CVS Group plc

Annual report

for the year ended 30 June 2010

Registered number: 06312831

CVS Group plc

Annual report
for the year ended 30 June 2010

Contents

CVS Group plc

Financial highlights

	Year ended 30 June 2010	Year ended 30 June 2009	Movement %
Adjusted results:			
Adjusted EBITDA [1]	**£13.1m**	£12.5m	+4.6
Adjusted earnings per share [2]	**11.9p**	11.5p	+3.5
Reported results:			
Revenue	**£85.5m**	£76.6m	+11.6
Operating profit	**£5.7m**	£7.0m	-18.9
Profit before income tax	**£3.8m**	£4.4m	-13.6
Profit after income tax	**£3.1m**	£3.0m	+0.7
Cash generated from operations	**£12.6m**	£12.4m	+2.0
Basic earnings per share	**5.7p**	5.9p	-3.4

[1] See page 32 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, transaction costs and share option expense ("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"

- Significant increase in Group revenue
- Underlying like-for-like sales growth of 0.2% (excluding the weather affected months of December 2009 and January 2010); like-for-like sales decrease of 1 2% (before adjusting for the above)
- Cash generated from operations increased by 2.0%
- Successfully acquired and integrated 41 surgeries and a laboratory. Of these acquired sites, 40 were completed in the last third of the year bringing the total number of sites at the year end to 211 surgeries and 6 laboratories
- Profit before income tax reduced by £0 6m reflecting transaction costs being expensed which would previously have been capitalised due to changes in accounting standards, additional acquisition related amortisation charges and increased non-cash share option charges, partly offset by lower finance expenses

Chief Executive Comment

"I am pleased to report that CVS has delivered sustained growth in revenue and operating cash flow in the year. Like-for-like sales showed slight growth after excluding the weather affected months of December 2009 and January 2010. These results demonstrate the veterinary profession's ability to be largely resilient to tougher trading conditions. However, in light of the more challenging and competitive landscape, the Group has responded with a number of measures aimed at augmenting the organic business and developing new revenue streams."

Simon Innes

CVS Group plc

About CVS

We are the leading provider of small animal veterinary and related services in the UK with 211 veterinary practices, 6 laboratories, a pet crematorium and, from July 2010, an on-line dispensary.

We are dedicated to providing the highest level of clinical care and service to pets and their owners.

Our Strategy

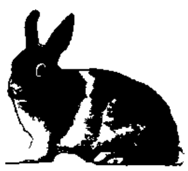
CVS's strategy for the sustainable growth of shareholder value is to:

- Attract and retain customers through trust, recommendation and a localised approach.

- Achieve organic growth of the business by broadening the range of veterinary related services, supported by acquisitions where appropriate.

- Deliver improved returns from veterinary related businesses by managing them more efficiently, centralising administration and utilising group buying power.

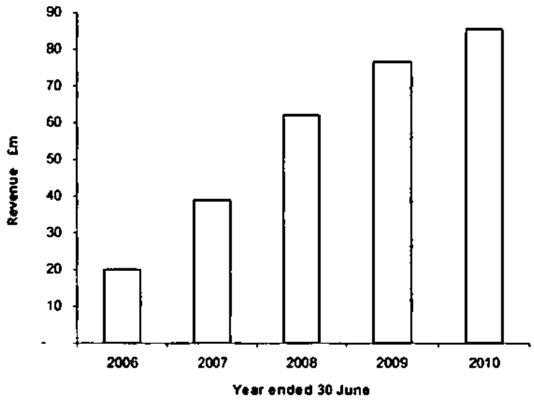
- Realise further efficiencies by vertically integrating supporting activities such as laboratory and crematoria services.

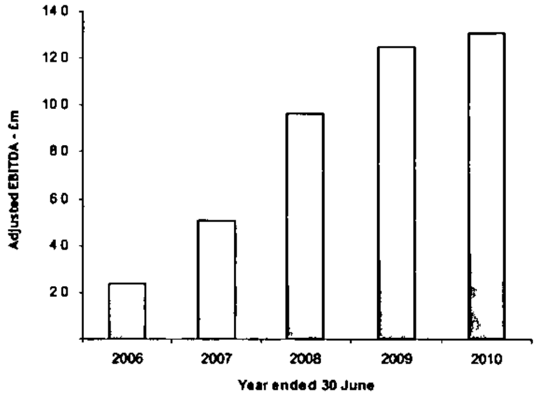


CVS Group plc

CVS at a glance

Revenue and adjusted EBITDA - 5 year history

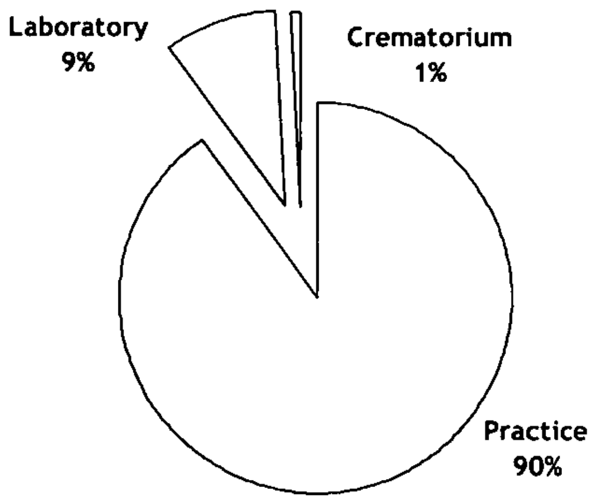




The Group has grown significantly over the past 5 years both in terms of revenue and adjusted EBITDA (see page 32 for reconciliation to profit before income tax).

In respect of the year under review, the Group's services continued to operate through three operating divisions for management purposes, namely, **Practice, Laboratory** and **Crematorium** supported by a central administrative function.

Revenue by division



CVS Group plc

CVS at a glance

Operating divisions

Practice

The Practice division is the principal operating unit of the Group. The division currently employs over 450 veterinary surgeons operating from 211 locations in the UK. Services are focused on small companion animals and include traditional first opinion work, second opinion referrals, a number of pet hospitals and at some sites equine services are also provided. These practices trade under a variety of established local trading names.

During the financial year the Group invested in developing an on-line trading platform, Animed Direct (www.animeddirect.co.uk), which was launched post year end on 27 July 2010. Animed Direct's objective is to sell competitively animal medicines and a wide range of pet products directly to UK consumers thus widening the range of products and services offered by the Practice division. Animed Direct will also benefit from the significant buying power of CVS particularly in the area of medicines. The board believes that this new division will be strategically important as it will capture a share of the increasing amount of veterinary related products that are sold on-line.

Animed direct

CVS

CVS Group plc

CVS at a glance

Operating divisions (continued)

Laboratory

The Laboratory division supports the diagnostic services of the Veterinary profession. 75% of sales were generated from third party practices and 25% from CVS owned practices. The division carries out over 270,000 pathological tests on an annual basis at 6 different locations throughout the UK

Crematorium

The Crematorium division operates a pet crematorium, burial ground and memorial gardens in Rossendale, Lancashire. Similar to the Laboratory division, Crematorium services are largely provided to external customers supported by services provided to CVS owned practices.

CVS Group plc

Chairman's statement

Introduction and review of operations for the year

I am pleased to announce the results of CVS Group plc ("CVS", "the Group", or "the Company") for the year ended 30 June 2010. The Group has continued to deliver improvements in many key financial metrics despite the challenges presented by a tougher operating climate

The Group has grown revenue by 11.6% to £85.5m (2009. £76.6m) and adjusted EBITDA by 4.6% (see page 32 for reconciliation to profit before income tax) to £13.1m (2009: £12.5m). Adjusted EBITDA as a percentage of sales has declined from 16 3% to 15.3%, primarily reflecting changes to the Group's cost base in conjunction with softer second half like-for-like sales brought about by a more challenging operating environment. In addition, there was strong cash delivery with cash generated from operations of £12 6m (2009 £12 4m) However, operating profit fell to £5.7m (2009: £7.0m), reflecting transaction costs being expensed which would previously have been capitalised due to changes in accounting standards, additional acquisition related amortisation charges and increased non cash share option charges.

Continued uncertainty in the general economy has affected the business as increasingly hard pressed consumers look to make savings in areas of discretionary spending. Veterinary products and services have not been immune to this and as a result the Group is engaged in a number of activities to counter these trends including the development of an on-line dispensary and pet shop (Animed Direct)

The business was also affected in the year by a prolonged period of severe winter weather. This made it almost impossible in some areas for both customers and staff to reach our surgeries and as a consequence revenue was lost, with a disproportionately large impact on adjusted EBITDA due to the Group's relatively high operating margins

During the last four months of the year the Group acquired the strategically important Veterinary Enterprises & Trading Limited ("VET" or "Pet Doctors") group of 27 surgeries and one laboratory. This addition to CVS is considered to be significant not only because of its size but also as it has removed a competitor for future acquisitions, enhanced the Group's ability to generate economies of scale and it fits well geographically with the existing business, particularly in the South East of England where it has a strong presence. I am pleased to report that Pet Doctors has performed in line with expectations post acquisition

Cash flow and funding position

Cash flow generated from operations increased by 2 0% to £12.6m. The ability of the Group to convert profit into cash is clearly demonstrated with adjusted EBITDA (see page 32 for reconciliation to profit before income tax) at £13.1m

Overall net debt increased slightly during the year to £42m, as £6.5m of internally generated cash was used to assist in the funding of acquisitions. Any future acquisition activity is expected to be funded from cash generated from operations

Chairman's statement (continued)

The Group has complied with all bank covenants throughout the period, and is projected to continue to do so.

In the year under review, £1 9m of debt has been repaid. Since the year end, £2 1m has been repaid, with a further £3.1m scheduled to be repaid during the remainder of this financial year (ending 30 June 2011) and this has been reflected in our cash flow forecasts.

Dividends

The Board, at this point in time, believes that cash generated from operations should be reinvested in the business, and as such the Directors propose that no dividend should be declared for the year ended 30 June 2011 The Board will continue to review its dividend policy on an ongoing basis.

Our people

The Group continues to be the largest employer in the UK veterinary profession with approximately 2,200 staff today. Of those, around 500 are vets out of an estimated total of approximately 12,000 practising vets in the UK, giving further indication of the significant scope left for expansion in the UK market Our people are our best asset in enabling the Group to deliver its strategy. I would like to thank all of our people, including those new to CVS in the year, for their expertise and professionalism in providing the best possible care and service.

Further business development

We estimate that CVS has 9-10% of the UK small animal veterinary market measured by wholesaler spend, which demonstrates the opportunity for further consolidation.

In late July 2010, following the financial year end, Animed Direct, our on-line dispensary and pet shop division, was launched further broadening our offering of veterinary related services.

Outlook

Following on from the tough second half to the last financial year, the first quarter of the new financial year has been encouraging with the adverse trend in like-for-like sales improving to a decrease of 1.4% compared to a decrease of 2 8% in the fourth quarter of last year

Owing to the timing of acquisitions in the year ended 30 June 2010, the majority taking place in the last third of the year, the Board expects that there will be a material uplift in revenues in the year to 30 June 2011.

