

**CVS GROUP plc**  
 (“CVS” the “Company” or the “Group”)

**Preliminary Results for the year ended 30 June 2008**

CVS, one of the UK’s leading providers of veterinary services, is pleased to announce its maiden preliminary results for the year ended 30 June 2008 following its successful listing on AIM in October 2007.

**Financial Highlights**

	Year ended		% Change
	30.06.08	30.06.07	
	£’000	£’000	
Revenue	62,150	38,972	+59.5
Adjusted EBITDA <sup>1</sup>	9,613	5,088	+88.9
Adjusted cash generated from operations <sup>2</sup>	8,268	6,509	+27.0
Operating profit	4,079	2,894	+40.9
Profit before tax	124	773	-84.0
Earnings/(loss) per share			
Pre-tax adjusted <sup>3</sup>	10.7p	4.0p	+167.5
Basic and diluted	(1.2p)	0.7p	N/A

<sup>1</sup> - See page 7 of the financial information for a reconciliation of (loss)/profit before income tax for the period to adjusted earnings before interest, tax, depreciation, amortisation, share-based payments and exceptional items (“Adjusted EBITDA”).

<sup>2</sup> - See page 11 of the financial information for a reconciliation of cash generated from operations to adjusted cash generated from operations.

<sup>3</sup> - See note 7 of the financial information for a reconciliation of basic and diluted (loss)/earnings pre share to pre-tax adjusted earnings per share.

**Operating Highlights**

- 30 surgeries acquired during year, increasing total by 25% to 150
- Laboratories more than doubled to seven, broadening the range of diagnostic services
- Group currently employs around 360 vets out of an estimated total of 12,000 practising vets in UK – significant scope for further expansion

**Commenting on the results and outlook, CVS Chief Executive Simon Innes said:**

“I am delighted that we have continued to deliver strong financial results with excellent growth in both Adjusted EBITDA and revenue, while achieving impressive operating cashflow. The Board is confident that CVS is well placed to deliver good operational and financial progress with the prospects of solid long term growth”..... “the new financial year has started well....”

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# **Chairman's statement**

## **Introduction**

I am pleased to announce the results of CVS Group plc for the year ended 30 June 2008, being our first year of trading since becoming a public company.

This has been both a very important and a very successful year for the Group, encompassing a change from private equity ownership following the admission of the shares to trading on AIM on 10 October 2007.

## **Business overview**

The Group was formed in August 1999 to acquire and operate veterinary practices which were well established within their local community, with a reputation for high quality clinical care and service.

The Group has built a reputation in the veterinary profession as a leading national consolidator, with the Group at the year end, operating 150 surgeries across the UK. This has provided us with significant operational leverage, with greater efficiencies as the majority of administrative services are consolidated within the head office.

Scale also brings significant benefits in buying of drugs and equipment. This coupled with pricing management and the growth in the underlying market for veterinary care, has allowed the Group to demonstrate the ability to extract organic profit growth from the practices it acquires.

## **Results and dividends**

The results show strong growth both through acquisitions and organically. They are discussed in detail in the Business and Financial Review.

In the year under review the Group acquired 30 surgeries, which represents an increase of 25% on the start of the year. In addition, a strategically important laboratory business (Axiom Veterinary Laboratories Limited ("Axiom")) was acquired during the year.

The diagnostic services offered by Axiom complement the existing capability of the Group and the acquisition more than doubled (to 7) the number of sites operated, enabling us to offer a broader range of diagnostic services to clients. The acquisition of Axiom shows potential to increase laboratory turnover by approximately 140% (annualised) and has already contributed £2.3m to turnover in this financial year under review since its acquisition in January 2008.

The directors propose that no final dividend should be declared for the year ended 30 June 2008. No interim dividend for 2008 was paid (2007: £nil). The Board, at this point in time, believes that cash generated from operations should continue to be reinvested into the purchase of further businesses. The Board will continue to review its dividend policy on an ongoing basis.

## **Staff**

Our excellent team of people continue to be key to the Group in delivering its strategy. I would like to thank each of them for their professionalism in giving our clients the best possible clinical care and service.

As part of the recognition for their hard work the Group has established a Save As You Earn share purchase scheme, which was open for subscription to all staff after the year end. The aim is to further reward the commitment of our staff and allow them to benefit from the success of CVS.

The Group continues to be the largest employer in the UK veterinary profession with 1,600 staff. The Group currently employs around 360 vets out of an estimated total of 12,000 practising vets in the UK, giving some indication of the significant scope left for expansion in the UK market.

## **Future outlook**

The Board will continue to focus on delivering revenue growth and cash and profit generation both organically and through acquisition.

The directors intend to continue the strategy of growth through acquisition in the fragmented UK veterinary market. We continue to be approached by veterinary practices and laboratory service providers seeking to sell to the Group and we are currently evaluating a number of potential practice acquisitions which would add in excess of 30 surgeries to our business.

The new financial year has started well with current trading in line with expectations. Since the year end the Group has also made a further acquisition, comprising of a large veterinary surgery in the North East of England.

**Richard Connell**

**Chairman**

**16 September 2008**

## Business and financial review

CVS is one of the leading veterinary services providers in the UK, operating 53 veterinary practices and 150 individual surgeries, at the year end plus seven veterinary diagnostic laboratories.

The Group strategy recognises that the value of veterinary businesses lies in the quality of their staff and the relationship they enjoy with their existing clients. Professional management expertise and other services are therefore provided centrally to all Group practices, relieving them of their administrative burden and enabling local staff to concentrate fully on clinical care.

The Group has delivered significant growth in revenues, and, on an adjusted basis, profit and cash generation over the prior year. The number of surgeries has increased by 25% to 150 at 30 June 2008 compared to 120 a year earlier. Reflecting the increased number of surgeries and the contribution of Axiom, revenue grew 59% from £38.97m to £62.15m. Like for like revenue growth, which relates to sites that have been owned by the Group for the whole of the current and comparable periods, was 5%.

