

CVS Group plc
Annual report
for the year ended 30 June 2011

Registered number: 06312831



CVS Group plc

Annual report for the year ended 30 June 2011

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CVS Group plc

Financial highlights

	Year ended 30 June 2011	Year ended 30 June 2010	Movement %
Adjusted results:			
Adjusted EBITDA ¹	£14.5m	£13.1m	+11.1
Adjusted earnings per share ²	14.0p	11.9p	+17.6
Reported results:			
Revenue	£101.5m	£85.5m	+18.7
Operating profit	£6.4m	£5.7m	+11.8
Profit before income tax	£4.3m	£3.8m	+10.8
Profit after income tax	£3.5m	£3.1m	+14.0
Cash generated from operations	£17.6m	£12.6m	+39.7
Basic earnings per share	6.2p	5.7p	+8.8

- Significant increase in Group revenue and profit generation, leading to 17.6% and 8.8% increases in adjusted and basic EPS respectively
- Underlying like-for-like sales³ growth of 0.4%
- Cash generated from operations increased by 39.7%
- Net debt reduced by £8.4m to £33.5m
- Successfully acquired and integrated 12 surgeries. Of these acquired sites, 9 were completed in the second half of the year bringing the total number of sites at the year end to 223 surgeries and 6 laboratories
- Our on-line retail platform, Animed Direct, was successfully launched in the year and is trading ahead of expectations
- Proposed maiden dividend of 1p per share

¹See page 33 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, costs relating to business combinations 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".

³ See note 2 of the financial statements for definition of like-for-like sales.

Chief Executive Comment

"I am pleased to report that CVS has delivered sustained growth in revenue, profit generation and operating cash flow in the year. Like-for-like sales showed slight growth, which is encouraging during a period of tougher trading conditions. The Group continues to focus on organic growth whilst also developing new revenue streams and continuing to grow through selective strategic acquisitions."

Simon Innes



CVS Group plc

About CVS

We are the leading provider of small animal veterinary and related services in the UK with 223 veterinary practices, 6 laboratories, a pet crematorium and 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:

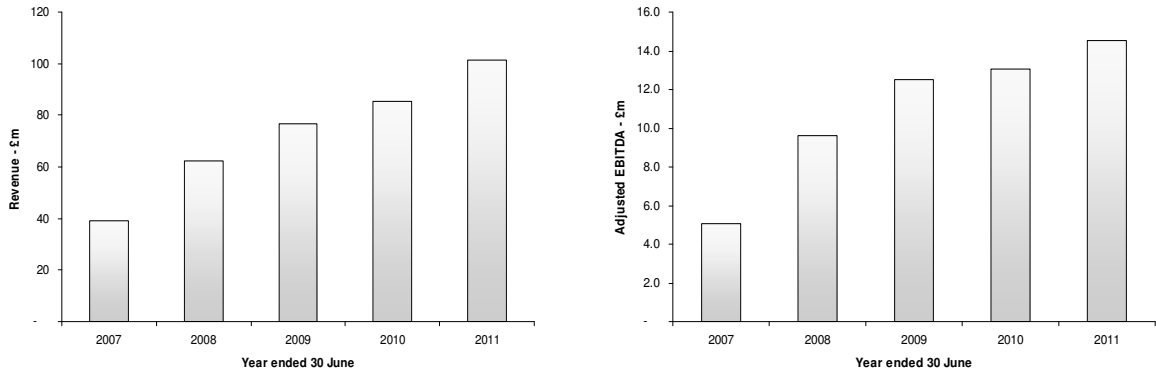
- Attract and retain customers through trust, recommendation and a localised approach.
- Achieve organic growth by broadening the range of veterinary related services, supplemented by acquisitions where appropriate.
- Deliver improved returns from veterinary related businesses by managing them more efficiently, centralising administration and utilising group buying power.
- Realise further efficiencies by vertically integrating supporting activities such as laboratory and crematoria services, particularly with acquired businesses.



CVS Group plc

CVS at a glance

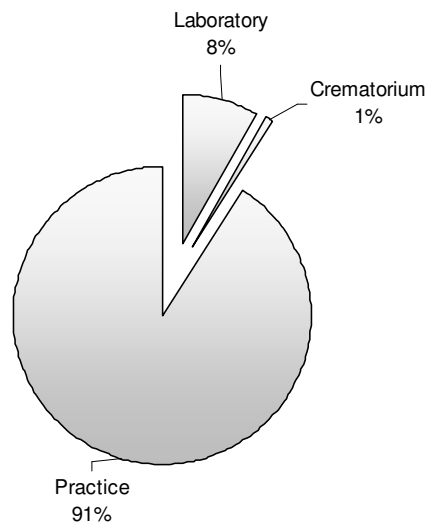
Revenue and Adjusted EBITDA - 5 year history



The Group has grown significantly over the past 5 years both in terms of revenue and adjusted EBITDA (see page 33 for reconciliation to profit before income tax).

In respect of the year under review, the Group's services continued to operate through three divisions namely, **Practice**, **Laboratory** and **Crematorium**, serviced by a central support function.

Revenue by division



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CVS at a glance

Operating divisions

Practice

The Practice division is the principal operating unit of the Group. The division currently employs over 500 veterinary surgeons operating from 223 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.



The Group launched an on-line trading platform, Animed Direct (www.animeddirect.co.uk), on 27 July 2010. Animed Direct sells competitively priced animal medicines and a wide range of pet products directly to UK consumers thus expanding the range of products and services offered by the Practice division. Animed Direct benefits from the significant buying power of CVS particularly in the area of medicines. The Board believes that this new division is proving to be strategically important in capturing a share of the increasing amount of veterinary related products that are sold on-line.



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CVS at a glance

Operating divisions (continued)



Laboratory

The Laboratory division supports the diagnostic services of the Veterinary profession. 72% of its sales were generated from third party practices and 28% from CVS owned practices. The division carries out over 300,000 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 (68%) supported by services provided to CVS owned practices (32%).



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 2011. The Group has continued to deliver significant improvements in many key financial metrics despite the challenges presented by a tougher operating climate.

The Group has grown revenue by 18.7% to £101.5m (2010: £85.5m) and Adjusted EBITDA by 11.1% to £14.5m (2010: £13.1m). Adjusted EBITDA as a percentage of sales has declined from 15.3% to 14.3%, primarily reflecting the tougher operating environment impacting like-for-like sales and the corresponding impact on Adjusted EBITDA owing to the Group's relatively high operating margin. There was strong cash delivery with cash generated from operations of £17.6m (2010: £12.6m). Operating profit grew by 11.8% to £6.4m (2010: £5.7m) and Adjusted EPS grew by 17.6% to 14.0p (2010: 11.9p).

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 growth of the Group's customer loyalty schemes and further development of the rapidly growing on-line dispensary and pet shop (Animed Direct).

The Group's customer loyalty programmes comprise the Healthy Pet Club for adult dogs and cats; the Healthy Horse Club (launched in the first half of the financial year); the Healthy Puppy and Kitten Club (launched in the latter part of the financial year) and the Healthy Rabbit Club (launched post year end). These schemes have been established to bond clients to the practice; to improve loyalty; to increase compliance (particularly with respect to vaccinations, worming and flea treatment); and protect loss of drug sales revenue from surgeries to on-line retailers. In the business and financial review (pages 10 to 15) we demonstrate the significant increase in client membership.

I am pleased to report that the launch of Animed Direct during the year has been successful and further growth from our e-commerce operations is expected.

The Group acquired and integrated 12 surgeries in the year, enhancing CVS's presence in the UK veterinary profession. I am pleased to report that these surgeries have performed in line with expectations post acquisition.

Since year end, we have acquired a single site practice in Hertfordshire with an annualised turnover in the region of £1 million.

Cash flow and funding position

Cash flow generated from operations increased significantly by 39.7% to £17.6m. The ability of the Group to convert profit into cash is clearly demonstrated with Adjusted EBITDA at £14.5m being complemented by an improvement in agreed supplier payment terms.



Chairman's statement (continued)

Overall net debt decreased in the year to £34m from £42m, with a corresponding decrease in the gearing of the Group with EBITDA to net debt ratio reducing from 3.21 to 2.31. In the year under review, £5.2m of debt has been repaid. A further £4.0m is scheduled to be repaid during the year ending 30 June 2012 and this has been reflected in our cash flow forecasts.

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

Internally generated cash will continue to be used to fund future acquisition activity.