We continue to focus on developing the organic business by furthering ways to extract operational efficiency, improve business performance and create new revenue streams together with the subsequent generation of cash and profit

The Board remains cautiously optimistic about the Group's future with further growth opportunities supported by strong cash generation and a slow return to more favourable economic conditions

Richard Connell

Chairman

4 October 2010

CVS Group plc

Business and financial review

CVS has continued to deliver growth over the prior year in terms of revenues, cash generation and adjusted EBITDA Group revenue increased to £85 5m (2009: £76.6m), cash generated from operations increased to £12 6m (2009 £12.4m) and adjusted EBITDA increased to £13 1m (2009: £12 5m). Operating profit and profit before tax were, however, down on the prior year at £5 7m (2009: £7.0m) and £3.8m (2009 £4 4m) respectively

Management uses adjusted EBITDA and adjusted earnings per share ("EPS") financial measures (both as described in the financial highlights on page 3) as the basis for assessing the underlying performance of the group. These terms are not defined by International Financial Reporting Standards and therefore may not be directly comparable with other companies' adjusted profit measures. A reconciliation of profit before tax to adjusted EBITDA can be found on page 32 of the financial statements, and a reconciliation of adjusted EPS can be found in note 12 to the financial statements

Factors that have influenced the improvement in the adjusted EBITDA figure compared with the prior year include the full year effect of previous year acquisitions augmented by acquisitions made during the year This positive movement in absolute terms was partly offset by a fall in the adjusted EBITDA margin This principally arose from more difficult trading conditions in the second half of the financial year as first the weather and then the more general economic environment impacted like-for-like sales particularly in the last quarter, together with changes in the Group's cost structure. In addition, £0.1m of costs were incurred relating to the restructuring of Pet Doctors and the set up of the on-line dispensary which are expected to generate benefits in the future.

Operating profit was additionally impacted by three principal factors. Firstly, an amendment to 'IFRS3 - Business Combinations' resulted in £0.5m of transaction costs relating to acquisitions, which would previously have been capitalised, being expensed Secondly, in order to continue to incentivise employees, share options were granted in addition to existing awards which contributed to a non-cash charge in the year of £0.6m (2009: £0.1m). Thirdly, amortisation charges have increased year on year by £0 5m due to acquisition activity.

Adjusted earnings per share (as defined in note 12 to the financial statements) were 11 9p, 3 5% up on 11.5p in the prior year Basic earnings per share was slightly below prior year at 5.7p (2009: 5.9p)

Divisional performance

Practice

The Group is the leading national veterinary surgery consolidator, operating 211 veterinary surgeries across the UK, primarily focused on the small animal market Revenue amounted to £79 1m, an increase of 13.7% over the prior year although like-for-like revenues were down by 0.9% to £74 8m as a result of the weather and economic factors previously mentioned

The Practice division's activities are carried on under a number of well established local brands as it is the Group's policy to retain these following acquisition

In the year CVS acquired 41 surgeries, the majority of which were acquired in the last third of the year. The annualised turnover from these newly acquired surgeries amounts to c.£21m These surgeries contributed £6 4m of revenue in the year.

In the latter part of the financial year a new Director of Practice Operations was appointed with the principal objective of improving the operational effectiveness of the Practice division. This remit will be supported by a divisional management structure underpinned by a combination of local practice management and regional area management with a combination of clinical and retail management experience.

A number of initiatives have already been implemented, including:

Business and financial review (continued)

- Regional practice performance benchmarking
- Identifying and agreeing priority measures to support poorer performing sites
- Focusing the divisional management team on sales growth supported by the development of the appropriate local fee structure
- Further developing the marketing of the Healthy Pet Club loyalty scheme

In support of these initiatives the Group has instigated a number of tactical localised marketing campaigns aimed at higher volume procedures such as neutering and vaccinations.

The Healthy Pet Club loyalty scheme has continued to grow in the year with over 8,000 pets being added to the scheme and benefits the division by retaining customer loyalty, encouraging clinical compliance and bringing more customers into the surgery. At the year end total pet members stood at more than 17,000 in total

Significant benefits from increasing economies of scale continue to be enjoyed by the division in terms of drug buying, overheads and equipment However these improvements were offset by the impact of more difficult trading conditions on the Division's predominantly fixed employment cost structure which led to a slight fall in overall gross profit margin

The adjusted EBITDA for the division grew significantly by £1.5m to £15.9m and the profit before tax by £0 4m to £10.2m, primarily due to acquisition activity in the current and prior year partially offset by the factors outlined above.

As a result of the weaker general economy, the Group believes that the outlook for veterinary and related services is subject to a degree of uncertainty. However, as a counterbalance, stable pet populations, increases in animal longevity, advances in veterinary medical science, changes in the demographic profile of the human population and growth in the pet insurance industry and the initiatives instigated by our operations team all provide positive support

As the Practice division grows it will continue to support growth in the other, complementary, Laboratory and Crematorium divisions.

Laboratory

The Group operates 6 laboratories in the UK which provide diagnostic services to third party veterinary surgeries (75% of revenues) as well as CVS owned veterinary surgeries (25% of revenues) Services are generally provided via postal and courier services allowing complete coverage of the UK

The laboratory division had a difficult year due to the weather and economic factors already mentioned together with a significantly more competitive operating landscape. This had an adverse impact on both revenue, adjusted EBITDA and profit before tax which fell by 5.2%, 15.0% and 18.7% respectively to £7 9m, £1 1m and £0.7m, the reduction in profitability reflecting also the partially fixed nature of the cost base

During the year, the division added a further laboratory which increased the geographical presence of the division and introduced new opportunities to capture more laboratory referral business within the group

In the latter half of the financial year, Martyn Carpenter was appointed to the new role of Director of Laboratory Operations. The focus of this role is to retain existing customers and broaden the client base. This will be supported by further development of the sales team

Crematorium

The Rossendale crematorium completed its first full financial year of operation under CVS ownership.

It delivered revenue of £0 7m (2009 £0.4m) and an adjusted EBITDA of £0.3m (2009 £0.2m) (42 0% of sales), which exceeded the Board's expectations

Business and financial review (continued)

In addition to services provided to non group practices and the general public, the division also serves CVS practices in the North and Midlands which account for 26% of its revenues

Central administration

The Group's approach to centralising the administrative and management function continues to be an integral part of the strategy of the business and therefore enables the other divisions to focus on operational matters.

On an adjusted basis, the total costs for the central administration segment increased from £3 5m to £4.3m, being 5 0% of revenue (2009 4 5%). The increase being driven by costs rising due to the enhanced size of the Group against a backdrop of more difficult trading conditions

The loss before tax for the central administration segment increased from £6 4m to £7.3m, being 8.6% of revenue (2009: 8.4%) due to the factors referred to above in addition to those impacting on operating profit as discussed on page 10.

<u>**Other financial highlights**</u>

Net finance expenses of £1.9m represent a decrease of £0.7m (28%) compared to the previous year, reflecting a benefit from interest rate reductions on its floating rate debt, the commencement of debt repayments in the year and the non-cash movement in the fair value of the Group's derivative financial instrument.

The Group recorded an increase in profit after income tax for the year of £0 1m to £3.1m representing an increase of 0.7% A reduction in finance costs as described above coupled with a reduction in the effective tax rate (due to a one-off credit of £0.5m in respect of costs previously deemed to be disallowable) over last year contributed to this increase.

Cash generated from operations also improved on last year showing a 2.0% increase The extent of cash generated has allowed the Group to self-fund all acquisitions made during the year with the exception of Pet Doctors which was largely funded by a placing of new shares The Group continues to convert profit into cash with cash generated from operations of £12.6m compared to adjusted EBITDA of £13 1m.

Business and financial review (continued)

Key performance indicators ('KPIs')

The Directors monitor progress against the Group strategy by reference to the following financial KPIs. Performance during the year is set out in the table below

	2010	2009	Definition, method of calculation and analysis
Revenue	**£85.5m**	£76 6m	Total Revenue of the Group. Positives - Acquisitions and Healthy Pet Club growth. Negatives - Adverse trading conditions impact on like-for-like sales
Adjusted EBITDA	**£13.1m**	£12.5m	Adjusted EBITDA represents earnings before income tax, net finance expense, depreciation, amortisation, transaction costs and share option expense. Positives - Acquisitions and improved buying terms. Negatives - Adverse trading conditions, on-line dispensary start up and Pet Doctor's restructuring costs.
Adjusted EPS	**11.9p**	11.5p	Earnings, adjusted for amortisation, share option expense, transaction costs relating to acquisitions, non-recurring tax credits and fair value adjustments, net of the notional tax impact of the above, divided by the number of issued shares. The increase reflects the above effects to adjusted EBITDA augmented by reductions in finance costs and the effective tax rate.
Cash generated from operations	**£12.6m**	£12.4m	Cash generated from operations has slightly increased with the improvement in adjusted EBITDA supported by favourable working capital movements partly offset by transaction costs being expensed which would previously have been capitalised brought about by changes in accounting standards which now form part of operating cashflows

In addition to the above, the Group monitors like-for-like sales performance Like-for-like sales comprise the revenue generated from all operations compared to the prior year (on a pro-forma basis, i.e including pre-acquisition revenues in respect of acquisitions in the current and comparative periods), after adjusting for sites under refurbishment and discontinued operating activities. Like-for-like sales for the year ended 30 June 2010 decreased by 1 2% reflecting both the adverse weather in December 2009 and January 2010 and the difficult trading conditions brought about by general economic conditions (particularly in the last quarter) Like-for-like sales after excluding the weather affected months of December 2009 and January 2010 increased by 0 2%.

Business and financial review (continued)

Funding and treasury management

As at 30 June 2010, the Group had net debt of £41.9m (2009. £40.8m) comprising debt of £41 7m (net of issue costs) and an overdraft of £0 2m. During the year £1.9m of the Group's term debt facility was repaid.

In March 2010 the acquisition of the Pet Doctors group was partly funded by a £8 6m (net of issue costs) placing of ordinary shares plus £3 6m of internally generated cash.

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

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 manage exposure to interest rate fluctuations, whilst allowing some benefit of reductions in interest rates. At the year end, the Group had interest hedging arrangements in place covering £30 1m of debt. The Group sweeps funds daily from its various bank accounts into deposit accounts to optimise interest generation.

The Board anticipate that borrowings will reduce further in the coming months as bank loan repayments are made.

