CVS Group plc

Annual report

for the year ended 30 June 2008

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Financial highlights

	Year ended 30 June 2008	Year ended 30 June 2007	Growth %
Adjusted results before exceptional items, other gains, fair value adjustments and amortisation of intangibles:			
Adjusted EBITDA [1]	**£9.61m**	£5.09m	89
Adjusted cash generated from operations [2]	**£8.27m**	£6.51m	27
Pre tax adjusted earnings per share [3]	**10.7p**	4.0p	168
Reported results:			
Revenue	**£62.15m**	£38.97m	59
Operating profit	**£4.08m**	£2.89m	41
Cash generated from operations	**£6.50m**	£6.51m	-
Basic and diluted (loss)/earnings per share	**(1.2p)**	0.7p	n/a

[1] See page 23 of the financial statements 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").
[2] See page 27 of the financial statements for a reconciliation of cash generated from operations to adjusted cash generated from operations.
[3] See note 12 of the financial statements, for a reconciliation of basic and diluted earnings per share to pre tax adjusted earnings per share.

	30 June 2008	30 June 2007	Acquisitions
Number of surgeries	**150**	120	30
Number of laboratories	**7**	3	4

Other highlights

- Successful placing of 45,205,800 shares on admission to AIM on 10 October 2007.
- Successful refinancing of bank debt of £46m, including an acquisition facility of £12m and working capital facility of £2m.
- Acquisition of 30 new surgeries and four laboratories during the year.

Commenting on these results, 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."

Chairman's statement

Introduction

I am pleased to announce the results of CVS Group plc ("CVS", "the Group", or "the Company") 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. The results are discussed in detail in the Business and Financial review on pages 4-8.

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 c. 140% (annualised) and has already contributed £2.3m to turnover in this financial year, 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.

Chairman's statement (continued)

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

15 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:

	2008	**2007**	**Growth**
	£'m	**£'m**	**%**
Revenue	**62.15**	38.97	59
Adjusted earnings before interest, tax, depreciation, amortisation and exceptional items ("Adjusted EBITDA")[1]	**9.61**	5.09	89
Reported operating profit	**4.08**	2.89	41
Adjusted cash generated from operations[2]	**8.27**	6.51	27
Reported cash generated from operations	**6.50**	6.51	-

	2008	**2007**	**Acquisitions**
Number of surgeries at 30 June	**150**	120	30
Number of laboratories at 30 June	**7**	3	4

[1]See page 23 of the financial statements 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").
[2]See page 27 of the financial statements for a reconciliation of cash generated from operations to adjusted cash generated from operations.

The Board considers that Adjusted EBITDA and 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 disclosed in note 16 to the financial statements.

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

Business and financial review (continued)

Adjusted EBITDA (see page 23 of the financial statements) 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 (increase of 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 12 to the financial statements.

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 27 to the financial statements.

Key performance indicators ('KPIs')

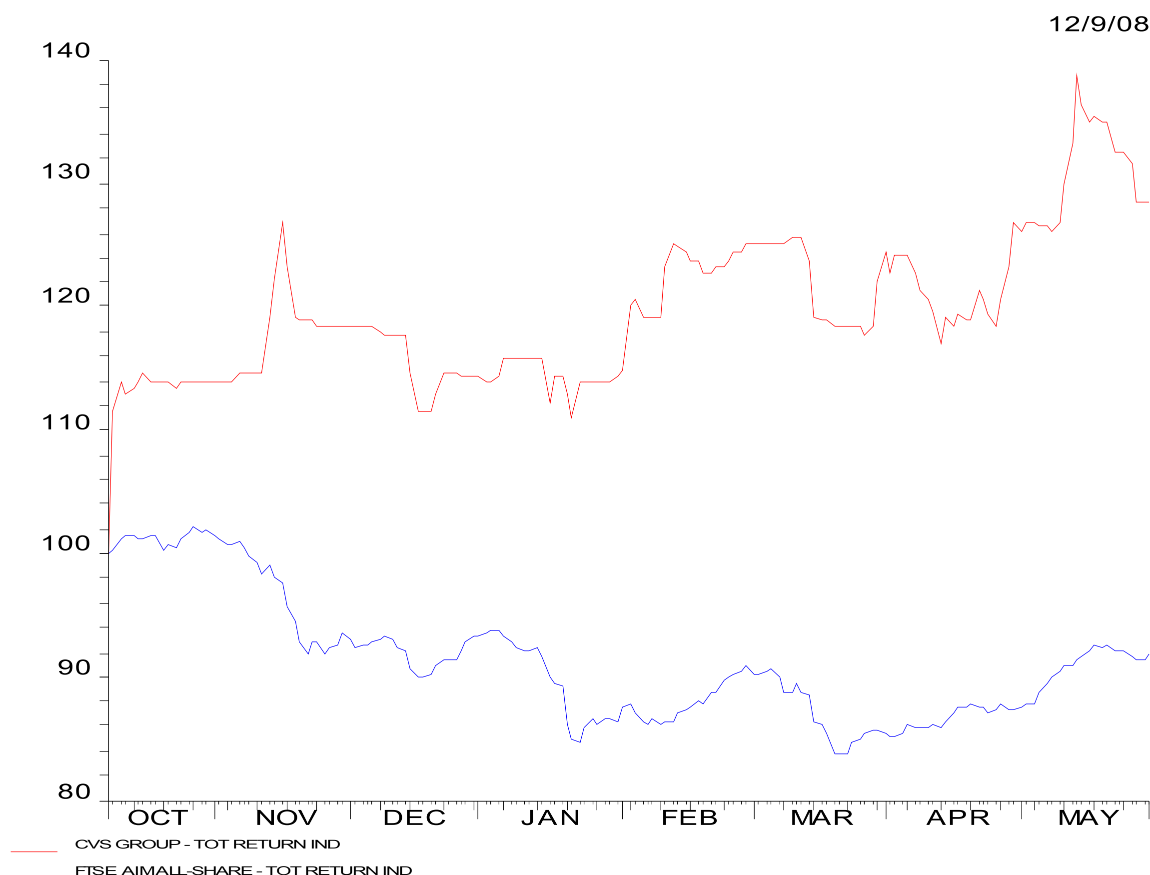
The directors monitor progress against the Group strategy by reference to the following financial KPIs.
Performance during the year, together with the historical trend data, is set out in the table below:

	2008	**2007**	**Definition, method of calculation and analysis**
Gross margin	**38.7%**	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	**14.1%**	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	**£9.61m**	£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	**10.7p**	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	**£8.27m**	£6.51m	Cash generated from operations, before exceptional administrative expenses.

Business and financial review (continued)

Share price performance

The Company's share price has performed well in the period from the admission date. The graph below illustrates the share price of the Group compared to the FTSE AIM all share index. At the year end the market capitalisation was £132.8m (258p per share) compared to £105.7m (205p per share) at the admission date.



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.

Business and financial review (continued)

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.

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.

Business and financial review (continued)

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
15 September 2008

Directors of CVS Group plc

Richard Connell (53) Non-Executive Chairman
Mr. Connell has been involved in the financial sector for more than 25 years and has worked with 3i Group, Amvescap, and HSBC. He has a degree from Oxford University, and is a Chartered Accountant and has held executive positions in marketing and general management. In addition to working with the Group, he is Chairman of Dignity plc and a number of private companies. Mr Connell is Chairman of the Nomination Committee.

Simon Innes (48) Chief Executive
Mr. Innes was appointed as Chief Executive of CVS (UK) Limited in January 2004. Prior to this he was Chief Executive of Vision Express from 2000 to 2004, over which time he built the business up to £220m turnover and 205 practices, and reversed a loss-making position to create one of the most profitable corporate optical operators in the UK. The growth strategy that was successful at Vision Express is now being implemented in the veterinary industry by CVS. Prior to Vision Express, Mr. Innes was on the board of Hamleys PLC as Operations Director, where amongst other responsibilities he was involved in opening 60 concession stores in just 3 months for Hamleys in conjunction with Debenhams. Before Hamleys, Mr. Innes gained ten years of management experience at Marks & Spencer, and now has a total of 19 years of experience in the retail sector. Mr. Innes served for seven years in the British Army, achieving the rank of Captain in the Royal Engineers.

Paul Coxon (43) Finance Director
Mr. Coxon was appointed as Finance Director of CVS (UK) Limited in August 2003. He has a total of 20 years of experience in finance and accounting. He qualified as a chartered accountant with KPMG Peat Marwick in 1991. Prior to working at CVS, Mr. Coxon was the Finance Director of Allied Grain (South) Limited, a subsidiary of Associated British Foods PLC.