Dividends

The Directors believe that the cash generative nature and resilience of the Group's model is sufficiently proven to enable the Company to commence the payment of dividends to our shareholders, who have shown their consistent support for CVS.

The Board is therefore recommending a maiden dividend of 1.0p per share, a payment that is covered 6.2 times by basic earnings per share and 14.0 times by adjusted earnings per share. The Group will continue to review its dividend policy on an ongoing basis with particular regard to the Group's profitability and cash generation.

If approved at the Annual General Meeting, the maiden dividend will be paid on 20 December 2011 to shareholders on the register on 16 December 2011. The ex-dividend date will be 14 December 2011.

Our people

The Group continues to be the largest employer in the UK veterinary profession with approximately 2,200 staff today, including around 500 vets. Our people are

our best asset in enabling the Group to deliver its strategy and I would like to thank them all, including those new to CVS in the year, for their expertise and professionalism in providing the best possible veterinary care and service.

Further business development

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

Outlook

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

The Group has delivered marginally positive like-for-like sales growth since the year end.

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

Richard Connell

Chairman

26 September 2011



Business and financial review

CVS has continued to deliver growth over the prior year in terms of revenues, cash and profit generation. Group revenue increased to £101.5m (2010: £85.5m), cash generated from operations increased to £17.6m (2010: £12.6m) and Adjusted EBITDA increased to £14.5m (2010: £13.1m). Operating profit and Profit before tax were ahead of the prior year at £6.4m (2010: £5.7m) and £4.3m (2010: £3.8m) respectively.

Management uses Adjusted EBITDA and adjusted earnings per share (“EPS”) financial measures as the basis for assessing the underlying financial 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.

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.

Although Adjusted EBITDA grew in absolute terms, the Adjusted EBITDA margin fell from 15.3% to 14.3%, as discussed more fully in the divisional performance below. This margin reduction reflects the more difficult trading conditions within the general economic environment.

Adjusted earnings per share (as defined in note 12 to the financial statements) was 14.0p (2010: 11.9p). Basic earnings per share was also above prior year at 6.2p (2010: 5.7p).

Divisional performance

Practice

The Group is the leading national veterinary surgery consolidator, primarily focused on the small animal market. Revenue amounted to £94.7m, an increase of 19.7% on the prior year.

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 12 surgeries, largely in the second half of the year. These surgeries contributed £1.8m of revenue in the year, which corresponds to around £4m in a full year.

The practice division is led by our Director of Practice Operations who is supported by our Director of Clinical Services and a divisional management structure underpinned by a combination of local practice and regional area managers. These provide a combination of clinical and retail management experience.

A number of ongoing initiatives have been implemented to improve the operational effectiveness of the division, including:

- Regional practice performance benchmarking.
- Identifying and agreeing priority measures to support poorer performing sites.
- Further developing the client membership of the Group’s customer loyalty schemes.
- Enhanced e-commerce activity with the launch of the Group’s on-line dispensary during the year and, post year end, the trialling of an enhanced client offering through on-line shops (being an integral part of practice websites).

The Healthy Pet Club loyalty scheme has continued to grow in the year with 7,000 pets (11,000 including the new Puppy and Kitten Scheme) being added to the scheme. This benefits the division by driving customer loyalty, encouraging clinical compliance and bringing more customers into the surgery. At the year end total pet members stood at more than 24,000 in total (28,000 including the Puppy and Kitten Scheme). Monthly subscription revenue generated in the year amounted to £2.4m (2010: £1.2m).



Business and financial review (continued)

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

Animed Direct, our on-line trading platform, was launched on 27 July 2010, delivering sales of £0.9m during the year and trading ahead of expectations.

The Adjusted EBITDA for the division grew significantly by £1.8m to £17.7m and the Profit before tax by £1.2m to £11.5m, primarily due to the impact of acquisition activity in the current and prior year partially offset by the factors outlined above.

As a result of the weaker general economy, the Directors believe 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 (72% of revenues) as well as CVS owned veterinary surgeries (28% of revenues). Services are generally provided via courier and postal services allowing complete coverage of the UK.

The laboratory division delivered an encouraging performance in spite of the economic factors already mentioned, whilst operating within a continuing competitive

operating landscape. Revenue rose by £0.7m however Profit before tax fell by £0.1m, reflecting the competitive trading environment within the veterinary diagnostic market.

The Director of Laboratory Operations continues to focus on growth and has enhanced the sales team in order to retain existing customers and help broaden the client base.

Crematorium

The Rossendale crematorium, now in its second full financial year under CVS ownership, delivered revenue of £0.8m (2010: £0.7m) and an adjusted EBITDA of £0.3m (2010: £0.3m), being 39.9% of sales (2010: 42.0%).

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 32% of its revenues.

Central administration

The Group's approach to centralising the administrative and management functions continues to be an integral part of the strategy of the business which enables the other divisions to focus on operational matters and enjoy the benefits of a centralised support function.

On an adjusted basis, the total costs for the central administration segment increased from £4.3m to £4.5m, but decreased to 4.4% of revenue (2010: 5.0%), illustrating management's ability to control central costs. Further leverage is expected to be delivered as the Group grows.

The Loss before tax for the central administration segment increased from £7.3m to £8.1m, being 8.0% of revenue (2010: 8.6%), due primarily to the fair value movements on derivative financial instruments.



CVS Group plc

Business and financial review (continued)

Other financial highlights

Net finance expenses of £2.1m represent an increase of £0.3m (13.7%) compared to the previous year, reflecting the non-cash movement in the fair value of the Group's derivative financial instrument offset by a benefit from interest rate reductions on its floating rate debt and the commencement of debt repayments in the year.

The Group recorded an increase in Profit for the year of £0.4m to £3.5m representing an increase of 14.0% on the previous year.

Cash generated from operations also improved on last year showing a 39.7% increase. The extent of cash generated has allowed the Group to self-fund all acquisitions made during the year whilst significantly reducing net debt (by £8.4m). The Group continues to convert profit into cash with cash generated from operations of £17.6m compared to Adjusted EBITDA of £14.5m.



CVS Group plc

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:

	2011	2010	Definition, method of calculation and analysis
Revenue	£101.5m	£85.5m	Total Revenue of the Group. Positives - Acquisitions, growth in the Group's customer loyalty scheme membership, and the e-commerce activities of the Group. Negatives - Adverse trading conditions.
Adjusted EBITDA	£14.5m	£13.1m	Adjusted EBITDA represents earnings before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and share option expense. Positives - Acquisitions and improved buying terms. Negatives - Adverse trading conditions.
Adjusted EPS	14.0p	11.9p	Earnings, adjusted for amortisation, share option expense, costs relating to business combinations, 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	£17.6m	£12.6m	Cash generated from operations has increased with the improvement in adjusted EBITDA supported by favourable working capital movements.
Like-for-like sales performance	0.4%	(1.2%)	Revenue generated from all operations compared to 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. Positives - successful launch of our on-line dispensary during the year. Negatives - Adverse weather and trading conditions, and additional bank holiday in April 2011.
Return on investment	31.9%	20.4%	Annualised EBITDA relating to business and subsidiaries acquired during the year compared to the consideration paid. Positives - acquisitions trading ahead of expectations. Negatives - fewer acquisitions made during the year.



Business and financial review (continued)

Funding and treasury management

As at 30 June 2011, the Group had net debt of £33.5m (2010: £41.9m) comprising debt of £36.7m (net of issue costs) and cash of £3.2m. During the year £5.2m of the Group's term debt facility was repaid.

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 £27.5m (75%) of bank 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 scheduled bank loan repayments are made.

Business environment

The Group has seen a further impact in the year under review from the unfavourable economic climate with like-for-like sales increase being just 0.4% in the current year. The achievement of marginal growth in such a tough economic climate is regarded by the Board as being an indicator of the resilience of the business and the veterinary market.

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. Furthermore, the expansion of the Group's customer loyalty schemes and the 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 26 to 30 for further details).

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 affected.



CVS Group plc

Business and financial review (continued)

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

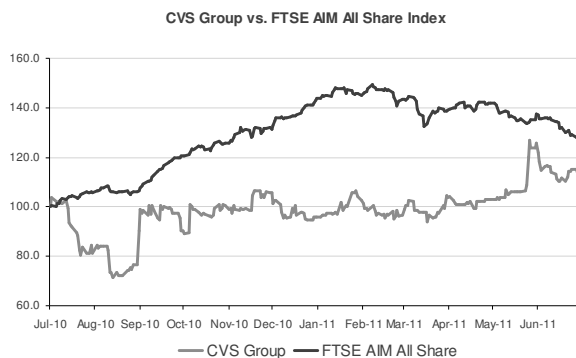
Adverse weather

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 £63.0m (112p per share) compared to £59.9m (106p 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 2010 to 30 June 2011.