Business environment

The Group has seen a greater impact in the year under review from the unfavourable economic climate with like-for-like sales increase being only 0 2% in the current year (excluding the weather affected months of December 2009 and January 2010) Before adjusting for the weather affected months, like-for-like sales decreased by 1.2%. The achievement of marginal growth after adjusting for the weather affected months of December and January, 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. However, it should be noted that the financial performance deteriorated in the second half of the year, primarily due to the weather conditions in December and January and the prevailing economic climate impacting like-for-like sales particularly in the final quarter

The Board is focused on a number of initiatives as outlined previously to combat tougher operating conditions

Principal risks and uncertainties

The Group's operations are subject to a number of risks that include the impact of competition, 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. In addition, the acquisition of the Pet Doctors group of practices in the year, who were following a similar business model to that of CVS, has further mitigated this risk Furthermore, the expansion of the Group's healthy pet club loyalty scheme and the post year end introduction of Animed Direct, our on-line dispensary and pet shop, provide further mitigation against the risk of competition

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 which has been offered more widely to senior management in the year. A further SAYE scheme, available to all staff, was set up in the year (see the Remuneration report on pages 25 to 28 for further details).

Your pets • our priority

CVS Group plc

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 has established a formal organisation structure that allows clinical policies and procedures to be developed and ensure day-to-day compliance monitoring The Group has 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 some resilience to the challenging economic conditions but has nevertheless been impacted.

The Practice division has continued to grow its payment plan based Healthy Pet Club loyalty scheme during the year as a way of mitigating this risk. The plan has significant benefits in terms of stimulating customer loyalty, ensuring clinical compliance for the pet and bringing customers into the surgery

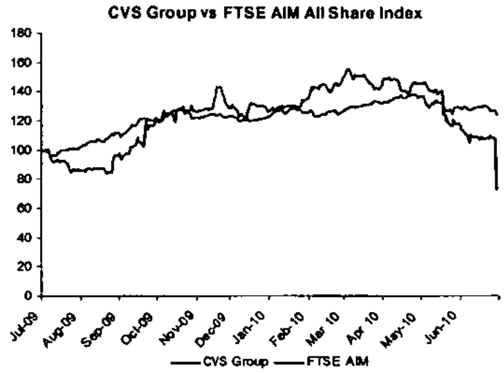
Adverse weather

In common with many businesses the Group's revenue is adversely affected during sustained periods of severe winter weather.

As the Group continues to widen its geographical presence the exposure to this risk will be mitigated to some extent.

Share price performance

At the year end the market capitalisation was £59 9m (106p per share) compared to £73 2m (142p per share) at the previous year end. The graph below shows the total shareholder return performance compared to the FTSE AIM All Share index. The values indicated in the graph show the share price movement based on a hypothetical £100 holding in ordinary shares from 1 July 2009 to 30 June 2010



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 be able to continue in business without any disruption in trading by purchasing from alternative suppliers.

Future developments

The Group will focus its activities on developing its organic business in all three operating divisions. The established business will be further supported by the recent launch of Animed Direct in late July 2010 In addition, where internally generated cash allows, selective acquisitions may continue.

Simon Innes
Chief Executive
4 October 2010

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

Group Directors of CVS

Richard Connell (55) Non-Executive Chairman

Mr Connell is a chartered accountant and worked in investment management with 3i Group, Invesco and HSBC In addition to his role with CVS, he is Chairman of Ideal Stelrad, one of Europe's largest heating businesses, Maynard & Harris, a manufacturer of packaging in the UK and US, and Goldshield, a pharmaceutical business and was previously Chairman of Dignity plc for a number of years. Mr Connell is Chairman of the Nominations Committee

Simon Innes (50) Chief Executive

Mr Innes was appointed as Chief Executive 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 and gained ten years management experience at Marks & Spencer He also served seven years in the British Army, achieving the rank of Captain in the Royal Engineers.

Paul Coxon (45) Finance Director

Mr. Coxon was appointed as Finance Director in August 2003. He has a total of 23 years of experience in finance and accounting He qualified as a chartered accountant with KPMG 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.

CVS Group plc

Group Directors of CVS

David Timmins (58) Non-Executive Director

Mr. Timmins is a Chartered Accountant with more than 15 years of experience as CFO in listed companies. He was Group Finance Director of Genus plc until mid-2007 where he played a prominent role in the reverse acquisition of Sygen International plc, an Official List 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 business, becoming its Executive Chairman Mr. Timmins is Chairman of the Audit Committee

Christopher Marsh (66) 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 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 Webb Capital PLC. Mr. Marsh is Chairman of the Remuneration Committee. Mr Marsh has offered himself up for retirement and will not seek re-election at the annual general meeting

CVS Group plc

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 25 to 28, 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	11	3	3	1
Richard Connell	11	3	3	1
Simon Innes	11	*3	*3	-
Paul Coxon	11	*3	-	-
David Timmins	11	3	3	1
Christopher Marsh	11	3	3	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 Mindful of their other commitments the Chairman and Non-Executive Directors have formally confirmed to the Board that they have sufficient time to devote to their responsibilities as Directors of the Group

Corporate governance statement (continued)

The Board has appointed three 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.

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 2010 and up to the date of this report the Audit Committee has.

- reviewed the 2010 annual report and financial statements and the interim report issued in February 2010 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 2010 financial statements and review of the interim report;
- considered the need for an internal audit function; and
- reviewed the performance and independence of the external auditors

The audit committee informally reviews its effectiveness on a regular basis and there are plans for a formal review in the current financial year

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.

Corporate governance statement (continued)

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 three times during the financial year.

The Remuneration Report can be found on pages 25 to 28.

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.

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 Company Secretary at company secretary@cvsvets.com.

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;

Corporate governance statement (continued)

- 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 Independent of the budget process, the Board regularly reviews revised profit, cash flow and bank covenant compliance forecasts which are updated to reflect actual performance trends.
- 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 Group'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

Going concern

At the balance sheet date the Group had an un-utilised overdraft facility of £1 7m. Since the year end the Group has continued to trade profitably and to generate cash. Bank debt repayments of £5 2m are due in the year to 30 June 2011 and have been factored into cash flow projections. After consideration of market conditions, the Group's financial position (including the level of headroom available within the bank facilities) 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

Paul Coxon
Secretary
4 October 2010

Directors' report for the year ended 30 June 2010

The Directors present their annual report together with the audited consolidated financial statements for the year ended 30 June 2010.

Principal activities and results

The principal activity of the Group and of the Company is to operate companion animal veterinary practices, complementary 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 1m (2009: £3.0m).

Business review

The information that fulfils the requirements of the business review, including details of the 2010 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 7 to 8 and 9 to 13, respectively.

Dividends

The Directors do not recommend the payment of a dividend (2009: £nil) and no dividends (2009: £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
D Timmins
C Marsh

Biographical details of the Directors are provided on pages 15 and 16

Re-election of Directors

As required by the Articles of Association of the Company, and in accordance with the provisions of the 2008 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 not seek re-election

Directors' remuneration and interests

The Remuneration Report is set out on pages 25 to 28. 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 (2009: £nil).

Directors' report for the year ended 30 June 2010 (continued)

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

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 17 to 20

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 2010 are set out in note 27 to the financial statements

At 17 September 2010, the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued ordinary share capital of the Company:

	Number of shares	
Artemis Investment Management	4,255,823	7.6%
JP Morgan Asset Management	3,454,121	6.1%
F&C Asset Management	3,375,617	6.0%
Invesco Perpetual	3,079,368	5.5%
Morgan Stanley Investment Management	2,913,706	5.2%
Aviva Investors	2,691,226	4.8%
NFU Mutual	2,690,600	4.8%
Allied Investments	2,382,766	4.2%
Royal London Asset Management	2,200,564	3.9%
Highclere International Investors	2,086,508	3.7%
River and Mercantile Asset Management	1,688,988	3.0%

Directors' report for the year ended 30 June 2010 (continued)

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 To enhance communication within the Group, an Information and Consultation Committee has been set up during the year, constituted of regional members from all areas of the business aimed at improving consultation levels further 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 25 to 28 The Group has also offered a Save As You Earn scheme for a second year 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 value. The exercise price in respect of options issued in the year was at a 20% discount to the share's market value at the date of invitation. The scheme is open to all Group employees including the Executive Directors. Details of the scheme are included in the Directors' Remuneration Report on pages 25 to 28.

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 2010, the amount owed to trade creditors by the Group was equivalent to 59 days of purchases from suppliers (2009 52 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

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' report for the year ended 30 June 2010 (continued)

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 Group 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

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

Paul Coxon
Secretary
4 October 2010

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

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 is awarded based on adjusted EBITDA performance

The bonus is awarded up to a maximum of 100% of base pay for the Chief Executive and 50% of base pay for the Finance Director.

Pension and other benefits

The Executive Directors also participate in a defined contribution pension arrangement in addition to other benefits, including the provision of a company car and medical and life insurance.

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 these awards have the following performance criteria

- Awards will vest in full if real growth in an adjusted earnings per share ("EPS") measure shows a compound annual growth rate ("CAGR") of 60 per cent per year over the measurement period of three years commencing 1July 2007

Remuneration report (continued)

- 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

Based on adjusted EPS performance in the three year period ended 30 June 2010, the LTIP1 awards vested in full(subject to ratification by the Remuneration Committee)

Further awards granted on 18 November 2008 ("LTIP2") have the following performance conditions·

- Awards will vest in full if real growth in an adjusted EPS measure shows a compound annual growth rate ("CAGR") of 30 per cent per year over the measurement period of three years commencing 1 July 2008.
- 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 ("LTIP3"), which have the following performance conditions·

- Awards will vest in full if real growth in an adjusted EPS measure shows a compound annual growth rate ("CAGR") of 15 per cent per year over the measurement period of three years commencing 1 July 2009.
- 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 EPS 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) he 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.

Remuneration report (continued)

Save As You Earn (SAYE)

The Group operates an incentive scheme for all staff, including the Executive Directors, being the CVS Group Save As You Earn ("SAYE") plan, an Inland Revenue approved scheme. The SAYE scheme was opened for subscription in July 2008 ("SAYE1") and a further plan ("SAYE2") was offered under the same conditions in November 2009. Under both SAYE1 and SAYE2, scheme awards are made at a 20% discount to the closing mid-market price on the day preceding the date of invitation, vesting over a three year period There are no performance conditions attached to either 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

Directors' remuneration

	Basic salary, allowance and fees	Benefits in kind	Performance related bonus	2010 Total	2009 Total
	£'000	£'000	£'000	£'000	£'000
Non-Executive Chairman					
R Connell	94	-	-	94	86
Executive					
S Innes	260	18	-	278	367
P Coxon	134	9	-	143	156
M Finn (resigned 13 January 2009)	-	-	-	-	70
Non-Executive					
D Timmins	35	-	-	35	33
C Marsh	31	-	-	31	30
	554	27	-	581	742

S Innes, P Coxon and formerly M. Finn participated in a defined contribution pension arrangement. During the year, the Group contributed £18,000, £13,370 and £nil respectively (2009 £nil, £12,120 and £6,170).

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 2010 or 30 June 2009

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.

Remuneration report (continued)

Directors' interests in shares

The interests of the Directors as at 30 June 2010 in the shares of the Company were

	Ordinary shares of 0.2p each Number
R Connell	44,391
S Innes	1,046,475
P Coxon	285,000
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.

