	**11.5p**	8.0p*	Earnings, adjusted for amortisation, share option expense, exceptional items and fair value adjustments, net of the notional tax impact of the above, divided by the number of issued shares. The increase reflects the factors outlined above.
Cash generated from operations	**£12.38m**	£6.50m	Cash generated from operations has increased in line with the improvement in adjusted EBITDA.

*Restated as per note 2 to the financial statements.

Business and financial review (continued)

Funding and treasury management

As at 30 June 2009, the Group had net debt of £40.78m (2008: £40.07m) comprising debt of £43.56m (net of issue costs) and cash of £2.79m. Borrowings have increased by £3.07m to fund acquisitions and cash has increased by £2.40m due to positive cash generation.

The Board considers that maintaining a leveraged balance sheet is appropriate for the Group, given the stable and predictable nature of its cash flows.

Net finance expenses of £2.57m represent a decrease of £1.39m (35%) compared to the previous year, reflecting a number of one-off costs in the prior year relating to the pre-flotation debt structure and the write-off of issue costs on bank debt refinanced at flotation. The Group benefitted from interest rate reductions on its floating rate debt but the benefit of these was offset by higher average borrowings in the current year compared to the prior year.

The Group has a centralised treasury function to manage interest rate risk. Derivative instruments are used solely to mitigate these risks. Interest rate collar arrangements are used to generate the desired interest profile and to manage exposure to interest fluctuations, whilst allowing some benefit of reductions in interest rates. At the year end, the Group had interest hedging arrangements in place covering £32m of debt. The Group sweeps funds daily from its various bank accounts into deposit accounts to optimise interest generation.

The above has the benefit of maximising shareholder returns, whilst leaving sufficient flexibility to invest in the growth of the business.

The Board anticipate that borrowings will reduce on the commencement of bank loan repayments in December 2009 (see note 24).

Business environment

The Group has seen some impact from the current economic climate with like for like sales falling from 4-5% in previous years down to 2% in the current year. The achievement of growth, albeit reduced on the prior year, is regarded by the Board as being an indicator of the resilience of the business and the veterinary market.

Principal risks and uncertainties

The Group's operations are subject to a number of risks that include the impact of competition, availability of practices for acquisition, continued employment and recruitment of key personnel and the maintenance of clinical standards.

Competition

The Group is exposed to a degree of risk through the actions of competitors. However, the geographic spread of the Group's businesses and the fragmented nature of the market mean that the Directors do not consider this to be a significant risk.

Availability of businesses for acquisition

The Group's acquisition strategy is subject to the availability of suitable businesses. The Directors believe that corporate-owned veterinary practices represent 19% of the UK small animal market measured by number of surgeries and, accordingly, that there is significant potential for further consolidation of the sector. In support of this, the Group maintains a significant pipeline of potential acquisitions. There are approximately 140 pet crematoria in the UK, of which CVS owns only 1, again demonstrating the potential for further acquisitions. There are also opportunities to acquire further diagnostic laboratories in the UK.

Key personnel

The Group has limited risk in relation to the ability to attract and retain appropriately qualified veterinary surgeons. The Group is committed to the development of its employees and will continue to recruit specialist and qualified professionals to promote its services. The involvement of senior personnel is encouraged through the operation of the Group's LTIP scheme. In addition, the SAYE scheme, available to all staff, was initiated in the current year (see the Remuneration report on pages 18 to 21 for further details).

Business and financial review (continued)

Clinical standards

It is of the utmost importance to the Group that the clinical care delivered to our patients is at the standard expected by customers, industry forums and regulatory authorities. The Group have established a formal organisation structure that allows clinical policies and procedures to be developed and ensure day-to-day compliance monitoring. The Group have further mitigated any risk by ensuring that suitable insurance policies are taken out at both an individual and corporate level.

Economic environment

The current economic environment potentially poses a risk to the Group through reduced consumer spending on veterinary, laboratory and crematorium services. In the year under review, the Group has shown resilience to the challenging economic conditions with like for like sales continuing to grow. As part of its mitigation of this risk, the Group has established a payment plan "loyalty" scheme within its veterinary services division which has in excess of 9,000 members, the principal benefits of which are customer loyalty, greater clinical compliance and more regular visits to the surgery.

Share price performance

At the year end the market capitalisation was £73.2m (142p per share) compared to £132.8m (258p per share) at the previous year end. The graph below shows the total shareholder return performance compared to the FTSE AIM. The values indicated in the graph show the share price movement based on a hypothetical £100 holding in ordinary shares from 1 July 2008 to 30 June 2009.

Business and financial review (continued)

Key contractual arrangements

The directors consider that the Group has only one significant third party supplier contract which is for the supply of veterinary drugs. In the event that this supplier ceased trading the Group would easily continue in business by purchasing from alternative suppliers.

Future developments

We will continue our strategy of growth through acquisition in the fragmented UK veterinary and crematoria market combined with organic growth of existing practices, laboratories and crematoria. We aim to continue to deliver post acquisition improved returns from the acquired veterinary businesses by growing and managing them more efficiently, centralising administration, stronger purchasing and leveraging the synergies of the augmented Group. The Group will also continue to seek to strengthen its geographical presence in the UK.

Simon Innes
Chief Executive
21 September 2009

Forward-looking statements
Certain statements in this Annual Report are forward-looking. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

CVS Group plc

Directors of CVS Group plc

Richard Connell (54) Non-Executive Chairman
Mr. Connell has been involved in the financial sector for more than 25 years and has worked with 3i Group, Amvescap, and HSBC. He is a Chartered Accountant and has held Executive positions in marketing and general management. In addition to working with the Group, he is Chairman of a number of private companies, and was previously Chairman of Dignity plc for a number of years. Mr Connell is Chairman of the Nominations Committee.

Simon Innes (49) Chief Executive
Mr. Innes was appointed as Chief Executive of CVS (UK) Limited in January 2004. Prior to this he was Chief Executive of Vision Express from 2000 to 2004, over which time he built the business up to £220m turnover and 205 practices, and reversed a loss-making position to create one of the most profitable corporate optical operators in the UK. The growth strategy that was successful at Vision Express is now being implemented in the veterinary industry by CVS. Prior to Vision Express, Mr. Innes was on the board of Hamleys PLC as Operations Director, where amongst other responsibilities he was involved in opening 60 concession stores in just 3 months for Hamleys in conjunction with Debenhams. Before Hamleys, Mr. Innes gained ten years of management experience at Marks & Spencer, and now has a total of 19 years of experience in the retail sector. Mr. Innes served for seven years in the British Army, achieving the rank of Captain in the Royal Engineers.

Paul Coxon (44) Finance Director
Mr. Coxon was appointed as Finance Director of CVS (UK) Limited in August 2003. He has a total of 22 years of experience in finance and accounting. He qualified as a chartered accountant with KPMG Peat Marwick in 1991. Prior to working at CVS, Mr. Coxon was the Finance Director of Allied Grain (South) Limited, a subsidiary of Associated British Foods PLC.

David Timmins (56) Non-Executive Director
Mr. Timmins was, until mid-2007, Group Finance Director of Genus plc, a position held for over 3 years. He played a prominent role in the reverse acquisition of Sygen International plc, a listed company, which was financed by a large institutional equity issue and syndicated bank debt. He also prepared Genus plc for its subsequent admission to the Main Market of the London Stock Exchange. He has veterinary sector experience through a Genus plc business division. In November 2007, he led a MBO/MBI of HTSPE Limited, an international consultancy subsidiary of Genus plc, becoming its Executive Chairman. He is a Chartered Accountant with more than 15 years of experience as CFO in listed companies. Mr Timmins is Chairman of the Audit Committee.

Christopher Marsh (65) Non-Executive Director
Mr. Marsh is a corporate broker by background, having joined Phillips & Drew in 1968 and headed the Small Cap broking team at UBS Limited (London) from 1993 until his retirement from UBS Limited (London) in 1998. From 1999 until 2004 he was part of a corporate finance advisory team at the now quoted Benfield Group, specialising in insurance related deals. Mr Marsh is currently a Non-Executive Director of Hilton Food Group plc, Non-Executive Chairman of Framlington AIM VCT 2 PLC, and previously Non-Executive Chairman of Alexandra plc. Mr Marsh is Chairman of the Remuneration Committee.

Corporate governance statement

Principles of Corporate Governance

The Directors acknowledge the importance of the principles set out in The Combined Code on Corporate Governance ("the Combined Code") issued in June 2008. Although the Combined Code is not compulsory for AIM listed companies, the Directors have applied the principles in this statement, together with the Remuneration Report set out on pages 18 to 21, as far as practicable and appropriate for a public company of CVS's size as follows:

Board of Directors

The Board of Directors consists of five members, including a Non-Executive Chairman and two Non-Executive Directors.

The business of the Company and its subsidiaries are the combined responsibility of the Board, who are responsible for controlling and leading the Group. Their responsibilities include all major strategic decision making and significant operational matters. The Board periodically reviews the risk profile of the Group to ensure adequate internal controls are in place.

The Board meets regularly to discuss the ongoing strategy of the Group and monitor funding requirements and performance. Detailed budgets are set each year for all practices and other operating units, and the Board continually monitors performance against these budgets.

All Directors are able to take independent professional advice on the furtherance of their duties if necessary. They also have access to the advice and services of the Company Secretary, and, where it is considered appropriate and necessary, training is made available to Directors. All Directors receive training and updates on the duties and responsibilities of being a Director of a listed Company. This covers legal, accounting and tax matters as required. The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £10m.

Those attending and the frequency of Board and Committee meetings held in the financial year were as follows:

	Main Board	**Audit Committee**	**Remuneration Committee**	**Nominations Committee**
Number of meetings	10	3	4	1
Richard Connell	10	3	4	1
Simon Innes	10	*3	*4	-
Paul Coxon	10	*3	-	-
Mark Finn (resigned 13 January 2009)	6	-	-	-
David Timmins	10	3	4	1
Christopher Marsh	8	3	4	1

*In attendance by invitation of the respective Committee.

In addition to the Chairman Richard Connell, who was determined to be independent on appointment, there are two independent Non-Executive Directors, David Timmins and Christopher Marsh. The Chairman and Non-Executive Directors have formally confirmed to the Board, mindful of the other commitments that they have, that they have sufficient time to devote to their responsibilities as Directors of the Group.

The Board has appointed three standing Committees (all of which operate within defined terms of reference), which are detailed below:

The Audit Committee

The Committee consists of three Non-Executive Directors: Richard Connell, David Timmins and Christopher Marsh. The Committee is chaired by David Timmins.

Corporate governance statement (continued)

The Audit Committee's duties primarily concern financial reporting, internal controls and risk management systems, whistle-blowing procedures, internal audit and external audit arrangements (including auditor independence).

The Committee is responsible for ensuring that the financial performance of the Group is properly monitored and reported on and for meeting with the auditors and reviewing reports from the auditors relating to financial statements and internal control matters. The Chief Executive and Finance Director are invited to attend such meetings, but the Committee also meets with the auditors without the Chief Executive and Finance Director being present where appropriate and at least once annually. Other members of management are invited to present such reports as are required for the Committee to discharge its duties.

Meetings

The Audit Committee has met three times during the financial year, and the agenda of each meeting was linked to the reporting requirements of the Group and the Group's financial calendar. Each Audit Committee member has the right to require reports on matters relevant to its terms of reference in addition to the cyclical items.

Overview of the actions taken by the Audit Committee to discharge its duties

In the year ended 30 June 2009 and up to the date of this report the Audit Committee has:

- reviewed the 2009 annual report and financial statements and the interim report issued in March 2009. As part of these reviews the Committee received a report from the external auditors on their audit of the annual financial statements and review of the interim report;
- considered the output from the Group-wide process used to identify, evaluate and mitigate risks;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements;
- met with the external auditors, without management being present, to discuss any issues arising from the audit;
- agreed the fees to be paid to the external auditors for their audit of the 2009 financial statements and review of the interim report;
- reviewed the performance and independence of the external auditors; and
- reviewed its own effectiveness.

The Remuneration Committee

The Chairman of the Remuneration Committee is Christopher Marsh and its other members are Richard Connell and David Timmins. It reviews the performance of Executive Directors, sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of the shareholders, utilising the services of external consultants as appropriate.

The Remuneration Committee also makes recommendations to the Directors concerning any long term incentive plans including the award of share options to Directors and senior employees. The Chief Executive is invited to attend meetings as appropriate but is not permitted to participate in discussions relating to his own remuneration. The Remuneration Committee has met four times during the financial year.

The Remuneration Report can be found on pages 18 to 21.

The Nominations Committee

The Chairman of the Nominations Committee is Richard Connell and its other members are Christopher Marsh and David Timmins and it meets annually, as a minimum. The Nominations Committee is responsible for reviewing the structure, size and composition including skills, knowledge and experience of the CVS Board. It is also responsible for the co-ordination of the annual evaluation of the performance of the Board and of its committees.

It is responsible for making recommendations to the CVS Board on all CVS Board appointments and on the succession plans for both Executive Directors and Non-Executive Directors.

Corporate governance statement (continued)

Relations with shareholders

Copies of the Annual Report and Financial Statements are issued to all shareholders and copies are available on the Group's website (www.cvsgroupplc.com). The Group also uses its website to provide information to shareholders and other interested parties. The Company Secretary also deals with correspondence as and when it arises throughout the year.

At the Annual General Meeting the shareholders are entitled to raise questions and queries, and the Chairman along with the Chief Executive and other Directors are available before and after the meeting for further discussions with shareholders.