Mark Finn (49) Group Operations Director
Mr. Finn joined CVS in 2006. Prior to this, from 2003 to 2006, he was head of operations and acquisitions for Co-op Group Pharmacy with responsibility for over 400 pharmacies which represents directly relevant experience for working with clinicians. He has also held positions as a Regional Business Manager at J Sainsbury plc, where he was responsible for 18 Sainsbury's supermarkets, as a Category General Manager at Asda, a Divisional Sales Manager at the Royal Mail and as a National Sales Development Manager at Estee Lauder Cosmetics.

David Timmins (55) Non-Executive Director
Mr. Timmins was Group Finance Director of Genus plc for over 3 years, until mid-2007. He played a prominent role in the reverse acquisition of Sygen International plc, a listed company, which involved a significant institutional fund raising, and prepared Genus plc for a move onto the Main Market of the London Stock Exchange having adopted IFRS. He has veterinary sector experience through a Genus plc business division. He is a graduate and a Chartered Accountant with more than 15 years of experience as CFO in listed companies. Mr Timmins is Chairman of the Audit Committee.

Christopher Marsh (64) Non-Executive Director
Mr. Marsh is a corporate broker by background, having joined Phillips & Drew in 1968 and headed the Small Cap broking team at UBS Limited (London) from 1993 until his retirement from UBS Limited (London) in 1998. From 1999 until 2004 he was part of a corporate finance advisory team at the now quoted Benfield Group, specialising in insurance related deals. Mr Marsh is currently a non-executive director of Hilton Food Group plc, non-executive Chairman of Framlington AIM VCT 2 PLC, and non-executive Chairman of Alexandra plc. Mr Marsh is Chairman of the Remuneration Committee.

Corporate governance statement

Principles of Corporate Governance

The directors acknowledge the importance of the principles set out in The Combined Code on Corporate Governance ("the Combined Code") issued in June 2006. Although the Combined Code is not compulsory for AIM listed companies, the directors have applied the principles in this statement, together with the Remuneration Report set out on pages 18 to 20, as far as practicable and appropriate for a public company of CVS's size as follows:

Board of Directors

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

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

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

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

Those attending and the frequency of Board and Committee meetings held since admission were as follows:

	Main Board	Audit Committee	Remuneration Committee
Number of meetings	6	2	2
Richard Connell	5	1	1
Simon Innes	6	*2	*2
Paul Coxon	6	*2	-
Mark Finn	6	-	-
David Timmins	6	2	2
Christopher Marsh	5	2	2

During the year six other meetings were held prior to admission to sign various documentation relating to the Company's admission to AIM.
*In attendance by invitation of the respective Committee.

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

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

The Audit Committee

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

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

Corporate governance statement (continued)

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

Meetings

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

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

In the year ended 30 June 2008 and up to the date of this report the Audit Committee has:

- reviewed the 2008 annual report and financial statements and the interim report issued in March 2008. As part of this review the Committee received a report from the external auditors on their audit of the annual financial statements and review of the interim report;
- considered the output from the Group-wide process used to identify, evaluate and mitigate risks;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements;
- met with the external auditors, without management being present, to discuss any issues arising from the audit;
- agreed the fees to be paid to the external auditors for their audit of the 2008 financial statements and review of the interim report;
- reviewed the performance of the external auditors

The Remuneration Committee

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

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

The Remuneration Report can be found on pages 18 to 20.

The Nomination Committee

The Chairman of the Nomination Committee is Richard Connell and its other members are Christopher Marsh and David Timmins and it meets as required.

The Nomination Committee is responsible for reviewing the structure, size and composition including skills, knowledge and experience of the CVS Board. It is also responsible for the co-ordination of the annual evaluation of the CVS Board and CVS Board Committees performance.

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

Corporate governance statement (continued)

The Nomination Committee will lead the annual evaluation of the performance of the Board and of its Committees, which is planned to be undertaken in October 2008, being the anniversary of the admission of the shares of the Company to AIM.

Relations with shareholders

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

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

During the year the Chief Executive and Finance Director have met with institutional investors and analysts prior to and subsequent to the admission of the Company's shares to AIM.

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

Internal control

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

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

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

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

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

The internal control procedures are delegated to executive directors and senior management in the Group, and are reviewed in the light of the ongoing assessment of the Company's significant risks.

Internal audit

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

Corporate governance statement (continued)

Going concern

A review has been conducted and the directors believe that the Group has adequate resources to continue in business for the foreseeable future and, accordingly, that the going concern basis is justified in the preparation of the financial statements.

Statement by directors on compliance with the provisions of the Combined Code

The Board considers that they have complied with the provisions of the Combined Code, as far as practicable and appropriate for a public company of this size.

By order of the Board

P D Coxon

Secretary

15 September 2008

Directors' report for the year ended 30 June 2008

The directors present their annual report together with the consolidated audited financial statements for the year ended 30 June 2008.

Review of business, principal activities and future developments

The principal activity of the Group is to operate and acquire (via a buy and build strategy) companion animal veterinary practices and complimentary veterinary diagnostic businesses. The diagnostic businesses provide a service to the UK companion care market through the early detection and diagnosis of veterinary related complex diseases.

The information that fulfils the requirements of the business review, including details of the 2008 results, key performance indicators and principal risks and uncertainties, and the outlook for future years are set out in the Chairman's Statement and the Business and Financial Review.

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. The principal activity of CVS Group plc is to be a holding company.

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, CVS Group plc, they are in substance a continuation of the consolidated financial statements of the legal subsidiary, CVS (UK) Limited. 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 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 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.

Results and dividends

The Group made a loss after taxation of £610,000 (2007: profit of £346,000).

The directors do not recommend the payment of a dividend (2007: £nil) and no dividends (2007: £nil) have been paid during the year.

Directors

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

R Connell	(appointed 18/09/2007)
S Innes	(appointed 13/07/2007)
P D Coxon	(appointed 13/07/2007)
M Finn	(appointed 18/09/2007)
D Timmins	(appointed 18/09/2007)
C Marsh	(appointed 18/09/2007)

Two Executive Directors, being S Innes and P D Coxon have been directors of CVS (UK) Limited for a period in excess of four years.

Re-election of directors

As required by the Articles of Association of the Company, and in accordance with the provisions of the 2006 Combined Code, all directors must be re-elected at intervals of not more than two years.

As the Company has not held an AGM previously, all directors will stand for election at the inaugural AGM.

Directors' report for the year ended 30 June 2008 (continued)

Directors' remuneration and interests

The Remuneration Report is set out on pages 18 to 20. It includes details of directors' remuneration, interests in the shares of the Company, share options and pension arrangements.

Donations

No donations were made to any charitable or political organisation in the year (2007: £nil).

Environment

The Group recognises the significance of environmental responsibility and undertakes clinical compliance reviews to ensure environmental standards are conformed with. Although the Group's activities have a low impact on the environment, every effort is made to reduce any effect.

Health and safety

The Group is fully aware of its obligations to maintain high health and safety standards at all times, and the safety of our customers and employees is of paramount importance.

Corporate governance

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

Financial instruments

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

Share capital and substantial shareholdings

Details of the share capital of the company as at 30 June 2008 are set out in note 27.

At 11 September 2008, the Company had received notification that the following are interested in more than 3% of the issued ordinary share capital

Tiger Global Fund Management	7.8%
F&C Asset Management	7.4%
Aegon Asset Management UK	6.4%
Old Mutual Asset Managers	5.7%
UBS Global Asset Management	5.0%
Fidelity International	5.0%
Artemis Investment Management	4.7%
Sovereign Capital	4.6%
Scottish Widows	4.0%
Morley Fund Management	3.8%
Morgan Stanley Investment Management	3.4%
JPMorgan Asset Management	3.3%
Simon Innes (director)	3.0%

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees takes place through a number of regional meetings throughout the year, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the general progress of their business units and of the Group as a whole.

Directors' report for the year ended 30 June 2008 (continued)

Policy and practice on payment of creditors

The Group does not impose standard payment terms on its suppliers but agrees terms separately with each of them. Every effort is made to pay suppliers in accordance with the terms that have been agreed. At 30 June 2008, the amount owed to trade creditors by the Group was equivalent to 53 days of purchases from suppliers (2007: 66 days). The Company has no trade creditors, being a holding company only.

Market value of land and buildings

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

Changes in share capital

The changes in share capital in the year are disclosed in note 27 of the financial statements.

Post balance sheet events

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

Auditors and disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

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

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the consolidated financial statements and the parent company financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The consolidated and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the Group and Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

Directors’ report for the year ended 30 June 2008 (continued)

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Group and Company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

P D Coxon

Secretary

15 September 2008

Remuneration report

As an AIM quoted Company CVS Group plc is not required to comply with Schedule 7A of the Companies Act 1985. The following disclosures are therefore made on a voluntary basis. The information is unaudited.

Remuneration policy

The Remuneration Committee is conscious that the remuneration package of the Executive Directors should be sufficiently competitive to attract, retain and motivate individuals capable of achieving the Group's objectives and as a result enhance shareholder value.