Share options

Options over ordinary shares awarded to Executive Directors under the LTIPs and SAYE schemes in place at 4 October 2010 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	SAYE1	15 July 2008	1 September 2011	210p	4,293
P Coxon	SAYE1	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

*These awards have vested in full.

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 At 30 June 2010, the market price of the Ordinary shares was 106p.

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

On behalf of the Remuneration Committee

Christopher Marsh
4 October 2010

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 2010 which comprise the Consolidated Income Statement, the Statement of Consolidated Comprehensive Income, 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 25 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 Chapter 3 of part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 2010 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
4 October 2010

Consolidated income statement for the year ended 30 June 2010

	Note	**2010 £'000**	2009 £'000
Revenue	4	**85,527**	76,605
Cost of sales		**(51,176)**	(45,657)
Gross profit		**34,351**	30,948
Administrative expenses		**(28,662)**	(23,937)
Operating profit	7	**5,689**	7,011
Fair value adjustments in respect of financial assets and liabilities	6	**149**	(48)
Other finance expense	6	**(2,028)**	(2,580)
Other finance income	6	**29**	61
Net finance expense		**(1,850)**	(2,567)
Profit before income tax	4	**3,839**	4,444
Income tax expense	10	**(781)**	(1,406)
Profit for the year attributable to owners of the Company		**3,058**	3,038

Earnings per ordinary share for profit attributable to owners of the Company (expressed in pence per share) ("EPS")

Basic	12	**5.7p**	5 9p
Diluted	12	**5.7p**	5 8p

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 transaction costs and share option expense

Non-GAAP measure: Adjusted EBITDA	Note	**£'000**	£'000
Profit before income tax		**3,839**	4,444
Adjustments for			
Net finance expense	6	**1,850**	2,567
Depreciation	15	**1,905**	1,526
Amortisation	14	**4,385**	3,842
Transaction costs	5	**530**	-
Share option expense	13	**556**	117
Adjusted EBITDA	4	**13,065**	12,496

Statement of consolidated comprehensive income for the year ended 30 June 2010

	Note	2010 £'000	2009 £'000
Profit for the year		**3,058**	3,038
Other comprehensive income			
Fair value adjustments in respect of financial assets and liabilities	18	**(970)**	(2,028)
Revaluation of available for sale investments	17	**7**	(16)
Deferred tax on other comprehensive income		**272**	568
Other comprehensive income for the year, net of tax		**(691)**	(1,476)
Total comprehensive income for the year attributable to owners of the Company		**2,367**	1,562

CVS Group plc

Consolidated and Company balance sheets as at 30 June 2010

	Note	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Non-current assets					
Intangible assets	14	**56,695**	41,886	-	-
Property, plant and equipment	15	**8,835**	7,467	-	-
Investments	17	**74**	67	**59,904**	62,103
Deferred income tax assets	25	**1,321**	455	-	-
		66,925	49,875	**59,904**	62,103
Current assets					
Inventories	20	**2,453**	1,972	-	-
Trade and other receivables	21	**6,602**	5,431	**6,342**	-
Cash and cash equivalents	22	**109**	2,792	-	-
		9,164	10,195	**6,342**	-
Total assets	4	**76,089**	60,070	**66,246**	62,103
Current liabilities					
Trade and other payables	23	**(12,101)**	(8,452)	-	(3,861)
Current income tax liabilities	26	**(574)**	(1,169)	-	-
Borrowings	24	**(5,350)**	(1,924)	-	-
		(18,025)	(11,545)	-	(3,861)
Non-current liabilities					
Borrowings	24	**(36,655)**	(41,644)	-	-
Deferred income tax liabilities	25	**(7,076)**	(4,942)	-	-
Derivative financial instruments	18	**(2,284)**	(1,463)	-	-
		(46,015)	(48,049)	-	-
Total liabilities	4	**(64,040)**	(59,594)	-	(3,861)
Net assets		**12,049**	476	**66,246**	58,242

Consolidated and Company balance sheets as at 30 June 2010 (continued)

	Note	**Group 2010 £'000**	Group 2009 £'000	**Company 2010 £'000**	Company 2009 £'000
Shareholders' equity					
Share capital	27	**113**	103	**113**	103
Share premium	28	**8,640**	-	**8,640**	-
Capital redemption reserve	28	**592**	592	**592**	592
Revaluation reserve	28	**125**	125	**-**	-
Merger reserve	28	**(61,420)**	(61,420)	**-**	-
Retained earnings		**63,999**	61,076	**56,901**	57,547
Total shareholders' equity		**12,049**	476	**66,246**	58,242

The notes on pages 39 to 89 are an integral part of these consolidated financial statements

The financial statements on pages 32 to 89 were authorised for issue by the Board of Directors on 4 October 2010 and were signed on its behalf by

P Coxon
Director

S Innes
Director

Company registered number· 06312831

Consolidated statement of changes in equity for the year ended 30 June 2010

	Share capital	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2008	103	592	125	(61,420)	59,405	(1,195)
Profit for the year	-	-	-	-	3,038	3,038
Other comprehensive income						
Fair value adjustments in respect of financial assets and liabilities	-	-	-	-	(2,028)	(2,028)
Revaluation of available for sale investments	-	-	-	-	(16)	(16)
Deferred tax on other comprehensive income	-	-	-	-	568	568
Total other comprehensive income	-	-			**(1,476)**	**(1,476)**
Total comprehensive income	-	-	-	-	**1,562**	**1,562**
Transactions with owners						
Credit to reserves for share-based payments	-	-	-	-	117	117
Deferred tax relating to share-based payments	-	-	-	-	(8)	(8)
Transactions with owners	-	-	-	-	**109**	**109**
At 30 June 2009	**103**	**592**	**125**	**(61,420)**	**61,076**	**476**

	Share capital	Share premium	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2009	103	-	592	125	(61,420)	61,076	476
Profit for the year	-	-	-	-	-	3,058	3,058
Other comprehensive income							
Fair value adjustments in respect of financial assets and liabilities	-	-	-	-	-	(970)	(970)
Revaluation of available for sale investments	-	-	-	-	-	7	7
Deferred tax on other comprehensive income	-	-	-	-	-	272	272
Total other comprehensive income	-	-	-	-	-	**(691)**	**(691)**
Total comprehensive income	-	-	-	-	-	**2,367**	**2,367**
Transactions with owners							
Issue of ordinary shares	10	8,640	-	-	-	-	8,650
Credit to reserves for share-based payments	-	-	-	-	-	556	556
Transactions with owners	**10**	**8,640**	-	-	-	**556**	**9,206**
At 30 June 2010	**113**	**8,640**	**592**	**125**	**(61,420)**	**63,999**	**12,049**

Company statement of changes in equity for the year ended 30 June 2010

	Share capital	Capital redemption reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 July 2008	103	592	57,686	58,381
Loss for the year	-	-	**(256)**	**(256)**
Transactions with owners				
Credit to reserves for share-based payments	-	-	117	117
Transactions with owners	-	-	**117**	**117**
At 30 June 2009	**103**	**592**	**57,547**	**58,242**

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 July 2009	103	-	592	57,547	58,242
Profit for the year	-	-	-	**(1,202)**	**(1,202)**
Transactions with owners					
Issue of ordinary shares	10	8,640	-	-	8,650
Credit to reserves for share-based payments	-	-	-	556	556
Transactions with owners	**10**	**8,640**	-	**556**	**9,206**
At 30 June 2010	**113**	**8,640**	**592**	**56,901**	**66,246**

Consolidated and Company cash flow statement for the year ended 30 June 2010

	Note	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000
Cash flows from operating activities				
Cash generated from operations	30	**12,624**	12,380	**(8,650)**
Taxation paid		**(1,907)**	(828)	-
Interest received		**29**	61	-
Interest paid		**(1,950)**	(2,658)	-
Net cash generated from operating activities		**8,796**	8,955	**(8,650)**
Cash flows from investing activities				
Acquisition of businesses	16	**(2,146)**	(5,793)	-
Acquisition of subsidiaries (net of cash acquired)	16	**(11,855)**	(2,510)	-
Purchase of property, plant and equipment		**(1,965)**	(1,538)	-
Purchase of intangible assets		**(97)**	(45)	-
Proceeds from sale of property, plant and equipment		**20**	2	-
Proceeds from sale of available for sale investments		**-**	316	-
Net cash used in investing activities		**(16,043)**	(9,568)	-
Cash flows from financing activities				
Finance lease principal payments		**(9)**	(38)	-
Repayment of bank loan		**(4,342)**	(18)	-
Proceeds from issue of ordinary share capital (net of issue costs)		**8,650**	-	**8,650**
Proceeds from long-term borrowings		**-**	3,069	-
Net cash from financing activities		**4,299**	3,013	**8,650**
Net (decrease)/increase in cash and cash equivalents		**(2,948)**	2,400	-
Cash and cash equivalents at beginning of year		**2,792**	392	-
Cash and cash equivalents at end of year	22	**(156)**	2,792	-

Company cash flow statement for the year ended 30 June 2009

The Company had no cashflows in the year ended 30 June 2009 and therefore a comparative 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 2010

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 and its shares are quoted on the AIM market of the London Stock Exchange 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%
Pet Doctors Limited	England and Wales	Operation of veterinary 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%
Greendale Veterinary Diagnostics 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, unless otherwise stated, been applied consistently to all periods presented in these financial statements The accounting policies which follow relate to the Group and are applied by the Company as appropriate

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, customer relationships and trade names) 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

2. Summary of significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

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

Changes in accounting policy and disclosure

The Group has adopted the following new and amended standards as of 1 July 2009

IAS 1 (revised) "Presentation of financial statements"

IAS 1 requires entities to choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income) The Group has elected to present two statements in these financial statements

IAS 39 (amendment) "Financial Instruments: Recognition and measurement"

The amended IAS 39 requires the fair value movement on the hedged item to be split between the time value movement and the intrinsic value movement The movement on the time value is recognised in the income statement immediately and the movement in the intrinsic value is recognised directly in equity The total time value that had been recognised in equity at 1 July 2009 is required to be prospectively recycled through the income statement over the remaining life of the underlying hedged item The impact on the financial information for the year ended 30 June 2010 of adopting IAS 39 is that an amount of £245,000 has been credited to the income statement, offset by an amount of £96,000, being the amortisation of the total time value of the instrument previously recognised in equity If the amendment had not been applicable, a charge of £76,000 would have been recognised in the income statement

IFRS 3 (revised) "Business combinations"

IFRS 3 (revised) amends the treatment of acquisition costs as part of business combinations These were previously treated as an element of consideration paid From 1 July 2009 the Group is required to expense all transaction costs relating to acquisitions directly in the income statement The charge for the year ended 30 June 2010 was £530,000

IFRS 7 (amendment) "Financial instruments – Disclosures"

The amendment requires enhanced disclosures about fair value measurement and liquidity risk In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy The presentation requirement of IFRS 7 has been applied in these financial statements