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. In addition, selective acquisitions may continue.

Simon Innes

Chief Executive

26 September 2011

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 (56) 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 (51) 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 (46) 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 and Remuneration Committee.



Corporate governance statement

Principles of Corporate Governance

The Directors acknowledge the importance of the principles set out in The UK Corporate Governance Code issued in May 2010. Although The UK Corporate Governance 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 26 to 30, as far as is considered practicable and appropriate for a public company of CVS's size as follows:

Board of Directors

The Board of Directors consists of four members, including a Non-Executive Chairman and a Non-Executive Director.

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 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**	5	1	1	1

*In attendance by invitation of the respective Committee.

**Retired 9 December 2010.

In addition to the Chairman Richard Connell, who was determined to be independent on appointment, there is one independent Non-Executive Director, David Timmins. Mindful of their other commitments the Chairman and Non-Executive Director 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 two Non-Executive Directors: Richard Connell and David Timmins. 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 external auditors and reviewing their reports 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 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 2011 and up to the date of this report the Audit Committee has:

- reviewed the 2011 annual report and financial statements and the interim report issued in February 2011. 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 2011 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 has a programme for reviewing its effectiveness.

The Remuneration Committee

The Chairman of the Remuneration Committee is David Timmins and its other member is Richard Connell. 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 26 to 30.

The Nominations Committee

The Chairman of the Nominations Committee is Richard Connell and its other member is David Timmins and it meets once 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 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 cash balances of £3.2m and an un-utilised overdraft facility of £2m. Since the year end, the Group has continued to trade profitably and to generate cash. Bank debt repayments of £4.0m are due in the year to 30 June 2012 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
26 September 2011



CVS Group plc

Directors' report for the year ended 30 June 2011

The Directors present their annual report together with the audited consolidated financial statements for the year ended 30 June 2011.

Principal activities and results

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 CVS Group plc is that of a holding company.

The Group made a profit after taxation of £3.5m (2010: £3.1m).

Business review

The information that fulfils the requirements of the business review, including details of the 2011 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 8 to 9 and 10 to 15, respectively.

Dividends

The Directors recommend the payment of a dividend of 1p per share (2010: £nil) amounting to £0.6m (2010:£nil). Subject to approval at the Annual General Meeting, the dividend will be paid on 20 December 2011 to shareholders on the register at the close of business on 16 December 2011. No dividends (2010: £nil) have been paid during the year.

Directors

The following Directors held office during the year and up to the date of signing the financial statements (unless stated):

R Connell
S Innes
P D Coxon
D Timmins
C Marsh (retired 9 December 2010)

Biographical details of the Directors are provided on pages 16 and 17.

Re-election of Directors

As required by the Articles of Association of the Company, and in accordance with the provisions of the 2010 UK Corporate Governance 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. Pursuant to this, all directors will stand for re-election at the Annual General Meeting.

Directors' remuneration and interests

The Remuneration Report is set out on pages 26 to 30. 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 (2010: £nil).



CVS Group plc

Directors' report for the year ended 30 June 2011 (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 Statement is set out on pages 18 to 21.

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 2011 are set out in note 27 to the financial statements.

At 16 September 2011, 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	
JO Hambro Capital Management	9,295,000	16.45%
JP Morgan Asset Management	5,916,926	10.47%
Artemis Investment Management	3,496,512	6.19%
Aviva Investors	3,255,702	5.76%
Morgan Stanley Investment Management	2,744,814	4.86%
NFU Mutual	2,690,600	4.76%
F&C Asset Management	2,558,628	4.53%
Highclere International Investors	2,086,508	3.69%
Allied Investments	2,055,937	3.64%
River and Mercantile Asset Management	1,814,014	3.21%
Hargreave Hale	1,796,644	3.18%

Post balance sheet events

Details of post balance sheet events are disclosed in note 36 to the financial statements.



Directors' report for the year ended 30 June 2011 (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 was set up last year, this is constituted of regional members from all areas of the business with the aim of improving consultation levels. 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 26 to 30. The Group has also offered a Save As You Earn scheme for a third 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 26 to 30.

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 2011, the amount owed to trade creditors by the Group was equivalent to 78 days of purchases from suppliers (2010: 59 days); the increase is due to specifically negotiated payment terms which are expected to be in place up to October 2013 as a minimum. 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.



CVS Group plc

Directors' report for the year ended 30 June 2011 (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
26 September 2011



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 attracts and retains 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 for both Executive Directors and, in the case of the Chief Executive, achievement of personal objectives.

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 now vested in full.

Awards were granted on 18 November 2008 ("LTIP2") which have the following performance conditions:



Remuneration report (continued)

- Awards will vest in full if real growth in an adjusted earnings per share (“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.

Based on adjusted EPS performance in the three year period ended 30 June 2011, the LTIP2 awards vested in full (subject to ratification by the Remuneration Committee).

On 10 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 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.

Further awards were granted on 6 October 2010 (“LTIP 4”), which have the following performance conditions:

- Awards will vest in full if real growth in an adjusted EPS measure shows CAGR of 10 per cent per year over the measurement period of three years commencing 1 July 2010.
- No awards will vest if real growth in the adjusted EPS measure is less than CAGR of 5 per cent per year over the measurement period; and
- If CAGR of between 5 per cent and 10 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.

Awards under a new scheme, “LTIP 5”, were granted on 15 July 2011, which have the following performance conditions:

- Awards will vest in full if real growth in an adjusted EPS measure shows growth of 6 per cent per year over the measurement period of three years commencing 1 July 2011.
- No awards will vest if real growth in the adjusted EPS measure is less than growth of 2 per cent per year over the measurement period.
- If growth of between 2 per cent and 4 per cent is achieved, awards will vest on a straight line basis between 40 per cent and 60 per cent of the Ordinary Shares which are the subject of the award; and
- If growth of between 4 per cent and 6 per cent is achieved, awards will vest on a straight line basis between 60 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.



Remuneration report (continued)

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.

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 further plans (“SAYE2” and “SAYE3”) were offered under the same conditions in November 2009 and November 2010 respectively. Under all schemes, 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 and secondary term of three years, consecutively 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 £’000	Benefits in kind £’000	Performance related bonus £’000	2011 Total £’000	2010 Total £’000
Non-Executive Chairman					
R Connell	100	-	-	100	94
Executive					
S Innes	279	10	240	529	278
P Coxon	145	16	31	192	143
Non-Executive					
D Timmins	42	-	-	42	35
C Marsh*	14	-	-	14	31
	580	26	271	877	581

* Retired 9 December 2010.



CVS Group plc

Remuneration report (continued)

S. Innes and P Coxon participated in a defined contribution pension arrangement. During the year, the Group contributed £21,000 and £15,000 respectively (2010: £18,000 and £13,370).

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 2011 or 30 June 2010.

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

Directors' interests in shares

The interests of the Directors as at 30 June 2011 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
R Connell	69,391
S Innes	1,046,475
P Coxon	285,000
D Timmins	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 26 September 2011 are as follows:

	Scheme	Date of grant	Earliest exercise date and date of vesting	Exercise price	Number of shares
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
S Innes	LTIP4	6 October 2010	30 June 2013	0.2p	410,448
P Coxon	LTIP4	6 October 2010	30 June 2013	0.2p	144,279
S Innes	LTIP5	15 July 2011	30 June 2014	0.2p	333,710
P Coxon	LTIP5	15 July 2011	30 June 2014	0.2p	98,416

*These awards have now vested.



CVS Group plc

Remuneration report (continued)

No share options lapsed during the year. The following options have been exercised during the year:

	Scheme	Number of shares	Exercise date	Exercise price	Share price at exercise date
S Innes	LTIP1	107,317	9 December 2010	0.2p	96p
P Coxon	LTIP1	53,658	9 December 2010	0.2p	96p

Gains arising on the exercise of options for S Innes and P Coxon amounted to £100,878 and £50,439 respectively.

The market price of the Ordinary shares on 18 November 2008 was 145p; on 15 July 2008 it was 262p; on 10 July 2009 it was 128p; and on 6 October 2010 it was 101p. At 30 June 2011, the market price of the Ordinary shares was 112p.

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

On behalf of the Remuneration Committee

David Timmins
26 September 2011



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 2011 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 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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.