Consistent with this policy, the benefit packages of the Executive Directors are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration designed to incentivise directors and align their interests with those of shareholders.

The Company's remuneration policy is to take into account the experience of the Executive Directors along with the nature and complexity of their work in order to pay a competitive salary and performance related bonus. The Group's long term performance is related to the remuneration packages of the Directors by the award of share options. The policy also provides for post retirement benefits through contributions to Executive Directors' personal pension schemes, together with other benefits such as a company car, life and medical insurance.

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

In setting the policy it considers a number of factors:

- the basic salaries and benefits available to Executive Directors' of comparable companies;
- the need to attract and retain Executive Directors' of a suitable quality; and
- the need to ensure Executive Directors' commitment to the continued success of the Group by means of incentive scheme, aligned to shareholder interests.

The remuneration consists of the following elements:

Base pay

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

Annual Bonus

All Executive Directors participate in the Group's annual bonus scheme, which is based on the achievement of individual and Group performance targets. Currently, the bonus is awarded based on Adjusted EBITDA, as defined on page 23 of the financial statements.

There have been no changes to the policy from the preceding year and no departures from this policy in the current year. The current policy is expected to continue in place through the next financial year, during which a detailed review of the remuneration policy is to be undertaken for the financial year ending 30 June 2010.

Long Term Incentive Plan ("LTIP")

Shareholders approved the current discretionary share incentive plan, the LTIP on 4 October 2007 prior to admission to AIM on 10 October 2007.

All Executive Directors and certain other employees are entitled to be considered for the grant of awards under the LTIP. After due consideration, the Remuneration Committee makes awards to selected participants. The awards take the form of nominal cost options over a specified number of Ordinary Shares. Awards are not transferable or assignable and none of the benefits received under the LTIP are pensionable.

Remuneration report (continued)

The long term incentive scheme rewards future performance of the Executive Directors and certain other employees by linking the size of the award to the achievement of performance targets. The performance conditions relating to the initial awards granted on 10 October 2007 are as follows:

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

The adjusted EPS measure for the purposes of monitoring the achievement of performance targets reflects adjustments for amortisation of intangibles, exceptional items and fair value adjustments in respect of derivative financial instruments and available for sale assets.

In addition and irrespective of the Adjusted EPS performance target, no award will vest unless in the opinion of the Committee the underlying performance of the Group has been satisfactory over the measurement period.

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

Service Contracts

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

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

Directors' remuneration

	Basic salary, allowance and fees	**Benefits in kind**	**Performance related bonus**	**2008 Total**	2007 Total
	£'000	**£'000**	**£'000**	**£'000**	£'000
Non-Executive Chairman					
R Connell *	**85**	**-**	**-**	**85**	-
Executive					
S Innes	**201**	**21**	**138**	**360**	252
P Coxon	**94**	**13**	**44**	**151**	117
M Finn	**113**	**9**	**48**	**170**	83
Non-Executive					
D Timmins *	**30**	**-**	**-**	**30**	-
C Marsh *	**25**	**-**	**-**	**25**	-
Total	**548**	**43**	**230**	**821**	452

*The directors' remuneration for the Non-executive directors is shown from their date of appointment.

Remuneration report (continued)

Benefits in kind include the provision of a company car, fuel, and medical and life insurance for each executive director.

No director waived emoluments in respect of the years ended 30 June 2008 or 30 June 2007.

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

Directors' interests in shares

The interests of the directors as at 30 June 2008 in the shares of the Company were:

	Ordinary shares of 0.2p each
	Number
R Connell	24,391
S Innes	1,546,475
P Coxon	515,500
M Finn	-
D Timmins	12,195
C Marsh	12,195

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

Share options

Options over ordinary shares awarded to executive directors under the LTIP are as follows:

	Date of grant	Earliest exercise date	Exercise price	Number of shares
S Innes	10 October 2007	11 October 2010	0.2p	107,317
P Coxon	10 October 2007	11 October 2010	0.2p	53,658
M Finn	10 October 2007	11 October 2010	0.2p	58,536

No share options were exercised or lapsed in the year.

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

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

The above options over ordinary shares will vest in October 2010, subject to the performance conditions detailed above.

On behalf of the Board

Christopher Marsh

On behalf of the Remuneration Committee

15 September 2008

Independent auditors' report to the members of CVS Group plc

We have audited the Group and Parent Company financial statements (the "financial statements") of CVS Group plc for the year ended 30 June 2008, which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Shareholders' Equity, the Consolidated and Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Business and Financial Review that is cross referred from the review of business, principal activities and future developments section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Business and Financial Review, the Directors' Report, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of the Group's loss and cash flows for the year then ended;

- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 30 June 2008 and cash flows for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Norwich

15 September 2008

Consolidated income statement for the year ended 30 June 2008

	Note	**2008 £'000**	2007 £'000
Revenue	4	**62,150**	38,972
Cost of sales		**(38,121)**	(24,209)
Gross profit		**24,029**	14,763
Exceptional administrative expenses	5	**(1,764)**	-
Other administrative expenses		**(18,502)**	(11,869)
Total administrative expenses		**(20,266)**	(11,869)
Other gains	17	**316**	-
Operating profit	7	**4,079**	2,894
Fair value adjustments in respect of financial assets and liabilities	6	**(347)**	351
Exceptional finance expense	6	**(556)**	-
Other finance expense	6	**(3,184)**	(2,682)
Finance income	6	**132**	210
Net finance expense		**(3,955)**	(2,121)
Profit before income tax	4	**124**	773
Income tax expense	10	**(734)**	(427)
(Loss)/profit for the period attributable to equity shareholders	28	**(610)**	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	12	**(1.2p)**	0.7p

The above results relate to continuing operations, including business combinations (further details of which are provided in note 16).

Non-GAAP measure: Adjusted EBITDA	Note	**£'000**	£'000
Profit before income tax		**124**	773
Adjustments for:			
Exceptional administrative expenses	5	**1,764**	-
Net finance expense	6	**3,955**	2,121
Depreciation	15	**1,042**	577
Amortisation	14	**2,934**	1,617
Other gains	17	**(316)**	-
Share option expense	13	**110**	-
Adjusted EBITDA		**9,613**	5,088

Consolidated and Company balance sheets as at 30 June 2008

	Note	**Group 2008 £'000**	Group 2007 £'000	**Company 2008 £'000**
Non-current assets				
Intangible assets	14	**33,685**	26,283	**-**
Property, plant and equipment	15	**6,757**	4,245	**-**
Investments	17	**399**	23	**61,986**
Deferred income tax assets	25	**426**	578	**-**
Derivative financial instruments	18	**613**	373	**-**
		41,880	31,502	**61,986**
Current assets				
Inventories	20	**1,829**	1,226	**-**
Trade and other receivables	21	**5,108**	2,904	**-**
Cash and cash equivalents	22	**392**	2,622	**-**
		7,329	6,752	**-**
Total assets	4	**49,209**	38,254	**61,986**
Current liabilities				
Trade and other payables	23	**(8,272)**	(7,380)	**(3,605)**
Current income tax liabilities	26	**(54)**	(116)	**-**
Borrowings	24	**(50)**	(11,119)	**-**
		(8,376)	(18,615)	**(3,605)**
Non-current liabilities				
Borrowings	24	**(40,410)**	(20,028)	**-**
Deferred income tax liabilities	25	**(2,043)**	(1,155)	**-**
		(42,453)	(21,183)	**-**
Total liabilities	4	**(50,829)**	(39,798)	**(3,605)**
Net (liabilities)/assets		**(1,620)**	(1,544)	**58,381**

Consolidated and Company balance sheets as at 30 June 2008 (continued)

	Note	**Group 2008 £'000**	Group 2007 £'000	**Company 2008 £'000**
Shareholders' equity				
Share capital	27	**103**	103	**103**
Capital redemption reserve	28	**592**	-	**592**
Revaluation reserve	28	**125**	125	**-**
Merger reserve	28	**(61,420)**	(61,420)	**-**
Retained earnings	28	**58,980**	59,648	**57,686**
Total shareholders' (deficit)/equity		**(1,620)**	(1,544)	**58,381**

The financial statements on pages 23 to 81 were approved by the Board of Directors on and were signed on its behalf by:

P Coxon
Director

S Innes
Director

15 September 2008

CVS Group plc

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
At 30 June 2007	**103**	**125**	**-**	**(61,420)**	**59,648**	**(1,544)**
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)
At 30 June 2008	**103**	**125**	**592**	**(61,420)**	**58,980**	**(1,620)**

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

	Share capital	Capital redemption reserve	Retained earnings	Total equity
	£'000	**£'000**	**£'000**	**£'000**
On incorporation (13 July 2007)	-	-	-	-
Issue of ordinary shares	61,876	-	-	61,876
Capital reduction	(61,773)	-	61,773	-
Transfer to capital redemption reserve	-	592	(592)	-
Credit to reserves for share-based payments	-	-	110	110
Retained loss for the financial period	-	-	(3,605)	(3,605)
At 30 June 2008	**103**	**592**	**57,686**	**58,381**