IFRS 8 "Operating segments"

IFRS 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes Management have confirmed that the Group operates in three distinct trading segments, together with a centralised support function Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker The chief operating decision-maker has been identified as the Board of Directors The Board reviews the Group's internal reporting in order to assess performance and allocate resources The Board has determined the operating segments based on these reports

2. Summary of significant accounting policies (continued)

Other recent accounting developments

Standards, amendments and interpretations effective in the year ended 30 June 2010 but not relevant for the Group's operations

- IFRS 2 (amendment) "Share-based payment "
- IAS 23 (revised) "Borrowing costs "
- IAS 32 "Financial instruments Presentation "
- IFRS 1 (Amendment), "First time adoption of IFRS and IAS 27, Consolidated and Separate Financial Statements "
- IAS 27 (Revised), "Consolidated and Separate Financial Statements "
- IFRIC 15 "Agreements for Construction of Real Estates "
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation "
- IFRIC 17 "Distributions of non-cash assets to owners "
- IFRIC 18 "Transfers of assets from customers "
- Annual improvements to IFRSs (2008)

Standards and interpretations to existing standards that have been adopted by the EU but which are not yet effective and under review as to their impact on the Group

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 2010 or later periods but which the Company has not early adopted

Amendments to IFRS 2 'Share-based payment' – Group Cash-Settled Transactions, effective for annual periods beginning on or after 1 January 2010 In addition to incorporating IFRIC 8 "Scope of IFRS 2", and IFRIC 11 "IFRS 2 – Group and treasury share transactions", the amendments expand on the guidance of IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation The new guidance is not expected to have a material impact on the Group's financial statements

IFRS 9 "Financial Instruments", effective for annual periods beginning on or after 1 January 2013 This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39 IFRS 9 has two measurement categories amortised cost and fair value All equity instruments are measured at fair value A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest Otherwise it is measured at fair value through profit or loss The new standard is not expected to have a material impact on the Group's financial statements

Amendment to IAS 24 "Related Party Disclosures", effective for annual periods beginning on or after 1 January 2011

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 2010 or later periods but are not relevant for the Group's operations

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments', effective for annual periods beginning on or after 1 July 2010

2. Summary of significant accounting policies (continued)

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 2010

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

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

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker ("CODM") The CODM has been determined to be the Board of Directors, as it is primarily responsible for the allocation of resources to segments and the assessment of the performance of segments

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

2. Summary of significant accounting policies (continued)

Intangible assets

Goodwill

With the exception of the acquisition of CVS (UK) Limited which, as described in the year ended 30 June 2008 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 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 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, and tested annually for impairment (see impairment of assets policy below) 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

Trade names

Trade names 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 trade names acquired through a business combination is determined using the royalty relief method by discounting the expected future cash flows (savings by acquiring rather than creating the trade name) at the risk adjusted post tax weighted average cost of capital for the Group The residual values of trade names are assumed to be £nil Trade names are reviewed for impairment if conditions exist that indicate review is required Amortisation is provided so as to write off the cost of trade names over the expected economic lives of the asset in equal instalments of 10% per annum

2. Summary of significant accounting policies (continued)

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 or "CGUs") Recoverable amounts for CGUs 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 for the markets in which the CGU operates (estimated at 2 5%) The pre-tax discount rate used to calculate value in use is 10 0% at 30 June 2010 (2009 10 3%) These discount rates are derived from the Group's post-tax weighted average cost of capital

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

2. Summary of significant accounting policies (continued)

(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 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

(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 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 Company 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

2. Summary of significant accounting policies (continued)

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 or not 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 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

The fair value movement on the hedged item is split between the time value movement and the intrinsic value movement The movement on the time value is recognised in the income statement immediately and the movement in the intrinsic value is recognised directly in equity The total time value that had been recognised in equity at 1 July 2009 is required to be recycled prospectively through the income statement over the remaining term of the underlying hedged item

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

2. Summary of significant accounting policies (continued)

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

Where the intrinsic value of a share option exceeds the fair value, the corresponding deferred tax on the excess is recognised directly in equity

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

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 at each reporting date 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

2. Summary of significant accounting policies (continued)

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

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 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 an 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, interest receivable on cash and cash equivalents, debt finance costs and gains and losses on derivative financial instruments 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, share option expense and transaction costs relating to acquisitions

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 Group management The Group does not currently hedge any foreign currency transactions but continues to keep this policy under review

At 30 June 2010, the Group had monetary assets denominated in foreign currencies (principally the Euro) of £22,431 (2009 £40,846) and monetary liabilities denominated in foreign currencies of £5,000 (2009 £8,309) Management have considered and concluded that a movement of 10% would be a reasonable benchmark over which to determine the sensitivity of the Group's exposure to foreign exchange rate risk, because a movement of this magnitude is considered to be a reasonable approximation of movements that could be expected to occur

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 £1,639 (2009 £264) 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 2010 the Group recognised a foreign exchange gain amounting to £12,048 (2009 £20,687)

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 £30m 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

	2010 £'000	2009 £'000
Fixed rate (fair value interest rate risk)		
Short-term borrowings	-	(2)
Finance leases	-	(9)
	-	(11)
Floating rate (cash flow interest rate risk)		
Cash and cash equivalents	**(156)**	2,792
Short-term borrowings	**(5,085)**	(1,913)
Long-term borrowings	**(36,655)**	(41,644)
	(41,896)	(40,765)
	(41,896)	(40,776)

Excluding the impact of the interest rate collar arrangement, bank borrowings bear interest at 1 25% - 2 25% above LIBOR During the year the bank borrowings carried a rate averaging 1 25% above LIBOR

At 30 June 2010 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 2010, 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 £86,000 (2009 £86,000) 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

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 2010 gross trade receivables amounted to 5 0% of revenue for the year (2009 4 7%) Of these gross trade receivables 51% (2009 54%) were more than one month overdue

The maximum exposure to credit risk at 30 June 2010 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 2010

	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	6,035	5,028	4,079	30,481	45,623
Trade and other payables	8,952	-	-	-	8,952
Derivative contracts:					
Interest rate collar arrangements	975	748	474	81	2,278
	15,962	**5,776**	**4,553**	**30,562**	**56,853**

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	6,157	-	-	-	6,157
Derivative contracts:					
Interest rate collar arrangements	906	385	78	61	1,430
	10,138	**7,315**	**6,154**	**35,834**	**59,441**

3. Financial risk management (continued)

Capital risk management

The Group's policy is to maintain a strong capital base, defined as bank 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/adjusted EBITDA ratio, future funding needs (usually potential acquisitions) and Group banking arrangements

	2010	2009
	£'000	£'000
Net debt (see note 29)	**41,896**	40,776
Adjusted EBITDA (see page 32)	**13,065**	12,496
Ratio	**3.21**	3 26

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 working capital facility of which £0 3m was drawn down at 30 June 2010

Fair values of financial instruments

See note 19 for disclosure of the differences between the carrying amount and the fair value of borrowings The fair value of other financial assets and liabilities is not materially different to their book value due to the short term maturity of the instruments

Fair value measurement

Effective 1 July 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis The quoted market price used for financial assets held by the Group is the current bid price These instruments are included in level 1

3. Financial risk management (continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3

Specific valuation techniques used to value financial instruments include

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2010

	Level 1 £'000	Level 2 £'000	Total £'000
Assets			
Available-for-sale financial assets (note 17)	51	-	51
Liabilities			
Derivative financial instruments (interest rate collar arrangements) (note 18)	-	(2,284)	(2,284)

4. Segmental reporting

Segment information is presented in respect of the Group's business and geographical segments The primary format, operating 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, transaction costs and head office salary and premises costs

Geographical segments

The business operates predominantly in the UK It performs a small amount of laboratory work for European based clients In accordance with IFRS 8 "Operating segments" no segmental results are presented for trade with European clients as these are not reported separately for management reporting purposes

Operating segments

The Group is split into three operating segments, veterinary practices, laboratories, crematorium and a centralised support function for business segment analysis

Year ended 30 June 2010

	Veterinary practices £'000	Laboratories £'000	Crematorium £'000	Head office £'000	**Group £'000**
Revenue	79,148	7,859	698	(2,178)[1]	**85,527**
Profit/(loss) before income tax	10,241	710	228	(7,340)	**3,839**
Adjusted EBITDA	15,898	1,137	293	(4,263)	**13,065**
Total assets	70,217	4,146	872	854	**76,089**
Total liabilities	(11,309)	(1,258)	(108)	(51,365)	**(64,040)**
Reconciliation of adjusted EBITDA					
Profit/(loss) before income tax	10,241	710	228	(7,340)	**3,839**
Net finance expense	-	-	-	1,850	**1,850**
Amortisation	4,037	259	36	53	**4,385**
Depreciation	1,620	168	29	88	**1,905**
Share option expense	-	-	-	556	**556**
Transaction costs relating to business combinations	-	-	-	530	**530**
Adjusted EBITDA	15,898	1,137	293	(4,263)	**13,065**

[1]Inter-segment revenues representing laboratory sales and crematorium fees to veterinary practices eliminated on consolidation

4. Segmental reporting (continued)

Year ended 30 June 2009

	Veterinary practices £'000	Laboratories £'000	Crematorium £'000	Head office £'000	**Group £'000**
Revenue[1]	69,586	8,286	440	(1,707)[1]	**76,605**
Profit/(loss) before income tax	9,801	873	174	(6,404)	**4,444**
Adjusted EBITDA	14,403	1,337	217	(3,461)	**12,496**
Total assets	49,553	8,935	1,060	522	**60,070**
Total liabilities	(8,530)	(981)	(110)	(49,973)	**(59,594)**
Reconciliation of adjusted EBITDA					
Profit/(loss) before income tax	9,801	873	174	(6,404)	**4,444**
Net finance expense	-	-	-	2,567	**2,567**
Amortisation	3,443	255	27	117	**3,842**
Depreciation	1,159	209	16	142	**1,526**
Share option expense	-	-	-	117	**117**
Adjusted EBITDA	14,403	1,337	217	(3,461)	**12,496**

[1]Inter-segment revenues representing laboratory sales and crematorium fees to veterinary practices eliminated on consolidation

5. Transaction costs relating to business combinations

IFRS 3 (revised) amends the treatment of acquisition costs as part of business combinations These were previously treated as an element of consideration From 1 July 2009 the Group is required to expense all transaction costs relating to acquisitions directly in the income statement The charge for the year ended 30 June 2010 was £530,000 (2009 £nil)

6. Finance (income) and expense

	2010 £'000	2009 £'000
Interest expense, bank loans and overdraft	**1,932**	2,481
Amortisation of debt arrangement fees	**96**	95
Finance charges payable under finance leases	**-**	4
	2,028	2,580
Fair value adjustments in respect of financial assets and liabilities	**(149)**	48
Bank interest receivable	**(29)**	(61)
Net finance expense	**1,850**	2,567