The Chief Executive and Finance Director have regular meetings with institutional investors, private client brokers, individual shareholders, fund managers and analysts to discuss information made public by the Group.

The Chairman and the Non-Executive Directors are always available to shareholders on all matters relating to governance and strategy. They may be contacted through the Group's website.

Internal control

The Board is ultimately responsible for the Group's system of internal control and reviewing its effectiveness on an ongoing basis.

The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key risk management processes and internal control procedures include the following:

- The close involvement of the Executive Directors in all aspects of the day-to-day operations, including regular meetings with senior staff from across the Group and a review of the monthly operational reports compiled by senior management;
- Clearly defined responsibilities and limits of authority. The Board has responsibility for strategy and has adopted a schedule of matters which are required to be brought to it for decision;
- A comprehensive system of financial reporting, forecasting and budgeting. Detailed budgets are prepared annually for all parts of the business. Reviews occur through the management structure culminating in a Group budget which is considered and approved by the Board. Group management accounts are prepared monthly and submitted to the Board for review. Variances from budget and prior year are closely monitored and explanations are provided for significant variances.
- A continuous process for identifying, evaluating and managing significant risks across the Group together with a comprehensive annual review of risks which covers both financial and non-financial areas.

The Board is committed to maintaining high standards of business conduct and ethics, and has an ongoing process for identifying, evaluating and managing any significant risks in this regard.

The Board is also responsible for the operation and review of the Group's whistle-blowing policy.

The internal control procedures are delegated to the Executive Directors and senior management and are reviewed in the light of the ongoing assessment of the Company's significant risks.

Internal audit

The Audit Committee has reviewed the key risk management processes and internal control procedures described above and is satisfied that the processes and controls currently in place are appropriate for a public company of CVS's size. As a consequence, the Audit Committee are of the opinion that there is currently no need for an internal audit function, but they will continue to consider this going forward.

Corporate governance statement (continued)

Going concern

At the balance sheet date the Group has cash and cash equivalents of £2.79m and unutilised overdraft facilities of £2m. Since the year end the Group has continued to trade profitably and to generate cash. Bank debt repayments of £1.92m are due in the year to 30 June 2010 and have been factored into projections. After consideration of market conditions, the Group's financial position and its profile of cash generation, the Directors have formed a judgement at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

By order of the Board

P D Coxon
Secretary
21 September 2009

Directors' report for the year ended 30 June 2009

The Directors present their annual report together with the consolidated audited financial statements for the year ended 30 June 2009.

Principal activities and results

The principal activity of the Group and of the Company is to operate companion animal veterinary practices, complimentary veterinary diagnostic businesses and a pet crematorium. The principal activity of CVS Group plc is that of a holding company.

The Group made a profit after taxation of £3.04m (2008: loss of £0.34m as restated).

Business review

The information that fulfils the requirements of the business review, including details of the 2009 results, key performance indicators, principal risks and uncertainties and the outlook for future years are set out in the Chairman's Statement and the Business and Financial Review, on pages 2 to 3 and 4 to 8, respectively.

Dividends

The Directors do not recommend the payment of a dividend (2008: £nil) and no dividends (2008: £nil) have been paid during the year.

Directors

The following Directors held office during the period and up to the date of signing the financial statements:

R Connell
S Innes
P D Coxon
M Finn (resigned 13 January 2009)
D Timmins
C Marsh

Biographical details of the Directors are shown on page 9.

Re-election of Directors

As required by the Articles of Association of the Company, and in accordance with the provisions of the 2006 Combined Code, all Directors must be re-elected at intervals of not more than 3 years. At each annual general meeting of the Company, one third of the directors (or the number nearest to but not exceeding one third if the number of directors is not a multiple of three) shall retire from office. In addition, any director who has been a director at each of the preceding two annual general meetings shall also retire. With five Board members, the requirement is for one director to resign. Pursuant to this, Christopher Marsh has offered himself up for retirement and will seek re-election

Directors' remuneration and interests

The Remuneration Report is set out on pages 18 to 21. It includes details of Directors' remuneration, interests in the shares of the Company, share options and pension arrangements.

Donations

No donations were made to any charitable or political organisation in the year (2008: £nil).

Environment

The Group recognises the significance of environmental responsibility and undertakes clinical compliance reviews to ensure environmental standards are conformed with in addition to provision of training to its employees to ensure compliance. Although the Group's activities do not have a major impact on the environment, every effort is made to reduce any effect.

Directors' report for the year ended 30 June 2009 (continued)

Health and safety

The Group is fully aware of its obligations to maintain high health and safety standards at all times, and the safety of our customers and employees is of paramount importance. The Group's operations are managed at all times in such a way as to ensure, so far as reasonably practical, the health, safety and welfare of all of our employees and all other persons who may be attending our premises.

Corporate governance

The Board's Corporate Governance Report is set out on pages 10 to 13.

Financial instruments

Details of the Group's financial risk management policies are included in note 3 to the financial statements.

Share capital and substantial shareholdings

Details of the share capital of the Company as at 30 June 2009 are set out in note 27 to the financial statements.

At 9 September 2009, the Company had received notification that the following are interested in more than 3% of the issued ordinary share capital

Morgan Stanley Investment Management	10.9%
F&C Asset Management	7.0%
Artemis Investment Management	7.0%
UBS Global Asset Management	6.5%
Invesco Perpetual	5.4%
Scottish Widows	5.0%
Allied Investments	4.6%
Royal London Asset Management	4.3%
Aviva Investors	4.1%
Simon Innes (Director)	3.0%

Employees

Consultation with employees takes place through a number of regional meetings throughout the year, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the general progress of their business units and of the Group as a whole. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

The Group operates a long term incentive scheme for Executive Directors and senior managers. Details are included in the Directors' Remuneration Report on pages 18 to 21. The Group also has a Save As You Earn scheme under which employees are granted an option to purchase Ordinary shares in the Company in three years time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise. The exercise price was at a 20% discount to the share's market value at the date of invitation. The initial scheme launched in the current year has an exercise price above the current market price. The scheme is open to all Group employees including the Executive Directors. Details of the Executive Directors' participation, together with further details of the scheme are included in the Directors' Remuneration Report on pages 18 to 21.

Directors' report for the year ended 30 June 2009 (continued)

Policy and practice on payment of creditors

The Group does not impose standard payment terms on its suppliers but agrees terms separately with each of them. Every effort is made to pay suppliers in accordance with the terms that have been agreed. At 30 June 2009, the amount owed to trade creditors by the Group was equivalent to 52 days of purchases from suppliers (2008: 53 days). The Company has no trade creditors, being a holding company only.

Market value of land and buildings

The Directors have reviewed the current values of land and buildings and are of the opinion that there is no material difference between market and balance sheet values.

Post balance sheet events

Details of post balance sheet events are disclosed in note 35 to the financial statements.

Directors' third-party indemnity provision

A qualifying third-party indemnity provision as defined in section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year.

Directors' Responsibilities Statement

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 consolidated financial statements and the 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are 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.

Directors' report for the year ended 30 June 2009 (continued)

Auditors and disclosure of information to auditors

So far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and 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.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office. A resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

P D Coxon

Secretary

21 September 2009

CVS Group plc

Remuneration report

As an AIM quoted Company CVS Group plc is not required to comply with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The following disclosures are therefore made on a voluntary basis. The information is unaudited.

Remuneration policy

Remuneration policy in respect of Executive Directors is designed to ensure that the Group achieves its potential and increases shareholder value. In respect of basic salary, the objective is to ensure that the Group retains and attracts high calibre executives with the skills, experience and motivation necessary to direct and manage the affairs of the Group. Annual bonuses and long term incentive schemes are seen as an important part of each Director's total remuneration and are designed to drive and reward exceptional performance. The policy also provides for post retirement benefits through contributions to Executive Directors' personal pension schemes, together with other benefits such as a company car, life and medical insurance.

The Remuneration Committee reviews the policy in light of market conditions, performance and developments in good corporate governance.

The remuneration consists of the following elements:

Base pay

Executive Directors' base pay is designed to reflect the experience, capabilities and role within the business. Salary levels are reviewed annually and are benchmarked against the median position in similar companies.

Annual bonus

All Executive Directors participate in the Group's annual bonus scheme, which is based on the achievement of individual and Group performance targets. Currently, the bonus (up to a maximum of 50% of base pay as at the balance sheet date) is awarded based on adjusted EBITDA performance.

There have been no changes to the policy from the preceding year and no departures from this policy in the year under review. The current policy is expected to continue in place through the now current financial year, during which a detailed review of the remuneration policy is to be undertaken for the financial year ending 30 June 2011.

Long term incentive plan ("LTIP")

All Executive Directors and certain other senior employees are entitled to be considered for the grant of awards under the LTIP. After due consideration, the Remuneration Committee makes awards to selected participants. The awards take the form of nominal cost options over a specified number of Ordinary Shares. Awards are not transferable or assignable.

The long term incentive scheme rewards the future performance of the Executive Directors and certain other employees by linking the size of the award to the achievement of performance targets. Initial awards under this scheme were granted on 10 October 2007 ("LTIP1"), and have the following performance conditions:

- Awards will vest in full if real growth in adjusted earnings per share measure shows a compound annual growth rate ("CAGR") of 60 per cent per year over the measurement period of three years.
- No awards will vest if real growth in the adjusted EPS measure is less than CAGR of 30 per cent per year over the measurement period; and
- If CAGR of between 30 per cent and 60 per cent is achieved, awards will vest on a straight line basis between 40 per cent and 100 per cent of the Ordinary Shares which are the subject of the award.

Remuneration report (continued)

Further awards granted on 18 November 2008 (“LTIP2”) have the following performance conditions:

- Awards will vest in full if real growth in adjusted earnings per share measure shows a compound annual growth rate (“CAGR”) of 30 per cent per year over the measurement period of three years.
- No awards will vest if real growth in the adjusted EPS measure is less than CAGR of 15 per cent per year over the measurement period; and
- If CAGR of between 15 per cent and 30 per cent is achieved, awards will vest on a straight line basis between 40 per cent and 100 per cent of the Ordinary Shares which are the subject of the award.

On 13 July 2009, the Remuneration Committee approved further awards under the scheme (“LTIP3”), which have the following performance conditions:

- Awards will vest in full if real growth in adjusted earnings per share measure shows a compound annual growth rate (“CAGR”) of 15 per cent per year over the measurement period of three years.
- No awards will vest if real growth in the adjusted EPS measure is less than CAGR of 7 per cent per year over the measurement period; and
- If CAGR of between 7 per cent and 15 per cent is achieved, awards will vest on a straight line basis between 40 per cent and 100 per cent of the Ordinary Shares which are the subject of the award.

The adjusted earnings per share measure for the purposes of monitoring the achievement of performance targets reflects adjustments for amortisation of intangibles, income tax, share based payments, exceptional items and fair value adjustments in respect of derivative financial instruments and available for sale assets.

In addition and irrespective of the adjusted earnings per share performance target, no award will vest unless in the opinion of the Remuneration Committee the underlying performance of the Group has been satisfactory over the measurement period.

In the event that a Director ceases employment and is a “good leaver” (i.e. he leaves by reason of his death, disability, redundancy, injury, or because the business or Company for which he works is sold out of the Group) they will receive a number of Ordinary shares calculated as above, but scaled down to take account of length of service since the date of award as a proportion of the measurement period. At the discretion of the Committee, participants who leave for other reasons may, exceptionally, be treated as a good leaver for this purpose.

Save As You Earn (SAYE)

The Group operates an incentive scheme for all staff, including the Executive Directors, the CVS Group Save As You Earn (“SAYE”) plan, an Inland Revenue approved scheme. The SAYE scheme was opened for subscription in July 2008. Under the SAYE scheme awards are made at a 20% discount to the closing mid-market price on date of invitation, vesting over a three year period. There are no performance conditions attached to the SAYE scheme.

Service Contracts

The Executive Directors entered into Service Agreements on 4 October 2007 that can be terminated by either party on 12 months’ notice. As well as an annual salary, the service contracts also detail the provision of other benefits including performance related bonus, access to the long-term incentive plan, medical and life insurance, car allowance and in some cases contributions to personal pension plans.

The Non-Executive Directors have letters of appointment for an initial term of three years from 4 October 2007. Their appointments can be terminated by the Company or the Non-Executive Directors by giving six months’ notice.

Remuneration report (continued)

Directors' remuneration

	Basic salary, allowance and fees	Benefits in kind	Performance related bonus	2009 Total	2008 Total
	£'000	£'000	£'000	£'000	£'000
Non-Executive Chairman					
R Connell	**86**	**-**	**-**	**86**	85
Executive					
S Innes	**226**	**25**	**116**	**367**	360
P Coxon	**121**	**17**	**18**	**156**	151
M Finn (resigned 13 January 2009)	**62**	**8**	**-**	**70**	170
Non-Executive					
D Timmins	**33**	**-**	**-**	**33**	30
C Marsh	**30**	**-**	**-**	**30**	25
Total	**558**	**50**	**134**	**742**	821

Mr P Coxon and Mr M Finn participated in a defined contribution pension arrangement. During the year, the Group contributed £12,120 (2008: £9,433) and £6,170 (2008: £11,250) respectively.

Benefits in kind include the provision of a company car, and medical and life insurance for each Executive Director.

No Director waived emoluments in respect of the years ended 30 June 2009 or 30 June 2008.

The remuneration of the Executive Directors of CVS Group plc is borne by the subsidiary company, CVS (UK) Limited, without recharge to CVS Group plc.