Consolidated and Company cash flow statement for the year ended 30 June 2008

	Note	**Group 2008 £'000**	Group 2007 £'000	**Company 2008 £'000**
Cash flows from operating activities				
Cash generated from operations before exceptional payments		**8,268**	6,509	**-**
Exceptional administrative expenses*		**(1,764)**	-	**-**
Cash generated from operations	30	**6,504**	6,509	**-**
Taxation paid		**(95)**	-	**-**
Interest received		**132**	210	**-**
Interest paid		**(3,418)**	(1,227)	**-**
Net cash generated from operating activities		**3,123**	5,492	**-**
Cash flows from investing activities				
Acquisition of businesses	16	**(5,673)**	(10,319)	**-**
Acquisition of subsidiaries (net of cash acquired)	16	**(6,322)**	(5,843)	**-**
Purchase of property, plant and equipment		**(2,099)**	(1,349)	**-**
Purchase of intangible assets		**(23)**	(143)	**-**
Proceeds from sale of property, plant and equipment		**17**	4	**-**
Net cash used in investing activities		**(14,100)**	(17,650)	**-**
Cash flows from financing activities				
Finance lease principal payments		**(13)**	(9)	**-**
Repayment of loan stock, preference shares and associated redemption premiums		**(11,714)**	-	**-**
Repayment of bank loan		**(20,455)**	-	**-**
Proceeds from long-term borrowings		**40,929**	-	**-**
Receipt of borrowings (net of debt issue costs)		**-**	12,326	**-**
Net cash from financing activities		**8,747**	12,317	**-**
Net (decrease)/increase in cash and cash equivalents		**(2,230)**	159	**-**
Cash and cash equivalents at start of period		**2,622**	2,463	**-**
Cash and cash equivalents at end of period	22	**392**	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 5 for further details.

Notes to the consolidated financial statements

1. General information

The principal activity of the Group and of the Company is to acquire (via a buy and build strategy) companion animal veterinary practices and complimentary veterinary diagnostic businesses. The diagnostic businesses provide a service to the UK companion care market through the early detection and diagnosis of veterinary related complex diseases.

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

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

Companies in the Consolidated Financial Statements

The subsidiary undertakings included within the consolidation are as follows:

Name of subsidiary	Registered country	Principal business	Equity shareholding
CVS (UK) Limited	England and Wales	Operation of veterinary and diagnostic services	100%
Precision Histology International Limited	England and Wales	Operation of veterinary diagnostic services	100%
Axiom Veterinary Laboratories Limited	England and Wales	Operation of veterinary diagnostic services	100%
The Veterinary Laboratory Limited	England and Wales	Dormant	100%
Veterinary Pathology Partners Limited	England and Wales	Dormant	100%
Firstvets Limited	England and Wales	Dormant	100%
Active Vetcare Limited	England and Wales	Dormant	100%
Carrick Veterinary Group Limited	England and Wales	Dormant	100%
Petmedics Limited	England and Wales	Dormant	100%
Beechwood Veterinary Practice Limited	England and Wales	Dormant	100%

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

2. Summary of significant accounting policies

Basis of preparation

These consolidated financial statements present the financial record for the year ended 30 June 2008 of CVS Group plc and its subsidiary undertakings. The subsidiary undertakings included within the financial statements are shown above.

The consolidated financial statements of CVS Group plc have been prepared in accordance with the EU-adopted International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations and in line with those provisions of the Companies Acts 1985 and 2006 as applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, modified by the revaluation of certain financial instruments.

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.

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

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Material estimates and assumptions are made in particular with regard to establishing uniform depreciation and amortisation periods for the Group, impairment testing of goodwill and other intangible assets and the likelihood that deferred tax assets can be realised.

Group reconstruction

The consolidated financial statements include 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:

2. Summary of significant accounting policies (continued)

- 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.

Recent accounting developments

Standards, amendments and interpretations effective in the year ended 30 June 2008

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions." IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. The requirements of IFRIC 11 have been complied with within these financial statements.

IFRS 7 "Financial Instruments: Disclosure." The implementation of IFRS 7, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures has resulted in increased disclosure regarding the Group's financial instruments and policies for managing capital.

Standards, amendments and interpretations effective in the year ended 30 June 2008 with no significant impact on the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 July 2007 but they are not relevant to these financial statements.:

- IFRIC 10 "Interim financial reporting and impairment."
- Amendment to IAS 1 "Presentation of Financial Statements" on capital disclosures.

Standards and interpretations to existing standards that are not yet effective and have not been early adopted

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2008 or later periods but which the Group has not early adopted:

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

IAS 23 "Borrowing costs" as revised. This standard is effective for accounting periods beginning on or after 1 January 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The impact of IAS 23 is dependent upon the extent of qualifying expenditure from 1 July 2009 onwards and hence cannot currently be quantified.

2. Summary of significant accounting policies (continued)

IFRS 3, 'Business combinations' as revised. This standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009. This standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs are required to be expensed. If the revised standard had been effective in the year ended 30 June 2008, transaction costs amounting to £456,000 would have been recognised in the income statement.

Amendment to IAS 39 "Financial Instruments: Recognition and measurement" on eligible hedged items. The amendment introduces two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. If the amendment had been effective in the year ended 30 June 2008, the fair value gain on the derivative financial instrument designated as a cash flow hedge amounting to £587,000, which has been recognised directly in equity, would have been recognised in the income statement. The amendment becomes effective for the Group in the year ending 30 June 2010 and must be applied retrospectively in accordance with IAS 8 "Accounting policies." The impact on the Group of adopting the amendment in future years is dependent on future movements in interest rates and therefore cannot be assessed at this time.

Amendment to IFRS 2 "Share based payments." The amendment considers vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment will have an impact on how the Group accounts for the SAYE scheme that was opened for subscription post year end. This amendment becomes effective for the Group in the year ending 30 June 2010.

Revised IAS 1 "Presentation of financial statements." The new standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The revised IAS 1 also states that entities making restatements or reclassifications of comparative information will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. This revision becomes effective for the Group in the year ending 30 June 2010.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2008 or later periods but are not relevant for the Group's operations:

Amendment to IFRS 1 "First time adoption of IFRS" and IAS 27 "Consolidated and separate financial statements." The amendment allows first-time adopters of IFRS to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. This is not relevant to the Group as it has already adopted IFRS.

2. Summary of significant accounting policies (continued)

IAS 27 "Consolidated and separate financial statements" as revised. This standard requires the effects of all transactions with non-controlling (minority) interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. This standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. This is not relevant to the Group as it does not currently have any non-controlling interests.

IFRIC 12 "Service Concession Arrangements." IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under PFI contracts. This is not relevant to the Group as it does not enter into such contracts.

IFRIC 13 "Customer loyalty programmes." IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values. This is not relevant to the Group as the Group does not operate any loyalty schemes that have a material impact on the financial statements.

IFRIC 14 "IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction." IFRIC 14 provides guidance on assessing the limit in IAS 19 "Employee benefits" on the amount of the defined benefit plan surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This is not relevant to the Group as it does not have any defined benefit pension plans.

IFRIC 15 "Agreements for construction of real estates." The interpretation clarifies which standard should be applied to particular transactions pertaining to construction of real estates. This is not relevant to the Group as it does not have such transactions.

IFRIC 16 "Hedges of a net investment in a foreign operation." The interpretation provides clarification as to the treatment of net investment hedging in a foreign operation. This is not relevant to the Group as it does not have such operations.

Basis of consolidation

The consolidated financial statements include the financial information of the Company and its subsidiary undertakings as at and for the year ended 30 June 2008.

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

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

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

Segment reporting

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

2. Summary of significant accounting policies (continued)

Foreign currency translation

Functional and presentational currency

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

Transactions and balances

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The assets' residual values and useful lives are reviewed annually, and adjusted as appropriate.

Depreciation is provided so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets in equal annual instalments at the following principal rates:

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

Assets are held at historical cost with the exception that a property in the subsidiary undertaking Precision Histology International Limited is carried at a revalued amount that was frozen at the date of transition to IFRS. This frozen carrying value is deemed cost in the case of this property.

Freehold land is not depreciated on the basis that land has an unlimited life.

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

Intangible assets

Goodwill

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

Goodwill is not subject to amortisation but is subject to annual impairment review. Goodwill is carried at cost less accumulated impairment losses.

