

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

Preliminary Results for the year ended 30 June 2009

CVS, one of the UK’s leading providers of veterinary services, is pleased to announce its preliminary results for the year ended 30 June 2009.

Financial Highlights

	Year ended		% Change
	30.06.09	30.06.08	
	£’000	£’000	
Revenue	76,605	62,150	+23.3
Adjusted EBITDA ¹	12,496	9,613	+30.0
Cash generated from operations	12,380	6,504	+90.3
Operating profit	7,011	4,079	+71.9
Profit before tax	4,444	124	N/A
Earnings/(loss) per share			
Adjusted ²	11.5p	8.0p*	+43.7
Basic	5.9p	(0.7p)*	N/A

¹ - See page 8 of the financial information for a reconciliation of profit before income tax for the period to adjusted earnings before income tax, net finance expenses, depreciation, amortisation, other gains, share option expense and exceptional items (“Adjusted EBITDA”).

² - See note 6 of the financial information for a reconciliation of basic and diluted earnings per share to adjusted earnings per share.

* Restated – see note 1 to the financial information for details.

Operating Highlights

- Like for like sales growth of 2%.
- Successfully acquired and integrated 17 surgeries, bringing the total to 168 at year end.
- First pet crematorium and cemetery acquired during year.
- Over 60% of financial year’s acquisition consideration funded by internally generated cash.

Commenting on these results, CEO Simon Innes said:

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

Contacts:

CVS Group plc	
Simon Innes, Chief Executive	
Paul Coxon, Financial Director	01379 644 288
Buchanan Communications	
Richard Oldworth/Suzanne Brocks	020 7466 5000

Chairman's statement

Introduction and review of operations

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

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

Veterinary services

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

Laboratory services

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

Crematorium services

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

Central administrative function

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

Cash flow and funding position

Operating profit for the year amounted to £7.01m. Adjusted EBITDA (as defined on page 1) of £12.50m demonstrates the underlying financial performance of the Group and the ability to turn this into cash is reflected in cash generated from operations of £12.38m. In the first half of the year cash generated was used in conjunction with bank financing to fund acquisitions. In the second half of the year the Group has funded all of its acquisitions from cash whilst also reducing net debt by £1.50m. The Group will continue to use cash from operations to fund acquisitions and will commence making repayments of debt in December 2009.

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

Dividends

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

Profit after tax and earnings per share

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

Chairman's statement (continued)

Our people

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

Strategy

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

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

Outlook

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

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

Richard Connell

Chairman

21 September 2009

Business and financial review

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

Divisional performance

Veterinary services

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

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

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

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

Laboratory services

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

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

Crematorium services

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

Central costs

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

Adjusted EBITDA

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

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

Business and financial review (continued)

Adjusted EBITDA (continued)

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

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

Other financial highlights

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

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

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

Adjusted earnings per share was 11.5p, 44% up from 8.0p in the prior year (as restated). Basic and diluted earnings per share were 5.9p and 5.8p respectively (2008: basic and diluted: loss of (0.7p) per share (as restated)). A reconciliation of the two numbers is provided in note 6 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:

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

* Restated as per note 1 to the financial information.

Business and financial review (continued)

Funding and treasury management

As at 30 June 2009, the Group had net debt of £40.78m (2008: £40.02m) comprising debt of £43.57m (net of issue costs) and cash of £2.79m. Borrowings have increased by £3.11m to fund acquisitions and cash has increased by £2.40m due to positive cash generation.

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

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

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

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

The Board anticipates that borrowings will reduce on the commencement of bank loan repayments in December 2009.

Business environment

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

Principal risks and uncertainties

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

Competition

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

Availability of businesses for acquisition

The Group's acquisition strategy is subject to the availability of suitable businesses. The Directors believe that corporate-owned veterinary practices represent 18% of the UK small animal market measured by number of surgeries and, accordingly, that there is significant potential for further consolidation of the sector. In support of this, the Group maintains a significant pipeline of potential acquisitions. There are approximately 140 pet crematoria in the UK, of which CVS owns only 1, again demonstrating the potential for further acquisitions. There are also opportunities to acquire further diagnostic laboratories in the UK.

Key personnel

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

Business and financial review (continued)

Clinical standards

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

Economic environment

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

Key contractual arrangements

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

Future developments

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

Simon Innes

Chief Executive

21 September 2009

Forward-looking statements

Certain statements in these preliminary results 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.

Consolidated income statement for the year ended 30 June 2009

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

*Restated as per note 1 to the financial information.

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

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

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

Consolidated balance sheet as at 30 June 2009

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

* Restated as per note 1 to the financial information.