The Directors believe that several factors are currently contributing to growth in the market for veterinary services in the UK, including growing and ageing pet populations, advances in veterinary medical science, changes in the demographic profile of the human population and growth in the pet insurance industry. Building on these underlying drivers of growth, and capitalising on other drivers that are encouraging vets to sell their practices to corporate operators, CVS has expanded by acquisition into the market and established a leading position as a national consolidator and operator of veterinary practices and laboratories.

During the year ended 30 June 2008 the Group achieved considerable growth which is summarised below:

	<b>2008</b>	<b>2007</b>	<b>Growth</b>
	<b>£'m</b>	<b>£'m</b>	<b>%</b>
Revenue	<b>62.15</b>	38.97	59
Adjusted earnings before interest, tax, depreciation, amortisation and exceptional items ("Adjusted EBITDA") <sup>1</sup>	<b>9.61</b>	5.09	89
Reported operating profit	<b>4.08</b>	2.89	41
Adjusted cash generated from operations <sup>2</sup>	<b>8.27</b>	6.51	27
Reported cash generated from operations	<b>6.50</b>	6.51	-
	<b>2008</b>	<b>2007</b>	<b>Acquisitions</b>
Number of surgeries at 30 June	<b>150</b>	120	30
Number of laboratories at 30 June	<b>7</b>	3	4

<sup>1</sup>See page 7 of the financial information for a reconciliation of (loss)/profit before income tax for the period to adjusted earnings before interest, tax, depreciation, amortisation, share based payments, other gains and exceptional items ("adjusted EBITDA").

<sup>2</sup>See page 11 of the financial information for a reconciliation of cash generated from operations to adjusted cash generated from operations.

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

The increase in revenue, adjusted cash generated from operations and Adjusted EBITDA are due to a combination of the impact of acquisitions and the leveraging of the expanded practice base to deliver operational and purchasing efficiencies. Details of acquisitions in the period are shown in note 9.

Acquisitions in the year have been successfully integrated within the Group.

## Business and financial review (continued)

Adjusted EBITDA has grown by 89% from £5.09m to £9.61m, increasing from 13.1% to 15.4% of revenue. These increases are due to a combination of factors, including:

- acquisitions
- like for like revenue growth
- improved buying terms
- productivity improvements (as % of sales)
- central overhead cost reductions (as % of sales)

Reported operating profit has increased from £2.89m to £4.08m (41%) reflecting the factors above, offset by increased amortisation charges, and exceptional items relating to the IPO.

Adjusted cash generated from operations (before payments of £1.76m in respect of exceptional items relating to the IPO) increased by 27% to £8.27m from £6.51m. Cash generated from operations (after payments of £1.76m in respect of exceptional items relating to the IPO) decreased slightly to £6.50m from £6.51m in the comparable period.

The Group recorded a loss after income tax for the year of £0.61m (2007: profit of £0.35m). This was due in part to the £1.76m paid in relation to non-recurring IPO related costs in the year, together with exceptional finance expenses.

Pre tax adjusted earnings per share were 10.7p, up from 4.0p in the prior year. Basic and diluted loss per share after exceptional items were (1.2p) per share (2007: earnings of 0.7p). A reconciliation of the two numbers is provided in note 7 to the financial information.

The directors consider the result for the year and the balance sheet position to be satisfactory and, in the absence of unforeseen circumstances, anticipate further progress and positive cash generation in the future.

Details of the changes in the Company's share capital in advance of the flotation can be found in note 11 to the financial information.

### Key performance indicators ('KPIs')

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

	2008	2007	Definition, method of calculation and analysis
Gross margin	<b>38.7%</b>	37.9%	Gross margin is the ratio of gross profit to revenue expressed as a percentage. Gross margin is in line with expectations.
Operating margin	<b>14.1%</b>	11.6%	Operating margin is the ratio of operating profit before goodwill amortisation and exceptional items to revenue expressed as a percentage. Operating margin is in line with expectations.
Adjusted EBITDA	<b>£9.61m</b>	£5.09m	Adjusted EBITDA represents earnings before net finance expense, tax, depreciation, amortisation, share based payments and exceptional items. Adjusted EBITDA is in line with expectations.
Pre tax adjusted EPS	<b>10.7p</b>	4.0p	Pre-tax earnings, adjusted for exceptional items, fair value adjustments, share based payments and amortisation of intangibles, divided by the number of issued shares
Adjusted cash generated from operations	<b>£8.27m</b>	£6.51m	Cash generated from operations, before exceptional administrative expenses.

## **Business and financial review (continued)**

### **Funding**

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 £32.0m term loan, an acquisition facility of £12.0m and a working capital facility of £2.0m.

The Group used the £32.0m term loan to refinance its previous term loan of £20.2m and repay the secured loan stock and redeemable preference shares (together with the associated premiums) that were outstanding at the date of flotation.

During the year the Group spent £12.0m on acquisitions (net of cash acquired with subsidiaries acquired), of which £3.1m was funded from internally generated cash and the balance of £8.9m from the £12.0m acquisition facility.

### **Treasury management**

The Group has a centralised treasury function to manage interest rate risk. Derivative instruments are used solely to mitigate these risks.

Interest rate swaps are used to generate the desired interest profile and to manage exposure to interest fluctuations. At the year end, the Group had interest hedging arrangements in place covering £32m of debt.

The Group sweeps funds daily from its various bank accounts to optimise interest earning opportunities by way of a Special Interest Bearing Account.