CVS Group plc

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

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.

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.

Stuart Newman (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Norwich
26 September 2011



CVS Group plc

Consolidated income statement for the year ended 30 June 2011

	Note	2011 £'000	2010 £'000 Re-presented*
Revenue	4	101,491	85,527
Cost of sales		(64,817)	(53,696)
Gross profit		36,674	31,831
Administrative expenses		(30,316)	(26,142)
Operating profit	7	6,358	5,689
Fair value adjustments in respect of financial assets and liabilities	6	(183)	149
Other finance expense	6	(1,945)	(2,028)
Other finance income	6	24	29
Net finance expense		(2,104)	(1,850)
Profit before income tax	4	4,254	3,839
Income tax expense	10	(767)	(781)
Profit for the year attributable to owners of the Parent		3,487	3,058
Earnings per ordinary share for profit attributable to owners of the Parent (expressed in pence per share) ("EPS")			
Basic	12	6.2p	5.7p
Diluted	12	6.1p	5.7p

* The comparatives for Cost of sales and Administrative expenses have been re-presented to more accurately reflect the nature of the underlying transactions. The net effect on Profit for the year and Net assets is £nil.

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 costs relating to business combinations and share option expense.

Non-GAAP measure: Adjusted EBITDA	Note	£'000	£'000
Profit before income tax		4,254	3,839
Adjustments for:			
Net finance expense	6	2,104	1,850
Depreciation	15	2,233	1,905
Amortisation	14	5,348	4,385
Costs relating to business combinations	5	139	530
Share option expense	13	435	556
Adjusted EBITDA	4	14,513	13,065



CVS Group plc

Statement of consolidated comprehensive income for the year ended 30 June 2011

	Note	2011 £'000	2010 £'000
Profit for the year		3,487	3,058
Other comprehensive income			
Fair value adjustments in respect of financial assets and liabilities	18	798	(970)
Revaluation of available for sale investments	17	3	7
Deferred tax on other comprehensive income	25	(207)	272
Other comprehensive income/(loss) for the year, net of tax		594	(691)
Total comprehensive income for the year attributable to owners of the Parent		4,081	2,367



CVS Group plc

Consolidated and Company balance sheets as at 30 June 2011

	Note	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Non-current assets					
Intangible assets	14	54,486	56,695	-	-
Property, plant and equipment	15	8,465	8,835	-	-
Investments	17	77	74	60,339	59,904
Deferred income tax assets	25	697	1,321	-	-
		63,725	66,925	60,339	59,904
Current assets					
Inventories	20	2,633	2,453	-	-
Trade and other receivables	21	8,049	6,602	6,887	6,342
Cash and cash equivalents	22	3,193	109	-	-
		13,875	9,164	6,887	6,342
Total assets	4	77,600	76,089	67,226	66,246
Current liabilities					
Trade and other payables	23	(15,894)	(12,101)	-	-
Current income tax liabilities	26	(932)	(574)	-	-
Borrowings	24	(3,962)	(5,350)	-	-
		(20,788)	(18,025)	-	-
Non-current liabilities					
Borrowings	24	(32,777)	(36,655)	-	-
Deferred income tax liabilities	25	(5,795)	(7,076)	-	-
Derivative financial instruments	18	(1,669)	(2,284)	-	-
		(40,241)	(46,015)	-	-
Total liabilities	4	(61,029)	(64,040)	-	-
Net assets		16,571	12,049	67,226	66,246



CVS Group plc

Consolidated and Company balance sheets as at 30 June 2011 (continued)

	Note	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Shareholders' equity					
Share capital	27	113	113	113	113
Share premium	28	8,640	8,640	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		68,521	63,999	57,881	56,901
Total equity		16,571	12,049	67,226	66,246

The notes on pages 40 to 88 are an integral part of these consolidated financial statements.

The financial statements on pages 33 to 88 were authorised for issue by the Board of Directors on 26 September 2011 and were signed on its behalf by:

Paul Coxon
Director

Simon Innes
Director

Company registered number: 06312831



Consolidated statement of changes in equity for the year ended 30 June 2011

	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

	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 2010	113	8,640	592	125	(61,420)	63,999	12,049
Profit for the year	-	-	-	-	-	3,487	3,487
Other comprehensive income							
Fair value adjustments in respect of financial assets and liabilities	-	-	-	-	-	798	798
Revaluation of available for sale investments	-	-	-	-	-	3	3
Deferred tax on other comprehensive income	-	-	-	-	-	(207)	(207)
Total other comprehensive income	-	-	-	-	-	594	594
Total comprehensive income	-	-	-	-	-	4,081	4,081
Transactions with owners							
Credit to reserves for share-based payments	-	-	-	-	-	435	435
Deferred tax relating to share-based payments	-	-	-	-	-	6	6
Transactions with owners	-	-	-	-	-	441	441
At 30 June 2011	113	8,640	592	125	(61,420)	68,521	16,571



CVS Group plc

Company statement of changes in equity for the year ended 30 June 2011

	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
Loss 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

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 July 2010	113	8,640	592	56,901	66,246
Profit for the year	-	-	-	545	545
Transactions with owners					
Credit to reserves for share-based payments	-	-	-	435	435
Transactions with owners	-	-	-	435	435
At 30 June 2011	113	8,640	592	57,881	67,226



Consolidated and Company cash flow statement for the year ended 30 June 2011

	Note	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Cash flows from operating activities					
Cash generated from operations	30	17,639	12,624	-	(8,650)
Taxation paid		(1,267)	(1,907)	-	-
Interest received		24	29	-	-
Interest paid		(1,840)	(1,950)	-	-
Net cash generated from operating activities		14,556	8,796	-	(8,650)
Cash flows from investing activities					
Acquisition of businesses	16	(4,040)	(2,146)	-	-
Acquisition of subsidiaries (net of cash acquired)	16	(152)	(11,855)	-	-
Purchase of property, plant and equipment		(1,803)	(1,965)	-	-
Purchase of intangible assets		(141)	(97)	-	-
Proceeds from sale of property, plant and equipment		111	20	-	-
Net cash used in investing activities		(6,025)	(16,043)	-	-
Cash flows from financing activities					
Finance lease principal payments		(7)	(9)	-	-
Repayment of bank loan		(5,175)	(4,342)	-	-
Proceeds from issue of ordinary share capital (net of issue costs)		-	8,650	-	8,650
Net cash (used in)/ generated from financing activities		(5,182)	4,299	-	8,650
Net increase/(decrease) in cash and cash equivalents		3,349	(2,948)	-	-
Cash and cash equivalents at beginning of year		(156)	2,792	-	-
Cash and cash equivalents at end of year	22	3,193	(156)	-	-



CVS Group plc

Notes to the consolidated financial statements for the year ended 30 June 2011

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, Vines 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%
Animed Direct Limited	England and Wales	Operation of online dispensary	100%
Village Referrals Limited	England and Wales	Operation of veterinary services	96%*

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

* The non-controlling interest amounting to £4,000 (2010: £nil) has not been recognised in these financial statements as it is not considered material.



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 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 years 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

Standards, amendments and interpretations effective in the year ended 30 June 2011

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

- Annual improvements to IFRSs (2009)
- Amendment to IFRS 2, 'Share based payments – Group cash-settled share-based payment transactions'
- Amendments to IFRS 1, 'First time adoption' on additional exemptions
- Amendments IAS 32, 'Financial instruments' on presentation on classification of rights issues.
- Amendment to IFRS 1, 'First time adoption' on financial instrument disclosures
- IFRIC 15, 'Arrangements for construction of real estates'
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'

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 Group's accounting periods beginning on or after 1 July 2011 or later periods but which the Group has not early adopted:

- IFRS 9 "Financial Instruments", expected to be effective for annual periods beginning on or after 1 January 2015.
- Annual improvements to IFRSs (2010), effective for annual periods beginning on or after 1 January 2011.
- Amendments to IFRS 7, 'Financial instruments: Disclosures' on derecognition, effective for annual periods beginning on or after 1 July 2011.
- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income, effective for annual periods beginning on or after 1 July 2012.
- IFRS 13, 'Fair value measurement,' effective for annual periods beginning on or after 1 January 2013.



