



# CVS Group plc ANNUAL REPORT

for the year ended 30 June 2014

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*Your pets, our priority*

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# Annual Report

*for the year ended 30 June 2014*

CVS owns 268 veterinary surgeries throughout England, Scotland and Wales. It operates 5 laboratories performing diagnostics services for the veterinary industry and 3 pet crematoria.

The Group also operates an on-line dispensary selling medicines, pet food and other animal related products.

CVS has over 640 vets and 938 nurses who have a passion for looking after your pets and providing you with excellent customer service.

The Group is listed on the Alternative Investment Market of the London Stock Exchange.

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# Financial highlights

*Consistently delivering growth*

	Year ended 30 June 2014	Year ended 30 June 2013	Increase % <sup>4</sup>
<b>Revenue (£m)</b>	<b>142.9</b>	<b>120.1</b>	<b>19.0</b>
<b>Adjusted EBITDA (£m)<sup>1</sup></b>	<b>19.7</b>	<b>16.5</b>	<b>19.7</b>
<b>Adjusted profit before income tax (£m)<sup>2</sup></b>	<b>14.3</b>	<b>12.1</b>	<b>17.8</b>
<b>Adjusted earnings per share (pence)<sup>3</sup></b>	<b>19.0</b>	<b>16.2</b>	<b>17.3</b>
<b>Operating profit (£m)</b>	<b>7.5</b>	<b>6.7</b>	<b>12.3</b>
<b>Profit before income tax (£m)</b>	<b>6.3</b>	<b>5.5</b>	<b>14.5</b>
<b>Basic earnings per share (pence)</b>	<b>8.3</b>	<b>7.1</b>	<b>16.3</b>
<b>Proposed dividend (pence)</b>	<b>2.5</b>	<b>2.0</b>	<b>25.0</b>

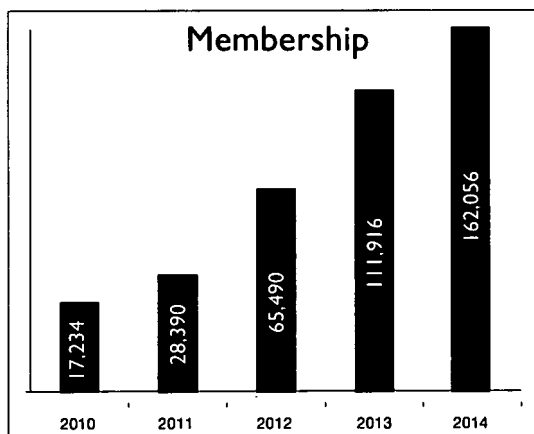
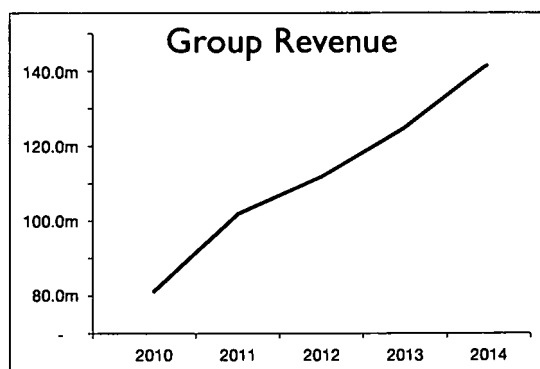
<sup>1</sup>Adjusted EBITDA (Earnings before interest, tax, depreciation and amortisation) is profit before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations, share option expense and exceptional items (a reconciliation to the statutory measurement can be found on page 32).

<sup>2</sup>Adjusted profit before income tax is calculated as profit on ordinary activities before amortisation, taxation, costs relating to business combinations and exceptional items.

<sup>3</sup>Adjusted earnings per share is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of ordinary shares in issue in the period.

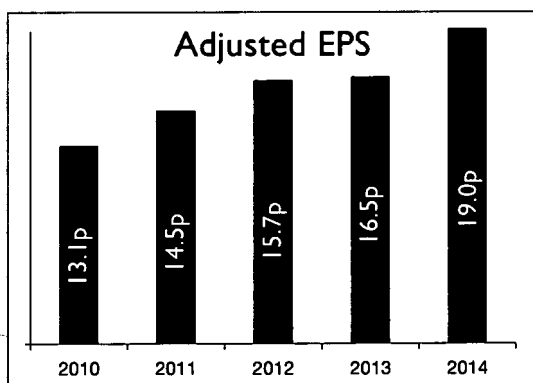
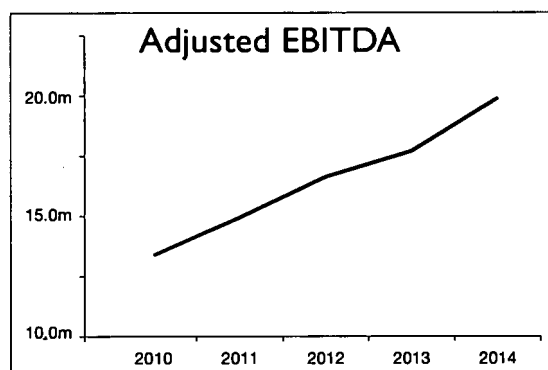
<sup>4</sup>Percentage increases have been calculated throughout this document based on the underlying values.