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

2. Summary of significant accounting policies (continued)

Computer software

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

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

Patient data records

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

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

Customer lists

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

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

Impairment of assets

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

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

Estimates are based on past experience and expectations of future changes to the market. Growth rate forecasts are extrapolated based on estimated long term average growth rates (estimated at 3%). The pre-tax discount rate used to calculate value in use is 12.4% at 30 June 2008 (2007: 12.9%). These discount rates are derived from the Group's post tax weighted average cost of capital.

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

2. Summary of significant accounting policies (continued)

Inventories

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

Financial instruments

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

(a) Trade receivables

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

(b) Investments

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

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

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

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

(c) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

2. Summary of significant accounting policies (continued)

(d) Interest-bearing borrowings

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

(e) Trade payables

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

(f) Equity instruments

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

(g) Derivative financial instruments and hedging activities

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

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

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

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

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

Cash flow hedging

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

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

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

2. Summary of significant accounting policies (continued)

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.

(h) Compound financial instruments

In accordance with IAS 32, the preferred ordinary shares in issue at 30 June 2007 were considered a compound financial instrument and, accordingly, were split into an underlying debt instrument, classified within borrowings, and a participating equity element, classified within equity.

The underlying debt instrument is presented on an amortised cost basis until extinguished on conversion or redemption of the preferred ordinary shares. The participating equity element is presented as its historic fair value, based on the date of original issue of the preferred ordinary shares. The related dividends are recognised as a finance expense. The preferred ordinary shares were reclassified as ordinary shares in full during the year under review.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Current and deferred income tax

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

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

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

Provisions

The Group makes provision for liabilities when it has a legal or constructive obligation arising from a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not discounted on the basis of materiality.

Revenue

Revenue represents amounts recoverable from customers for veterinary services and related veterinary products provided during the period excluding value added tax. Revenue reflects the fair value of veterinary goods or services provided. For small animal treatment, which comprises the majority of revenue, there is generally no time delay between treatment and receipt of cash. For large animal treatment and in respect of laboratory services and any prolonged small animal work, cash may be received in arrears, and is provided for in full after three months unless there is specific knowledge to provide for on an alternative basis.

2. Summary of significant accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

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

Share-based payments

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

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

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

Exceptional items

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

Investments in subsidiary undertakings

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

Retirement benefit costs

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

Net financing costs

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

2. Summary of significant accounting policies (continued)

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

Comparative figures

The comparatives in relation to costs of sales and administrative expenses have been restated in order to more accurately reflect certain employment expenses in relation to locums fees amounting to £1,391,000. There is no net effect on operating profit or on net assets.

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 re-measurements. 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 adjusted 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. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative instruments to generate the appropriate balance between fixed and floating interest rates. It is not the Group's policy to actively trade in derivatives.

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

a). Market risk

i) Foreign exchange currency rate risk

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

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

At 30 June 2008 the Group's foreign currency denominated monetary assets amounted to £145,660 (2007: £80,254) The directors do not consider the impact of foreign currency rate fluctuations to be material in these financial statements. The Group had monetary liabilities denominated in foreign currencies of £10,663. (2007: £nil).

If the Euro had weakened/strengthened by 10% against Sterling with all other variables held constant, post-tax profit for the year would have been £5,748 (2007: £nil) lower/higher, as a result of foreign exchange losses/ gains on translation of the Euro-denominated monetary assets at fair value through profit or loss. For the year to 30 June 2008 the Group recognised a foreign exchange gain amounting to £25,000 (2007: £nil).

ii). Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group has a policy of hedging 100% of its term loans. This allows the Group to minimise its exposure to significant interest rate increases whilst enabling the CVS Group to take advantage of future interest rate reductions. The strategy for undertaking the hedge is to match the loan liability with a co-terminus derivative that allows interest to float within an agreed range and thereby limits the cashflow exposure relating to interest.

During 2008 and 2007, net debt was managed using derivative instruments to hedge interest rate risk as follows:

3 Financial risk management (continued)

Interest rate risk profile of financial assets and liabilities

	2008 £'000	2007 £'000
Fixed rate (fair value interest rate risk)		
Short-term borrowings	**(20)**	(11,109)
Long-term borrowings	**-**	(12,017)
Finance leases	**(47)**	(10)
	(67)	(23,136)
Floating rate (cash flow interest rate risk)		
Cash and cash equivalents	**392**	2,622
Long-term borrowings	**(40,393)**	(8,011)
	(40,001)	(5,389)
	(40,068)	(28,525)

Interest is received at a floating rate on bank balances amounting to £392,000 (2007: £2,622,000).

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

Finance lease obligations bear interest at rates linked to the ruling Finance House Base Rate ("FHBR") at the time of each draw down. The weighted average rate was 6% and the weighted average period for which the rates are fixed is 2 years.

At 30 June 2008 the Group has considered impact of movements in these interest rates over the past year and has concluded that a 1% movement is a reasonable benchmark. At 30 June 2008, if interest rates on Sterling denominated borrowings had been 1% higher/lower with all other variables held constant, post tax profit for the year would have been £0.3m (2007: £0.1m) lower/higher, mainly as a result of the movement in interest rates on the floating rate borrowings, net of the hedging derivative instrument.

b). Credit risk

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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The counterparty exposure under derivative contracts is £613,000 (2007: £373,000).

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

Group management monitor the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 30 June 2008 50% (2007: 53%) of gross trade receivables were more than one month overdue.

The maximum exposure to credit risk at 30 June 2008 is the fair value of each class of receivable as disclosed in note 19.

3. Financial risk management (continued)

c). Liquidity risk

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

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

Year ended 30 June 2008

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

Year ended 30 June 2007

	In less than one year	In more than one year but not more than two years	In more than two years but not more than three years	In more than three years but not more than five years	In more than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities:						
Borrowings	1,276	2,808	7,163	11,721	1,152	24,120
Trade and other payables	7,380	-	-	-	-	7.380
Derivative contracts:						
Gross cash outflows	(428)	(806)	(818)	(1,453)	(394)	(3,899)
Gross cash inflows	440	879	879	1,539	403	4,140
Total	**8,668**	**2,881**	**7,224**	**11,807**	**1,161**	**31,741**

3. Financial risk management (continued)

Capital risk management

The Group's policy is to maintain a strong capital base, defined as facilities plus total shareholders' equity, so as to maintain investor, creditor and market confidence and to sustain future development of the business. Within this overall policy, the Group seeks to maintain an optimum capital structure by a mixture of debt and retained earnings. Funding needs are reviewed periodically and also each time a significant acquisition is made. A number of factors are considered which include the net debt/EBITDA ratio, future funding needs (usually potential acquisitions) and Group banking arrangements. There were no changes to the Group's approach to capital management during the year.

The primary source of funding for the Group is bank borrowings.

4. Segmental reporting

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

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

Geographical segments

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

Business segments

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

Year ended 30 June 2008

	Veterinary practices £'000	Laboratories £'000	Head office £'000	**Group £'000**
Revenue[1]	56,673	5,477	-	**62,150**
Amortisation	2,794	116	24	**2,934**
Depreciation	888	77	77	**1,042**
Profit before income tax	8,933	67	(8,876)	**124**
Total assets	10,320	3,766	35,123	**49,209**
Total liabilities	(6,833)	(1,365)	(42,631)	**(50,829)**
Capital expenditure (notes 14 and 15)	10,011	3,757	139	**13,907**

[1]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[1]	36,316	2,656	-	**38,972**
Amortisation	1,536	-	81	**1,617**
Depreciation	440	84	53	**577**
Profit before income tax	5,154	299	(4,680)	**773**
Total assets	9,085	1,597	27,572	**38,254**
Total liabilities	(5,981)	(1,119)	(32,698)	**(39,798)**
Capital expenditure (notes 14 and 15)	17,651	51	208	**17,910**

[1]Inter-segment revenue of £588,000, representing laboratory sales to veterinary practices, has been eliminated on consolidation.

5. 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.

6. 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
	3,184	2,682
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	**347**	(351)
Bank interest receivable	**(132)**	(210)
Net finance expense	**3,955**	2,121

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. See note 18 for details of the derivative financial instruments held by the Group.

7. Operating profit

Operating profit is stated after charging/(crediting):

	2008 £'000	2007 £'000
Amortisation of intangible assets	**2,934**	1,617
Depreciation of property, plant and equipment:		
- owned	**1,021**	561
- leased	**21**	16
Employee benefit expenses	**27,767**	17,552
Cost of inventories recognised as an expense (included in cost of sales)	**10,324**	6,857
Repairs and maintenance expenditure on property, plant and equipment	**576**	410
Trade receivables impairment	**48**	156
Net exchange differences	**(25)**	-
Operating lease rentals payable:		
- property	**3,132**	1,893
- plant and machinery	**316**	176

Services provided by the Group's auditor and network firms

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

	2008 £'000	2007 £'000
Audit services:		
Fees payable to the Group auditors for the audit of the parent company and consolidated financial statements	**40**	17
Non-audit services:		
Tax services	**13**	17
The audit of the Company's subsidiaries pursuant to legislation	**20**	6
All other non-audit services (in connection with Company's admission to the Alternative Investment Market)	**435**	-
	508	40

8. Employee benefit expense and numbers

Group

Employee benefit expense for the Group:

	2008 £'000	2007 £'000
Wages and salaries	**25,161**	16,019
Social security costs	**2,346**	1,460
Other pension costs (note 33)	**129**	73
Share based payments (note 13)	**131**	-
	27,767	17,552

Employee benefit expense included within cost of sales is £25,395,000 (2007: £15,839,000). The balance is recorded within administrative expenses.