2. Summary of significant accounting policies (continued)

Interpretations to existing standards (some of which have yet to be 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 2011 or later periods but are not relevant for the Group's operations:

- Amendment to IFRIC 14, "IAS 19 — The limit on a defined benefit assets, minimum funding requirements and their interaction", effective for annual periods beginning on or after 1 January 2011.
- Amendment to IAS 24 "Related Party Disclosures", effective for annual periods beginning on or after 1 January 2011.
- Amendment to IFRS 1, 'First time adoption', on fixed dates and hyperinflation, effective for annual periods beginning on or after 1 July 2011.
- Amendment to IAS 12, 'Income taxes' on deferred tax, effective for annual periods beginning on or after 1 January 2012
- Amendment to IAS 19, 'Employee benefits', effective for annual periods beginning on or after 1 January 2013.
- IFRS 10, 'Consolidated financial statements,' effective for annual periods beginning on or after 1 January 2013.
- IFRS 11, 'Joint arrangements,' effective for annual periods beginning on or after 1 January 2013.
- IFRS 12, 'Disclosures of interests in other entities,' effective for annual periods beginning on or after 1 January 2013.
- IAS 27 (revised 2011), 'Separate financial statements,' effective for annual periods beginning on or after 1 January 2013.
- IAS 28 (revised 2011), 'Associates and joint ventures,' effective for annual periods beginning on or after 1 January 2013.

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 2011.

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.



CVS Group plc

2. Summary of significant accounting policies (continued)

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 (being the purchase cost, together with any incidental costs of acquisition) 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 property, plant and equipment, 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 year in which they are incurred.

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.



2. Summary of significant accounting policies (continued)

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.

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 1.0%). The pre-tax discount rate used to calculate value in use is 10.2% at 30 June 2011 (2010: 10.0%). 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.



CVS Group plc

2. Summary of significant accounting policies (continued)

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 inventory.

Financial instruments

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

(a) Trade receivables

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

(b) Investments

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

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

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.



2. Summary of significant accounting policies (continued)

(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.

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.



2. Summary of significant accounting policies (continued)

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 prior to the amendment of IAS 39, effective in the year ended 30 June 2010, 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.

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 year. 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; typically this is when a diagnostic procedure, a veterinary consultation or a cremation is completed for the respective division. Revenue is measured at the fair value of the consideration received, excluding value added tax.

In respect of customer loyalty schemes, where monies are received by way of monthly subscriptions, appropriate adjustments are made through deferred and accrued income to recognise revenue when the underlying service has been performed.



2. Summary of significant accounting policies (continued)

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. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful economic life of the asset and the lease term.

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.

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.



2. Summary of significant accounting policies (continued)

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 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 costs relating to business combinations.

Like-for-like sales

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.

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.



3. Financial risk management (continued)

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 2011, the Group had monetary assets denominated in foreign currencies (principally the Euro) of £17,149 (2010: £22,431) and monetary liabilities denominated in foreign currencies of £nil (2010: £5,000). 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 and the movement in net assets for the year would have been £1,559 (2010: £1,639) 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 2011 the Group recognised a foreign exchange gain amounting to £4,444 (2010: £12,048).

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 £27.6m 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 cash flow exposure relating to interest.

Interest rate risk profile of financial assets and liabilities

	2011 £'000	2010 £'000
Fixed rate (fair value interest rate risk)		
Short-term borrowings	-	-
Finance leases	(50)	-
	(50)	-
Floating rate (cash flow interest rate risk)		
Cash and cash equivalents	3,193	(156)
Short-term borrowings	(3,952)	(5,085)
Long-term borrowings	(32,737)	(36,655)
	(33,496)	(41,896)
	(33,546)	(41,896)



3. Financial risk management (continued)

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.

Finance lease obligations bear interest at a rate of 3.95%.

At 30 June 2011, 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 2011, if interest rates on Sterling denominated borrowings had been 1% higher/lower with all other variables held constant, post tax profit and the movement in net assets for the year would have been approximately £71,000 (2010: £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 2011 gross trade receivables amounted to 4.8% of revenue for the year (2010: 5.0%). Of these gross trade receivables 59% (2010: 51%) were more than one month overdue.

The maximum exposure to credit risk at 30 June 2011 is the fair value of each class of receivable as disclosed in note 19 to the financial statements.

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.



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3. Financial risk management (continued)

30 June 2011

	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	4,939	4,311	30,075	16	39,341
Trade and other payables	12,181	-	-	-	12,181
Derivative contracts:					
Interest rate collar arrangements	878	687	136	-	1,701
	17,998	4,998	30,211	16	53,223

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

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 years.

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.



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3. Financial risk management (continued)

	2011 £'000	2010 £'000
Net debt (see note 29)	33,546	41,896
Adjusted EBITDA (see page 33)	14,513	13,065
Ratio	2.31	3.21

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 £nil was drawn down at 30 June 2011 (2010: £0.3m).

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2011, by level of fair value 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); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2011:

	Level 1 £'000	Level 2 £'000	Total £'000
Assets			
Available-for-sale financial assets (note 17)	54	-	54
Liabilities			
Derivative financial instruments (interest rate collar arrangements) (note 18)	-	(1,669)	(1,669)



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3. Financial risk management (continued)

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, costs relating to business combinations 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:



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4. Segmental reporting (continued)

Year ended 30 June 2011

	Veterinary practices £'000	Laboratories £'000	Crematorium £'000	Head office £'000	Group £'000
Revenue	94,704	8,584	835	(2,632) ¹	101,491
Profit/(loss) before income tax	11,456	585	294	(8,081)	4,254
Adjusted EBITDA	17,696	994	333	(4,510)	14,513
Total assets	71,316	4,533	1,104	647	77,600
Total liabilities	(14,734)	(1,276)	(64)	(44,955)	(61,029)
Reconciliation of adjusted EBITDA					
Profit/(loss) before income tax	11,456	585	294	(8,081)	4,254
Net finance expense	4	(1)	-	2,101	2,104
Amortisation	4,290	261	-	797	5,348
Depreciation	1,946	149	39	99	2,233
Share option expense	-	-	-	435	435
Costs relating to business combinations	-	-	-	139	139
Adjusted EBITDA	17,696	994	333	(4,510)	14,513

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



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4. Segmental reporting (continued)

Year ended 30 June 2010

	Veterinary practices £'000	Laboratories £'000	Crematorium £'000	Head office £'000	Group £'000
Revenue ¹	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
Costs relating to business combinations	-	-	-	530	530
Adjusted EBITDA	15,898	1,137	293	(4,263)	13,065

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

5. Costs relating to business combinations

IFRS 3 (revised) requires all costs relating to business combinations to be expensed directly in the income statement. The charge for the year ended 30 June 2011 was £139,000 (2010: £530,000), of which £94,000 (2010: £466,000) related to transaction costs and £45,000 (2010: £64,000) related to contingent deferred consideration in respect of business combinations in the current and prior year which is linked to ongoing employment of the vendor.



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6. Finance (income) and expense

	2011 £'000	2010 £'000
Interest expense, bank loans and overdraft	1,818	1,932
Amortisation of debt arrangement fees	124	96
Finance charges payable under finance leases	3	-
	1,945	2,028
Fair value adjustments in respect of financial assets and liabilities	183	(149)
Bank interest receivable	(13)	(29)
Other interest receivable	(11)	-
	(24)	(29)
Net finance expense	2,104	1,850

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 £100,000 (2010: £245,000)) 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 £83,000 (2010: £96,000)) - see note 2 for further details.



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7. Operating profit

Operating profit is stated after charging/(crediting):	2011	2010
	£'000	£'000
Amortisation of intangible assets	5,348	4,385
Depreciation of property, plant and equipment:		
- owned	2,224	1,867
- leased	9	38
Loss on disposal of property, plant and equipment	36	-
Employee benefit expenses	47,717	40,454
Cost of inventories recognised as an expense (included in cost of sales)	14,867	12,064
Repairs and maintenance expenditure on property, plant and equipment	918	860
Trade receivables impairment charge	152	175
Net foreign exchange differences	(4)	(12)
Operating lease rentals payable:		
- property	5,357	4,558
- plant and machinery	587	407

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:

	2011	2010
	£'000	£'000
Audit services:		
Fees payable to the Group auditors for the audit of the Parent Company and consolidated financial statements	28	40
Non-audit services:		
Tax services	12	15
The audit of the Company's subsidiaries pursuant to legislation	24	37
Other services pursuant to legislation	7	10
All other non-audit services	3	3
	74	105



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8. Employee benefit expense and numbers

Group

Employee benefit expense for the Group:

	2011	2010
	£'000	£'000
Wages and salaries	43,113	36,489
Social security costs	3,948	3,236
Other pension costs (note 33)	175	147
Share-based payments (note 13)	481	582
	47,717	40,454

Employee benefit expense included within cost of sales is £46,919,000 (2010: £38,752,000). 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:

	2011	2010
	Number	Number
Veterinary surgeons and pathologists	503	445
Nurses, practice ancillary and technicians	1,617	1,385
Crematorium staff	12	10
Central support	67	69
	2,199	1,909

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

	2011	2010
	£'000	£'000
Aggregate emoluments	721	421
Non-Executive fees	156	160
Company contributions to money purchase schemes	36	31
	913	612

Retirement benefits are accruing to two Directors (2010: two) under a personal pension plan. The remuneration of the Executive Directors amounting to £757,000 (2010: £452,000) is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors amounting to £156,000 (2010: £160,000) is borne by the subsidiary company CVS (UK) Limited and recharged to the Company.