Revenue up 19.0% to £142.9m  
 Group like-for-like sales +6.9%  
 Practice division like-for-like sales up 4.1%  
 Animated Direct sales up 74.3%  
 Revenue 5 year CAGR 12.7%



Healthy Pet Club membership  
 up over 45% to 162,000

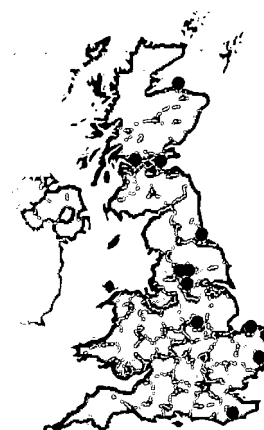
Adjusted EBITDA  
 up 19.7% to £19.7m



Adjusted earnings per share  
 up 17.3% to 19.0 pence per share  
 Adjusted EPS 5 year CAGR 12.3%

## Acquisitions

18 surgeries acquired during the year  
 6 surgeries acquired after the year end  
 Silvermere Haven crematorium acquired January 2014





# Strategy

Our vision is to continue to be the most comprehensive and integrated provider of veterinary services to animal owners in the UK whilst providing a growing return to our shareholders.

We aim to achieve this by:

- Providing high quality clinical care for animals and excellent customer service to their owners
- Meeting all of our customers' veterinary needs
- Building on our strengths to provide services to other veterinary practices
- Expanding our business through acquisitions
- Growing our share price and return to our shareholders

## Excellent customer service

*A recognised quality service and a team trained to a high degree of clinical skill*

- All CVS surgeries are in the RCVS Practice Standards Scheme
- 11 diploma holders and 3 board eligible vets
- 49 certificate holders
- 76 staff enrolled in our advanced practitioner training with over 130 applicants for the 2014/15 year
- 35 graduate vets recruited and trained during the year

## Meeting all of our customers' needs

*268 veterinary practices across the UK*

We expanded our network by 18 surgeries during the year and 6 further surgeries after the year end.

## Healthy Pet Club

Our Healthy Pet Club loyalty scheme provides preventative medicine for over 162,000 pets as well as offering discounts on other services we provide.

## A commitment to use modern diagnostic techniques

During the year we invested £5.3m on new premises and new equipment; we refurbished Springfield in Rotherham, Norton Mills in Taunton, Carrick Vets in Chesterfield and The Grove in Fakenham. We also invested in a CT ("computed tomography") scanner and a range of other sophisticated equipment.

## Fast, efficient and effective diagnostic laboratories

Our practices can perform in-house tests on blood and urine samples but where more complex analysis is required our laboratories performed over 94,000 tests for our own practices.

## Out-of-hours services

We ensure that out-of-hours services are available for all our customers. To improve the quality and consistency of our service during the year we established four further centres where we now perform out-of-hours work ourselves by dedicated teams rather than using third parties.

## Referrals expertise

For more complex procedures we refer our customers to specialists. We operate three referrals centres and many of our vets in our surgeries have specialist knowledge. We are committed to providing more referrals experience in-house. During the year we employed two more diploma holders with expertise in cardiology and small animal surgery.

## Crematoria

In January 2014 we acquired our third crematorium, Silvermere Haven in Cobham. This further improves our geographical coverage so that our customers do not have to travel so far for our services. We aim to improve our geographical spread through further acquisitions.

## MiPet - our own brand products

We now have five MiPet own brand products. More will be introduced during the forthcoming year as we expand the MiPet range into a substantial high quality brand that our customers can rely on for efficacy and value.

## Building on our strengths to provide services to other veterinary practices

### MiVetClub

MiVetClub, our buying group, was launched in August 2013. It builds on the unique knowledge that CVS has gained through operating the largest veterinary group in the UK to provide those services that other veterinary practices really want. Veterinary practices can benefit from our buying power for drugs and other products and use our laboratories and crematoria. They can also access our health and safety expertise and our own brand MiPet products. A range of other services will be offered in the future.