### **Finance expense**

Net finance expenses of £3.96m represent an increase of £1.83m (86%) compared to the previous year. The majority of this increase (£1.25m) has arisen from fair value adjustments in respect of the Group's derivative financial instruments, exceptional finance expense relating to the write off of debt issue costs in respect of previous bank loans redeemed in the year as part of the refinancing referred to above and the write off of break costs incurred in terminating a derivative financial instrument arrangement.

The remaining finance costs relate to the servicing costs of the Group's borrowings.

### **Taxation**

No taxation is payable in respect of the Group trading in the year due to the availability of capital allowances on intangible assets and utilisation of brought forward losses. Taxation paid in the year and payable at the year end related to tax liabilities assumed on the acquisition of subsidiaries.

### **Business environment**

The directors believe that corporate-owned veterinary practices represent circa 17% of the UK small animal market measured by number of surgeries, implying that there is significant further consolidation opportunity. CVS currently employs an estimated 3.1% of practising vets in the UK, which also suggests that there is significant scope left for expansion in the UK market.

### **Principal risks and uncertainties**

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

#### *Competition*

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

## **Business and financial review (continued)**

### *Availability of practices for acquisition*

The Group's acquisition strategy is subject to the availability of suitable practices. The directors believe that corporate-owned veterinary practices represent 17% of the UK small animal market measured by number of surgeries and, accordingly, that there is significant potential for further consolidation of the sector. In support of this, the Group maintains a significant pipeline of potential acquisitions.

### *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 Group utilises a combination of locums and its existing base of veterinary surgeons to ensure operational requirements are fulfilled. The involvement of key personnel is encouraged through the operation of the Company's share option scheme that was opened for subscription after the year end.

### *Clinical standards*

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

### **Strategy**

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

**Simon Innes**  
**Chief Executive**  
**16 September 2008**

## Consolidated income statement for the year ended 30 June 2008

	Note	2008 £'000	2007 £'000
<b>Revenue</b>	3	<b>62,150</b>	38,972
Cost of sales		<b>(38,121)</b>	(24,209)
<b>Gross profit</b>		<b>24,029</b>	14,763
Exceptional administrative expenses	4	<b>(1,764)</b>	-
Other administrative expenses		<b>(18,502)</b>	(11,869)
Total administrative expenses		<b>(20,266)</b>	(11,869)
Other gains		<b>316</b>	-
<b>Operating profit</b>		<b>4,079</b>	2,894
Fair value adjustments in respect of financial assets and liabilities	5	<b>(347)</b>	351
Exceptional finance expense	5	<b>(556)</b>	-
Other finance expense	5	<b>(3,184)</b>	(2,682)
Finance income	5	<b>132</b>	210
Net finance expense		<b>(3,955)</b>	(2,121)
<b>Profit before income tax</b>	3	<b>124</b>	773
Income tax expense	6	<b>(734)</b>	(427)
<b>(Loss)/profit for the period attributable to equity shareholders</b>		<b>(610)</b>	346

**(Loss)/earnings per ordinary share for (loss)/profit attributable to the equity holders of the Company  
(expressed in pence per share) ("EPS")**

Basic and diluted	7	<b>(1.2p)</b>	0.7p
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The above results relate to continuing operations, including business combinations (further details of which are provided in note 9 to the financial information).

<b>Non-GAAP measure: Adjusted EBITDA</b>	Note	£'000	£'000
Profit before income tax		<b>124</b>	773
Adjustments for:			
Exceptional administrative expenses	4	<b>1,764</b>	-
Net finance expense	5	<b>3,955</b>	2,121
Depreciation		<b>1,042</b>	577
Amortisation		<b>2,934</b>	1,617
Other gains		<b>(316)</b>	-
Share option expense	8	<b>110</b>	-
<b>Adjusted EBITDA</b>		<b>9,613</b>	5,088

## Consolidated balance sheet as at 30 June 2008

	Note	2008 £'000	2007 £'000
<b>Non-current assets</b>			
Intangible assets		33,685	26,283
Property, plant and equipment		6,757	4,245
Investments		399	23
Deferred income tax assets		426	578
Derivative financial instruments		613	373
		<b>41,880</b>	31,502
<b>Current assets</b>			
Inventories		1,829	1,226
Trade and other receivables		5,108	2,904
Cash and cash equivalents		392	2,622
		<b>7,329</b>	6,752
<b>Total assets</b>	3	<b>49,209</b>	38,254
<b>Current liabilities</b>			
Trade and other payables		(8,272)	(7,380)
Current income tax liabilities		(54)	(116)
Borrowings	10	(50)	(11,119)
		<b>(8,376)</b>	(18,615)
<b>Non-current liabilities</b>			
Borrowings	10	(40,410)	(20,028)
Deferred income tax liabilities		(2,043)	(1,155)
		<b>(42,453)</b>	(21,183)
<b>Total liabilities</b>	3	<b>(50,829)</b>	(39,798)
<b>Net (liabilities)/assets</b>		<b>(1,620)</b>	(1,544)

## Consolidated balance sheet as at 30 June 2008 (continued)

	Note	2008 £'000	2007 £'000
<b>Shareholders' equity</b>			
Share capital	11	103	103
Capital redemption reserve		592	-
Revaluation reserve		125	125
Merger reserve		(61,420)	(61,420)
Retained earnings		58,980	59,648
<b>Total shareholders' (deficit)/equity</b>		<b>(1,620)</b>	<b>(1,544)</b>

The financial information comprising the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in shareholders equity, the consolidated cash flow statement and the related notes, was approved for issue by the Board of Directors on 15 September 2008 and was signed on its behalf by:

P.Coxon  
Director

S. Innes  
Director

## Consolidated statement of changes in shareholders' equity for the year ended 30 June 2008

	Share capital	Revaluation reserve	Capital redemption reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2006	103	125	-	(61,420)	59,302	(1,890)
Retained profit for the year	-	-	-	-	346	346
<b>At 30 June 2007</b>	<b>103</b>	<b>125</b>	<b>-</b>	<b>(61,420)</b>	<b>59,648</b>	<b>(1,544)</b>
Retained loss for the financial year	-	-	-	-	(610)	(610)
Transfer to capital redemption reserve	-	-	592	-	(592)	-
Fair value movement of cash flow hedging derivative	-	-	-	-	587	587
Revaluation of available for sale investments	-	-	-	-	(7)	(7)
Credit to reserves for share-based payments	-	-	-	-	110	110
Deferred tax relating to items charged directly to retained earnings	-	-	-	-	(156)	(156)
<b>At 30 June 2008</b>	<b>103</b>	<b>125</b>	<b>592</b>	<b>(61,420)</b>	<b>58,980</b>	<b>(1,620)</b>

## Consolidated cash flow statement for the year ended 30 June 2008

	Note	2008 £'000	2007 £'000
<b>Cash flows from operating activities</b>			
<b>Cash generated from operations before exceptional payments</b>		<b>8,268</b>	6,509
Exceptional administrative expenses *		<b>(1,764)</b>	-
<b>Cash generated from operations</b>	12	<b>6,504</b>	6,509
Taxation paid		<b>(95)</b>	-
Interest received		<b>132</b>	210
Interest paid		<b>(3,418)</b>	(1,227)
<b>Net cash generated from operating activities</b>		<b>3,123</b>	5,492
<b>Cash flows from investing activities</b>			
Acquisition of businesses	9	<b>(5,673)</b>	(10,319)
Acquisition of subsidiaries (net of cash acquired)	9	<b>(6,322)</b>	(5,843)
Purchase of property, plant and equipment		<b>(2,099)</b>	(1,349)
Purchase of intangible assets		<b>(23)</b>	(143)
Proceeds from sale of property, plant and equipment		<b>17</b>	4
<b>Net cash used in investing activities</b>		<b>(14,100)</b>	(17,650)
<b>Cash flows from financing activities</b>			
Finance lease principal payments		<b>(13)</b>	(9)
Repayment of loan stock, preference shares and associated redemption premiums		<b>(11,714)</b>	-
Repayment of bank loan		<b>(20,455)</b>	-
Proceeds from long-term borrowings		<b>40,929</b>	-
Receipt of borrowings (net of debt issue costs)		-	12,326
<b>Net cash from financing activities</b>		<b>8,747</b>	12,317
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,230)</b>	159
Cash and cash equivalents at start of period		<b>2,622</b>	2,463
<b>Cash and cash equivalents at end of period</b>		<b>392</b>	2,622

\*Cash paid in respect of exceptional administrative expenses incurred in relation to the Company's admission to the Alternative Investment Market – see note 4 for further details.

# Notes to the consolidated financial information

## 1. Basis of preparation

The preliminary announcement for the year ended 30 June 2008 has been prepared in accordance with the EU-adopted International Financial Reporting Standards (“IFRS”). The financial information contained in this preliminary announcement does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information has been extracted from the financial statements for the year ended 30 June 2008, which have been approved by the Board of Directors and on which the auditors have reported without qualification. The financial statements will be delivered to the Registrar of Companies after the annual general meeting. The financial statements for the year ended 30 June 2007, upon which the auditors reported without qualification, have been delivered to the Registrar of Companies.

The Group has net liabilities as at 30 June 2008. The Group has traded profitably since the balance sheet date with the profits generated contributing to the funding of the Group’s working capital requirements. In addition, the Group has a £2m working capital facility, of which there had been no draw down at the balance sheet date. On this basis the directors consider it appropriate to prepare the consolidated financial information on the going concern basis.

### *Group reconstruction*

The consolidated financial information includes the financial information of the Company and its subsidiary undertakings, made up to 30 June 2008. A reconstruction of the CVS Group took place during the period, as described below, in preparation for the admission of the Company’s shares to the AIM market of the London Stock Exchange in October 2007.

The Company was incorporated as CVS Group Limited on 13 July 2007. On 22 August 2007, the Company acquired the entire issued share capital of CVS (UK) Limited by way of a one-for-one share exchange. On 17 September 2007, the Company was re-registered as a public limited company and its name was changed to CVS Group plc.

As a result of the above reconstruction, the results of CVS Group plc and its subsidiary undertakings have been consolidated using the principles of merger accounting. As such, although the consolidated financial information has been prepared in the name of the legal parent, the Company, they are in substance a continuation of the consolidated financial statements of the legal subsidiary, CVS (UK) Limited. The following accounting treatment has been applied in respect of merger accounting:

- The assets and liabilities of the legal subsidiary, CVS (UK) Limited and of its subsidiaries, are recognised and measured in the consolidated financial information without restatement to fair value; and
- The retained (loss)/earnings and other equity balances recognised in the consolidated financial information reflects the retained earnings and other equity balances of CVS (UK) Limited and of its subsidiaries, immediately before the group reconstruction, and the results of the period from 1 July 2006 to the date of the group reconstruction are those of CVS (UK) Limited and of its subsidiaries, as the Company did not trade prior to the group reconstruction. However, the equity structure appearing in the consolidated financial information reflects the equity structure of the legal parent, CVS Group plc, including the equity instruments issued to effect the group reconstruction.