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

Highest paid Director

	2011 £'000	2010 £'000
Aggregate emoluments	529	278
Company contributions to money purchase schemes	21	18
	550	296

Share options

Shares awarded to Executive Directors under the long-term incentive plans ("LTIP2", "LTIP3", "LTIP4" and "LTIP5") as at the balance sheet date are as follows:

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 128p.

LTIP 4	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
S Innes	6 October 2010	30 June 2013	0.2p	410,448
P Coxon	6 October 2010	30 June 2013	0.2p	144,279

The market price of the ordinary shares on 6 October 2010 was 101p.

LTIP 5	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
S Innes	15 July 2011	30 June 2014	0.2p	333,710
P Coxon	15 July 2011	30 June 2014	0.2p	98,416

The market price of the ordinary shares on 15 July 2011 was 95p.

LTIP1 was exercised in the year; see the Remuneration Report on page 29 for further details.



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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 26 to 30.

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:

	2011	2010
	£'000	£'000
Aggregate emoluments	1,475	1,152
Pension costs	56	44
Share-based payments (note 13)	472	582
	2,003	1,778



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10. Income tax expense

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

	2011 £'000	2010 £'000
Current tax expense		
UK corporation tax	1,662	1,811
Adjustments in respect of previous periods	(37)	(531)
Total current tax charge	1,625	1,280
Deferred tax expense		
Origination and reversal of temporary differences	(593)	(647)
Adjustments in respect of previous periods	146	148
Effect of tax rate change on opening deferred tax balance	(411)	-
Total deferred tax credit (note 25)	(858)	(499)
Total income tax expense	767	781

Factors affecting the current tax charge

UK corporation tax is calculated at 27.5% (2010: 28%) of the estimated assessable profit for the year. The standard rate of UK corporation tax changed from 28% to 26% with effect from 1 April 2011.

(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:

	2011 £'000	2010 £'000
Profit before tax	4,254	3,839
Effective tax charge at 27.5% (2010: 28%)	1,170	1,075
Effects of:		
Expenses not deductible for tax purposes	51	89
Effect of tax rate change on opening deferred tax balance	(411)	-
Adjustments to deferred tax charge in respect of previous periods	146	148
Adjustments to current tax charge in respect of previous periods	(37)	(531)
Utilisation of previously unrecognised deferred tax losses	(39)	-
Recognition of previously unrecognised deferred tax asset	(113)	-
Total income tax expense	767	781

(c) Factors affecting the future tax charge

A number of changes to the UK Corporation tax system were announced in the March 2011 budget statement. A resolution passed by parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011. The Finance Act 2011, which was substantively enacted on 5 July 2011, included legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. The reduction in the rate below 26% had not been substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements.



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10. Income tax expense (continued)

The effect of the changes enacted by parliament on 29 March 2011 to reduce the corporation tax rate to 26%, with effect from 1 April 2011, is to reduce the deferred tax liability provided at the balance sheet date by £411,000.

The effect of the changes enacted in the Finance Act 2011 to reduce the corporation tax rate from 26% to 25%, with effect from 1 April 2012, would be to reduce the deferred tax liability provided at the balance sheet date by a further £196,000. The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 25% to 23%, if these applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £588,000.

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 profit for the financial year was £545,000 (2010: loss of £1,202,000).

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 year.

	2011	2010
Earnings attributable to ordinary shareholders (£'000)	3,487	3,058
Weighted average number of ordinary shares in issue (note 27)	56,408,647	53,361,521
Basic earnings per share (pence per share)	6.2	5.7

(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.



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12. Earnings per ordinary share (continued)

	2011	2010
Earnings attributable to Ordinary shareholders (£'000)	3,487	3,058
Weighted average number of Ordinary shares in issue (note 27)	56,408,647	53,361,521
Adjusted for contingently issueable shares	1,003,090	635,177
Weighted average number of Ordinary shares for diluted earnings per share	57,411,737	53,996,698
Diluted earnings per share (pence per share)	6.1	5.7

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, costs relating to business combinations, 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 year.

	2011 £'000	2010 £'000
Earnings attributable to Ordinary shareholders	3,487	3,058
Adjustments for:		
Amortisation (note 14)	5,348	4,385
Share option expense (note 13)	435	556
Fair value adjustments in respect of financial assets and liabilities (note 6)	183	(149)
Costs relating to business combinations (note 5)	139	530
Tax effect of the above adjustments at 27.5% (2010: 28%)	(1,679)	(1,490)
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	7,913	6,365
Weighted average number of Ordinary shares in issue	56,408,647	53,361,521
Weighted average number of Ordinary shares for diluted earnings per share	57,411,737	53,996,698
	Pence	Pence
Adjusted earnings per share	14.0p	11.9p
Diluted adjusted earnings per share	13.8p	11.8p



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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 year under the LTIP schemes are as follows:

	October 2010 (“LTIP4”) scheme Number of share awards	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 2010	-	556,397	324,827	194,779
Granted during the year	984,560	-	-	-
Forfeited during the year	(77,097)	(35,830)	-	-
Exercised during the year	-	-	-	(194,779)
Expired during the year	-	-	-	-
Outstanding at 30 June 2011	907,463	520,567	324,827	-
Exercisable at 30 June 2011	-	-	-	-

Of the options outstanding at the year end under the LTIP2 scheme, 194,896 have vested (subject to ratification by the Remuneration Committee). The options outstanding at the year end under the LTIP3 scheme have a weighted average remaining contractual life of 1 year and the options outstanding at the year end under the LTIP4 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 26 to 30.



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13. Share-based payments (continued)

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

Grant date	6 October 2010	10 July 2009	18 November 2008
Share price at grant date	£1.01	£1.28	£1.45
Exercise price	0.2p	0.2p	0.2p
Number of employees	7	7	3
Shares under option at date of grant	984,560	556,397	407,585
Vesting period (years)	2 years 9 months	3 years 0 months	2 years 8 months
Option life (years)	2 years 9 months	3 years 0 months	2 years 8 months
Expected life (years)	2 years 9 months	3 years 0 months	2 years 8 months
Expected dividends expressed as a dividend yield	0%	0%	0%
Fair value per option	£1.01	£1.28	£1.45

The share based payment charge for the year in respect of the options issued under the LTIP schemes amounted to £432,000 (2010: £481,000) and has been charged to administrative expenses. National Insurance contributions amounting to £40,000 (2010: £26,000) 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, the SAYE2 scheme was opened for subscription in October 2009 (with options granted in November 2009), and the SAYE3 scheme was opened for subscription in December 2010 (with options granted in January 2011). 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 year under the SAYE scheme are as follows:

	SAYE1 Number of share awards	SAYE2 Number of share awards	SAYE3 Number of share awards
Outstanding at 1 July 2010	159,840	204,825	-
Granted during the year	-	-	751,676
Forfeited during the year	(26,057)	(4,826)	(243,435)
Exercised during the year	-	-	-
Outstanding at 30 June 2011	133,783	199,999	508,241
Exercisable at 30 June 2011	-	-	-



CVS Group plc

13. Share-based payments (continued)

The options outstanding at the year end under SAYE1 scheme have a weighted average remaining contractual life of 1 year 2 months; the options outstanding at the year end under the SAYE2 scheme have a weighted average remaining contractual life of 2 years 5 months; and the options outstanding at the year end under the SAYE3 scheme have a weighted average remaining contractual life of 3 years and 5 months. The weighted average exercise price of options granted under the SAYE1, SAYE2 and SAYE3 schemes was £2.10, £1.44 and £0.80 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	SAYE1	SAYE2	SAYE3
	15 July 2008	17 November 2009	26 November 2010
Share price at grant date	£2.62	£1.80	£1.00
Exercise price	£2.10	£1.44	£0.80
Expected volatility*	34.2%	39.8%	45.4%
Number of employees	273	127	191
Shares under option at date of grant	360,088	260,185	751,676
Vesting period (years)	3 years	3 years	3 years
Option life (years)	3 years	3 years	3 years
Expected life (years)	3 years	3 years	3 years
Expected dividends expressed as a dividend yield	0%	0%	0%
Fair value per option	£0.96	£0.69	£0.44

*Expected volatility has been determined by looking at historical share return volatility of CVS Group plc.