Directors' interests in shares

The interests of the Directors as at 30 June 2009 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
R Connell	44,391
S Innes	1,546,475
P Coxon	515,500
D Timmins	12,195
C Marsh	12,195

Apart from the interests disclosed above and the interests in share options disclosed below, the Directors had no other interest in shares of Group companies.

Remuneration report (continued)

Share options

Options over ordinary shares awarded to Executive Directors under the LTIPs and SAYE schemes in place at the 21 September 2009 are as follows:

	Scheme	Date of grant	Earliest exercise date and date of vesting	Exercise price	Number of shares
S Innes	LTIP1	10 October 2007	30 June 2010	0.2p	107,317
P Coxon	LTIP1	10 October 2007	30 June 2010	0.2p	53,658
S Innes	LTIP2	18 November 2008	30 June 2011	0.2p	189,655
P Coxon	LTIP2	18 November 2008	30 June 2011	0.2p	83,448
S Innes	SAYE	15 July 2008	1 September 2011	210p	4,293
P Coxon	SAYE	15 July 2008	1 September 2011	210p	4,293
S Innes	LTIP3	10 July 2009	30 June 2012	0.2p	264,504
P Coxon	LTIP3	10 July 2009	30 June 2012	0.2p	93,435

No share options were exercised or lapsed in the year.

The market price of the ordinary shares on 10 October 2007 was 205p; on 18 November 2008 it was 145p; on 15 July 2008 it was 262p and on 10 July 2009 it was 131p.

There have been no variations in the terms and conditions of scheme interests during the year.

On behalf of the Remuneration Committee

Christopher Marsh
21 September 2009

Independent auditors' report to the members of CVS Group plc

We have audited the Group and Parent Company financial statements (the ''financial statements'') of CVS Group plc for the year ended 30 June 2009 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Shareholders' Equity, the Consolidated and Company Cash Flow Statements and the related notes. 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 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2009 and of the Group's profit and Group's and Parent Company's cash flows for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of CVS Group plc (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Christopher Maw (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Norwich
21 September 2009

CVS Group plc

Consolidated income statement for the year ended 30 June 2009

	Note	2009 £'000	2008* £'000
Revenue	4	**76,605**	62,150
Cost of sales		**(45,657)**	(38,121)
Gross profit		**30,948**	24,029
Exceptional administrative expenses	5	**-**	(1,764)
Other administrative expenses		**(23,937)**	(18,502)
Total administrative expenses		**(23,937)**	(20,266)
Other gains	17	**-**	316
Operating profit	7	**7,011**	4,079
Fair value adjustments in respect of financial assets and liabilities	6	**(48)**	(347)
Exceptional finance expense	6	**-**	(556)
Other finance expense	6	**(2,580)**	(3,184)
Finance income	6	**61**	132
Net finance expense		**(2,567)**	(3,955)
Profit before income tax	4	**4,444**	124
Income tax expense	10	**(1,406)**	(463)
Profit/(loss) for the period attributable to equity shareholders	28	**3,038**	(339)
Earnings/(loss) per ordinary share for profit/(loss) attributable to the equity holders of the Company (expressed in pence per share) ("EPS")			
Basic	12	**5.9p**	(0.7p)
Diluted	12	**5.8p**	(0.7p)

*Restated as per note 2 to the financial statements.

All amounts relate to continuing operations, including the impact of business combinations arising during the year.

The following table is provided to show the comparative earnings before interest, tax, depreciation and amortisation ("EBITDA") after adjusting for exceptional administrative expenses, other gains and share option expense.

Non-GAAP measure: Adjusted EBITDA	Note	**£'000**	£'000
Profit before income tax		**4,444**	124
Adjustments for:			
Exceptional administrative expenses	5	**-**	1,764
Net finance expense	6	**2,567**	3,955
Depreciation	15	**1,526**	1,042
Amortisation	14	**3,842**	2,934
Other gains	17	**-**	(316)
Share option expense	13	**117**	110
Adjusted EBITDA		**12,496**	9,613

Consolidated and Company balance sheets as at 30 June 2009

	Note	**Group 2009 £'000**	Group 2008* £'000	**Company 2009 £'000**	Company 2008 £'000
Non-current assets					
Intangible assets	14	**41,886**	37,272	**-**	-
Property, plant and equipment	15	**7,467**	6,757	**-**	-
Investments	17	**67**	399	**62,103**	61,986
Deferred income tax assets	25	**455**	426	**-**	-
Derivative financial instruments	18	**-**	613	**-**	-
		49,875	45,467	**62,103**	61,986
Current assets					
Inventories	20	**1,972**	1,829	**-**	-
Trade and other receivables	21	**5,431**	5,108	**-**	-
Cash and cash equivalents	22	**2,792**	392	**-**	-
		10,195	7,329	**-**	-
Total assets	4	**60,070**	52,796	**62,103**	61,986
Current liabilities					
Trade and other payables	23	**(8,452)**	(8,272)	**(3,861)**	(3,605)
Current income tax liabilities	26	**(1,169)**	(54)	**-**	-
Borrowings	24	**(1,924)**	(50)	**-**	-
		(11,545)	(8,376)	**(3,861)**	(3,605)
Non-current liabilities					
Borrowings	24	**(41,644)**	(40,410)	**-**	-
Deferred income tax liabilities	25	**(4,942)**	(5,205)	**-**	-
Derivative financial instruments	18	**(1,463)**	-	**-**	-
		(48,049)	(45,615)	**-**	-
Total liabilities	4	**(59,594)**	(53,991)	**(3,861)**	(3,605)
Net assets/(liabilities)		**476**	(1,195)	**58,242**	58,381

*Restated as per note 2 to the financial statements.

Consolidated and Company balance sheets as at 30 June 2009 (continued)

	Note	**Group 2009 £'000**	Group 2008* £'000	**Company 2009 £'000**	Company 2008 £'000
Shareholders' equity					
Share capital	27	**103**	103	**103**	103
Capital redemption reserve	28	**592**	592	**592**	592
Revaluation reserve	28	**125**	125	**-**	-
Merger reserve	28	**(61,420)**	(61,420)	**-**	-
Retained earnings	28	**61,076**	59,405	**57,547**	57,686
Total shareholders' equity/(deficit)		**476**	(1,195)	**58,242**	58,381

*Restated as per note 2 to the financial statements.

The notes on pages 30 to 80 are an integral part of these consolidated financial statements.

The financial statements on pages 24 to 80 were authorised for issue by the Board of Directors on 21 September 2009 and were signed on its behalf by:

P Coxon
Director

S Innes
Director

Consolidated statement of changes in shareholders' equity for the year ended 30 June 2009

	Share capital	Revaluation reserve	Capital redemption reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2007 as previously stated	103	125	-	(61,420)	59,648	(1,544)
Prior year adjustment (see note 2)	-	-	-	-	154	154
At 1 July 2007 as restated	103	125	-	(61,420)	59,802	(1,390)
Fair value movement of cash flow hedging derivative	-	-	-	-	587	587
Revaluation of available for sale investments	-	-	-	-	(7)	(7)
Deferred tax relating to items charged directly to retained earnings	-	-	-	-	(164)	(164)
Net income recognised directly in equity	-	-	-	-	416	416
Transfer to capital redemption reserve	-	-	592	-	(592)	-
Retained loss for the financial year	-	-	-	-	(339)	(339)
Total recognised income and expenses	**-**	**-**	**592**	**-**	**(515)**	**77**
Credit to reserves for share-based payments	-	-	-	-	110	110
Deferred tax relating to share-based payments	-	-	-	-	8	8
	-	**-**	**-**	**-**	**118**	**118**
At 30 June 2008 as previously stated	103	125	592	(61,420)	58,980	(1,620)
Prior year adjustment (see note 2)	-	-	-	-	425	425
At 30 June 2008 as restated	**103**	**125**	**592**	**(61,420)**	**59,405**	**(1,195)**
Fair value movement of cash flow hedging derivative	-	-	-	-	(2,028)	(2,028)
Revaluation of available for sale investments	-	-	-	-	(16)	(16)
Deferred tax relating to items charged directly to retained earnings	-	-	-	-	568	568
Net income recognised directly in equity	-	-	-	-	(1,476)	(1,476)
Retained profit for the financial year	-	-	-	-	3,038	3,038
Total recognised income and expenses	**-**	**-**	**-**	**-**	**1,562**	**1,562**
Credit to reserves for share-based payments	-	-	-	-	117	117
Deferred tax relating to share-based payments	-	-	-	-	(8)	(8)
	-	**-**	**-**	**-**	**109**	**109**
At 30 June 2009	**103**	**125**	**592**	**(61,420)**	**61,076**	**476**

CVS Group plc

Company statement of changes in shareholders' equity for the year ended 30 June 2009

	Share capital £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
On incorporation (13 July 2007)	-	-	-	-
Transfer to capital redemption reserve	-	592	(592)	-
Retained loss for the financial period	-	-	(3,605)	(3,605)
Total recognised income and expenses	**-**	**592**	**(4,197)**	**(3,605)**
Issue of ordinary shares	61,876	-	-	61,876
Capital reduction	(61,773)	-	61,773	-
Credit to reserves for share-based payments	-	-	110	110
	103	**-**	**61,883**	**61,986**
At 30 June 2008	**103**	**592**	**57,686**	**58,381**
Retained loss for the financial year	-	-	(256)	(256)
Total recognised income and expenses	**-**	**-**	**(256)**	**(256)**
Credit to reserves for share-based payments	-	-	117	117
At 30 June 2009	**103**	**592**	**57,547**	**58,242**

Consolidated and Company cash flow statement for the year ended 30 June 2009

	Note	Group 2009 £'000	Group 2008 £'000
Cash flows from operating activities			
Cash generated from operations before exceptional payments		**12,380**	8,268
Exceptional administrative expenses*		**-**	(1,764)
Cash generated from operations	30	**12,380**	6,504
Taxation paid		**(828)**	(95)
Interest received		**61**	132
Interest paid		**(2,658)**	(3,418)
Net cash generated from operating activities		**8,955**	3,123
Cash flows from investing activities			
Acquisition of businesses	16	**(5,793)**	(5,673)
Acquisition of subsidiaries (net of cash acquired)	16	**(2,510)**	(6,322)
Purchase of property, plant and equipment		**(1,538)**	(2,099)
Purchase of intangible assets		**(45)**	(23)
Proceeds from sale of property, plant and equipment		**2**	17
Proceeds from sale of available for sale investments		**316**	-
Net cash used in investing activities		**(9,568)**	(14,100)
Cash flows from financing activities			
Finance lease principal payments		**(38)**	(13)
Repayment of loan stock, preference shares and associated redemption premiums		**-**	(11,714)
Repayment of bank loan		**(18)**	(20,455)
Proceeds from long-term borrowings		**3,069**	40,929
Net cash from financing activities		**3,013**	8,747
Net increase/(decrease) in cash and cash equivalents		**2,400**	(2,230)
Cash and cash equivalents at start of period		**392**	2,622
Cash and cash equivalents at end of period	22	**2,792**	392

*Cash paid in respect of exceptional administrative expenses incurred in relation to the Company's admission to the Alternative Investment Market – see note 5 for further details.

Company cash flow statement

The Company has no cashflows and therefore a cashflow statement is not presented. A reconciliation of cashflow from operations for the Company is included in note 30.

Notes to the consolidated financial statements for the year ended 30 June 2009

1. General information

The principal activity of the Group is to operate companion animal veterinary practices, complementary veterinary diagnostic businesses and a pet crematorium. The principal activity of the Company is that of a holding company.

CVS Group plc is a public limited company incorporated and domiciled in England and Wales.

The address of the registered office is CVS House, Vinces Road, Diss, Norfolk, IP22 4AY and the registered number of the Company is 06312831.

Companies in the Consolidated Financial Statements

The principal subsidiary undertakings included within the consolidation are as follows:

Name of subsidiary	Registered country	Principal business	Equity shareholding
CVS (UK) Limited	England and Wales	Operation of veterinary and diagnostic services	100%
Precision Histology International Limited	England and Wales	Operation of veterinary diagnostic services	100%
Axiom Veterinary Laboratories Limited	England and Wales	Operation of veterinary diagnostic services	100%
Rossendale Pet Crematorium Limited	England and Wales	Operation of animal cremation and provision of burial grounds	100%

Apart from CVS (UK) Limited all of the above subsidiaries are indirectly held by CVS Group plc.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of CVS Group plc have been prepared in accordance with the EU-adopted International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations and in line with those provisions of the Companies Act 2006 as applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for certain financial instruments and share-based payments that have been measured at fair value.

The Group has operated within the levels of its current debt facility and complied with both the financial and non-financial covenants contained in the facility agreement therein throughout the year under review and to the date of the approval of these financial statements. The Group is forecasting that it will continue to operate within the levels of its current facility and comply with the financial and non-financial covenants contained in the facility agreement. On this basis the Directors consider it appropriate to prepare the consolidated financial statements on the going concern basis.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Prior year adjustments

In accordance with IFRS 3 "Business Combinations," provisional goodwill and fair value adjustments made in the consolidated financial statements for the year ended 30 June 2008 (in respect of the acquisition of Axiom Veterinary Laboratories Limited on 9 January 2008) have been finalised in the period under review and the required adjustments have been reflected in the comparative financial information. The final adjustments have been to separately reflect goodwill and deferred tax liabilities amounting to £1,032,000. The comparative income statement has been adjusted to reflect the impact of the above adjustment, the effect of which is to reduce the income tax charge for the year (and thereby reduce the reported loss for the year ended 30 June 2008) by £32,000.