The average number of persons employed by the Group (including executive directors) during the year analysed by category (full time equivalents), was as follows:

	2008 Number	2007 Number
Veterinary surgeons and pathologists	**271**	166
Nurses, practice ancillary and technicians	**746**	455
Central support	**57**	31
	1,074	652

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

9. Directors' emoluments and key management compensation

Directors' emoluments

	2008 £'000	2007 £'000
Aggregate emoluments	**681**	599
Non-Executive fees	**140**	-
Company contributions to money purchase schemes	**20**	16
	841	615

Retirement benefits are accruing to two directors (2007: two) under the Company's money purchase scheme. The remuneration of the executive directors amounting to £701,000 is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the non-executive directors amounting to £140,000 is borne by the subsidiary company CVS (UK) Limited and recharged to the Company.

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

Highest paid director

	2008 £'000	2007 £'000
Aggregate emoluments	**360**	252

Share options

Shares awarded to executive directors under the long-term incentive plan are as follows:

	Date of grant	Earliest exercise date	Exercise price	Number of shares
S Innes	10 October 2007	11 October 2010	0.2p	107,317
P Coxon	10 October 2007	11 October 2010	0.2p	53,658
M Finn	10 October 2007	11 October 2010	0.2p	58,536

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

No share options were exercised or lapsed in the year.

Key management compensation

The employment costs of key management are as follows:

	2008 £'000	2007 £'000
Aggregate emoluments	**1,442**	797
Pension costs	**35**	18
	1,477	815

The key management figures given above include executive directors.

10. Income tax expense

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

	2008 **£'000**	2007 £'000
Current tax expense		
Adjustments in respect of previous periods	**(82)**	(52)
Total current tax credit	**(82)**	(52)
Deferred tax expense		
Origination and reversal of temporary differences	**962**	479
Adjustments in respect of previous periods	**(146)**	-
Total deferred tax charge (note 25)	**816**	479
Total income tax expense	**734**	427

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
Profit before tax	**124**	773
Effective tax charge at 29.5%	**37**	232
Effects of:		
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)
Total income tax expense	**734**	427

(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.

11. Loss for the financial period

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the financial period was £3,605,000.

12. (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)	**(610)**	346
Weighted average number of ordinary shares in issue (note 27)	**51,563,475**	51,563,475
Basic (loss)/earnings per share (pence per share)	**(1.2)**	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)	**(610)**	346
Weighted average number of ordinary shares in issue (note 27)	**51,563,475**	51,563,475
Adjusted for contingently issueable shares	**93,860**	-
Weighted average number of ordinary shares for diluted earnings per share	**51,657,335**	51,563,475
Diluted (loss)/earnings per share (pence per share)	**(1.2)**	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 27).

12. (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.

	2008	2007
	Pre- tax	Pre- tax
	£'000	£'000
(Loss)/earnings attributable to ordinary shareholders	**(610)**	346
Adjustments for:		
Income tax expense	**734**	427
Amortisation (note 14)	**2,934**	1,617
Share option expense	**110**	-
Exceptional administrative expenses (note 5)	**1,764**	-
Fair value adjustments in respect of financial assets and liabilities (note 6)	**347**	(351)
Fair value adjustments in respect of available for sale assets (note 17)	**(316)**	-
Exceptional finance expense (note 6)	**556**	-
Adjusted profit before income tax and earnings attributable to ordinary shareholders	**5,519**	2,039
Weighted average number of ordinary shares in issue (note 27)	**51,563,475**	51,563,475
	Pence	Pence
Pre-tax adjusted earnings per share	**10.7p**	4.0p

13. 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:

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

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:

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

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.

14. Intangible assets

Group	Goodwill	Customer lists	Patient data records	Capitalised software	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 July 2006	4,411	-	8,666	211	13,288
Additions arising through business combinations (note 16)	48	-	15,211	-	15,259
Additions	-	-	-	143	143
At 30 June 2007	4,459	-	23,877	354	28,690
Additions arising through business combinations (note 16)	8	3,685	6,620	-	10,313
Additions	-	-	-	23	23
At 30 June 2008	**4,467**	**3,685**	**30,497**	**377**	**39,026**
Amortisation					
At 1 July 2006	-	-	636	154	790
Amortisation for the year	-	-	1,536	81	1,617
At 30 June 2007	-	-	2,172	235	2,407
Amortisation for the year	-	119	2,791	24	2,934
At 30 June 2008	**-**	**119**	**4,963**	**259**	**5,341**
Net book amount					
At 30 June 2008	**4,467**	**3,566**	**25,534**	**118**	**33,685**
At 30 June 2007	4,459	-	21,705	119	26,283

Amortisation expense has been charged to administrative expenses.

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

Company

The Company does not hold any intangible assets.

Impairment of goodwill

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) and goodwill is allocated to these cash-generating units. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

14. Intangible assets (continued)

The components of goodwill by business segment is shown below:

Group

	2008 **£'000**	2007 £'000
Veterinary practices	**3,141**	3,133
Laboratories	**1,326**	1,326
	4,467	4,459

Recoverable amounts for cash-generating units are based on value in use calculations. These calculations use pre-tax cash flow projections for a five year period, based on financial budgets approved by the Board covering a one year period. Cash flows beyond the one year period are extrapolated beyond one year based on estimated long-term average growth rates (generally 3%). The growth rate does not exceed the long-term average growth rate for the market in which the CGU operates. The key features of this calculation are shown below:

Group

	2008 **£'000**	2007 £'000
Period on which management approved forecasts are based	**1 year**	1 year
Growth rate applied beyond approved forecast period	**3%**	3%
Pre-tax discount rate	**12.4%**	12.9%

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

Impairment reviews were performed at 30 June 2007 and 30 June 2008 by comparing the carrying value of goodwill with the recoverable amount of the cash-generating units to which goodwill has been allocated. Management concluded that no impairment was necessary.

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

15. Property, plant and equipment

Group	Freehold land and buildings	Leasehold improvements	Fixtures, fittings and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 July 2006	671	471	2,050	188	3,380
Additions arising through business combinations (note 16)	-	-	1,159	-	1,159
Additions	442	346	325	236	1,349
Disposals	-	-	-	(8)	(8)
At 30 June 2007	1,113	817	3,534	416	5,880
Additions arising through business combinations (note 16)	-	334	1,113	25	1,472
Additions	84	1,247	547	221	2,099
Disposals	-	-	-	(35)	(35)
At 30 June 2008	**1,197**	**2,398**	**5,194**	**627**	**9,416**
Accumulated depreciation					
At 1 July 2006	26	58	879	99	1,062
Charge for the year	16	58	423	80	577
Disposals	-	-	-	(4)	(4)
At 30 June 2007	42	116	1,302	175	1,635
Charge for the year	27	137	782	96	1,042
Disposals	-	-	-	(18)	(18)
At 30 June 2008	**69**	**253**	**2,084**	**253**	**2,659**
Net book amount					
At 30 June 2008	**1,128**	**2,145**	**3,110**	**374**	**6,757**
At 30 June 2007	1,071	701	2,232	241	4,245

Freehold land amounting to £85,000 (2007: £85,000) has not been depreciated. The directors believe that the market value of freehold land is not materially different from its book value.

Included within fixtures, fittings and equipment are assets held under finance leases with a net book value of £63,000 (2007: £nil). Depreciation charged in the period on these assets amounted to £21,000 (2007: £16,000).

Depreciation expense has been charged to administrative expenses.

Company

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

16. Business combinations

Details of business combinations in the years ending 30 June 2007 and 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[1] £'000	Cash paid[2] £'000
A practice in:				
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[3]		20	207	227
Other payments[4]		-	65	65
		565	**5,108**	**5,673**

[1]Intangible assets acquired represents patient data records (£5,100,000) and goodwill (£8,000).

[2]Cash paid includes professional fees of £268,000.

[3]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.

[4]Other payments represent a revised estimate of contingent consideration in relation to the acquisition of practices in prior periods.

16. Business combinations (continued)

Analysis of pre and post acquisition performance:

	Previous year end	Pre-acquisition performance[1] £'000	Post-acquisition revenue[2] £'000	Post-acquisition contribution[3] £'000
A practice in:				
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
		1,380	**4,610**	**743**

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

[2]Post-acquisition revenue represents revenue from the date of acquisition to the period end.