## 2. Summary of significant accounting policies

The accounting policies used are consistent with those set out on pages 19 to 26 of the consolidated financial statements of CVS (UK) Limited for the year ended 30 June 2007 (which are available upon request from the Company's registered office) with the exception of:

### **Share-based payments**

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

The fair values of equity-settled transactions are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value of share-based payments under such schemes is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

### **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. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of

whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

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

### *Cash flow hedging*

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### Exceptional items

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

### Use of non-GAAP profit measures

*Adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA") and pre-tax adjusted earnings per share*

The directors believe that adjusted EBITDA and pre-tax adjusted earnings per share measures provide 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 (loss)/profit before income tax, adjusted for interest (net finance expense), depreciation, amortisation, share-based payments and exceptional items. Pre-tax adjusted earnings per share, is calculated by reference to (loss)/profit before income tax, adjusted for amortisation, exceptional items and fair value adjustment re-measurement. It is considered appropriate to adjust for exceptional items and fair value re-measurements as follows:

- Exceptional items – due to their significance and special nature, certain other items which do not reflect the Group's underlying performance are excluded from adjusted profit. These gains or losses can have a significant impact on both absolute profit and profit trends, consequently, they are excluded from the adjusted EBITDA and pre-tax earnings per share of the Group.
- IAS 32 and IAS 39 'Financial Instruments' – fair value re-measurements – under IAS 32 and IAS 39, the Group applies hedge accounting to its various hedge relationships (principally interest rate swaps) when it is allowed under the rules of IAS 39 and practical to do so. The Group is not always able to apply hedge accounting to the arrangements, but continues to enter into these arrangements as they provide certainty or active management of the interest rates applicable to the Group. The Group believes these arrangements remain effective and economically and commercially viable hedges despite the inability to apply hedge accounting.

Where hedge accounting is not applied to certain hedging arrangements, the reported results reflect the movement in fair value of related derivatives due to changes in interest rates. This may mean that the income statement charge is highly volatile, whilst the resulting cash flows may not be as volatile. The adjusted profit measure removes this volatility to help better identify underlying business performance.

### 3. Segmental reporting

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

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

#### Geographical segments

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

#### Business segments

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

##### Year ended 30 June 2008

	Veterinary practices £'000	Laboratories £'000	Head office £'000	Group £'000
Revenue <sup>1</sup>	56,673	5,477	-	<b>62,150</b>
Amortisation	2,794	116	24	<b>2,934</b>
Depreciation	888	77	77	<b>1,042</b>
Profit before income tax	8,933	67	(8,876)	<b>124</b>
Total assets	10,320	3,766	35,123	<b>49,209</b>
Total liabilities	(6,833)	(1,365)	(42,631)	<b>(50,829)</b>
Capital expenditure	10,011	3,757	139	<b>13,907</b>

<sup>1</sup>Inter-segment revenue of £1,152,000, representing laboratory sales to veterinary practices, has been eliminated on consolidation.

##### Year ended 30 June 2007

	Veterinary practices £'000	Laboratories £'000	Head office £'000	Group £'000
Revenue <sup>1</sup>	36,316	2,656	-	<b>38,972</b>
Amortisation	1,536	-	81	<b>1,617</b>
Depreciation	440	84	53	<b>577</b>
Profit before income tax	5,154	299	(4,680)	<b>773</b>
Total assets	9,085	1,597	27,572	<b>38,254</b>
Total liabilities	(5,981)	(1,119)	(32,698)	<b>(39,798)</b>
Capital expenditure	17,651	51	208	<b>17,910</b>

<sup>1</sup>Inter-segment revenue of £588,000, representing laboratory sales to veterinary practices, has been eliminated on consolidation.

#### 4. Exceptional administrative expenses

Exceptional administrative expenses relate to legal and professional fees incurred in relation to the Company's admission to the Alternative Investment Market on 10 October 2007.

#### 5. Finance (income) and expense

	2008 £'000	2007 £'000
Interest expense, bank loans and overdraft	2,484	1,021
Debt finance costs	91	70
Accrued loan stock redemption premium	427	1,195
Accrued preference share redemption premium	22	51
Accrued participating dividend on preferred ordinary shares	156	344
Finance charges payable under finance leases	4	1
	<b>3,184</b>	<b>2,682</b>
<b>Exceptional finance expense</b>		
Write off of debt issue costs relating to bank loans redeemed in the period, and break costs incurred in termination of a derivative financial instrument	556	-
<b>Fair value adjustments in respect of financial assets and liabilities</b>	<b>347</b>	<b>(351)</b>
<b>Bank interest receivable</b>	<b>(132)</b>	<b>(210)</b>
<b>Net finance expense</b>	<b>3,955</b>	<b>2,121</b>

Fair value adjustments in respect of financial assets and liabilities reflect movements in the fair value of derivative financial instruments that do not qualify for hedge accounting and the ineffective portion of derivative financial instruments that do qualify for hedge accounting.

## 6. Income tax expense

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

	2008 £'000	2007 £'000
<b>Current tax expense</b>		
Adjustments in respect of previous periods	(82)	(52)
Total current tax credit	(82)	(52)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	962	479
Adjustments in respect of previous periods	(146)	-
Total deferred tax charge	816	479
<b>Total income tax expense</b>	<b>734</b>	<b>427</b>

UK corporation tax is calculated at 29.5% (2007: 30%) of the estimated assessable profit for the year. The standard rate of UK corporation tax changed from 30% to 28% with effect from 1 April 2008.

### (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:

	2008 £'000	2007 £'000
<b>Profit before tax</b>	<b>124</b>	773
Effective tax charge at 29.5%	37	232
<b>Effects of:</b>		
Expenses not deductible for tax purposes	925	284
Effect of tax rate change on opening deferred tax balance	-	(37)
Adjustments to deferred tax charge in respect of previous periods	(146)	-
Adjustments to current tax charge in respect of previous periods	(82)	(52)
<b>Total income tax expense</b>	<b>734</b>	<b>427</b>

### (c) Factors affecting the future tax charge

The effective tax rate is anticipated to continue to exceed the standard rate due to the incidence of expenses (principally relating to an element of amortisation of intangible assets) not deductible for tax purposes.