Further to the above, in accordance with the provisions of IAS 8 "Accounting policies, changes in accounting estimates and errors," a prior year adjustment has been made to recognise deferred tax liabilities (in accordance with the provisions of IAS 12 "Income taxes") arising on intangibles acquired in certain business combinations in prior periods that were not previously recognised with a corresponding adjustment to goodwill. The effect of this adjustment in the year ended 30 June 2008 is to increase goodwill by £2,555,000; increase deferred tax liabilities by £2,162,000; reduce the income tax charge for the year (and thereby reduce the reported loss for the year ended 30 June 2008) by £239,000 and increase brought forward retained earnings by £154,000.

The effect of the above restatements is to increase reported basic and diluted EPS from (1.2p) to (0.7p) and increase adjusted EPS from 7.2p to 8.0p for the year ended 30 June 2008.

2. Summary of significant accounting policies (continued)

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates. The following judgements have the most significant effect on the amounts recognised in the financial statements.

Intangibles acquired in business combinations

Determining the value of acquired intangibles (patient data records and customer relationships) acquired in business combinations, requires the calculation of estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value. In addition an estimate of the useful life of the intangible asset has to be made, over which period the cash flows are expected to be generated. Details of intangibles acquired in the year under review are provided in note 16 to the financial statements.

Impairment of goodwill

Determining whether goodwill is impaired requires the estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate future cash flows expected to arise from the cash generating unit at a suitable discount rate in order to calculate the present value. Details of the impairment review are provided in note 14 to the financial statements.

Determination of discount rates used in business combinations and impairment reviews

The discount rates used in business combinations and impairment reviews are based on the current cost of capital of the business adjusted for management's perceived risk. While management believe the discount rates used are the most appropriate rates, a change in these assumptions could result in an impairment charge.

Income tax

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. 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.

Share-based payments

A number of accounting estimates and judgements are incorporated within the calculation of the charge to the income statement in respect of share-based payments. These are described in more detail in note 13 to the financial statements.

2. Summary of significant accounting policies (continued)

Recent accounting developments

Standards, amendments and interpretations effective in the year ended 30 June 2009

The following amendments to existing standards and interpretations were effective for the current period, but the adoption of these amendments to existing standards and interpretations did not have a material impact on these financial statements:

- IFRIC 12 "Service Concession Agreements."
- IFRIC 13 "Customer Loyalty Programmes."
- IFRIC 14, IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction."

Standards and interpretations to existing standards that have been adopted by the EU but which are not yet effective and have not been early adopted

The following standards and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 July 2009 or later periods but which the Company has not early adopted:

IFRS 3 (Revised) "Business combinations." The revision to this standard amends the way business combinations are accounted for. The Group will apply this revision for all business combinations on or after 1 July 2009. If the revised standard had been effective in the year ended 30 June 2009, transaction costs amounting to £291,000 would have been recognised in the income statement.

IFRS 8, "Operating segments." The Group will apply this standard for accounting periods beginning on or after 1 July 2009. This standard introduces new rules on the disclosure of operating results by business segment. The resultant impact is still being assessed by management, but it is not expected, based upon the present operations of the Group, that there will be any significant impact.

IFRS 2 (Amendment) "Share based payments." The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. The Group will apply this amendment for accounting periods commencing on 1 July 2009. It is not expected to have an impact on the Group's financial statements.

IAS 1 (Revised) "Presentation of financial statements." The revised standard will prohibit the presentation of items of income and expenses (that is, non–owner changes in equity) in the statement of changes in equity, requiring non–owner changes in equity to be presented separately from owner changes in equity. The Group will apply this revision for accounting periods commencing on 1 July 2009. It is not expected to have a significant impact on the presentation of the financial statements.

IAS 39 (Amendment) "Financial Instruments: Recognition and measurement" on eligible hedged items. The Group will apply this amendment for accounting periods commencing on 1 July 2009. The impact on the Company of adopting the amendment in future years is dependent on future movements in interest rates and therefore cannot be assessed at this time. If the amendment had been effective in the year ended 30 June 2009, an element of the fair value loss on the derivative financial instrument designated as a cash flow hedge which has been recognised directly in equity may have been recognised in the income statement.

2. Summary of significant accounting policies (continued)

Interpretations to existing standards that have been adopted by the EU but which are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods but are not relevant for the Group's operations:

- IFRS 1 (Amendment), "First time adoption of IFRS and IAS 27, Consolidated and Separate Financial Statements" – effective from 1 January 2009.
- IAS 27 (Revised), "Consolidated and Separate Financial Statements" - effective from 1 July 2009.
- IFRIC 15 "Agreements for Construction of Real Estates" - effective from 1 January 2009.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" - effective from 1 October 2008.
- IFRIC 17 "Distributions of non-cash assets to owners" - effective from 1 July 2009.
- IFRIC 18 "Transfers of assets from customers" - effective from 1 July 2009.

In addition to the above, there are also a number of minor amendments to IFRS 7, "Financial Instruments: Disclosures"; IAS 8, "Accounting Policies, changes in accounting estimates and errors"; IAS 10, "Events after the reporting period"; IAS 18, "Revenue"; IFRS 5 (Amendment), "Non-current assets held for sale and discontinued operations (and consequential amendment to IFRS 1, First time adoption)"; IAS 16 (Amendment), "Property, plant and equipment (and consequential amendments to IAS 7, Statement of cash flows)"; IAS 19 (Amendment), "Employee benefits"; IAS 20 (Amendment), "Accounting for government grants and disclosure of government assistance"; IAS 23 (Amendment), Borrowing costs; IAS 27 (Revised), "Consolidated and separate financial statements"; IAS 28 (Amendment), "Investments in associates (and consequential amendments to IAS 32, Financial Instruments: Presentation and IFRS 7, Financial Instruments: Disclosures)"; IAS 29 (Amendment), "Financial reporting in hyperinflationary economies"; IAS 31 (Amendment), "Interests in joint ventures (and consequential amendments to IAS 32, Financial Instruments: Disclosures)"; IAS 34, "Interim financial reporting"; IAS 36 (Amendment), "Impairment of assets"; "IAS 40 (Amendment), Intangible assets (and consequential amendments to IAS 16, Property, plant and equipment)" and IAS 41 (Amendment), "Agriculture" (all effective for the Group's accounting periods commencing on 1 July 2009), which are part of the IASB's annual improvement project published in May 2008. These amendments are not expected to have a significant impact on the Group's accounts.

Basis of consolidation

The consolidated financial statements include the financial information of the Company and its subsidiary undertakings as at and for the year ended 30 June 2009.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. The results of companies and businesses acquired are included in the consolidated income statement from the date control passes. They are de-consolidated from the date that control ceases.

On acquisition of a company or business, all assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, which arise after the Group has gained control of the company or business, are credited or charged to the post acquisition income statement.

Intra-group transactions and profits are eliminated fully on consolidation. Accounting policies of subsidiaries have been aligned where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies (continued)

Segment reporting

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and rewards which are different from those of segments operating in other economic environments. Direct costs are allocated to business segments based upon costs incurred in generating revenue in each business segment.

Foreign currency translation

Functional and presentational currency

The financial information in this report is presented in sterling, the functional currency of the Company and its subsidiaries, rounded to the nearest thousand.

Transactions and balances

Transactions denominated in foreign currencies are translated into sterling (the functional currency of the Company and its subsidiaries) at the rate of exchange ruling at the date of transaction. All realised foreign exchange differences are taken to the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and are recognised in the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The assets' residual values and useful lives are reviewed annually, and adjusted as appropriate. Depreciation is provided so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets in equal annual instalments at the following principal rates:

Freehold buildings	2% straight line
Leasehold improvements	Straight line over the life of the lease
Fixtures, fittings and equipment	20% - 33% straight line
Motor vehicles	25% straight line

Assets are held at historical cost with the exception that a property in the subsidiary undertaking Precision Histology International Limited is carried at a revalued amount that was frozen at the date of transition to IFRS. This frozen carrying value is deemed cost in the case of this property. Freehold land is not depreciated on the basis that it has an unlimited life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Intangible assets

Goodwill

With the exception of the acquisition of CVS (UK) Limited which, as described in the prior year consolidated financial statements, was accounted for using the principles of merger accounting, all business combinations are accounted for by applying the purchase method. Goodwill arising on acquisitions that have occurred since 1 July 2004 represents the difference between the fair value of the purchase consideration and the fair value of the Group's share of the identifiable net assets of an acquired entity. Consideration includes directly attributable costs of the acquisition. In respect of acquisitions prior to 1 July 2004 goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice.

2. Summary of significant accounting policies (continued)

Goodwill is carried at cost less accumulated impairment losses.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) and goodwill is allocated to these cash-generating units. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives of three years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Patient data records

Patient data records are recognised as intangible assets at the fair value of the consideration paid to acquire them and are carried at historical cost less provisions for amortisation and impairment. The fair value attributable to patient data records acquired through a business combination is determined by discounting the expected future cash flows to be generated from that asset at the risk adjusted post tax weighted average cost of capital for the Group. The residual values of patient data records are assumed to be £nil.

Patient data records are reviewed for impairment if conditions exist that indicate review is required. Amortisation is provided so as to write off the cost of patient data records over the expected economic lives of the asset in equal instalments of 10% per annum.

Customer lists

Customer lists are recognised as intangible assets at fair value of the consideration paid to acquire them and are carried at historical cost less provisions for amortisation and impairment. The fair value attributable to customer lists acquired through a business combination is determined by discounting the expected future cash flows to be generated from that asset at the risk adjusted post tax weighted average cost of capital for the Group. The residual values of customer lists are assumed to be £nil.

Customer lists are reviewed for impairment if conditions exist that indicate review is required. Amortisation is provided so as to write off the cost of customer lists over the expected economic lives of the asset in equal instalments of 6.67% per annum.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Recoverable amounts for cash-generating units are based on value in use, which is calculated from cash flow projections using data from the Group's latest internal forecasts, being one year detailed forecast and extrapolated forecasts thereafter, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates and growth rates.

Estimates are based on past experience and expectations of future changes to the market. Growth rate forecasts are extrapolated based on estimated long term average growth rates (estimated at 3%). The pre-tax discount rate used to calculate value in use is 10.3% at 30 June 2009 (2008: 12.4%). These discount rates are derived from the Group's post-tax weighted average cost of capital.

2. Summary of significant accounting policies (continued)

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

Inventories

Inventories comprise of goods held for resale, and are stated at the lower of cost and net realisable value on a first in first out basis. Net realisable value is based on estimated selling price less further costs expected to be incurred to disposal. Where necessary, provision is made for obsolete, slow moving or defective stocks.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Trade receivables

Trade receivables are non-interest bearing and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of any loss is recognised in the income statement within administrative expenses. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

(b) Investments

Investments are recognised at the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs, except for investments in equity instruments which are initially recognised at fair value, with transaction costs expensed in the income statement. Investments are classified at initial recognition as either held for trading or available-for-sale, and are recognised at fair value.

For available-for-sale investments in equity instruments that have a quoted market price, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net result for the period.

In accordance with IAS 39 "Financial Instruments: Recognition and measurement", available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. If the fair value can subsequently be measured by reference to third party information, such as an offer to purchase, the financial asset is revalued to this fair value. Any gains or losses arising from the revaluation to fair value are recognised as other gains or losses in the income statement. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Dividends on an available-for-sale equity instrument are recognised in the income statement when the Group's right to receive payment is established.

2. Summary of significant accounting policies (continued)

(c) 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 gives a residual interest in the assets of the Group after deducting all of its liabilities.

(d) Interest-bearing borrowings

Interest-bearing bank loans and overdrafts and secured loan stock are initially recorded as the proceeds received, net of associated transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(e) Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

(f) Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(g) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. The Group does not hold or issue derivative financial instruments for trading purposes, however if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments, by discounted cash flows, or by the use of option valuation models. The fair value of interest rate collar arrangements is calculated as the present value of the estimated future cash flows. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the income statement.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

2. Summary of significant accounting policies (continued)

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement. The classification of the effective portion when recognised in the income statement is the same as the classification of the hedged transaction. Any element of the re-measurement of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the income statement within finance costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits. 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 purposes of the cash flow statement.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Revenue

Revenue represents amounts recoverable from customers for veterinary services, related veterinary products and crematoria services provided during the period. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding value added tax.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

2. Summary of significant accounting policies (continued)

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The fair values of equity-settled transactions are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value of share-based payments under such schemes 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. The fair value of options awarded to employees of subsidiary undertakings is recognised as a capital contribution and recorded in investments on the Company balance sheet.

The Group applies IFRS 2 "Share based payments" to share based payment arrangements. Where cash payments based on the share price are made to employees by a third party and the Group incurs no cost, the Group's policy is to apply IAS 19 "Employee benefits" and not recognise an expense.

Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions which may give rise to exceptional costs are principally financial restructuring costs, Group re-organisation costs (including AIM admission costs), and costs in respect of key management changes.

Investments in subsidiary undertakings

In the Company's financial statements, investments in subsidiary undertakings are initially stated at cost. Provision is made for any permanent diminution in the value of these investments.

Retirement benefit costs

The Group makes contributions to stakeholder and employee personal pension schemes in respect of certain employees, which are defined contribution schemes. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Net financing costs

Net financing costs comprise interest payable on borrowings, dividends on preference shares, interest receivable on cash and cash equivalents, gains and losses on derivative financial instruments and debt finance costs that are recognised in the income statement.