Consolidated balance sheet as at 30 June 2009 (continued)

	2009 £'000	2008 [*] £'000
Shareholders' equity		
Share capital	103	103
Capital redemption reserve	592	592
Revaluation reserve	125	125
Merger reserve	(61,420)	(61,420)
Retained earnings	61,076	59,405
Total shareholders' equity/(deficit)	476	(1,195)

^{*}Restated as per note 1 to the financial information.

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, were authorised for issue by the Board of Directors on 21 September 2009 and were signed on its behalf by:

P Coxon
Director

S Innes
Director

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

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

Consolidated cash flow statement for the year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Cash generated from operations before exceptional payments		12,380	8,268
Exceptional administrative expenses [*]		-	(1,764)
Cash generated from operations	9	12,380	6,504
Taxation paid		(828)	(95)
Interest received		61	132
Interest paid		(2,658)	(3,418)
Net cash generated from operating activities		8,955	3,123
Cash flows from investing activities			
Acquisition of businesses	7	(5,793)	(5,673)
Acquisition of subsidiaries (net of cash acquired)	7	(2,510)	(6,322)
Purchase of property, plant and equipment		(1,538)	(2,099)
Purchase of intangible assets		(45)	(23)
Proceeds from sale of property, plant and equipment		2	17
Proceeds from sale of available for sale investments		316	-
Net cash used in investing activities		(9,568)	(14,100)
Cash flows from financing activities			
Finance lease principal payments		(38)	(13)
Repayment of loan stock, preference shares and associated redemption premiums		-	(11,714)
Repayment of bank loan		(18)	(20,455)
Proceeds from long-term borrowings		3,069	40,929
Net cash from financing activities		3,013	8,747
Net increase/(decrease) in cash and cash equivalents		2,400	(2,230)
Cash and cash equivalents at start of period		392	2,622
Cash and cash equivalents at end of period		2,792	392

*Cash paid in respect of exceptional administrative expenses incurred in relation to the Company's admission to the Alternative Investment Market – see note 3 for further details.

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

1. Summary of significant accounting policies

Basis of preparation

The preliminary announcement for the year ended 30 June 2009 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 435 of the Companies Act 2006. The financial information has been extracted from the financial statements for the year ended 30 June 2009, 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 2008, upon which the auditors reported without qualification, have been delivered to the Registrar of the Companies.

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

The Group has operated within the levels of its current debt facility and complied with both the financial and non-financial covenants contained in the facility agreement therein throughout the year under review and to the date of the approval of the 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 used are consistent with those set out in the annual report for the year ended 30 June 2008, copies of which are available on request.

Prior year adjustments

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

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

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

1. Summary of significant accounting policies (continued)

Use of non-GAAP profit measures

Adjusted EBITDA

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

2. Segmental reporting

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

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

Geographical segments

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

Business segments

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

Year ended 30 June 2009

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

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

2. Segmental reporting (continued)

Year ended 30 June 2008	Veterinary practices £'000	Laboratories £'000	Head office £'000	Group £'000
Revenue ¹	56,674	5,476	-	62,150
Amortisation	(2,784)	(126)	(24)	(2,934)
Depreciation	(856)	(109)	(77)	(1,042)
Profit before income tax	8,481	280	(8,637)	124
Total assets	48,131	3,227	1,438	52,796[†]
Total liabilities	(8,791)	(2,697)	(42,503)	(53,991)[†]
Capital expenditure –tangible	3,371	85	115	3,571
Capital expenditure –intangible	8,085	3,685	24	11,794[†]

[†]Restated as per note 1 to the financial information.

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

3. Exceptional administrative expenses

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

4. Finance (income) and expense

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

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

5. Income tax expense

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

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

*Restated as per note 1 to the financial information.

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

(b) Reconciliation of effective income tax charge

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

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

*Restated as per note 1 to the financial information.

(c) Factors affecting the future tax charge

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

6. Earnings/(loss) per ordinary share

(a) Basic

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

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

*Restated as per note 1 to the financial information.

(b) Diluted

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

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

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

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

Non-GAAP measure: Adjusted earnings per share

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

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

*Restated as per note 1 to the financial information.

7. Business combinations

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

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

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

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

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

Year ended 30 June 2009:

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

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

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

7. Business combinations (continued)

Analysis of pre and post acquisition performance:

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

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

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

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

7. Business combinations (continued)

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

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

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

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

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

Consideration satisfied by:

Cash (including related costs of acquisition amounting to £127,000)	1,204	953	749	2,906
---------------------------------------------------------------------	--------------	------------	------------	--------------

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

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

7. Business combinations (continued)

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

Business combinations in previous periods

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

8. Borrowings

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

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

8. Borrowings (continued)

Bank loans

The repayment profile of the bank loans is as follows:

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

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

The borrowings are denominated in sterling.

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

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

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

Undrawn committed borrowing facilities

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

9. Cash flow generated from operations

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

[†]Restated as per note 1 to the financial information.

10. Post balance sheet events

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