The net share based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £3,000 (2010: £75,000) and has been charged to administrative expenses. National Insurance contributions amounting to £6,000 (2010: £nil) have been accrued in respect of the SAYE scheme transactions and are treated as cash-settled transactions.



CVS Group plc

14. Intangible assets

	Goodwill	Trade names	Customer lists	Patient data records	Computer software	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 July 2009	9,136	-	4,224	37,287	422	51,069
Additions arising through business combinations	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
Additions arising through business combinations (note 16)	-	-	-	2,998	-	2,998
Other additions	-	-	-	-	141	141
At 30 June 2011	17,072	1,450	4,224	49,996	660	73,402
Amortisation						
At 1 July 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
Amortisation for the year	-	145	282	4,840	81	5,348
At 30 June 2011	-	189	957	17,240	530	18,916
Net book amount						
At 1 July 2009	9,136	-	3,833	28,880	37	41,886
At 30 June 2011	17,072	1,261	3,267	32,756	130	54,486
At 30 June 2010	17,072	1,406	3,549	34,598	70	56,695

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.



CVS Group plc

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	2011 £'000	2010 £'000
Veterinary practices	14,256	14,256
Laboratories	2,358	2,358
Crematorium	458	458
	17,072	17,072

Recoverable amounts for cash-generating units are based on value in use calculations using cash flow 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	2011	2010
Growth rate applied beyond approved forecast period	1.0%	2.5%
Pre-tax discount rate	10.2%	10.0%

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 year impairment review, no impairment charges have been recognised by the Group in the year ended 30 June 2011 (2010: £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 2011.

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



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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 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
Additions arising through business combinations (note 16)	-	-	150	-	150
Additions	11	875	932	42	1,860
Disposals	(124)	-	(86)	(135)	(345)
At 30 June 2011	1,273	5,085	9,335	854	16,547
Accumulated depreciation					
At 1 July 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
Charge for the year	31	466	1,582	154	2,233
Disposals	(21)	-	(65)	(112)	(198)
At 30 June 2011	154	1,301	6,020	607	8,082
Net book amount					
At 1 July 2009	1,273	2,512	3,204	478	7,467
At 30 June 2011	1,119	3,784	3,315	247	8,465
At 30 June 2010	1,242	3,375	3,836	382	8,835

Freehold land amounting to £203,000 (2010: £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.

Included within fixtures, fittings and equipment are assets held under finance leases with a net book value of £48,000 (2010: £nil). Depreciation charged in the year on these assets amounted to £9,000 (2010: £38,000). Depreciation expense has been charged to administrative expenses.

Company

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



16. Business combinations

Details of business combinations in the year ending 30 June 2011 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.

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 year as though the acquisition date for all business combinations effected during the year had been the beginning of that year. 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 2011:

Assets and trade	Date of acquisition	Fair value of property plant and equipment acquired £'000	Fair value of inventory acquired £'000	Fair value of intangible assets acquired ¹ £'000	Consideration £'000
A practice in:					
Devon	15/11/2010	50	50	1,566	1,666
London	04/04/2011	30	46	712	788
Other acquisitions ²		70	64	720	854
		150	160	2,998	3,308

¹Intangible assets acquired represents patient data records (£2,998,000).

²Other acquisitions represent two practice acquisitions.

In addition to the payments detailed above, contingent deferred consideration of £365,000 has not been recognised at the period end. In accordance with IFRS 3 (revised), these costs will be recognised in the income statement in future periods based on the crystallisation of the contingent event.

£152,000 of deferred consideration relating to the acquisition of subsidiaries and £732,000 in relation to the acquisition of practices for the year ended 30 June 2010 has been paid in this period, as shown in the consolidated statement of cash flows.



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16. Business combinations (continued)

Analysis of post acquisition performance:

	Post- acquisition revenue ¹ £'000	Post- acquisition contribution ² £'000
A practice in:		
Devon	1,151	327
London	314	23
Other acquisitions	342	73
	1,807	423

¹Post-acquisition revenue represents revenue from the date of acquisition to 30 June 2011.

²Post-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 2011.

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 2010.

17. Investments

(a) Available-for-sale financial assets

Group	2011 £'000	2010 £'000
Available-for-sale financial assets	77	74

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

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

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

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

	2011 £'000	2010 £'000
At 1 July	74	67
Fair value adjustment – through reserves	3	7
At 30 June	77	74



CVS Group plc

17. Investments (continued)

(b) Shares in subsidiary undertakings

Company

	£'000
Cost and net book amount	
At 1 July 2009	62,103
Options granted to employees of subsidiary undertakings	556
Impairment	(2,755)
At 30 June 2010	59,904
Options granted to employees of subsidiary undertakings	435
At 30 June 2011	60,339

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 gain of £183,000 (2010: loss of £149,000), representing 11.0% (2010: 6.5%) of the fair value of the financial liability.

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 up to a specified floor. The collar arrangement hedges 100% of a £32.0m term loan facility (£27.5m outstanding at 30 June 2011) 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.



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18. Derivative financial instruments (continued)

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

	2011		2010	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Non-current				
Interest rate collar arrangements – cash flow hedges	-	(1,669)	-	(2,284)

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 2011 were £27,537,500 (2010: £30,087,500). The outstanding interest rate collar arrangement contract expires on 4 October 2013 (2010: 4 October 2013).

Movements in fair values:

Group

	Interest rate collar arrangements £'000
Fair value at 1 July 2009	(1,463)
Fair value loss through reserves – hedged	(970)
Fair value loss through income statement (note 6)	149
At 30 June 2010	(2,284)
Fair value gain through reserves – hedged (net of element recycled to the income statement)	798
Fair value loss through income statement (note 6)	(183)
At 30 June 2011	(1,669)

Company

The Company does not hold derivative financial instruments.



CVS Group plc

19. Financial instruments

30 June 2011	Loans and receivables £'000	Available- for-sale £'000	Total £'000
Assets as per balance sheet			
Available-for-sale financial assets	-	77	77
Trade and other receivables (excluding prepayments and accrued income)	5,132	-	5,132
Cash and cash equivalents	3,193	-	3,193
	8,325	77	8,402

30 June 2011	Derivatives used for hedging £'000	Other financial liabilities £'000	Total £'000
Liabilities as per balance sheet			
Borrowings	-	(36,739)	(36,739)
Trade and other payables (excluding social security and other taxes)	-	(12,181)	(12,181)
Derivative financial instruments	(1,669)	-	(1,669)
	(1,669)	(48,920)	(50,589)

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



CVS Group plc

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)

Fair values of financial assets and liabilities

Fair values of financial assets and liabilities are disclosed below:

Group	2011		2010	
	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	(3,952)	(4,811)	(5,350)	(6,149)
Long-term borrowings	(32,737)	(32,046)	(36,655)	(36,116)
Finance leases	(50)	(52)	-	-
Cash and cash equivalents	3,193	3,193	109	109
Interest rate collar arrangements	(1,669)	(1,669)	(2,284)	(2,284)
	(35,215)	(35,385)	(44,180)	(44,440)

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.



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20. Inventories

Group	2011 £'000	2010 £'000
Goods held for resale	2,633	2,453

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 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Trade receivables	4,829	4,257	-	-
Less: Provision for impairment of receivables	(906)	(821)	-	-
Trade receivables - net	3,923	3,436	-	-
Amounts owed by group undertakings	-	-	6,887	6,342
Other receivables	1,209	935	-	-
Prepayments and accrued income	2,917	2,231	-	-
	8,049	6,602	6,887	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 2011, trade receivables of £1,961,000 (2010:£2,088,000) were within their due period. As at 30 June 2011, £2,868,000 (2010: £2,169,000) of the gross trade receivables were past due and partially impaired. As at 30 June 2011, the amount of gross trade receivables past due that were not impaired amounted to £1,962,000 (2010: £1,348,000). 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:

	2011 £'000	2010 £'000
One to six months overdue	1,962	1,348



CVS Group plc

21. Trade and other receivables (continued)

A provision for impairment is established based on historical experience. The amount of the provision was £906,000 (2010: £821,000). 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:

	2011	2010
	£'000	£'000
At beginning of the year	821	678
Charged to the income statement within administrative expenses	152	175
Utilised in the year	(67)	(32)
At end of the year	906	821

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	2011	2010
	£'000	£'000
Cash at bank and in hand	3,193	109

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

	2011	2010
	£'000	£'000
Cash	3,193	109
Bank overdraft	-	(265)
Cash at bank and in hand	3,193	(156)

Company

The Company does not hold any cash and cash equivalents.