Interest income and expense is recognised in the income statement as it accrues, using the effective interest method.

Use of non-GAAP profit measures

Adjusted EBITDA

The Directors believe that adjusted EBITDA provides additional useful information for shareholders on underlying trends and performance. These measures are used for internal performance analysis. Adjusted EBITDA is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to, IFRS measurements of profit. Adjusted EBITDA is calculated by reference to profit/(loss) before income tax, adjusted for interest (net finance expense), depreciation, amortisation, other gains, share option expense and exceptional items.

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative instruments to manage its exposure to interest rate movements. It is not the Group's policy to actively trade in derivatives.

Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Group's finance department.

a) Market risk

i) Foreign exchange currency rate risk

The Group has very limited exposure to foreign exchange risk as substantially all of its transactions are denominated in the Company's functional currency of sterling. The Group has a policy to minimise foreign exchange currency rate risk through the regular monitoring of foreign currency flows.

Currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by CVS Group plc management.

At 30 June 2009, the Group had monetary assets denominated in foreign currencies of £40,846 (2008: £145,660) and monetary liabilities denominated in foreign currencies of £8,309 (2008: £10,663). The Directors do not consider the impact of foreign currency rate fluctuations to be material in these financial statements.

If the Euro had weakened/strengthened by 10% against Sterling with all other variables held constant, post-tax profit for the year would have been £264 (2008: £5,748) lower/higher, as a result of foreign exchange losses/ gains on translation of the Euro-denominated monetary assets at fair value through profit or loss. For the year to 30 June 2009 the Group recognised a foreign exchange gain amounting to £20,687 (2008: £25,000).

ii) Cash flow and fair value interest rate risk

The Group has interest bearing assets and liabilities. The Group's income and operating cash inflows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At the year end, the Group had interest hedging arrangements in place covering £32m of debt. This allows the Group to minimise its exposure to significant interest rate increases whilst enabling the Group to take advantage of interest rate reductions. The strategy for undertaking the hedge is to match the loan liability with a co-terminus derivative that allows interest to float within an agreed range and thereby limits the cashflow exposure relating to interest.

3 Financial risk management (continued)

Interest rate risk profile of financial assets and liabilities

	2009 £'000	2008 £'000
Fixed rate (fair value interest rate risk)		
Short-term borrowings	**(2)**	(20)
Finance leases	**(9)**	(47)
	(11)	(67)
Floating rate (cash flow interest rate risk)		
Cash and cash equivalents	**2,792**	392
Short-term borrowings	**(1,913)**	-
Long-term borrowings	**(41,644)**	(40,393)
	(40,765)	(40,001)
	(40,776)	(40,068)

Bank borrowings bear interest at 1.25% - 2.25% above LIBOR. During the year the bank borrowings carried a rate averaging 1.5% above LIBOR.

Finance lease obligations bear interest at rates linked to the ruling Finance House Base Rate ("FHBR") at the time of each draw down. The weighted average rate was 6% and the weighted average period for which the rates are fixed is less than one year.

At 30 June 2009 the Group has considered the impact of movements in interest rates over the past year and has concluded that a 1% movement is a reasonable benchmark. At 30 June 2009, if interest rates on Sterling denominated borrowings had been 1% higher/lower with all other variables held constant, post tax profit for the year would have been approximately £400,000 (2008: £300,000) lower/higher, mainly as a result of the movement in interest rates on the floating rate borrowings, net of the hedging derivative instrument in place.

b) Credit risk

The Group has no significant concentrations of credit risk. The Group's principal financial assets are cash and bank balances, and trade and other receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The counterparty exposure under derivative contracts is £1,463,000 liability (2008: £613,000 asset).

Concentrations of credit risk with respect to trade receivables are limited due to the Group's diverse customer base. The Group also has in place procedures that require appropriate credit checks on potential customers before sales, other than on a cash basis, are made. Customer accounts are also monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. The Directors therefore believe there is no further credit risk provision required in excess of normal provision for impaired receivables.

Group management monitor the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 30 June 2009 gross trade receivables amounted to 4.7% of revenue (2008: 5.1%). Of these gross trade receivables 54% (2008: 50%) were more than one month overdue.

The maximum exposure to credit risk at 30 June 2009 is the fair value of each class of receivable as disclosed in note 19 to the financial statements.

3. Financial risk management (continued)

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Group actively maintains cash balances and a mix of long-term and short-term finance facilities that are designed to ensure the Group has sufficient available funds for operations and acquisitions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The table below summarises the remaining contractual maturity for the Group's financial liabilities. The amounts shown are the contractual undiscounted cash flows which include interest, analysed by contractual maturity. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and rates as illustrated by the yield curves existing at the reporting date.

30 June 2009

	In less than one year	In more than one year but not more than two years	In more than two years but not more than three years	In more than three years but not more than five years	Total
	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities:					
Borrowings	3,075	6,930	6,076	35,773	51,854
Trade and other payables	8,452	-	-	-	8,452
Derivative contracts:					
Gross cash outflows	(439)	(925)	(1,191)	(1,861)	(4,416)
Gross cash inflows	489	951	1,167	1,490	4,097
Total	**11,577**	**6,956**	**6,052**	**35,402**	**59,987**

30 June 2008

	In less than one year	In more than one year but not more than two years	In more than two years but not more than three years	In more than three years but not more than five years	In more than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities:						
Borrowings	2,989	4,878	7,102	10,900	28,611	54,480
Trade and other payables	8,272	-	-	-	-	8,272
Derivative contracts:						
Gross cash outflows	(1,968)	(1,948)	(1,787)	(3,011)	(306)	(9,020)
Gross cash inflows	1,974	1,906	1,716	2,848	303	8,747
Total	**11,267**	**4,836**	**7,031**	**10,737**	**28,608**	**62,479**

3. Financial risk management (continued)

Capital risk management

The Group's policy is to maintain a strong capital base, defined as facilities plus total shareholders' equity, so as to maintain investor, creditor and market confidence and to sustain future development of the business. Within this overall policy, the Group seeks to maintain an optimum capital structure by a mixture of debt and retained earnings. The bank facilities include both financial and non-financial covenants. There have been no breaches of the terms of the respective loan agreements, breach of covenant or any defaults during the current or comparative periods.

Funding needs are reviewed periodically and also each time a significant acquisition is made. A number of factors are considered which include the net debt/EBITDA ratio, future funding needs (usually potential acquisitions) and Group banking arrangements. There were no changes to the Group's approach to capital management during the year.

The primary source of funding for the Group is internally generated cash, given that the Group's debt facilities are fully drawn down with the exception of a £2m unutilised working capital facility.

4. Segmental reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing borrowings and associated costs, taxation related assets/liabilities, intangible assets and related amortisation and head office salary and premises costs. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period, including acquisitions through business combinations.

Geographical segments

The business operates predominantly in the UK. It performs a small amount of laboratory work for European based clients. In accordance with IAS 14 "Segment reporting", no segmental results are presented for trade with European clients as the geographical location of the assets generating the revenue is the UK.

Business segments

The Group is split into veterinary practices, laboratories and crematoria for business segment analysis:

Year ended 30 June 2009

	Veterinary practices £'000	Laboratories £'000	Crematorium £'000	Head office £'000	**Group £'000**
Revenue[1]	67,879	8,286	440	-	**76,605**
Amortisation	(3,443)	(255)	(27)	(117)	**(3,842)**
Depreciation	(1,159)	(209)	(16)	(142)	**(1,526)**
Profit before income tax	9,801	873	174	(6,404)	**4,444**
Total assets	49,553	8,935	1,060	522	**60,070**
Total liabilities	(8,530)	(981)	(110)	(49,973)	**(59,594)**
Capital expenditure –tangible (note 15)	1,969	105	68	107	**2,249**
Capital expenditure –intangible (note 14)	7,565	8	847	36	**8,456**

[1]Inter-segment revenue of £1,707,000, representing laboratory and crematorium sales to veterinary practices, has been eliminated on consolidation.

4. Segmental reporting (continued)

Year ended 30 June 2008

	Veterinary practices £'000	Laboratories £'000	Head office £'000	**Group £'000**
Revenue[1]	56,674	5,476	-	**62,150**
Amortisation	(2,784)	(126)	(24)	**(2,934)**
Depreciation	(856)	(109)	(77)	**(1,042)**
Profit before income tax	8,481	280	(8,637)	**124**
Total assets	48,131	3,227	1,438	**52,796***
Total liabilities	(8,791)	(2,697)	(42,503)	**(53,991)***
Capital expenditure –tangible (note 15)	3,371	85	115	**3,571**
Capital expenditure –intangible (note 14)	8,085	3,685	24	**11,794***

*Restated as per note 2 to the financial statements.

[1]Inter-segment revenue of £1,152,000, representing laboratory sales to veterinary practices, has been eliminated on consolidation.

5. Exceptional administrative expenses

There were no exceptional administrative expenses in the current year. Exceptional administrative expenses in the prior year related to legal and professional fees incurred in relation to the Company's admission to the Alternative Investment Market on 10 October 2007.

6. Finance (income) and expense

	2009 £'000	2008 £'000
Interest expense, bank loans and overdraft	**2,481**	2,484
Debt finance costs	**95**	91
Accrued loan stock redemption premium	**-**	427
Accrued preference share redemption premium	**-**	22
Accrued participating dividend on preferred ordinary shares	**-**	156
Finance charges payable under finance leases	**4**	4
	2,580	3,184
Exceptional finance expense		
Write off of debt issue costs relating to bank loans redeemed in the period, and break costs incurred in the termination of a derivative financial instrument	**-**	556
Fair value adjustments in respect of financial assets and liabilities	**48**	347
Bank interest receivable	**(61)**	(132)
Net finance expense	**2,567**	3,955

Fair value adjustments in respect of financial assets and liabilities reflect the ineffective portion of derivative financial instruments that qualify for hedge accounting and the movements in the fair value of derivative financial instruments that did not qualify for hedge accounting in the prior year. See note 18 for details of the derivative financial instruments held by the Group.

7. Operating profit

Operating profit is stated after charging/(crediting):

	2009 £'000	2008 £'000
Amortisation of intangible assets	**3,842**	2,934
Depreciation of property, plant and equipment:		
- owned	**1,515**	1,021
- leased	**11**	21
Employee benefit expenses	**34,708**	27,767
Cost of inventories recognised as an expense (included in cost of sales)	**11,356**	10,324
Repairs and maintenance expenditure on property, plant and equipment	**826**	628
Trade receivables impairment charge	**265**	168
Net foreign exchange differences	**(21)**	(25)
Operating lease rentals payable:		
- property	**3,697**	3,132
- plant and machinery	**386**	316

Services provided by the Group's auditor and network firms

During the year the Group obtained the following services from the Group's auditor at costs as detailed below:

	2009 £'000	2008 £'000
Audit services:		
Fees payable to the Group auditors for the audit of the parent company and consolidated financial statements	**35**	30
Non-audit services:		
Tax services	**47**	13
The audit of the Company's subsidiaries pursuant to legislation	**20**	20
Other services pursuant to legislation	**10**	10
All other non-audit services (in connection with Company's admission to the Alternative Investment Market)	**-**	435
	112	508

8. Employee benefit expense and numbers

Group

Employee benefit expense for the Group:

	2009 £'000	2008 £'000
Wages and salaries	**31,522**	25,161
Social security costs	**2,926**	2,346
Other pension costs (note 33)	**123**	129
Share-based payments (note 13)	**137**	131
	34,708	27,767

Employee benefit expense included within cost of sales is £31,696,000 (2008: £25,395,000). The balance is recorded within administrative expenses.

The average number of persons employed by the Group (including Executive Directors) during the year analysed by category, was as follows:

	2009 Number	2008 Number
Veterinary surgeons and pathologists	**386**	319
Nurses, practice ancillary and technicians	**1,239**	990
Crematorium staff	**10**	-
Central support	**62**	57
	1,697	1,366

Other than the Directors who (as stated below) received remuneration in respect of their services to the Company from a subsidiary company, the Company has no employees.

9. Directors' emoluments and key management compensation

Directors' emoluments

	2009 £'000	2008 £'000
Aggregate emoluments	**593**	681
Non-Executive fees	**149**	140
Company contributions to money purchase schemes	**18**	20
	760	841

Retirement benefits are accruing to one Director (2008: two) under a personal pension plan. The remuneration of the Executive Directors amounting to £611,000 (2008: £701,000) is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors amounting to £149,000 (2008: £140,000) is borne by the subsidiary company CVS (UK) Limited and recharged to the Company.

9. Directors' emoluments and key management compensation (continued)

Highest paid Director

	2009 £'000	2008 £'000
Aggregate emoluments	**367**	360

Share options

Shares awarded to Executive Directors under the long-term incentive plans ("LTIP1" and "LTIP2") as at the balance sheet date are as follows:

LTIP 1	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
S Innes	10 October 2007	30 June 2010	0.2p	107,317
P Coxon	10 October 2007	30 June 2010	0.2p	53,658
M Finn	10 October 2007	30 June 2010	0.2p	58,536

The market price of the ordinary shares on 10 October 2007 was 205p.

LTIP 2	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
S Innes	18 November 2008	30 June 2011	0.2p	189,655
P Coxon	18 November 2008	30 June 2011	0.2p	83,448
M Finn	18 November 2008	30 June 2011	0.2p	82,758

The market price of the ordinary shares on 18 November 2008 was 145p.

Due to the resignation of Mark Finn in the year 141,294 share options have lapsed. No share options were exercised in the year.