## Laboratory services

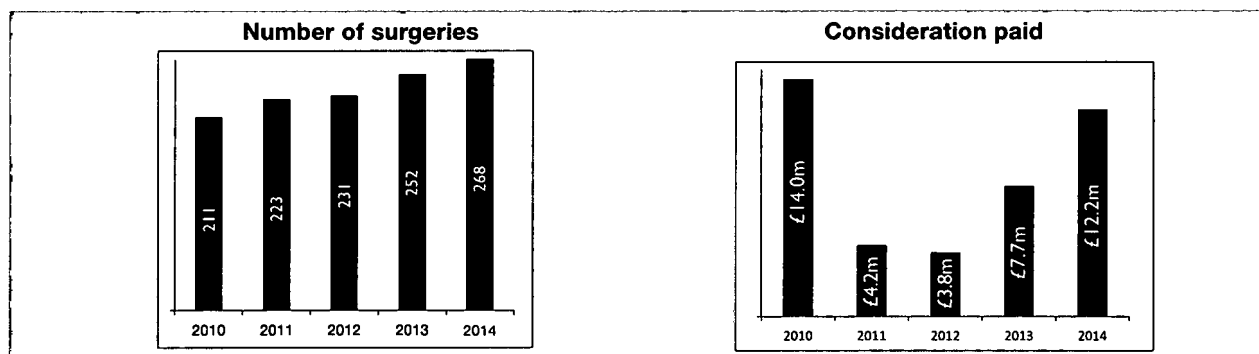
Our laboratories performed 354,000 tests in 2014, approximately 260,000 of these were for third parties.

## Crematoria

Our crematoria performed approximately 27,000 cremations for third parties in 2014.

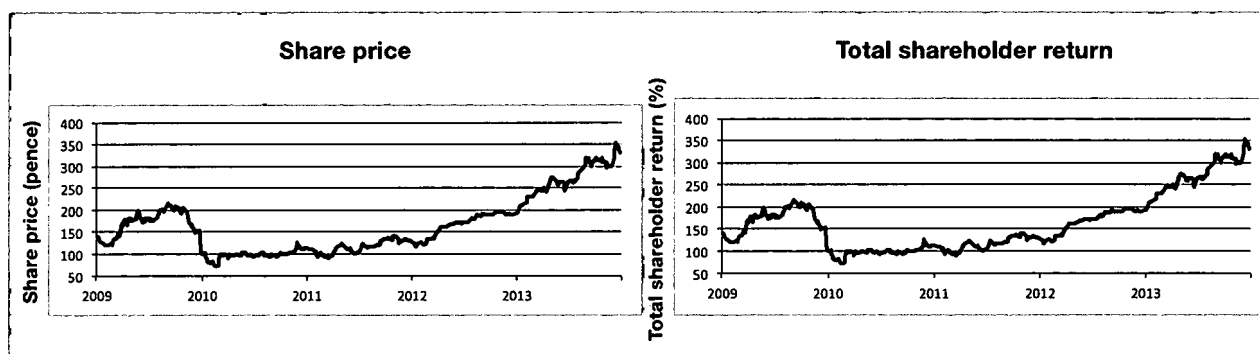
## Expanding our business through acquisitions

We have grown our business further through acquisitions and aim to continue to do so.



Whilst the majority of our surgeries deal only with small animals we are increasingly growing our equine and large animal business. Our acquisitions during the year comprised not only small animal surgeries but, equine, large animal and mixed surgeries. We will also consider acquisitions of crematoria and laboratories where they fill a geographical or technical gap.

## Growing our share price and return to our shareholders



# CVS at a glance

The Group has four main business areas: veterinary practices, diagnostic laboratories, pet crematoria and Animed Direct, our on-line business. The passion of our people for animals and for making your pets our priority is at the heart of our work every day.

## Veterinary practices

CVS operates 268 surgeries, usually trading under local business names. These surgeries include three locations which are wholly referral practices providing first class specialist treatment. Many of our other practices also include consultants providing referrals expertise in the heart of the communities that they serve. Whilst the majority of our vets focus on small, companion animal work we have several whose focus is on horses and large animals.

Veterinary practice revenues relate to the consultations with pet owners, operations performed on pets and the supply of drugs and other products in our surgeries. Revenues also include those received as subscriptions to our Healthy Pet Club scheme.