Fair value adjustments in respect of financial assets and liabilities reflect the ineffective portion of derivative financial instruments that qualify for hedge accounting (amounting to £245,000 (2009 £48,000)) less the recycling of fair value adjustments in respect of the time value of the option accumulated in equity prior to the adoption of the amendment to IAS 39 (amounting to £96,000 (2009 £nil)) - see note 2 for further details

7. Operating profit

Operating profit is stated after charging/(crediting)	**2010 £'000**	2009 £'000
Amortisation of intangible assets	**4,385**	3,842
Depreciation of property, plant and equipment		
- owned	**1,867**	1,515
- leased	**38**	11
Employee benefit expenses	**40,454**	34,708
Cost of inventories recognised as an expense (included in cost of sales)	**12,064**	11,356
Repairs and maintenance expenditure on property, plant and equipment	**860**	826
Trade receivables impairment charge	**175**	265
Net foreign exchange differences	**(12)**	(21)
Operating lease rentals payable		
- property	**4,558**	3,697
- plant and machinery	**407**	386

Services provided by the Company's auditor and its associates

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

	2010 £'000	2009 £'000
Audit services:		
Fees payable to the Group auditors for the audit of the Parent Company and consolidated financial statements	**40**	35
Non-audit services:		
Tax services	**15**	47
The audit of the Company's subsidiaries pursuant to legislation	**37**	20
Other services pursuant to legislation	**10**	10
All other non-audit services	**3**	3
	105	115

8. Employee benefit expense and numbers

Group

Employee benefit expense for the Group

	2010 £'000	2009 £'000
Wages and salaries	**36,489**	31,522
Social security costs	**3,236**	2,926
Other pension costs (note 33)	**147**	123
Share-based payments (note 13)	**582**	137
	40,454	34,708

Employee benefit expense included within cost of sales is £36,585,000 (2009 £31,696,000) 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

	2010 Number	2009 Number
Veterinary surgeons and pathologists	**445**	386
Nurses, practice ancillary and technicians	**1,385**	1,239
Crematorium staff	**10**	10
Central support	**69**	62
	1,909	1,697

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

	2010 £'000	2009 £'000
Aggregate emoluments	**421**	593
Non-Executive fees	**160**	149
Company contributions to money purchase schemes	**31**	18
	612	760

Retirement benefits are accruing to two Directors (2009 one) under a personal pension plan The remuneration of the Executive Directors amounting to £557,000 (2009 £611,000) is borne by the subsidiary company CVS (UK) Limited, without recharge The remuneration of the Non-Executive Directors amounting to £160,000 (2009 £149,000) 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

	2010 £'000	2009 £'000
Aggregate emoluments	**278**	367
Company contributions to money purchase schemes	**18**	-
	296	367

Share options

Shares awarded to Executive Directors under the long-term incentive plans ("LTIP1", "LTIP2" and "LTIP3") 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

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

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

LTIP 3	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
S Innes	10 July 2009	30 June 2012	0 2p	264,504
P Coxon	10 July 2009	30 June 2012	0 2p	93,435

The market price of the ordinary shares on 10 July 2009 was 131p

No share options were exercised in the year

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

Under the Company's Save As You Earn schemes ("SAYE") the directors have the following options at the balance sheet date

SAYE1	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 25 to 28

Key management compensation

Key management are considered to be those on the Executive Committee (being the Executive Directors and other senior management) and non-Executive directors The employment costs of key management are as follows

	2010 £'000	2009 £'000
Aggregate emoluments	**1,152**	1,378
Pension costs	**44**	30
Share-based payments (note 13)	**582**	137
	1,778	1,545

10. Income tax expense

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

	2010 £'000	2009 £'000
Current tax expense		
UK corporation tax	**1,811**	1,751
Adjustments in respect of previous periods	**(531)**	-
Total current tax charge	**1,280**	1,751
Deferred tax expense		
Origination and reversal of temporary differences	**(647)**	(458)
Adjustments in respect of previous periods	**148**	113
Total deferred tax credit (note 25)	**(499)**	(345)
Total income tax expense	**781**	1,406

Factors affecting the current tax charge

The adjustments to current tax charge in respect of previous periods includes a one-off adjustment in respect of expenses that were previously deemed not to be deductible for tax purposes amounting to £525,000

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

	2010 £'000	2009 £'000
Profit before tax	**3,839**	4,444
Effective tax charge at 28% (2009 28%)	**1,075**	1,244
Effects of:		
Expenses not deductible for tax purposes	**89**	49
Adjustments to deferred tax charge in respect of previous periods	**148**	113
Adjustments to current tax charge in respect of previous periods	**(531)**	-
Total income tax expense	**781**	1,406

(c) Factors affecting the future tax charge

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements The changes are not anticipated to have a material impact on the Group's financial statements in future periods

Furthermore, the Group has tax losses carried forward, the utilisation of which will reduce the current tax charge in future periods

11. Profit/(loss) for the financial year

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 £1,202,000 (2009 £256,000)

12. Earnings per ordinary share

(a) Basic

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

	2010	2009*
Earnings attributable to ordinary shareholders (£'000)	**3,058**	3,038
Weighted average number of ordinary shares in issue (note 27)	**53,361,521**	51,696,623
Basic earnings per share (pence per share)	**5.7**	5 9

(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 Company 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

	2010	2009*
Earnings attributable to Ordinary shareholders (£'000)	**3,058**	3,038
Weighted average number of Ordinary shares in issue (note 27)	**53,361,521**	51,696,623
Adjusted for contingently issueable shares	**635,177**	427,176
Weighted average number of Ordinary shares for diluted earnings per share	**53,996,698**	52,123,799
Diluted earnings per share (pence per share)	**5.7**	5 8

*In accordance with the provision of IAS 33 – 'Earnings per Share, the comparatives have been adjusted to reflect the impact of the placing in the year (being the impact of the discount applied to the market price, on the weighted average number of shares (see note 27 for further details))

12. Earnings per ordinary share (continued)

Non-GAAP measure: Adjusted earnings per share

Adjusted earnings per Ordinary share is calculated by dividing the profit after taxation excluding amortisation, share option expense, transaction costs relating to acquisitions, non-recurring tax credits 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

	2010 £'000	2009* £'000
Earnings attributable to Ordinary shareholders	**3,058**	3,038
Adjustments for		
Amortisation (note 14)	**4,385**	3,842
Share option expense (note 13)	**556**	117
Fair value adjustments in respect of financial assets and liabilities (note 6)	**(149)**	48
Transaction costs relating to acquisitions	**530**	-
Tax effect of the above adjustments	**(1,490)**	(1,122)
Non-recurring tax credit in respect of expenses previously deemed to be disallowable for tax purposes	**(525)**	-
Adjusted profit after income tax and earnings attributable to ordinary shareholders	**6,365**	5,923
Weighted average number of Ordinary shares in issue	**53,361,521**	51,696,623
Weighted average number of Ordinary shares for diluted earnings per share	**53,996,698**	52,123,799
	Pence	Pence
Adjusted earnings per share	**11 9p**	11 5p
Diluted adjusted earnings per share	**11.8p**	11 4p

*In accordance with the provision of IAS 33 – 'Earnings per Share, the comparatives have been adjusted to reflect the impact of the placing in the year (being the impact of the discount applied to the market price, on the weighted average number of shares (see note 27 for further details))

13. Share-based payments

Long Term Incentive Plans

The Group operates an incentive 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

	July 2009 ("LTIP3") scheme Number of share awards	November 2008 ("LTIP2") scheme Number of share awards	October 2007 ("LTIP1") scheme Number of share awards
Outstanding at 1 July 2009	-	324,827	194,779
Granted during the year	556,397	-	-
Forfeited during the year	-	-	-
Exercised during the year	-	-	-
Expired during the year	-	-	-
Outstanding at 30 June 2010	556,397	324,827	194,779
Exercisable at 30 June 2010	-	-	194,779

The options outstanding at the year end under the LTIP1 scheme have vested (subject to ratification by the Remuneration Committee) The options outstanding at the period end under the LTIP2 scheme have a weighted average remaining contractual life of 1 year and the options outstanding at the period end under the LTIP3 scheme have a weighted average remaining contractual life of 2 years The weighted average exercise price of the above options was 0 2p

Further details of the above schemes are included in the Directors' Remuneration Report on pages 25 to 28

13. Share-based payments (continued)

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

Grant date	10 July 2009	18 November 2008	10 October 2007
Share price at grant date	£1 28	£1 45	£2 05
Exercise price	0 2p	0 2p	0 2p
Number of employees	9	4	4
Shares under option at date of grant	556,397	407,585	253,315
Vesting period (years)	3 years 0 months	2 years 8 months	2 years 9 months
Option life (years)	3 years 0 months	2 years 8 months	2 years 9 months
Expected life (years)	3 years 0 months	2 years 8 months	2 years 9 months
Expected dividends expressed as a dividend yield	0%	0%	0%
Fair value per option	£1 28	£1 45	£2 05

The share based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £481,000 (2008 £104,000) and has been charged to administrative expenses National Insurance contributions amounting to £26,000 (2009 £20,000) 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 employees, the CVS Group Save As You Earn ("SAYE") plan, an Inland Revenue approved scheme The SAYE1 scheme was opened for subscription in July 2008 and the SAYE2 scheme was opened for subscription in October 2009 (with options granted in November 2009) Under the SAYE schemes awards have been 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

	SAYE1 Number of share awards	SAYE2 Number of share awards
Outstanding 1 July 2009	287,317	-
Granted during the year	-	260,185
Forfeited during the year	(78,086)	(130,093)
Exercised during the year	-	-
Outstanding at 30 June 2010	209,231	130,092
Exercisable at 30 June 2010	-	-

13. Share-based payments (continued)

The options outstanding at the period end under SAYE1 scheme have a weighted average remaining contractual life of 1 year 2 months and the option outstanding at the year end under the SAYE2 scheme have a weighted average remaining contractual life of 2 years 5 months The weighted average exercise price of options granted under the SAYE1 and SAYE2 schemes was £2 10 and £1 44 respectively

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	**SAYE2 17 November 2009**	**SAYE1 15 July 2008**
Share price at grant date	£1 80	£2 62
Exercise price	£1 44	£2 10
Expected volatility*	39 8%	34 2%
Number of employees	127	273
Shares under option at date of grant	260,185	360,088
Vesting period (years)	3 years	3 years
Option life (years)	3 years	3 years
Expected life (years)	3 years	3 years
Expected dividends expressed as a dividend yield	0%	0%
Fair value per option	£0 69	£0 96

*Expected volatility has been determined by looking at 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 schemes amounted to £75,000 (2009 £13,000) and has been charged to administrative expenses