## 7. (Loss)/earnings per ordinary share

### (a) Basic

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

	2008	2007*
(Loss)/earnings attributable to ordinary shareholders (£'000)	<b>(610)</b>	346
Weighted average number of ordinary shares in issue (note 11)	<b>51,563,475</b>	51,563,475
Basic (loss)/earnings per share (pence per share)	<b>(1.2)</b>	0.7

### (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 Group has potentially dilutive ordinary shares being the contingently issueable shares under the Group's long term incentive plan ("LTIP") scheme. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the contingently issueable shares. There are no other dilutive or potentially dilutive shares in issue.

	2008	2007*
(Loss)/earnings attributable to ordinary shareholders (£'000)	<b>(610)</b>	346
Weighted average number of ordinary shares in issue (note 11)	<b>51,563,475</b>	51,563,475
Adjusted for contingently issueable shares	<b>93,860</b>	-
Weighted average number of ordinary shares for diluted earnings per share	<b>51,657,335</b>	51,563,475
Diluted (loss)/earnings per share (pence per share)	<b>(1.2)</b>	0.7

\*The number of shares used for the calculation of EPS for the year ended 30 June 2007 has been re-stated to the number of shares in issue following the capital re-structuring of the Company completed on 2 October 2007. This did not result in an increase in the overall share capital but was an increase in the number of shares and a reduction to the nominal value (see note 11).

## 7. (Loss)/earnings per ordinary share (continued)

### Non-GAAP measure: Pre tax adjusted earnings per share

Pre-tax adjusted earnings per ordinary share is calculated by dividing the profit on ordinary activities before taxation excluding amortisation of intangibles, share based payments and exceptional items and fair value adjustments, by the weighted average number of shares in issue during the period.

	<b>2008</b>	2007
	<b>Pre-tax</b>	Pre-tax
	<b>£'000</b>	£'000
(Loss)/earnings attributable to ordinary shareholders	<b>(610)</b>	346
Adjustments for:		
Income tax expenses	<b>734</b>	427
Amortisation	<b>2,934</b>	1,617
Share option expense	<b>110</b>	-
Exceptional administrative expenses (note 4)	<b>1,764</b>	-
Fair value adjustments in respect of financial assets and liabilities (note 5)	<b>347</b>	(351)
Fair value adjustments in respect of available for sale assets	<b>(316)</b>	-
Exceptional finance expense (note 5)	<b>556</b>	-
<b>Adjusted profit before income tax and earnings attributable to ordinary shareholders</b>	<b>5,519</b>	2,039
Weighted average number of ordinary shares in issue	<b>51,563,475</b>	51,563,475
	<b>Pence</b>	Pence
<b>Pre tax adjusted earnings per share</b>	<b>10.7p</b>	4.0p

## 8. Share-based payments

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

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

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

	<b>30 June 2008</b>
	<b>Number of share awards</b>
Outstanding at the beginning of the period	-
Granted during the period	<b>253,315</b>
Forfeited during the period	-
Exercised during the period	-
Expired during the period	-
Outstanding at the end of the period	<b>253,315</b>
Exercisable at the end of the period	-

## 8. Share based payments (continued)

The options outstanding at the period end have a weighted average remaining contractual life of 2.0 years. The effective date for options granted in the period was 10 October 2007, with an estimated fair value of £2.05.

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

	<b>30 June 2008</b>
Share price at grant date	<b>£2.05</b>
Exercise price	<b>0.2p</b>
Number of employees	<b>4</b>
Shares under option	<b>253,315</b>
Number of shares expected to vest	<b>202,652</b>
Vesting period (years)	<b>2 years 9 months</b>
Option life (years)	<b>2 years 9 months</b>
Expected life (years)	<b>2 years 9 months</b>
Expected dividends expressed as a dividend yield	<b>0%</b>
Probability of ceasing employment before vesting	<b>0%</b>
Fair value per option	<b>£2.05</b>

The share based payment charge for the year in respect of the options issued under the LTIP scheme amounted to £110,000 (2007: £nil) and has been charged to administrative expenses. National insurance contributions amounting to £21,000 (2007: £nil) are payable in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

## 9. Business combinations

Details of business combinations in the year ending 30 June 2008 are set out below, in addition to an analysis of pre and post acquisition performance of the respective business combinations where practicable.

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

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

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

### Year ended 30 June 2008:

Assets and trade	Date of acquisition	Fair value of property plant and equipment acquired £'000	Fair value of intangible assets acquired <sup>1</sup> £'000	Cash paid <sup>2</sup> £'000
<b>A practice in:</b>				
Hampshire & Surrey	02/07/2007	257	1,945	2,202
Hampshire	03/12/2007	50	423	473
Yorkshire	11/12/2007	10	335	345
Lancashire	25/02/2008	120	719	839
Hampshire	17/03/2008	70	1,183	1,253
Vale of Glamorgan	09/06/2008	38	231	269
Other business combinations <sup>3</sup>		20	207	227
Other payments <sup>4</sup>		-	65	65
		<b>565</b>	<b>5,108</b>	<b>5,673</b>

<sup>1</sup>Intangible assets acquired represents patient data records (£5,100,000) and goodwill (£8,000).

<sup>2</sup>Cash paid includes professional fees of £268,000.

<sup>3</sup>The Group acquired practices in Buckinghamshire and Suffolk. Due to their respective size, the directors consider these business combinations to be immaterial and therefore do not require separate disclosure.

<sup>4</sup>Other payments represent a revised estimate of contingent consideration in relation to the acquisition of practices in prior periods.