Under the company's Save As You Earn scheme ("SAYE") the directors have the following options:

SAYE	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
S Innes	15 July 2008	1 September 2011	210p	4,293
P Coxon	15 July 2008	1 September 2011	210p	4,293

Details of the above schemes are included in the Directors' Remuneration Report on pages 18 to 21.

9. Directors' emoluments and key management compensation (continued)

Key management compensation

Key management are considered to be those on the Executive Committee. The employment costs of key management are as follows:

	2009 £'000	2008 £'000
Aggregate emoluments	**1,378**	1,442
Pension costs	**30**	35
Share-based payments	**137**	131
	1,545	1,608

The key management figures given above include Executive Directors.

10. Income tax expense

(a) Analysis of income tax expense recognised in the income statement

	2009 £'000	2008* £'000
Current tax expense		
UK corporation tax	**1,751**	-
Adjustments in respect of previous periods	**-**	(82)
Total current tax charge/(credit)	**1,751**	(82)
Deferred tax expense		
Origination and reversal of temporary differences	**(458)**	691
Adjustments in respect of previous periods	**113**	(146)
Total deferred tax (credit)/charge (note 25)	**(345)**	545
Total income tax expense	**1,406**	463

*Restated as per note 2 to the financial statements.

UK corporation tax is calculated at 28% (2008: 29.5%) of the estimated assessable profit for the year. The standard rate of UK corporation tax changed from 30% to 28% with effect from 1 April 2008.

10. Income tax expense

(b) Reconciliation of effective income tax charge

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2009 £'000	2008* £'000
Profit before tax	**4,444**	124
Effective tax charge at 28% (2008: 29.5%)	**1,244**	37
Effects of:		
Expenses not deductible for tax purposes	**49**	654
Adjustments to deferred tax charge in respect of previous periods	**113**	(146)
Adjustments to current tax charge in respect of previous periods	**-**	(82)
Total income tax expense	**1,406**	463

*Restated as per note 2 to the financial statements.

(c) Factors affecting the future tax charge

The effective tax rate is anticipated to continue to exceed the standard rate due to the incidence of expenses not deductible for tax purposes.

11. Loss for the financial period

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the financial period was £256,000 (2008: £3,605,000).

12. Earnings/(loss) per ordinary share

(a) Basic

Basic earnings/(loss) per ordinary share are calculated by dividing the profit/(loss) after taxation by the weighted average number of shares in issue during the period.

	2009	2008*
Earnings/(loss) attributable to ordinary shareholders (£'000)	**3,038**	(339)
Weighted average number of ordinary shares in issue (note 27)	**51,563,475**	51,563,475
Basic earnings/(loss) per share (pence per share)	**5.9**	(0.7)

*Restated as per note 2 to the financial statements.

12. Earnings/(loss) per ordinary share (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has potentially dilutive ordinary shares being the contingently issueable shares under the Group's long term incentive plan schemes. For share options, a calculation is undertaken to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2009
Earnings attributable to ordinary shareholders (£'000)	**3,038**
Weighted average number of ordinary shares in issue (note 27)	**51,563,475**
Adjusted for contingently issueable shares	**427,176**
Weighted average number of ordinary shares for diluted earnings per share	**51,990,651**
Diluted earnings per share (pence per share)	**5.8**

Due to the antidilutive effect of the contingently issueable shares, there is no difference between basic and diluted loss per ordinary share in the comparative year.

Non-GAAP measure: Adjusted earnings per share

Adjusted earnings per ordinary share is calculated by dividing the profit/(loss) after taxation excluding amortisation, share option expense, exceptional items and fair value adjustments, and having adjusted for the tax effects of such adjustments, by the weighted average number of shares in issue during the period.

	2009 £'000	2008* £'000
Earnings/(loss) attributable to ordinary shareholders	**3,038**	(339)*
Adjustments for:		
Amortisation (note 14)	**3,842**	2,934
Share option expense (note 13)	**117**	110
Exceptional administrative expenses (note 5)	**-**	1,764
Fair value adjustments in respect of financial assets and liabilities (note 6)	**48**	347
Fair value adjustments in respect of available for sale assets (note 17)	**-**	(316)
Exceptional finance expense (note 6)	**-**	556
Tax effect of the above adjustments	**(1,122)**	(907)*
Adjusted profit after income tax and earnings attributable to ordinary shareholders	**5,923**	4,149
Weighted average number of ordinary shares in issue (note 27)	**51,563,475**	51,563,475
	Pence	Pence
Adjusted earnings per share	**11.5p**	8.0p

*Restated as per note 2 to the financial statements.

13. Share-based payments

Long Term Incentive Plans

The Group operates a long term incentive plan scheme for certain senior Executives, the CVS Group Long Term Incentive Plan ("LTIP"). The LTIP scheme was introduced after the flotation of the Company on AIM in October 2007.

Under the LTIP scheme awards are made at an effective nil cost, vesting over a three year performance period conditional upon the Group's EPS growth, as adjusted for amortisation of intangibles, exceptional items and fair value adjustments in respect of derivative instruments and available for sale assets over the same period. The LTIP scheme arrangements are equity settled.

Details of the share options outstanding during the period under the LTIP schemes are as follows:

	November 2008 ("LTIP2") scheme Number of share awards	**October 2007 ("LTIP1") scheme Number of share awards**
Outstanding at 1 July 2008	**-**	**253,315**
Granted during the period	**407,585**	**-**
Forfeited during the period	**(82,758)**	**(58,536)**
Exercised during the period	**-**	**-**
Expired during the period	**-**	**-**
Outstanding at 30 June 2009	**324,827**	**194,779**
Exercisable at 30 June 2009	**-**	**-**

The options outstanding at the year end under the LTIP1 scheme have a weighted average remaining contractual life of 1 year and the options outstanding at the year end under the LTIP2 scheme have a weighted average remaining contractual life of 2 years.

Further details of the above schemes are included in the Directors' Remuneration Report on pages 18 to 21.

13. Share-based payments (continued)

The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	**18 November 2008**	**10 October 2007**
Share price at grant date	**£1.45**	**£2.05**
Exercise price	**0.2p**	**0.2p**
Number of employees	**3**	**4**
Shares under option	**407,585**	**253,315**
Vesting period (years)	**2 years 8 months**	**2 years 9 months**
Option life (years)	**2 years 8 months**	**2 years 9 months**
Expected life (years)	**2 years 8 months**	**2 years 9 months**
Expected dividends expressed as a dividend yield	**0%**	**0%**
Fair value per option	**£1.45**	**£2.05**

The share based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £104,000 (2008: £110,000) and has been charged to administrative expenses. National Insurance contributions amounting to £20,000 (2008: £21,000) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

Save As You Earn (SAYE)

The Group operates an incentive scheme for all staff, the CVS Group Save As You Earn (“SAYE”) plan, an Inland Revenue approved scheme. The SAYE scheme was opened for subscription in July 2008. Under the SAYE scheme awards are made at a 20% discount of the closing mid-market price on date of invitation, vesting over a three year period. There are no performance conditions attached to the SAYE scheme.

Details of the share options outstanding during the period under the SAYE scheme are as follows:

	Number of share awards
Outstanding at 1 July 2008	**-**
Granted during the period	**360,088**
Forfeited during the period	**(72,771)**
Exercised during the period	**-**
Expired during the period	**-**
Outstanding at 30 June 2009	**287,317**
Exercisable at 30 June 2009	**-**

13. Share-based payments (continued)

The options outstanding at the period end have a weighted average remaining contractual life of 3 years.

Options were valued using the Black–Scholes option pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	15 July 2008
Share price at grant date	**£2.62**
Exercise price	**£2.10**
Expected volatility*	**34.2%**
Number of employees	**273**
Shares under option	**360,088**
Vesting period (years)	**3 years**
Option life (years)	**3 years**
Expected life (years)	**3 years**
Expected dividends expressed as a dividend yield	**0%**
Fair value per option	**£0.96**

*Expected volatility has been determined by reference to historical share return volatility, coupled with the period most closely matching the expected life of the option, of a comparable group of companies (companies with similar corporate attributes to the Group such as market capitalisation, turnover and number of employees).

The share based payment charge for the period in respect of the options issued under the SAYE scheme amounted to £13,000 (2008: £nil) and has been charged to administrative expenses.

14. Intangible assets

Group	Goodwill	Customer lists	Patient data records	Capitalised software	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 July 2007 as previously stated	4,459	-	23,877	354	28,690
Prior year adjustment*	2,129	-	-	-	2,129
At 1 July 2007 as restated	6,588	-	23,877	354	30,819
Additions arising through business combinations	1,466	3,685	6,620	-	11,771
Additions	-	-	-	23	23
At 30 June 2008 as previously stated	4,467	3,685	30,497	377	39,026
Prior year adjustment*	3,587	-	-	-	3,587
At 30 June 2008 as restated	8,054	3,685	30,497	377	42,613
Additions arising through business combinations (note 16)	1,082	539	6,790	-	8,411
Additions	-	-	-	45	45
At 30 June 2009	**9,136**	**4,224**	**37,287**	**422**	**51,069**
Amortisation					
At 1 July 2007	-	-	2,172	235	2,407
Charge for the year	-	119	2,791	24	2,934
At 30 June 2008	-	119	4,963	259	5,341
Charge for the year	-	272	3,444	126	3,842
At 30 June 2009	**-**	**391**	**8,407**	**385**	**9,183**
Net book amount					
At 30 June 2009	**9,136**	**3,833**	**28,880**	**37**	**41,886**
At 30 June 2008	8,054	3,566	25,534	118	37,272

*See note 2 for details as to the prior year adjustment.

Amortisation expense has been charged to administrative expenses.

The patient data records and customer lists were acquired as a component of business combinations. See note 16 for further details.

Company

The Company does not hold any intangible assets.

Impairment of goodwill

As detailed in note 2, goodwill is subject to annual impairment tests in accordance with IAS 36 "Impairment of Assets."

14. Intangible assets (continued)

The components of goodwill by business segment is shown below:

Group

	2009 **£'000**	2008* £'000
Veterinary practices	**6,320**	5,696
Laboratories	**2,358**	2,358
Crematorium	**458**	-
	9,136	8,054

*Restated as per note 2 to the financial statements.

Recoverable amounts for cash-generating units are based on value in use calculations using cashflow projections based on the annual budget approved by the Board covering a one year period. The annual budget is based on past performance and management expectations of market development. Cash flows beyond the one year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the market in which the CGU operates. The key assumptions used for the value in use calculations are as follows:

Group

	2009	2008
Growth rate applied beyond approved forecast period	**3%**	3%
Pre-tax discount rate	**10.3%**	12.4%

The pre-tax discount rate applied to the cash flow projections is derived from the Group's post tax weighted average cost of capital. The risks relating to each segment are considered to be the same, as such, the discount rate applied to each segment is the same.

On the basis of the above, the review indicated that no impairment arose in any segment (2008: £nil).

There are no intangible assets, other than goodwill, with indefinite useful lives.

15. Property, plant and equipment

Group	Freehold land and buildings	Leasehold improvements	Fixtures, fittings and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 July 2007	1,113	817	3,534	416	5,880
Additions arising through business combinations	-	334	1,113	25	1,472
Additions	84	1,247	547	221	2,099
Disposals	-	-	-	(35)	(35)
At 30 June 2008	1,197	2,398	5,194	627	9,416
Additions arising through business combinations (note 16)	147	60	433	71	711
Additions	36	548	738	216	1,538
Disposals	-	-	(1)	(55)	(56)
At 30 June 2009	**1,380**	**3,006**	**6,364**	**859**	**11,609**
Accumulated depreciation					
At 1 July 2007	42	116	1,302	175	1,635
Charge for the year	27	137	782	96	1,042
Disposals	-	-	-	(18)	(18)
At 30 June 2008	69	253	2,084	253	2,659
Charge for the year	38	241	1,077	170	1,526
Disposals	-	-	(1)	(42)	(43)
At 30 June 2009	**107**	**494**	**3,160**	**381**	**4,142**
Net book amount					
At 30 June 2009	**1,273**	**2,512**	**3,204**	**478**	**7,467**
At 30 June 2008	1,128	2,145	3,110	374	6,757

Freehold land amounting to £203,000 (2008: £85,000) has not been depreciated. The Directors believe that the market value of freehold land is not materially different from its book value.

Included within fixtures, fittings and equipment are assets held under finance leases with a net book value of £38,000 (2008: £63,000). Depreciation charged in the period on these assets amounted to £11,000 (2008: £21,000).

Depreciation expense has been charged to administrative expenses.

Company

The Company does not hold any property, plant and equipment.

16. Business combinations

Details of business combinations in the year ending 30 June 2009 are set out below, in addition to an analysis of pre and post acquisition performance of the respective business combinations, where practicable.

Given the nature of the veterinary surgeries acquired (mainly partnerships or sole traders) and the records maintained by such practices it is not practicable to disclose the revenue or profit/loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of that period.

It is not practicable to disclose the impact of the business combinations on the consolidated cash flow statement as full ledgers were not maintained for each business combination in relation to all related assets and liabilities post acquisition.

Pre-acquisition performance represents the results for the last year prior to the business combination for which accounts are available. The profit before tax figures given for the practice acquisitions exclude any salary or drawings in respect of the partners/proprietors working within the practices.

All of these business combinations have been accounted for under the acquisition method. All intangible assets are recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill. This primarily represents cost synergies arising from the combination.