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

16. 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)
Net assets acquired	**1,581**	**536**	**5,122**	**7,239**
Consideration satisfied by:				
Cash (including related costs of acquisition amounting to £188,000)	1,581	536	5,065	7,182
Accrued consideration	-	-	57	57
	1,581	**536**	**5,122**	**7,239**

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).

16. Business combinations (continued)

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).

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).

Year ended 30 June 2007:

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:				
Eight UK based practices	15/09/2006	276	3,808	4,084
Norfolk & Suffolk	09/10/2006	26	620	646
Staffordshire & Cheshire	16/01/2007	84	416	500
Kent	05/02/2007	30	256	286
Manchester	05/03/2007	169	1,389	1,558
Suffolk	29/05/2007	22	379	401
Devon	04/06/2007	15	489	504
Norfolk	29/06/2007	100	2,240	2,340
		722	**9,597**	**10,319**

[1]Intangible assets acquired represents patient data records (£9,576,000) and goodwill (£21,000).

[2]Cash paid includes professional fees of £182,000.

16. Business combinations (continued)

Analysis of pre and post acquisition performance:

	Previous year end	Pre-acquisition performance[1] £'000	Post-acquisition[2] revenue £'000	Post-acquisition contribution[3] £'000
A practice in:				
Eight UK based practices	30/06/2006	(1,017)	6,048	849
Norfolk & Suffolk	30/04/2005	157	1,279	201
Staffordshire & Cheshire	31/07/2006	438	711	138
Kent	31/05/2005	142	283	27
Manchester	30/04/2006	313	1,136	48
Suffolk	31/03/2006	112	62	11
Devon	31/07/2006	119	76	15
Norfolk	31/08/2006	637	5	1
		901	**9,600**	**1,290**

[1]Pre-acquisition performance represents profit before tax excluding partners' or proprietors' drawings.

[2]Post-acquisition performance represents performance from the date of acquisition to the year end.

[3]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.

16. Business combinations (continued)

Acquisition of Active Vetcare Limited and Carrick Veterinary Group Limited

On 15 January 2007, the group acquired the whole of the issued share capital of Active Vetcare Limited ("AVL") for a total consideration of £6,140,000. On 25 April 2007 the group acquired the whole of the issued share capital of Carrick Veterinary Group Limited ("CVGL") for a total consideration of £406,000. Immediately following the respective acquisitions the trade and related assets were transferred from AVL and CVGL to the CVS (UK) Limited. The book values of the non-intangible assets and liabilities of AVL and CVGL, 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.

	AVL	CVGL	Total
	£'000	£'000	£'000
Goodwill	-	27	27
Other intangible assets – patient data records	5,200	435	5,635
Property, plant and equipment	427	10	437
Inventories	132	33	165
Trade and other receivables	245	33	278
Cash and cash equivalents	671	-	671
Current income tax liabilities	(98)	(19)	(117)
Trade and other payables	(437)	(113)	(550)
Net assets acquired	**6,140**	**406**	**6,546**
Consideration satisfied by:			
Cash (including related costs of acquisition amounting to £40,000)	6,140	374	6,514
Deferred consideration	-	22	22
Accrued consideration	-	10	10
	6,140	**406**	**6,546**

For the year ended 31 July 2006, AVL reported an unaudited post tax profit of £100,000. For the unaudited period ended 15 January 2007, the turnover was £2,207,000, operating profit £204,000 and the tax charge £68,000. The post-acquisition turnover of AVL amounted to £2,067,000 and the post-acquisition contribution amounted to £410,000.

For the year ended 31 March 2006, CVGL reported an unaudited post tax profit of £57,000. For the unaudited period ended 25 April 2007, the turnover was £899,000, operating profit £123,000 and the tax charge £18,000. The post-acquisition turnover of CVGL amounted to £161,000 and the post-acquisition contribution amounted to £17,000.

17. Investments

(a) Available-for-sale financial assets

Group	**2008 £'000**	2007 £'000
Available-for-sale financial assets	**399**	23

Investments are available-for-sale financial assets, which are denominated in sterling, and consist of ordinary shares held in two companies: Norvet Limited and Centaur Services Limited, and an investment in managed investment funds.

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

Centaur Services Limited is an unquoted company, whose shares are not publicly traded. At the year end the group had accepted an offer to purchase the shareholding as part of the purchase of Centaur Services Limited. Therefore, the fair value of the shares has been revalued at the year end to fair value. The fair value gain arising on revaluation amounted to £316,000 and has been recognised in the income statement within other gains.

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

There were no disposals or impairment provisions on available-for-sale financial assets in 2008 or 2007.

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

	2008 £'000	2007 £'000
At 1 July 2007	**23**	23
Fair value adjustment – through income statement	**316**	-
Fair value adjustment – through reserves	**(7)**	-
Acquired in the year (note 16)	**67**	-
At 30 June 2008	**399**	23

17. Investments (continued)

(b) Shares in subsidiary undertakings

Company

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

The Company acquired the whole of the issued share capital of CVS (UK) Limited by way of a share exchange agreement (see note 27 for details). The subsidiary undertakings of CVS Group plc, all of which are wholly owned, are set out in note 1.

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

18. Derivative financial instruments

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

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

There is no material impact on the Group income statement resulting from hedge ineffectiveness. The ineffective portion recognised in the profit or loss that arises from cash flow hedges amounts to a gain of £26,000, representing 4% of the fair value of the financial asset.

Cash flow hedges

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

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

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

18. Derivative financial instruments (continued)

Financial instruments not qualifying for hedge accounting

The Group's policy is not to use derivatives for trading purposes; however, some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is appropriate.

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

Group

	2008		2007	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Non-current				
Interest rate swaps – cash flow hedges	**613**	**-**	-	-
Interest rate swaps – held for trading	**-**	**-**	373	-
	613	**-**	373	-

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet. The notional principal amounts of the outstanding interest rate swap contracts at 30 June 2008 were £32,000,000 (2007: £12,651,000). The outstanding interest rate swap contracts expire on 4 October 2013 (2007: 30 June 2013).

Movements in fair values:

Group	**Interest rate swaps £'000**
Fair value at 1 July 2006	22
Fair value gain through income statement – not hedged (note 6)	351
Fair value at 30 June 2007	373
Fair value loss through income statement – not hedged (note 6)	(373)
Fair value gain through reserves – hedged	587
Fair value gain through income statement - ineffective element of hedged arrangement	26
At 30 June 2008	**613**

Company

The Company does not hold derivative financial instruments.

19. Financial instruments

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

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

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

19. Financial instruments (continued)

	Loans and receivables £'000	Derivatives used for hedging £'000	Available-for-sale £'000	Total £'000
30 June 2007				
Assets as per balance sheet				
Available-for-sale financial assets	-	-	23	23
Derivative financial instruments	-	373	-	373
Trade and other receivables (excluding prepayments and accrued income)	1,748	-	-	1,748
Cash and cash equivalents	2,622	-	-	2,622
	4,370	**373**	**23**	**4,766**

	Other financial liabilities £'000	Total £'000
Liabilities as per balance sheet		
Borrowings	(31,147)	(31,147)
Trade and other payables	(7,380)	(7,380)
	(38,527)	**(38,527)**

19. Financial instruments (continued)

Fair values of financial assets and liabilities

Fair values of financial assets and liabilities are disclosed below:

Group

	2008		2007	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings	**(20)**	**(20)**	(11,109)	(11,109)
Long-term borrowings	**(40,393)**	**(41,242)**	(20,028)	(20,206)
Finance leases	**(47)**	**(39)**	(10)	(9)
Cash and cash equivalents	**392**	**392**	2,622	2,622
Interest rate swaps	**613**	**613**	373	373
	(39,455)	**(40,296)**	(28,152)	(28,329)

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

20. Inventories

Group	**2008 £'000**	2007 £'000
Goods held for resale	**1,829**	1,226

Company

The Company does not hold any inventories.

21. Trade and other receivables

Group	**2008 £'000**	2007 £'000
Trade receivables	**3,177**	1,760
Less: Provision for impairment of receivables	**(444)**	(336)
Trade receivables - net	**2,733**	1,424
Other receivables	**676**	324
Prepayments and accrued income	**1,699**	1,156
	5,108	2,904

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

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

As of 30 June 2008, trade receivables of £1,594,000 (2007:£836,000) were within their due period.

As at 30 June 2008, £1,583,000 (2007: £924,000) of the gross trade receivables were past due and partially impaired. A provision for impairment is established based on historical experience. The amount of the provision was £444,000 (2007: £336,000). The ageing of these trade receivables is as follows:

	2008 £'000	2007 £'000
One to six months overdue	**1,439**	895
Over six months overdue	**144**	29
	1,583	924

As at 30 June 2008, the amount of gross trade receivables past due that were not impaired amounted to £1,139,000 (2007: £588,000).