## 9. Business combinations (continued)

### Analysis of pre and post acquisition performance:

	Previous year end	Pre- acquisition performance <sup>1</sup> £'000	Post- acquisition revenue <sup>2</sup> £'000	Post- acquisition contribution <sup>3</sup> £'000
<b>A practice in:</b>				
Hampshire & Surrey	31/03/2007	489	2,283	565
Hampshire	31/03/2007	14	430	(14)
Yorkshire	30/04/2007	126	273	12
Lancashire	30/04/2007	140	525	77
Hampshire	31/03/2007	441	721	69
Vale of Glamorgan	31/08/2007	112	34	5
Other business combinations		58	344	29
		<b>1,380</b>	<b>4,610</b>	<b>743</b>

<sup>1</sup>Pre-acquisition performance represents profit before tax excluding partners' or proprietors' drawings for the last full year prior to acquisition.

<sup>2</sup>Post-acquisition revenue represents revenue from the date of acquisition to the period end.

<sup>3</sup>Post-acquisition contribution represents the direct operating result of practices prior to the allocation of central overheads, on the basis that it is not practicable to allocate these, from the date of acquisition to the period end.

## 9. Business combinations (continued)

### Acquisition of Petmedics Limited, Beechwood Vet Practice Limited and Axiom Veterinary Laboratories Limited

On 26 November 2007, the Group acquired the whole of the issued share capital of Petmedics Limited (“PML”) for a total consideration of £1,581,000. On 30 November 2007 the Group acquired the whole of the issued share capital of Beechwood Veterinary Practice Limited (“BVPL”) for a total consideration of £536,000. Immediately following the acquisitions of PML and BVPL the trade and related assets were transferred to CVS (UK) Limited.

On 9 January 2008, the Group acquired the whole of the issued share capital of Axiom Veterinary Laboratories Limited (“Axiom”) for a total consideration of £5,122,000.

The book values of the non-intangible assets and liabilities of PML, BVPL and Axiom, and the fair value of the intangible assets, at the date of acquisition are set out below. The directors consider that the book values of the non-intangible assets and liabilities are equivalent to the fair values.

	PML	BVPL	Axiom	Total
	£'000	£'000	£'000	£'000
Intangible assets – patient data records	1,128	392	-	1,520
Intangible assets –customer list	-	-	3,685	3,685
Property, plant and equipment	478	48	381	907
Investments	-	-	67	67
Inventories	122	14	172	308
Trade and other receivables	320	27	682	1,029
Cash and cash equivalents	74	146	640	860
Current income tax liabilities	(52)	(31)	(32)	(115)
Deferred income tax liabilities	(22)	(3)	(43)	(68)
Trade and other payables	(336)	(57)	(317)	(710)
Hire purchase agreements	-	-	(50)	(50)
Bank loans	(131)	-	(63)	(194)
<b>Net assets acquired</b>	<b>1,581</b>	<b>536</b>	<b>5,122</b>	<b>7,239</b>

Consideration satisfied by:

Cash (including related costs of acquisition amounting to £188,000)	1,581	536	5,065	7,182
Accrued consideration	-	-	57	57
	<b>1,581</b>	<b>536</b>	<b>5,122</b>	<b>7,239</b>

For the year ended 30 September 2006, PML reported an unaudited post tax profit of £115,000. For the unaudited period ended 26 November 2007, the turnover was £3,736,000, operating profit £402,000 and the tax charge £78,000. The post-acquisition turnover of PML amounted to £1,924,000 and the post-acquisition contribution amounted to £299,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these, from the date of acquisition to the period end).

For the unaudited period ended 30 November 2007, the turnover of BVPL was £698,000, operating profit £153,000 and the tax charge £32,000. The post-acquisition turnover of BVPL amounted to £243,000 and the post-acquisition contribution amounted to £72,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these, from the date of acquisition to the period end).

## 9. Business combinations (continued)

For the year ended 31 December 2006, Axiom reported an audited post tax profit of £210,465. For the unaudited period ended 9 January 2008, the turnover was £4,500,053, operating profit £494,743 and the tax charge £102,644. The post-acquisition turnover of Axiom amounted to £2,337,000 and the post-acquisition contribution amounted to £292,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these, from the date of acquisition to the period end).

## 10. Borrowings

	2008 £'000	2007 £'000
<b>Current</b>		
Bank loan	20	-
Secured loan stock	-	9,559
Finance leases	30	10
Accrued participating dividend on preferred ordinary shares	-	625
Redeemable preference shares, including redemption premium	-	925
	<b>50</b>	<b>11,119</b>

	2008 £'000	2007 £'000
<b>Non-current</b>		
Bank loan	40,393	20,028
Finance leases	17	-
	<b>40,410</b>	<b>20,028</b>

### Secured loan stock and bank loans

The repayment profile of the secured loan stock and bank loans is as follows:

	2008 £'000	2007 £'000
Within one year or on demand	20	9,559
Between one and two years	3,748	-
Between two and three years	3,599	1,564
Between three and four years	2,812	6,255
Between four and five years	2,550	6,255
After five years	27,684	5,954
	<b>40,413</b>	<b>29,587</b>

The balances above are shown net of issue costs of £538,000 (2007: £278,000), which are being amortised over the lives of the bank loan.

## 10. Borrowings (continued)

The borrowings are denominated in sterling.

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

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

The acquisition facility was subject to an initial 36 month capital repayment holiday. As at 30 June 2008, £8,931,000 of the £12,000,000 acquisition facility has been drawn down. An amount equating to 12.5% of the drawdown at 30 June 2008 is repayable on 30 September 2010. The remaining balance is repayable in equal quarterly instalments equating to 3.125% of the drawn-down amount from 31 December 2010 through to 30 September 2013, with a bullet repayment for the balance due on that date.

The loan stock was secured by a second debenture incorporating fixed and floating charges over the assets and undertakings of each group company. It was subject to a 60% repayment premium but no annual interest charge. The loan stock and associated premium was repaid in full on 9 October 2007.