Year ended 30 June 2009:

Assets and trade	Date of acquisition	Fair value of property plant and equipment acquired £'000	Fair value of intangible assets acquired[1] £'000	Cash paid[2] £'000
A practice in:				
Cleveland	03/07/2008	70	496	566
Surrey	20/10/2008	147	1,200	1,347
Hampshire	24/11/2008	102	2,094	2,196
South Yorkshire	02/03/2009	45	599	644
Essex	20/04/2009	64	976	1,040
		428	**5,365**	**5,793**

[1]Intangible assets acquired represents patient data records (£5,189,000) and goodwill (£176,000).

[2]Cash paid includes professional fees of £164,000.

16. Business combinations (continued)

Analysis of pre and post acquisition performance:

	Previous year end	Pre-acquisition performance[1] £'000	Post-acquisition revenue[2] £'000	Post-acquisition contribution[3] £'000
A practice in:				
Cleveland	31/03/2008	91	911	199
Surrey	31/07/2007	118	1,326	(3)
Hampshire	30/04/2008	772	1,574	193
South Yorkshire	30/11/2008	149	342	53
Essex	30/04/2008	150	375	60
		1,280	**4,528**	**502**

[1]Pre-acquisition performance represents profit before tax, excluding partners' or proprietors' drawings for the last full year prior to acquisition.

[2]Post-acquisition revenue represents revenue from the date of acquisition to 30 June 2009.

[3]Post-acquisition contribution represents the direct operating result of practices prior to the allocation of central overheads, on the basis that it is not practicable to allocate these, from the date of acquisition to 30 June 2009.

16. Business combinations (continued)

Acquisition of Rossendale Pet Crematorium Limited, Joel Veterinary Clinic Limited and Melton Veterinary Practice Limited

On 6 October 2008, the Group acquired the whole of the issued share capital of Rossendale Pet Crematorium Limited ("RPCL") for a total consideration of £991,000. In addition, £213,000 was paid to the vendors in relation to property, plant and equipment.

On 1 December 2008 the Group acquired the whole of the issued share capital of Joel Veterinary Clinic Limited ("JVCL") for a total consideration of £953,000. On 19 January 2009 the Group acquired the whole of the issued share capital of Melton Veterinary Practice Limited ("MVPL") for a total consideration of £749,000. Immediately following the acquisitions of JVCL and MVPL the trade and related assets were transferred to CVS (UK) Limited.

The book values of the assets and liabilities of RPCL, JVCL, and MVPL, and the fair value of the intangible assets, at the date of acquisition are set out below. The Directors consider that the book values of the assets and liabilities are equivalent to the fair values.

	RPCL	JVCL	MVPL	Total
	£'000	£'000	£'000	£'000
Intangible assets – patient data records	-	995	606	1,601
Intangible assets – customer list	539	-	-	539
Intangible assets – goodwill	458	278	170	906
Property, plant and equipment	213	41	29	283
Inventories	2	17	22	41
Trade and other receivables	28	15	25	68
Cash and cash equivalents	176	31	189	396
Current income tax liabilities	(20)	(105)	(67)	(192)
Deferred income tax liabilities	(161)	(282)	(170)	(613)
Trade and other payables	(31)	(37)	(55)	(123)
Net assets acquired	**1,204**	**953**	**749**	**2,906**
Consideration satisfied by:				
Cash (including related costs of acquisition amounting to £127,000)	**1,204**	**953**	**749**	**2,906**

For the year ended 31 December 2007, RPCL reported an unaudited post tax profit of £114,000. For the unaudited nine month period ended 5 October 2008, the turnover was £363,000, operating profit £79,000 and the tax charge £25,000. The post-acquisition turnover of RPCL amounted to £440,000 and the post-acquisition contribution amounted to £189,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these).

For the year ended 31 July 2008, JVCL reported an unaudited post tax profit of £266,000. For the unaudited four month period ended 30 November 2008, the turnover of JVCL was £285,000, operating profit £93,000 and the tax charge £22,000. The post-acquisition turnover of JVCL amounted to £429,000 and the post-acquisition contribution amounted to £140,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these).

16. Business combinations (continued)

For the year ended 30 September 2007, the last period for which accounts are available, MVPL reported an unaudited post tax profit of £171,000. For the unaudited 15 month period ended 18 January 2009, the turnover was £196,000, operating profit £72,000 and the tax charge £17,000. The post-acquisition turnover of MVPL amounted to £320,000 and the post-acquisition contribution amounted to £137,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these).

Business combinations in previous periods

Details of business combinations in the comparative period are presented in the consolidated financial statements for the year ended 30 June 2008. Provisional goodwill and fair value adjustments were made in the consolidated financial statements for the year ended 30 June 2008 in respect of the acquisition of Axiom Veterinary Laboratories Limited on 9 January 2008. Such adjustments were finalised in the period under review. In accordance with IFRS 3 "Business Combinations", such final adjustments have now been reflected in the comparative financial information. The final adjustments have been to separately reflect goodwill and deferred tax liabilities amounting to £1,032,000.

17. Investments

(a) Available-for-sale financial assets

Group	**2009 £'000**	2008 £'000
Available-for-sale financial assets	**67**	399

Available-for-sale financial assets, which are denominated in sterling, consist of ordinary shares held in Norvet Limited and an investment in managed investment funds.

Norvet Limited is an unquoted company, whose shares are not publicly traded. As the fair value cannot be reliably measured, the investment is stated at cost. The Directors believe that the fair value is not materially different from book value.

The Group holds an investment in managed investment funds which have a quoted market price in an active market and are accordingly measured at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity until the security is disposed of or deemed to be impaired.

The following table shows the aggregate movement in the Group's investments during the year:

	2009 £'000	2008 £'000
At 1 July	**399**	23
Fair value adjustment – through income statement	**-**	316
Fair value adjustment – through reserves	**(16)**	(7)
Acquired in the year	**-**	67
Disposed of in the year	**(316)**	-
At 30 June	**67**	399

17. Investments (continued)

(b) Shares in subsidiary undertakings

Company

	£'000
Cost and net book amount	
At incorporation	-
Additions	61,876
Options granted to employees of subsidiary undertakings	110
At 30 June 2008	**61,986**
Options granted to employees of subsidiary undertakings	117
At 30 June 2009	**62,103**

The principal subsidiary undertakings of CVS Group plc, all of which are wholly owned, are set out in note 1. A full list of the Group's subsidiary undertakings will be annexed to the next Annual Return filed at Companies House.

The directors consider that the carrying value of the investments in Group undertakings (which are not listed on a recognised stock exchange) is not less than the net book value in the financial statements.

18. Derivative financial instruments

Derivatives are used for hedging in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and the mitigation of the market risk which would otherwise arise from movements in interest rates.

Hedging policies using derivative financial instruments are explained in the statement of accounting policies. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39.

There is no material impact on the Group income statement resulting from hedge ineffectiveness. The ineffective portion recognised in the profit or loss that arises from cash flow hedges amounts to a loss of £48,000 (2008: £26,000 gain), representing 2.3% (2008: 4.0%) of the fair value of the financial asset.

Cash flow hedges

On 24 December 2007, the Group entered into an interest rate collar arrangement limiting the Group's exposure to interest rate increases by means of a cap whilst allowing it to take advantage of potential rate reductions by having a floor in place. The collar arrangement hedges 100% of the £32.0m term loan facility by means of an amortising hedge which matches the debt amortisation. Contractually, the collar arrangement became effective on 31 December 2007.

The Group classifies its interest rate collar arrangement as a cash flow hedge and utilises hedge accounting to minimise income statement volatility in relation to movements in the value of the collar arrangement.

The fair values of the Group's interest rate derivatives are established using valuation techniques, primarily discounting cash flows, based on assumptions that are supported by observable market prices or rates.

18. Derivative financial instruments (continued)

Financial instruments not qualifying for hedge accounting

The Group's policy is not to use derivatives for trading purposes, however, in the prior year some derivatives did not qualify for hedge accounting.

The fair values of derivative financial instruments have been disclosed in the Group balance sheet as follows:

Group

	2009		2008	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Non-current				
Interest rate collar arrangements – cash flow hedges	**-**	**(1,463)**	613	-

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet. The notional principal amounts of the outstanding interest rate collar arrangement contracts at 30 June 2009 were £32,000,000 (2008: £32,000,000). The outstanding interest rate collar arrangement contracts expire on 4 October 2013 (2008: 4 October 2013).

Movements in fair values:

Group

	Interest rate collar arrangements £'000
Fair value at 1 July 2007	373
Fair value loss through income statement – not hedged	(373)
Fair value gain through reserves – hedged	587
Fair value gain through income statement - ineffective element of hedged arrangement	26
At 30 June 2008	613
Fair value gain through reserves – hedged	(2,028)
Fair value gain through income statement - ineffective element of hedged arrangement	(48)
At 30 June 2009	**(1,463)**

Company

The Company does not hold derivative financial instruments.

19. Financial instruments

	Loans and receivables £'000	Available-for-sale £'000	Total £'000
30 June 2009			
Assets as per balance sheet			
Available-for-sale financial assets	-	67	67
Trade and other receivables (excluding prepayments and accrued income)	3,489	-	3,489
Cash and cash equivalents	2,792	-	2,792
	6,281	**67**	**6,348**

	Derivatives used for hedging £'000	Other financial liabilities £'000	Total £'000
Liabilities as per balance sheet			
Borrowings	-	(43,568)	(43,568)
Trade and other payables	-	(8,452)	(8,452)
Derivative financial instruments	(1,463)	-	(1,463)
	(1,463)	**(52,020)**	**(53,483)**

19. Financial instruments (continued)

The Group's financial assets and liabilities can be categorised as follows:

	Loans and receivables £'000	Derivatives used for hedging £'000	Available-for-sale £'000	Total £'000
30 June 2008				
Assets as per balance sheet				
Available-for-sale financial assets	-	-	399	399
Derivative financial instruments	-	613	-	613
Trade and other receivables (excluding prepayments and accrued income)	3,409	-	-	3,409
Cash and cash equivalents	392	-	-	392
	3,801	**613**	**399**	**4,813**

	Other financial liabilities £'000	Total £'000
Liabilities as per balance sheet		
Borrowings	(40,460)	(40,460)
Trade and other payables	(8,272)	(8,272)
	(48,732)	**(48,732)**

19. Financial instruments (continued)

Fair values of financial assets and liabilities

Fair values of financial assets and liabilities are disclosed below:

Group

	2009		2008	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings	**(1,915)**	**(2,946)**	(20)	(20)
Long-term borrowings	**(41,644)**	**(40,748)**	(40,393)	(41,242)
Finance leases	**(9)**	**(10)**	(47)	(39)
Cash and cash equivalents	**2,792**	**2,792**	392	392
Interest rate collar arrangements	**(1,463)**	**(1,463)**	613	613
	(42,239)	**(42,375)**	(39,455)	(40,296)

The fair values of financial instruments and derivatives have been determined by reference to prices available from the markets on which the instruments are traded. The fair value of all other items have been calculated by discounting expected future cash flows at prevailing interest rates. The above table excludes other receivables/payables, which have fair values equal to their carrying values.

20. Inventories

Group	**2009 £'000**	2008 £'000
Goods held for resale	**1,972**	1,829

The directors do not consider the difference between the purchase price of inventories and their replacement cost to be material.

Company

The Company does not hold any inventories.

21. Trade and other receivables

Group	**2009 £'000**	2008 £'000
Trade receivables	**3,597**	3,177
Less: Provision for impairment of receivables	**(678)**	(444)
Trade receivables - net	**2,919**	2,733
Other receivables	**570**	676
Prepayments and accrued income	**1,942**	1,699
	5,431	5,108

The carrying amount of trade and other receivables is a reasonable approximation to fair value.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above. The Group does not hold any collateral as security. The Group's trade and other receivables are denominated in sterling.

As of 30 June 2009, trade receivables of £1,655,000 (2008:£1,594,000) were within their due period.

As at 30 June 2009, £1,942,000 (2008: £1,583,000) of the gross trade receivables were past due and partially impaired. A provision for impairment is established based on historical experience. The amount of the provision was £678,000 (2008: £444,000). The ageing of these trade receivables is as follows:

	2009 £'000	2008 £'000
One to six months overdue	**1,700**	1,439
Over six months overdue	**242**	144
	1,942	1,583

As at 30 June 2009, the amount of gross trade receivables past due that were not impaired amounted to £1,264,000 (2008: £1,139,000).

Movements on the Group's provision for impairment of trade receivables are as follows:

	2009 £'000	2008 £'000
At beginning of the year	**444**	336
Charged to the income statement within administrative expenses	**265**	168
Utilised in the period	**(31)**	(60)
At end of the year	**678**	444

Other receivables do not contain impaired assets.

Company

The Company does not have any trade and other receivables.

22. Cash and cash equivalents

Group	**2009 £'000**	2008 £'000
Cash at bank and in hand	**2,792**	392

Company

The Company does not hold any cash and cash equivalents.

23. Trade and other payables

	Group 2009 £'000	Group 2008 £'000	**Company 2009 £'000**	Company 2008 £'000
Current				
Trade payables	**4,762**	3,941	**-**	-
Amounts due to group undertakings	**-**	-	**3,861**	3,605
Social security and other taxes	**2,295**	2,230	**-**	-
Other payables	**7**	21	**-**	-
Accruals and deferred income	**1,388**	2,080	**-**	-
	8,452	8,272	**3,861**	3,605

24. Borrowings

Group	**2009 £'000**	2008 £'000
Current		
Bank loans	**1,915**	20
Finance leases	**9**	30
	1,924	50

24. Borrowings (continued)

	2009 £'000	2008 £'000
Non-current		
Bank loans	**41,644**	40,393
Finance leases	**-**	17
	41,644	40,410

Company

The Company does not have any borrowings.