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

	2008 £'000	2007 £'000
At beginning of the year	**336**	180
Charged to the income statement within administrative expenses	**48**	156
Utilised in the period	**60**	-
At end of the year	**444**	336

Other receivables do not contain impaired assets.

Company

The Company does not have any trade and other receivables.

22. Cash and cash equivalents

Group	2008 £'000	2007 £'000
Cash at bank and in hand	**392**	2,622

Company

The Company does not hold any cash and cash equivalents.

23. Trade and other payables

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000
Current			
Trade payables	**3,941**	3,090	**-**
Amounts due to group undertakings	**-**	-	**3,605**
Social security and other taxes	**2,230**	1,891	**-**
Other payables	**21**	152	**-**
Accruals and deferred income	**2,080**	2,247	**-**
	8,272	7,380	**3,605**

24. Borrowings

Group	2008 £'000	2007 £'000
Current		
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
	50	11,119

24. Borrowings (continued)

	2008 £'000	2007 £'000
Non-current		
Bank loan	**40,393**	20,028
Finance leases	**17**	-
	40,410	20,028

Company

The Company does not have any borrowings.

Secured loan stock and bank loans

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

Group	**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
	40,413	29,587

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 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 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.

24. Borrowings (continued)

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 £3,100,000 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:

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

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

Company

The Company has no obligations under finance leases.

25. Deferred income tax

Carrying values for deferred income tax are shown below:

Group	**2008**		2007	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Deferred income tax	**426**	**(2,043)**	578	(1,155)

Provision for deferred income tax assets and liabilities is made at a rate of 28% (2007: 30%) on all temporary differences.

Deferred income tax assets

Deferred income tax assets are comprised as follows:

Group	**2008 £'000**	2007 £'000
Tax effect of timing differences:		
Unutilised tax losses carried forward	**387**	226
Share based payments	**39**	-
Other short term timing differences	**-**	352
	426	578

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

Deferred income tax liabilities

Deferred income tax (liabilities) are comprised as follows:

Group	**2008 £'000**	2007 £'000
Tax effect of timing differences:		
Excess of qualifying depreciation and amortisation over tax allowances	**(1,869)**	(1,155)
Other short term timing differences	**(2)**	-
Derivative financial instruments	**(172)**	-
	(2,043)	(1,155)

25. Deferred income tax (continued)

Deferred income tax assets – net

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

Group	2008 £'000	2007 £'000
Deferred tax (liabilities) brought forward – net	**(577)**	(98)
(Charged) to the income statement (note 10(a))	**(816)**	(479)
(Charged) to equity	**(156)**	-
Arising on business combinations (note 16)	**(68)**	-
Deferred tax (liabilities) carried forward – net	**(1,617)**	(577)

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

Group	2008 £'000	2007 £'000
Deferred income tax assets	**426**	578
Deferred income tax liabilities	**(2,043)**	(1,155)
Deferred income tax (liabilities) – net	**(1,617)**	(577)

Company

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

26. Current tax liabilities

Group	2008 £'000	2007 £'000
Current tax liabilities	**54**	116

Company

The Company does not have any current tax liabilities.

27. Share capital

	2008 £'000	2007 £'000
Authorised		
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
	112	104

	2008 £'000	2007 £'000
Allotted, called up and fully paid:		
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
	103	103

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.

27. 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.

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

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

Company	Capital redemption reserve	Retained earnings
	£'000	£'000
On incorporation	**-**	**-**
Capital reduction (note 27)	-	61,773
Transfer to capital redemption reserve	592	(592)
Credit to reserves for share-based payments	-	110
Retained loss for the financial period	-	(3,605)
At 30 June 2008	**592**	**57,686**

Capital redemption reserve

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

Revaluation reserve

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

28. Revaluation reserve, merger reserve and retained earnings (continued)

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

29. Analysis of movement in net (debt)

Group	At 1 July 2007	Cash flow	Business combinations*	Non-cash movements	**At 30 June 2008**
	£'000	£'000	£'000	£'000	**£'000**
Cash and cash equivalents	2,622	(2,230)	-	-	**392**
Borrowings – current	(11,109)	11,089	-	-	**(20)**
Finance leases – current	(10)	(20)	-	-	**(30)**
Total current debt	(11,119)	11,069	-	-	**(50)**
Borrowings – non-current	(20,028)	(19,849)	(194)	(322)	**(40,393)**
Finance leases – non-current	-	33	(50)	-	**(17)**
Total non-current debt	(20,028)	(19,816)	(244)	(322)	**(40,410)**
Net debt	(28,525)	(10,977)	(244)	(322)	**(40,068)**

* Excludes cash and cash equivalents acquired through business combinations.

Non-cash movements relate to the accrual for the redemption premium in respect of redeemable preference shares, interest charges on secured loan stock, issue cost amortisation on bank loans and secured loan stock and movements in the fair value of derivative financial instruments.

Company

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

30. Cash flow generated from operations

	Group 2008 £'000	Group 2007 £'000	**Company 2008 £'000**
(Loss)/profit for the period	**(610)**	346	**(3,605)**
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	**3,605**
Share option expense	**110**	-	**-**
Total net cash flow generated from operations	**6,504**	6,509	**-**

31. Guarantees and other financial commitments

(a) Capital commitments

The Group had capital expenditure contracted for at the balance sheet date but not yet incurred amounting to £23,962 (2007: £nil). The Company had no capital commitments as at 30 June 2008.

(b) Bank guarantees

The Company is a member of the Group banking arrangement under which it is party to unlimited cross-guarantees in respect of the banking facilities of other Group undertakings, amounting to £40,413,000 at 30 June 2008. The directors do not expect any material loss to the Company to arise in respect of the guarantees.

32. Operating lease commitments

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

Property	**2008 £'000**	2007 £'000
Expiring in less than one year	**3,039**	2,418
Expiring between two and five years	**11,318**	8,899
Expiring after more than five years	**21,344**	15,078
	35,701	26,395

Plant and machinery	**2008 £'000**	2007 £'000
Expiring in less than one year	**242**	186
Expiring between two and five years	**404**	324
Expiring after more than five years	**5**	5
	651	515

Total lease commitments	**2008 £'000**	2007 £'000
Expiring in less than one year	**3,281**	2,604
Expiring between two and five years	**11,722**	9,223
Expiring after more than five years	**21,349**	15,083
	36,352	26,910

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

33. Pension schemes

The Group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the income statement account as they fall due. The amounts charged during the year amounted to £129,000 (2007: £73,000). The amount outstanding at the end of the year included in creditors was £9,000 (2007: £5,000).

34. Related party transactions

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

Sovereign Capital Partners LLP, an entity which manages the funds of Nash Sells Limited Partnership II, the Company's ultimate controlling party until the Company's admission to AIM in October 2007, received a management charge of £1,338 (2007: £18,996). As part of the company reorganisation and admission to AIM, Sovereign Capital Partners LLP was repaid debt of £11,724,000. This comprised £10,005,000 secured loan stock, £944,000 preference shares and £775,000 participating dividend on ordinary shares.

Sovereign Capital Partners LLP as manager of Nash Sells Limited Partnership LLP entered into an undertaking with S Innes, a director of the Company and its subsidiary, CVS (UK) Limited, which entitled S Innes to an amount equal to three per cent of the value of the Group above an agreed enterprise value, to be paid by Nash Sells Limited Partnership II, by way of a gift, upon receipt of funds by Nash Sells Limited Partnership II following Nash Sells Limited Partnership II disposing of its equity interest in the Group. This transaction was completed as part of the Company's admission to AIM.

Company

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

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

As at 30 June 2008, the following balances were owed by/due to related companies;
Relnternational Holdings Limited and OSI International Foods Limited are both members of the Gands (UK) group.Foods Limited.

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

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

35. Post balance sheet events

On 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.

36. Ultimate controlling party

The directors consider there is no ultimate controlling party.

CVS Group plc

Contact details and advisors

Registered Office	CVS House Vinces Road Diss Norfolk IP22 4AY	
Company Secretary	P D Coxon	
Auditors	PricewaterhouseCoopers LLP The Atrium St Georges Street Norwich Norfolk NR3 1AG	
Nominated Advisor and Broker	Panmure Gordon (UK) Limited 155 Moorgate London EC2M 6XB	
Bankers	NatWest Bank Plc 12 High Street Southampton SO14 2BF	Barclays Bank Plc 1 Churchill Place London E14 5HP
	Royal Bank of Scotland Plc 36 St Andrew Square Edinburgh EH2 2YB	
Legal advisors	Blake Lapthorn Tarlo Lyons Kings Court 21 Brunswick Place Southampton Hampshire SO15 2AQ	
	DLA Piper UK LLP 3 Noble Street London EC2V 7EE	