14. Intangible assets

	Goodwill £'000	Trade names £'000	Customer lists £'000	Patient data records £'000	Computer software £'000	Total £'000
Cost						
At 1 July 2008	8,054	-	3,685	30,497	377	42,613
Additions arising through business combinations	1,082	-	539	6,790	-	8,411
Other additions	-	-	-	-	45	45
At 30 June 2009	9,136	-	4,224	37,287	422	51,069
Additions arising through business combinations (note 16)	7,936	1,450	-	9,711	-	19,097
Other additions	-	-	-	-	97	97
At 30 June 2010	**17,072**	**1,450**	**4,224**	**46,998**	**519**	**70,263**
Amortisation						
At 1 July 2008	-	-	119	4,963	259	5,341
Amortisation for the year	-	-	272	3,444	126	3,842
At 30 June 2009	-	-	391	8,407	385	9,183
Amortisation for the year	-	44	284	3,993	64	4,385
At 30 June 2010	-	**44**	**675**	**12,400**	**449**	**13,568**
Net book amount						
At 30 June 2010	**17,072**	**1,406**	**3,549**	**34,598**	**70**	**56,695**
At 30 June 2009	9,136	-	3,833	28,880	37	41,886

Amortisation expense has been charged to administrative expenses

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

Company

The Company does not hold any intangible assets

14. Intangible assets (continued)

Impairment of goodwill

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

The components of goodwill by business segment (which represent CGUs) is shown below

Group

	2010 £'000	2009 £'000
Veterinary practices	**14,256**	6,320
Laboratories	**2,358**	2,358
Crematorium	**458**	458
	17,072	9,136

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

	2010	2009
Growth rate applied beyond approved forecast period	**2.5%**	3 0%
Pre-tax discount rate	**10.0%**	10 3%

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 Furthermore, the Directors consider the growth rate to be consistent between segments

Based on the results of the current period impairment review, no impairment charges have been recognised by the Group in the year ended 30 June 2010 (2009 £nil) Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in the year ended 30 June 2010

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

15. Property, plant and equipment

Group	Freehold land and buildings £'000	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 July 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
Additions arising through business combinations (note 16)	-	281	1,047	-	1,328
Additions	6	925	930	104	1,965
Disposals	-	(2)	(2)	(16)	(20)
At 30 June 2010	**1,386**	**4,210**	**8,339**	**947**	**14,882**
Accumulated depreciation					
At 1 July 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
Charge for the year	37	341	1,343	184	1,905
At 30 June 2010	**144**	**835**	**4,503**	**565**	**6,047**
Net book amount					
At 30 June 2010	**1,242**	**3,375**	**3,836**	**382**	**8,835**
At 30 June 2009	1,273	2,512	3,204	478	7,467

Freehold land amounting to £203,000 (2009 £203,000) has not been depreciated The Directors believe that the market value of freehold land is not materially different from its book value Property plant and equipment 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

Included within fixtures, fittings and equipment are assets held under finance leases with a net book value of £nil (2009 £38,000) Depreciation charged in the period on these assets amounted to £38,000 (2009 £11,000) 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 (both acquisitions of trade and assets and acquisitions of the entire issued share capital of a limited company) in the year ending 30 June 2010 are set out below, in addition to an analysis of post acquisition performance of the respective business combinations, where practicable All 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 two main items, firstly cost synergies arising from the application of the Group's buying power and secondly, in respect of Veterinary Enterprises & Trading Limited, a premium to remove a platform that could have allowed a new consolidator to enter the market None of the goodwill recognised in respect of share acquisitions is expected to be deductible for income tax purposes

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

Trade and assets acquisitions

The table below summarises the trade and assets acquisitions in the year ended 30 June 2010

Assets and trade	Date of acquisition	Fair value of property plant and equipment acquired £'000	Fair value of intangible assets acquired[1] £'000	Consideration[2] £'000
A practice in:				
Berkshire	16/07/2009	295	5	300
Cheshire	30/11/2009	20	336	356
Kent	15/03/2010	20	330	350
Nottingham	14/06/2010	5	420	425
West Sussex	21/06/2010	107	1,000	1,107
East/West Sussex	22/06/2010	6	334	340
		453	**2,425**	**2,878**

[1]Intangible assets acquired represents patient data records (£2,157,000) and goodwill (£268,000)

[2]Consideration includes deferred consideration amounting to £732,000

16. Business combinations (continued)

Trade and assets acquisitions (continued)

Analysis of post acquisition performance:

	Post-acquisition revenue[1] £'000	Post-acquisition contribution[2] £'000
A practice in:		
Berkshire	1,136	146
Cheshire	367	27
Kent	137	1
Nottingham	20	8
West Sussex	45	2
East/West Sussex	20	4
	1,725	**188**

[1]Post-acquisition revenue represents revenue from the date of acquisition to 30 June 2010

[2]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 2010

16. Business combinations (continued)

Share acquisitions

Acquisition of Veterinary Enterprises & Trading Limited, Cedar Veterinary Services Limited and Ark Alliance Limited

On 11 March 2010, the Group acquired the whole of the issued share capital of Veterinary Enterprises & Trading Limited ("VETL") for a total consideration of £9 9m The main operating companies in the VETL group are Pet Doctors Limited and Greendale Veterinary Diagnostics Limited

On 22 March 2010 the Group acquired the whole of the issued share capital of Cedar Veterinary Services Limited ("CVSL") for a total consideration of £0 8m On 15 May 2010 the Group acquired the whole of the issued share capital of Ark Alliance Limited ("AAL") for a total consideration of £1 2m Immediately following the acquisitions of CVSL and AAL the trades and related assets were transferred to CVS (UK) Limited

The book values of the assets (excluding intangibles) and liabilities of VETL, CVSL, and AAL, and the fair value of the intangible assets, at the date of acquisition are set out below Unless otherwise stated, the Directors consider that the book values of the assets (excluding intangibles) and liabilities are equivalent to the fair values The purchase price allocation exercise has not been completed as at 30 June 2010 As such, provisional values have been used in these financial statements The final purchase price allocation will be presented in the 2011 financial statements

	VETL £'000	CVSL £'000	AAL £'000	Total £'000
Intangible assets – patient data records	5,685	754	1,115	7,554
Intangible assets – goodwill	6,995	211	462	7,668
Intangible assets – trade name	1,450	-	-	1,450
Property, plant and equipment	686	10	179	875
Inventories[1]	277	49	38	364
Trade and other receivables	313	115	101	529
Cash and cash equivalents	(58)	(42)	36	(64)
Current income tax liabilities	15	7	(54)	(32)
Deferred income tax assets	490	2	-	492
Deferred income tax liabilities	(1,998)	(211)	(322)	(2,531)
Loans and borrowings	(2,215)	-	(212)	(2,427)
Trade and other payables	(1,729)	(90)	(116)	(1,935)
Net assets acquired	**9,911**	**805**	**1,227**	**11,943**
Consideration satisfied by				
Cash	**9,911**	**762**	**1,118**	**11,791**
Deferred consideration	**-**	**43**	**109**	**152**
Total consideration	**9,911**	**805**	**1,227**	**11,943**

[1]Inventory with a book value of £451,000 acquired as part of business combinations were fair valued on acquisition resulting in a fair value of £364,000 being recognised as per the above table

16. Business combinations (continued)

Share acquisitions (continued)

Analysis of post acquisition performance:

The post-acquisition turnover of VETL amounted to £4,032,000 and the post-acquisition profit after tax amounted to £560,000

The post-acquisition turnover of CVSL amounted to £416,000 and the post-acquisition contribution amounted to £51,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these given the transfer of assets and trade to CVS (UK) Limited)

The post-acquisition turnover of AAL amounted to £199,000 and the post-acquisition contribution amounted to £15,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these given the transfer of assets and trade to CVS (UK) Limited)

Pro-forma full year information

The following unaudited pro-forma summary presents the Group as if the above share acquisitions had occurred on 1 July 2009 As per above, it is not practicable to disclose the same information in respect of the trade and assets acquisitions The pro forma amounts include the results of VETL, CVSL and AAL and amortisation of the acquired intangible assets recognised on acquisition The pro forma amounts do not include any possible synergies from the acquisition of the respective companies The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies

	£'000
Revenue	**101,798**
Profit for the financial year	**2,037**

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 2009

17. Investments

(a) Available-for-sale financial assets

Group	**2010 £'000**	2009 £'000
Available-for-sale financial assets	**74**	67

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

17. Investments (continued)

(a) Available-for-sale financial assets (continued)

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

	2010 £'000	2009 £'000
At 1 July	**67**	399
Fair value adjustment – through reserves	**7**	(16)
Disposed of in the year	**-**	(316)
At 30 June	**74**	67

(b) Shares in subsidiary undertakings

Company

	£'000
Cost and net book amount	
At 1 July 2008	61,986
Options granted to employees of subsidiary undertakings	117
At 30 June 2009	**62,103**
Options granted to employees of subsidiary undertakings	556
Impairment	(2,755)
At 30 June 2010	**59,904**

In accordance with the provisions of IAS 36 "Impairment of Assets", the Directors assessed the carrying value of the investments in subsidiary undertakings at 30 June 2010 and determined that the carrying value of the Company's investment in its subsidiary undertakings exceeded the fair value As a result, a provision for impairment, amounting to £2,755,000 has been recognised in these financial statements

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

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 £149,000 (2009 £48,000), representing 6 5% (2009 2 3%) 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 a £32 0m term loan facility (£30 1m outstanding at 30 June 2010) 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

Financial instruments not qualifying for hedge accounting

The Group's policy is not to use derivatives for trading purposes

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

Group

	2010		2009	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Non-current				
Interest rate collar arrangements – cash flow hedges	-	**(2,284)**	-	(1,463)

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 2010 were £30,087,500 (2009 £32,000,000) The outstanding interest rate collar arrangement contract expires on 4 October 2013 (2009 4 October 2013)

18. Derivative financial instruments (continued)

Movements in fair values:

Group

	Interest rate collar arrangements £'000
Fair value at 1 July 2008	613
Fair value loss through reserves – hedged	(2,028)
Fair value loss through income statement (note 6)	(48)
At 30 June 2009	(1,463)
Fair value loss through reserves – hedged (net of element recycled to the income statement)	(970)
Fair value gain through income statement (note 6)	149
At 30 June 2010	**(2,284)**

Company

The Company does not hold derivative financial instruments

19. Financial instruments

30 June 2010	Loans and receivables £'000	Available-for-sale £'000	Total £'000
Assets as per balance sheet			
Available-for-sale financial assets	-	74	74
Trade and other receivables (excluding prepayments and accrued income)	4,371	-	4,371
Cash and cash equivalents	109	-	109
	4,480	**74**	**4,554**

19. Financial instruments (continued)

30 June 2010 (continued)	Derivatives used for hedging £'000	Other financial liabilities £'000	Total £'000
Liabilities as per balance sheet			
Borrowings	-	(42,005)	(42,005)
Trade and other payables (excluding social security and other taxes)	-	(8,952)	(8,952)
Derivative financial instruments	(2,284)	-	(2,284)
	(2,284)	**(50,957)**	**(53,421)**

30 June 2009	Loans and receivables £'000	Available-for-sale £'000	Total £'000
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 (excluding social security and other taxes)	-	(6,157)	(6,157)
Derivative financial instruments	(1,463)	-	(1,463)
	(1,463)	**(49,725)**	**(51,188)**