CVS Group plc

23. Trade and other payables

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Current				
Trade payables	9,634	6,495	-	-
Social security and other taxes	3,713	3,149	-	-
Other payables	507	2	-	-
Accruals and deferred income	2,040	2,455	-	-
	15,894	12,101	-	-

Included within accruals and deferred income is deferred consideration of £365,000 (2010: £884,000); see note 16 for further details.

24. Borrowings

Group	2011 £'000	2010 £'000
Current		
Bank overdraft	-	265
Bank loans	3,952	5,085
Finance leases	10	-
	3,962	5,350
Non-current		
Bank loans	32,737	36,655
Finance leases	40	-
	32,777	36,655

Company

The Company does not have any borrowings.



CVS Group plc

24. Borrowings (continued)

Bank loans

The repayment profile of the borrowings are as follows:

Group	2011 £'000	2010 £'000
Within one year or on demand	3,952	5,350
Between one and two years	2,825	3,956
Between two and three years	29,912	2,831
Between three and four years	-	29,868
	36,689	42,005

The balances above are shown net of issue costs of £223,000 (2010: £347,000), which are being amortised over the term of the bank loans.

The borrowings are denominated in sterling.

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

The bank loans 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 2011, the acquisition facility has been fully drawn down. The 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 30 September 2013.

Undrawn committed borrowing facilities

The Group has a committed working capital facility of £2,000,000 (2010: £2,000,000) of which, £2,000,000 was undrawn at 30 June 2011 (2010: £1,700,000) and which is repayable on demand.



CVS Group plc

24. Borrowings (continued)

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	2011 £'000	2010 £'000
Minimum lease payments		
Within one year	14	-
In more than one year, but not more than five years	44	-
	58	-
Future finance charges		
Within one year	4	-
In more than one year, but not more than five years	4	-
	8	-
Net minimum lease payments		
Within one year	10	-
In more than one year, but not more than five years	40	-
	50	-

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

Company

The Company has no obligations under finance leases.

25. Deferred income tax

Carrying values for deferred income tax are shown below:

Group	2011		2010	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Deferred income tax	697	(5,795)	1,321	(7,076)



CVS Group plc

25. Deferred income tax (continued)

Deferred income tax assets

Deferred income tax assets are comprised as follows:

Group	2011 £'000	2010 £'000
Tax effect of timing differences:		
Share based payments	180	128
Losses	83	553
Derivative financial instruments	434	640
	697	1,321

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	2011 £'000	2010 £'000
Tax effect of timing differences:		
Excess of qualifying depreciation and amortisation over tax allowances	(5,795)	(7,076)
	(5,795)	(7,076)

Deferred income tax assets – net

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

Group	2011 £'000	2010 £'000
Deferred tax liabilities brought forward	(5,755)	(4,487)
Credited to the income statement (note 10(a))	858	499
Charged to comprehensive income	(207)	272
Credited to statement of changes in equity	6	-
Arising on business combinations (note 16)	-	(2,039)
Deferred tax liabilities carried forward – net	(5,098)	(5,755)

The deferred tax balance is considered to be non-current.



CVS Group plc

25. Deferred income tax (continued)

In addition to the losses recognised as per above, the Group has tax losses arising in the UK of £305,000 (2010: £677,000) that are potentially available for offset against future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to the uncertainty over their future recoverability.

Company

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

26. Current income tax liabilities

Group	2011 £'000	2010 £'000
Current tax liabilities	932	574

Company

The Company does not have any current tax liabilities.

27. Share capital

	2011 £'000	2010 £'000
Authorised		
352,000,000 (2010: 352,000,000) Ordinary shares of 0.2p each	704	704
	2011 £'000	2010 £'000
Issued and fully paid:		
56,495,096 (2010: 56,300,317) Ordinary shares of 0.2p each	113	113

During the year, 194,779 shares were issued for consideration of £390 in respect of the vesting of LTIP1.

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

Dividends

The Directors have proposed a final dividend of 1.0p (2010: £nil) per share (total £565,000 (2010: £nil)), payable on 20 December 2011 to shareholders on the register at the close of business on 16 December 2011. The dividend has not been included as a liability as at 30 June 2011.



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 2010 £'000	Cash flow £'000	Non-cash movements £'000	At 30 June 2011 £'000
Cash and cash equivalents	(156)	3,349	-	3,193
Borrowings – current	(5,085)	5,175	(4,042)	(3,952)
Finance leases – current	-	7	(17)	(10)
Total current debt	(5,085)	5,182	(4,059)	(3,962)
Borrowings – non-current	(36,655)	-	3,918	(32,737)
Finance leases – non-current	-	-	(40)	(40)
Total non-current debt	(36,655)	-	3,878	(32,777)
Net debt	(41,896)	8,531	(181)	(33,546)

Non-cash movements comprise amortisation of issue costs on bank loans, new finance lease obligations, and transfers between categories of borrowings.

Company

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



CVS Group plc

30. Cash flow generated from operations

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Profit/(loss) for the year	3,487	3,058	545	(1,202)
Taxation	767	781	-	-
Total finance costs	2,128	1,879	-	-
Investment income	(24)	(29)	(818)	(1,806)
Impairment of investment in subsidiary undertakings	-	-	-	2,755
Amortisation of intangible assets	5,348	4,385	-	-
Depreciation of property, plant and equipment	2,233	1,905	-	-
Loss on disposal of property, plant and equipment	36	-	-	-
Increase in inventories	(115)	(22)	-	-
(Increase)/decrease in trade and other receivables	(1,082)	(642)	273	(8,397)
Increase in trade and other payables	4,426	753	-	-
Share option expense	435	556	-	-
Total net cash flow generated from/(used in) operations	17,639	12,624	-	(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 (2010: £nil). The Company had no capital commitments as at 30 June 2011 (2010: £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 £36,912,500 at 30 June 2011. The Directors do not expect any material loss to the Company to arise in respect of the guarantees.



CVS Group plc

32. Operating lease commitments

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

	2011	2010
	£'000	£'000
Property		
No later than one year	5,051	4,865
Later than one year and not later than five years	19,164	18,454
Later than five years	26,659	28,410
	50,874	51,729
Plant and machinery		
No later than one year	277	270
Later than one year and not later than five years	164	307
Later than five years	102	11
	543	588
Total lease commitments		
No later than one year	5,328	5,135
Later than one year and not later than five years	19,328	18,761
Later than five years	26,761	28,421
	51,417	52,317

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 £175,000 (2010: £147,000). The amount outstanding at the end of the year included in trade and other payables was £11,000 (2010: £9,000).



CVS Group plc

34. Related party transactions

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

Company

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

	2011	2010
	£'000	£'000
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	(273)	(253)
Proceeds of ordinary share issue advanced to CVS (UK) Limited	-	8,650
Dividend receivable from CVS (UK) Limited	818	1,806

As at 30 June 2011, the following balances were owed by/due to related companies:

	2011		2010	
	Receivable	Payable	Receivable	Payable
	£'000	£'000	£'000	£'000
CVS (UK) Limited	6,887	-	6,342	-

Amounts owed by 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 £22,000 (2010: £420) was payable in the year.

35. Ultimate controlling party

The Directors consider there is no ultimate controlling party.

36. Post balance sheet events

On 15 July 2011, share options were granted to the Executive Directors in accordance with LTIP5. Further details are disclosed in the Remuneration Report on pages 26 to 30.

On 22 August 2011, the Group acquired the trade and assets of a veterinary practice based in Hertfordshire for cash consideration of £1,000,000. The assets acquired comprised plant and equipment of £16,000 and intangible patient data records, with a provisional fair value of £984,000. For the year ended 31 August 2010, the practice reported an unaudited pre tax profit of £243,000. Given the nature of the records maintained by the practice it is not practicable to provide details of revenue, profits or recognised gains and losses for the period from the prior period end to the date of acquisition.



CVS Group plc

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