Bank loans

The repayment profile of the bank loans is as follows:

Group	**2009 £'000**	2008 £'000
Within one year or on demand	**1,915**	20
Between one and two years	**5,081**	1,913
Between two and three years	**3,956**	4,386
Between three and four years	**2,831**	3,599
Between four and five years	**29,776**	2,812
After five years	**-**	27,683
	43,559	40,413

The balances above are shown net of issue costs of £443,000 (2008: £538,000), which are being amortised over the term of the bank loans.

The borrowings are denominated in sterling.

On 4 October 2007 the Group entered into a banking facility agreement with The Royal Bank of Scotland plc and Barclays Bank plc comprising a £32,000,000 term loan to refinance existing bank and other indebtedness, an acquisition facility of £12,000,000 and a working capital facility of £2,000,000.

The bank loans are secured by a first debenture incorporating fixed and floating charges over the assets and undertakings of each Group company. The bank loans are also secured on first legal mortgage charges over freehold property included in property, plant and equipment. The term bank loan facility was subject to an initial 26 month capital repayment holiday. The loan is repayable in equal quarterly instalments of £637,500 from 31 December 2009 through to 30 September 2013, with a bullet repayment for the balance due on that date.

24. Borrowings (continued)

The acquisition facility was subject to an initial 36 month capital repayment holiday. As at 30 June 2009, the acquisition facility has been fully drawn down. An amount equating to 12.5% of the drawdown at 30 June 2009 is repayable on 30 September 2010. The remaining balance is repayable in equal quarterly instalments equating to 3.125% of the drawn-down amount from 31 December 2010 through to 30 September 2012, with a bullet repayment for the balance due on the 30 September 2013.

Undrawn committed borrowing facilities

Committed working capital facilities that are undrawn at 30 June 2009 of £2,000,000 (2008: £2,000,000) are repayable on demand.

Finance leases

The fair value of the Group's lease obligations approximate to their carrying value.

Future minimum lease payments under finance leases, together with the future finance charges and present value of the net minimum lease payments are as follows:

Group	**2009 £'000**	2008 £'000
Minimum lease payments		
Within one year	**10**	36
In more than one year, but not more than five years	**-**	21
	10	57
Future finance charges		
Within one year	**1**	6
In more than one year, but not more than five years	**-**	4
	1	10
Net minimum lease payments		
Within one year	**9**	30
In more than one year, but not more than five years	**-**	17
	9	47

The finance leases are secured over certain items of fixtures, fittings and equipment.

Company

The Company has no obligations under finance leases.

25. Deferred income tax

Carrying values for deferred income tax are shown below:

Group	2009		2008*	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Deferred income tax	**455**	**(4,942)**	426	(5,205)

*Restated as per note 2 to the financial statements.

Provision for deferred income tax assets and liabilities is made at a rate of 28% (2008: 28%) on all temporary differences, as this is the rate that is expected to apply on reversal.

Deferred income tax assets

Deferred income tax assets are comprised as follows:

Group	2009 £'000	2008 £'000
Tax effect of timing differences:		
Unutilised tax losses carried forward	**-**	387
Share based payments	**45**	39
Derivative financial instruments	**410**	-
	455	426

The Group's deferred tax assets have been recognised in accordance with IAS 12 as, based on historical performance and future budgets, the Directors believe that it is probable that there will be sufficient taxable profits against which the asset will reverse.

Deferred income tax liabilities

Deferred income tax liabilities are comprised as follows:

Group	2009 £'000	2008* £'000
Tax effect of timing differences:		
Excess of qualifying depreciation and amortisation over tax allowances	**(4,942)**	(5,031)
Other short term timing differences	**-**	(2)
Derivative financial instruments	**-**	(172)
	(4,942)	(5,205)

*Restated as per note 2 to the financial statements.

25. Deferred income tax (continued)

Deferred income tax assets – net

The movement in the net deferred income tax liabilities is explained as follows:

Group	2009 £'000	2008 £'000
Deferred tax liabilities brought forward – net as previously stated	**(1,617)**	(577)
Prior year adjustment*	**(3,162)**	(1,975)
Deferred tax liabilities brought forward – net as restated	**(4,779)**	(2,552)
Charged to the income statement (note 10(a))	**345**	(545)
Charged to equity	**560**	(156)
Arising on business combinations (note 16)	**(613)**	(1,526)
Deferred tax liabilities carried forward – net	**(4,487)**	(4,779)

*See note 2 for details as to the prior year adjustment.

Certain deferred income tax assets and liabilities have been offset in the movement in the net deferred income tax liabilities analysis above. The following is an analysis of the deferred income tax balances (after offset) for financial reporting purposes:

Group	2009 £'000	2008* £'000
Deferred income tax assets	**455**	426
Deferred income tax liabilities	**(4,942)**	(5,205)
Deferred income tax liabilities – net	**(4,487)**	(4,779)

*Restated as per note 2 to the financial statements.

Company

The Company has neither provided or unprovided deferred tax assets or liabilities.

26. Current tax liabilities

Group	2009 £'000	2008 £'000
Current tax liabilities	**1,169**	54

Company

The Company does not have any current tax liabilities.

27. Share capital

	2009 £'000	2008 £'000
Authorised		
55,947,500 (2008: 55,947,500) Ordinary shares of 0.2p each	**112**	112

	2009 £'000	2008 £'000
Allotted, called up and fully paid:		
51,563,475 (2008: 51,563,475) Ordinary shares of 0.2p each	**103**	103

Details of shares under option are provided in note 13 to the financial statements.

28. Capital redemption reserve, revaluation reserve, merger reserve and retained earnings

Group	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings
	£'000	£'000	£'000	£'000
At 1 July 2007 as previously stated	**-**	**125**	**(61,420)**	**59,648**
Prior year adjustment*	-	-	-	154
At 1 July 2007 as restated	**-**	**125**	**(61,420)**	**59,802**
Retained loss for the financial year	-	-	-	(339)
Transfer to capital redemption reserve	592	-	-	(592)
Fair value movement of cash flow hedging derivative	-	-	-	587
Revaluation of available for sale investments	-	-	-	(7)
Credit to reserves for share-based payments	-	-	-	110
Deferred tax relating to items charged directly to retained earnings	-	-	-	(156)
At 30 June 2008 as previously stated	592	125	(61,420)	58,980
Prior year adjustment*	-	-	-	425
At 30 June 2008 as restated	**592**	**125**	**(61,420)**	**59,405**
Retained profit for the financial year	-	-	-	3,038
Fair value movement of cash flow hedging derivative	-	-	-	(2,028)
Revaluation of available for sale investments	-	-	-	(16)
Credit to reserves for share-based payments	-	-	-	117
Deferred tax relating to items charged directly to retained earnings	-	-	-	560
At 30 June 2009	**592**	**125**	**(61,420)**	**61,076**

*See note 2 for details as to the prior year adjustment.

28. Capital redemption reserve, revaluation reserve, merger reserve and retained earnings (continued)

Company	Capital redemption reserve	Retained earnings
	£'000	£'000
On incorporation	**-**	**-**
Capital reduction	-	61,773
Transfer to capital redemption reserve	592	(592)
Credit to reserves for share-based payments	-	110
Retained loss for the financial period	-	(3,605)
At 30 June 2008	**592**	**57,686**
Credit to reserves for share-based payments	-	117
Retained loss for the financial year	-	(256)
At 30 June 2009	**592**	**57,547**

Capital redemption reserve

Upon cancellation of the redeemable preference shares on redemption, a capital redemption reserve was created representing the nominal value of the shares cancelled. This is a non-distributable reserve.

Revaluation reserve

The revaluation reserve is used to record any surplus following a revaluation of property, plant and equipment. The revaluation reserve arose on the revaluation of a property in the subsidiary undertaking Precision Histology International Limited (see note 2 for further details). The revaluation reserve is not a distributable reserve until realised.

Merger reserve

The merger reserve resulted from the acquisition of CVS (UK) Limited and represents the difference between the value of the shares acquired (nominal value plus related share premium) and the nominal value of the shares issued.

29. Analysis of movement in net debt

Group	At 1 July 2008	Cash flow	Non-cash movements	**At 30 June 2009**
	£'000	£'000	£'000	**£'000**
Cash and cash equivalents	392	2,400	-	**2,792**
Borrowings – current	(20)	18	(1,913)	**(1,915)**
Finance leases – current	(30)	30	(9)	**(9)**
Total current debt	(50)	48	(1,922)	**(1,924)**
Borrowings – non-current	(40,393)	(3,069)	1,818	**(41,644)**
Finance leases – non-current	(17)	8	9	**-**
Total non-current debt	(40,410)	(3,061)	1,827	**(41,644)**
Net debt	(40,068)	(613)	(95)	**(40,776)**

Non-cash movements relate to the amortisation of issue costs on bank loans.

Company

The Company did not have any net debt at any time during the period under review.

30. Cash flow generated from operations

	Group 2009 £'000	Group 2008* £'000	**Company 2009 £'000**	Company 2008 £'000
Profit/(loss) for the year	**3,038**	(339)	**(256)**	(3,605)
Taxation	**1,406**	463	**-**	-
Total finance costs	**2,628**	4,087	**-**	-
Investment income	**(61)**	(132)	**-**	-
Fair value gain on available for sale investments	**-**	(316)	**-**	-
Amortisation of intangible assets	**3,842**	2,934	**-**	-
Depreciation of tangible fixed assets	**1,526**	1,042	**-**	-
Loss on disposal of property, plant and equipment	**11**	-	**-**	-
Increase in inventories	**(102)**	(295)	**-**	-
Increase in trade and other receivables	**(255)**	(1,175)	**-**	-
Increase in trade and other payables	**230**	125	**256**	3,605
Share option expense	**117**	110	**-**	-
Total net cash flow generated from operations	**12,380**	6,504	**-**	-

*Restated as per note 2 to the financial statements.

31. Guarantees and other financial commitments

(a) Capital commitments

The Group had capital expenditure contracted for at the balance sheet date but not yet incurred amounting to £15,922 (2008: £23,962). The Company had no capital commitments as at 30 June 2009 (2008: £nil).

(b) Bank guarantees

The Company is a member of the Group banking arrangement under which it is party to unlimited cross-guarantees in respect of the banking facilities of other Group undertakings, amounting to £44,002,000 at 30 June 2009. The Directors do not expect any material loss to the Company to arise in respect of the guarantees.

32. Operating lease commitments

Total Group commitments in respect of non-cancellable leases for property and plant and machinery are as follows:

Property	**2009 £'000**	2008 £'000
Expiring in less than one year	**3,627**	3,039
Expiring between two and five years	**13,653**	11,318
Expiring after more than five years	**23,554**	21,344
	40,834	35,701

Plant and machinery	**2009 £'000**	2008 £'000
Expiring in less than one year	**239**	242
Expiring between two and five years	**278**	404
Expiring after more than five years	**1**	5
	518	651

Total lease commitments	**2009 £'000**	2008 £'000
Expiring in less than one year	**3,866**	3,281
Expiring between two and five years	**13,931**	11,722
Expiring after more than five years	**23,555**	21,349
	41,352	36,352

Operating lease commitments primarily represent rentals payable by the Group in respect of its veterinary practices and office premises.

33. Pension schemes

The Group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the income statement as they fall due. The amounts charged during the year amounted to £123,000 (2008: £129,000). The amount outstanding at the end of the year included in trade and other payables was £5,000 (2008: £9,000).

34. Related party transactions

Directors' and key management compensation is disclosed in note 9.

Company

During the period the Company had the following transactions with CVS (UK) Limited:

	2009 £'000	2008 £'000
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	**(256)**	(3,605)

As at 30 June 2009, the following balances were owed by/due to related companies;

	2009		2008	
	Receivable £'000	**Payable £'000**	Receivable £'000	Payable £'000
CVS (UK) Limited	**-**	**3,861**	-	3,605

Amounts payable to CVS (UK) Limited are unsecured, interest free and have no fixed date of repayment.

35. Post balance sheet events

On 13 July 2009 the Group acquired the trade and related assets of a veterinary practice based in Berkshire for cash consideration of £320,000. The assets acquired comprised plant and equipment of £295,000 and intangible patient data records, with a provisional fair value of £25,000. For the year ended 30 April 2008, the practice reported an unaudited pre tax profit of £67,000. Given the nature of the records maintained by the practice it is not practicable to provide details of revenue, profits or recognised gains and losses for the period from the prior period end to the date of acquisition.

36. Ultimate controlling party

The Directors consider there is no ultimate controlling party.

CVS Group plc

Contact details and advisors

Registered Office	CVS House Vinces Road Diss Norfolk IP22 4AY	
Company Secretary	P D Coxon	
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors The Atrium St Georges Street Norwich Norfolk NR3 1AG	
Nominated Advisor and Broker	Panmure Gordon (UK) Limited 155 Moorgate London EC2M 6XB	
Bankers	NatWest Bank Plc 12 High Street Southampton SO14 2BF	Barclays Bank Plc 1 Churchill Place London E14 5HP
	Royal Bank of Scotland Plc 36 St Andrew Square Edinburgh EH2 2YB	
Legal advisors	Blake Lapthorn Tarlo Lyons Kings Court 21 Brunswick Place Southampton Hampshire SO15 2AQ	
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