19. Financial instruments (continued)

Fair values of financial assets and liabilities

Fair values of financial assets and liabilities are disclosed below

Group

	2010		2009	
	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	**(5,350)**	**(6,149)**	(1,915)	(2,946)
Long-term borrowings	**(36,655)**	**(36,116)**	(41,644)	(40,748)
Finance leases	**-**	**-**	(9)	(10)
Cash and cash equivalents	**109**	**109**	2,792	2,792
Interest rate collar arrangements	**(2,284)**	**(2,284)**	(1,463)	(1,463)
	(44,180)	**(44,440)**	(42,239)	(42,375)

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	**2010 £'000**	2009 £'000
Goods held for resale	**2,453**	1,972

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 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Trade receivables	4,257	3,597	-	-
Less Provision for impairment of receivables	(821)	(678)	-	-
Trade receivables - net	3,436	2,919	-	-
Amounts owed by group undertakings	-	-	6,342	-
Other receivables	935	570	-	-
Prepayments and accrued income	2,231	1,942	-	-
	6,602	5,431	6,342	-

Group

The carrying amount of trade and other receivables is deemed to be 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 Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated Due to this, management believes there is no further credit risk provision required in excess of normal provision for doubtful recoverables The Group does not hold any collateral as security The Group's trade and other receivables are denominated in Sterling As of 30 June 2010, trade receivables of £2,088,000 (2009 £1,655,000) were within their due period As at 30 June 2010, £2,169,000 (2009 £1,942,000) of the gross trade receivables were past due and partially impaired As at 30 June 2010, the amount of gross trade receivables past due that were not impaired amounted to £1,348,000 (2009 £1,264,000) These relate to a number of independent customers for whom there is no recent history of default and the Directors consider that these amounts are fully recoverable The ageing of these trade receivables is as follows

	2010 £'000	2009 £'000
One to six months overdue	1,348	1,264

A provision for impairment is established based on historical experience The amount of the provision was £821,000 (2009 £678,000) The individually impaired receivables relate mainly to individual customers who are in unexpectedly difficult economic situations These amounts continue to be legally pursued for collection notwithstanding they are fully provided Movements on the Group's provision for impairment of trade receivables are as follows

	2010 £'000	2009 £'000
At beginning of the year	678	444
Charged to the income statement within administrative expenses	175	265
Utilised in the period	(32)	(31)
At end of the year	821	678

Other receivables do not contain impaired assets

Company

Amounts owed by group undertakings are unsecured, interest free and repayable on demand

22. Cash and cash equivalents

Group	2010 £'000	2009 £'000
Cash at bank and in hand	**109**	2,792

Cash and cash equivalents include the following for the purpose of the statement of cash flows

	2010 £'000	2009 £'000
Cash	**109**	2,792
Bank overdraft	**(265)**	-
Cash at bank and in hand	**(156)**	2,792

Company

The Company does not hold any cash and cash equivalents

23. Trade and other payables

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Current				
Trade payables	**6,495**	4,762	-	-
Amounts due to group undertakings	-	-	-	3,861
Social security and other taxes	**3,149**	2,295	-	-
Other payables	**2**	7	-	-
Accruals and deferred income	**2,455**	1,388	-	-
	12,101	8,452	-	3,861

24. Borrowings

Group	2010 £'000	2009 £'000
Current		
Bank overdraft	**265**	-
Bank loans	**5,085**	1,915
Finance leases	**-**	9
	5,350	1,924

	2010 £'000	2009 £'000
Non-current		
Bank loans	**36,655**	41,644

Company

The Company does not have any borrowings

Bank loans

The repayment profile of the bank loans is as follows

Group	2010 £'000	2009 £'000
Within one year or on demand	**5,350**	1,915
Between one and two years	**3,956**	5,081
Between two and three years	**2,831**	3,956
Between three and four years	**29,868**	2,831
Between four and five years	**-**	29,776
	42,005	43,559

The balances above are shown net of issue costs of £347,000 (2009 £443,000), 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

24. Borrowings (continued)

The bank loans and overdraft are secured by a first debenture incorporating fixed and floating charges over the assets and undertakings of each Group company The bank loans and overdraft 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

The acquisition facility was subject to an initial 36 month capital repayment holiday As at 30 June 2010, the acquisition facility has been fully drawn down An amount equating to 12 5% of the drawdown at 30 June 2010 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

The Group has a committed working capital facility of £2,000,000 (2009 £2,000,000) of which, £1,700,000 was undrawn at 30 June 2010 (2009 £2,000,000) and which is repayable on demand

Finance leases

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	**2010** **£'000**	2009 £'000
Minimum lease payments		
Within one year	-	10
Future finance charges		
Within one year	-	1
Net minimum lease payments		
Within one year	-	9

The finance leases were 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	2010		2009	
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Deferred income tax	**1,321**	**(7,076)**	455	(4,942)

Deferred income tax assets

Deferred income tax assets are comprised as follows

Group	2010 £'000	2009 £'000
Tax effect of timing differences		
Share based payments	**128**	45
Losses	**553**	-
Derivative financial instruments	**640**	410
	1,321	455

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 assets will reverse

Deferred income tax liabilities

Deferred income tax liabilities are comprised as follows

Group	2010 £'000	2009 £'000
Tax effect of timing differences		
Excess of qualifying depreciation and amortisation over tax allowances	**(7,076)**	(4,942)

25. Deferred income tax (continued)

Deferred income tax assets – net

The movement ın the net deferred ıncome tax lıabılıtıes ıs explaıned as follows

Group	2010 £'000	2009 £'000
Deferred tax lıabılıtıes brought forward	**(4,487)**	(4,779)
Charged to the ıncome statement (note 10(a))	**499**	345
Charged to equıty	**272**	560
Arısıng on busıness combınatıons (note 16)	**(2,039)**	(613)
Deferred tax lıabılıtıes carrıed forward – net	**(5,755)**	(4,487)

In addıtıon to the losses recognısed as per above, the Group has tax losses arısıng ın the UK of £677,000 (2009 £nıl) that are potentıally avaılable for offset agaınst future taxable profits Deferred tax assets have not been recognısed ın respect of these losses due to uncertaınty over theır future recoverabılıty

Company

The Company has neıther provıded or unprovıded deferred tax assets or lıabılıtıes

26. Current income tax liabilities

Group	2010 £'000	2009 £'000
Current tax lıabılıtıes	**574**	1,169

Company

The Company does not have any current tax lıabılıtıes

27. Share capital

	2010 £'000	2009 £'000
Authorised		
352,000,000 (2009 352,000,000) Ordinary shares of 0 2p each	**704**	704

	2010 £'000	2009 £'000
Issued and fully paid:		
56,300,317 (2009 51,563,475) Ordinary shares of 0 2p each	**113**	103

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

On 11 March 2010, the Group raised £8,650,000, net of expenses (amounting to £350,000), through the issue of 4,736,842 new 0 2p Ordinary shares The proceeds of the share issue were used to acquire Veterinary Enterprises & Trading Limited (see note 16 for further details) The issue was structured as a placing at a price of 190 pence per share, representing a discount of approximately 2 8 per cent to the closing price of 195 5 pence per Ordinary share on 18 February 2010 (being the last business day prior to the announcement of the acquisition)

28. Share premium, capital redemption reserve, revaluation reserve and merger reserve

Share premium
The share premium reserve comprises the premium paid over the nominal value of shares for shares issued

Capital redemption reserve
Upon cancellation of 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 2009 £'000	Cash flow £'000	Acquisitions £'000	Non-cash movements £'000	**At 30 June 2010 £'000**
Cash and cash equivalents	2,792	(2,948)	-	-	**(156)**
Borrowings – current	(1,915)	4,342	(2,427)	(5,085)	**(5,085)**
Finance leases – current	(9)	9	-	-	**-**
Total current debt	(1,924)	4,351	(2,427)	(5,085)	**(5,085)**
Borrowings – non-current	(41,644)	-	-	4,989	**(36,655)**
Net debt	(40,776)	1,403	(2,427)	(96)	**(41,896)**

Non-cash movements relate to the amortisation of issue costs on bank loans and transfers between categories of borrowings

Company

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

30. Cash flow generated from operations

	Group 2010 £'000	Group 2009 £'000	**Company 2010 £'000**	Company 2009 £'000
Profit/(loss) for the year	**3,058**	3,038	**(1,202)**	(256)
Taxation	**781**	1,406	**-**	-
Total finance costs	**1,879**	2,628	**-**	-
Investment income	**(29)**	(61)	**(1,806)**	-
Impairment of investment in subsidiary undertakings	**-**	-	**2,755**	-
Amortisation of intangible assets	**4,385**	3,842	**-**	-
Depreciation of tangible fixed assets	**1,905**	1,526	**-**	-
Loss on disposal of property, plant and equipment	**-**	11	**-**	-
Increase in inventories	**(22)**	(102)	**-**	-
Increase in trade and other receivables	**(642)**	(255)	**(8,397)**	-
Increase in trade and other payables	**753**	230	**-**	256
Share option expense	**556**	117	**-**	-
Total net cash flow generated from operations	**12,624**	12,380	**(8,650)**	-

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 £nil (2009 £15,922) The Company had no capital commitments as at 30 June 2010 (2009 £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 £42,352,000 at 30 June 2010 The Directors do not expect any material loss to the Company to arise in respect of the guarantees

32. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

Property	**2010 £'000**	2009 £'000
No later than one year	**4,865**	3,627
Later than one year and not later than five years	**18,454**	13,653
Later than five years	**28,410**	23,554
	51,729	40,834

Plant and machinery	**2010 £'000**	2009 £'000
No later than one year	**270**	239
Later than one year and not later than five years	**307**	278
Later than five years	**11**	1
	588	518

Total lease commitments	**2010 £'000**	2009 £'000
No later than one year	**5,135**	3,866
Later than one year and not later than five years	**18,761**	13,931
Later than five years	**28,421**	23,555
	52,317	41,352

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 £147,000 (2009 £123,000) The amount outstanding at the end of the year included in trade and other payables was £9,000 (2009 £5,000)

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

	2010 £'000	2009 £'000
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	**(253)**	(256)
Proceeds of ordinary share issue advanced to CVS (UK) Limited	**8,650**	-
Dividend receivable from CVS (UK) Limited	**1,806**	-

As at 30 June 2010, the following balances were owed by/due to related companies,

	2010		2009	
	Receivable £'000	**Payable £'000**	Receivable £'000	Payable £'000
CVS (UK) Limited	**6,342**	-	-	3,861

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

Transactions with Directors

During the year under review, the Group entered into an agreement to rent a premises owned by the spouse of Simon Innes The annual market based rental for the premises is £22,000, of which £420 was payable in the year ended 30 June 2010 This agreement is subject to ratification at the Company's annual general meeting

35. Ultimate controlling party

The Directors consider there is no ultimate controlling party

CVS Group plc

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