### Undrawn committed borrowing facilities

Committed overdraft facilities that are undrawn at 30 June 2008 of £2,000,000 (2007: £8,625,000) are repayable on demand. Committed acquisition facilities that are undrawn at 30 June 2008 of £3,1000,000 are, if drawn down, repayable in line with the repayment profile detailed above.

### Finance leases

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

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

	2008 £'000	2007 £'000
<b>Minimum lease payments</b>		
Within one year	36	12
In more than one year, but not more than five years	21	-
	<b>57</b>	12
<b>Future finance charges</b>		
Within one year	6	2
In more than one year, but not more than five years	4	-
	<b>10</b>	2
<b>Net minimum lease payments</b>		
Within one year	30	10
In more than one year, but not more than five years	17	-
	<b>47</b>	10

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

## 11. Share capital

	2008 £'000	2007 £'000
<b>Authorised</b>		
55,947,500 (2007: nil) Ordinary shares of 0.2p each	112	-
Nil (2007: 560,000) Ordinary shares of 5p each	-	28
Nil (2007:1,520,000) Preferred Ordinary shares of 5p each	-	76
	<b>112</b>	<b>104</b>

	2008 £'000	2007 £'000
<b>Allotted, called up and fully paid:</b>		
51,563,475 (2007: nil) Ordinary shares of 0.2p each	103	-
Nil (2007: 542,539) Ordinary shares of 5p each	-	27
Nil (2007:1,520,000) Preferred Ordinary shares of 5p each	-	76
	<b>103</b>	<b>103</b>

The allotted, called up and fully paid share capital at 30 June 2007 represents the shares issued by the Company to acquire CVS (UK) Limited and has been recognised in accordance with the principles of merger accounting.

The Company was incorporated as CVS Group Limited on 13 July 2007. On 17 September 2007, the Company was re-registered as a public limited company and its name was changed to CVS Group plc.

### *Changes to the authorised and issued share capital of the Company post incorporation*

The Company was incorporated on 13 July 2007 with an authorised share capital of £1,000, comprising 1,000 ordinary shares of £1 each.

On 13 July 2007, the Company allotted 1 ordinary share for cash, fully paid. On 17 August 2007, the Company allotted a further 29 ordinary shares of £1 each, fully paid.

On 17 August 2007, the Company passed resolutions to:

- increase the authorised share capital of the Company from £1,000 to £63,000,000 by the creation of 62,999,000 new ordinary shares of £1 each in the capital of the Company;
- consolidate the 30 issued ordinary shares of £1 each in the capital of the Company to become 1 ordinary share of £30;
- consolidate 62,399,970 of the authorised but unissued ordinary shares of £1 each in the capital of the Company to become 2,079,999 ordinary shares of £30 each;
- re-designate 1,520,000 of the existing authorised but unissued ordinary shares of £30 each in the capital of the Company as 1,520,000 preferred ordinary shares of £30 each in the capital of the Company; and
- re-designate 600,000 authorised but unissued of the ordinary shares of £1 each in the capital of the Company as 600,000 preference shares of £1 each in the capital of the Company.

## 11. Share capital (continued)

On 22 August 2007, the Company entered into a share exchange agreement with the shareholders of CVS (UK) Limited, under which CVS Group Limited acquired the entire issued share capital of CVS (UK) Limited and issued 542,538 ordinary shares of £30 each, 1,520,000 preferred ordinary shares of £30 each and 592,105 redeemable preference shares of £1 each as consideration for that acquisition.

The capital of CVS Group Limited was by virtue of a written resolution dated 17 August 2007 taking effect as a special resolution and with the sanction of an Order of the High Court dated 12 September 2007 reduced from £63,000,000, divided into 560,000 ordinary shares of £30 each, 1,520,000 preferred ordinary shares of £30 each and 600,000 redeemable preference shares of £1 each to £704,000 divided into 560,000 ordinary shares of 5p each, 1,520,000 preferred ordinary shares of 5p each and 600,000 redeemable preference shares of £1 each. At the date thereof, 542,539 of the said ordinary shares, all of the said preferred ordinary shares and 592,105 of the said redeemable preference shares were issued and fully paid or credited as fully paid and the remainder of the said ordinary shares and redeemable preference shares unissued.

On 2 October 2007, the Company passed resolutions to:

- sub-divide each of the issued and unissued ordinary shares of 5p each in the capital of the Company into 25 ordinary shares of 0.2p each;
- sub-divide each of the issued preferred ordinary shares of 5p each in the capital of the Company into 25 preferred ordinary shares of 0.2p each;
- re-designate each of the issued preferred ordinary shares of 0.2p as an ordinary share of 0.2p each in the capital of the Company;
- upon the redemption of the preference shares in the capital of the Company, re-designate each authorised but unissued preference share of £1 as an ordinary share of £1 each; and
- sub-divide each of the unissued ordinary shares of £1 in the capital of the Company into 500 ordinary shares of 0.2p each.

## 12. Cash flow generated from operations

	2008 £'000	2007 £'000
(Loss)/profit for the period	(610)	346
Taxation	734	427
Total finance costs	4,087	2,331
Investment income	(132)	(210)
Fair value gain on available for sale investments	(316)	-
Amortisation of intangible assets	2,934	1,617
Depreciation of tangible fixed assets	1,042	577
(Increase) in inventories	(295)	(416)
(Increase) in trade and other receivables	(1,175)	(986)
Increase in trade and other payables	125	2,823
Share option expense	110	-
<b>Total net cash flow generated from operations</b>	<b>6,504</b>	<b>6,509</b>

### **13. Post balance sheet events**

On 3 July 2008 the Group acquired the trade and related assets of a veterinary practice based in Teeside & Cleveland for cash consideration of £550,000. The assets acquired comprised plant and equipment of £55,000 and intangible patient data records of £495,000. For the year ended 31 March 2007, the practice reported an unaudited pre tax profit of £105,000. 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.