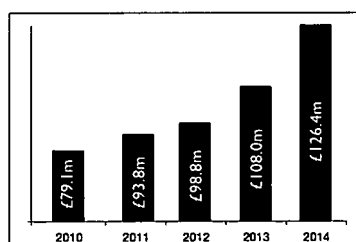
A recent addition to our Veterinary Practice Division is our Pet Medic Recruitment business which recruits locums and permanent staff for both our own and third party practices.

268 surgeries  
640 vets  
938 nurses  
162,000 Healthy Pet Club members

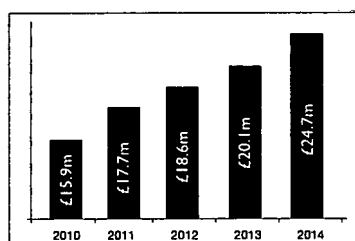
[www.thehealthypetclub.co.uk](http://www.thehealthypetclub.co.uk)  
[www.cvsukltd.co.uk](http://www.cvsukltd.co.uk)  
[www.PetMedicRecruitment.co.uk](http://www.PetMedicRecruitment.co.uk)

## Veterinary practices

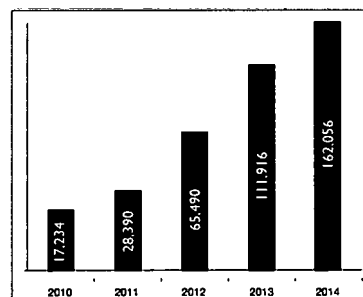
### 5 year revenue



### 5 year EBITDA



### HPC Members





## Laboratories

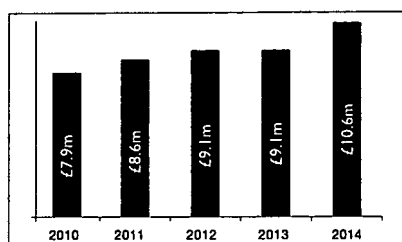
Our laboratories provide diagnostic services both to our own veterinary practices (27% of sales) and to third parties (73% of sales). 354,000 tests were performed in 2014 (2013: 324,000). We offer biochemistry, haematology, histology, serology and advanced allergy testing.

The Group has five sites and 174 staff including 31 pathologists.

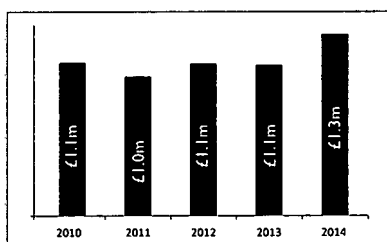
[www.axiomvetlab.co.uk](http://www.axiomvetlab.co.uk)  
[www.finnpathologists.co.uk](http://www.finnpathologists.co.uk)  
[www.greendale.co.uk](http://www.greendale.co.uk)

## Laboratories

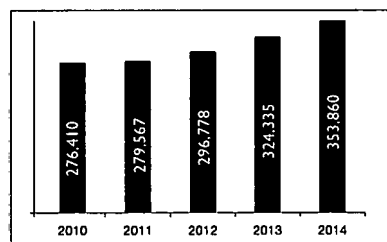
5 year revenue



5 year EBITDA



Number of lab tests





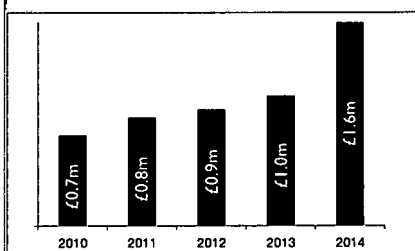
## Crematoria

We have three crematoria, providing pet cremation services for veterinary practices and directly with pet owners. Our Rossendale and Silvermere Haven sites both have pet cemeteries and memorial gardens. Rossendale is set in 15 acres of memorial gardens in the beautiful Lancashire countryside and Silvermere Haven is set in 11 acres of copses and fields in Cobham. Valley Pet Crematorium is based near Exeter. The Crematoria Division also collects clinical waste from practices.

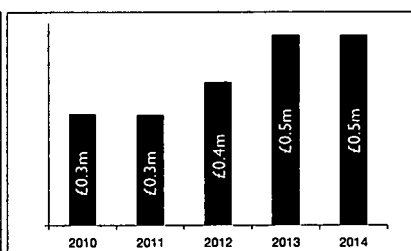
[www.rossendalepetcrem.co.uk](http://www.rossendalepetcrem.co.uk)  
[www.silvermerehaven.co.uk](http://www.silvermerehaven.co.uk)  
[www.valleypetcrematorium.co.uk](http://www.valleypetcrematorium.co.uk)

### Crematoria

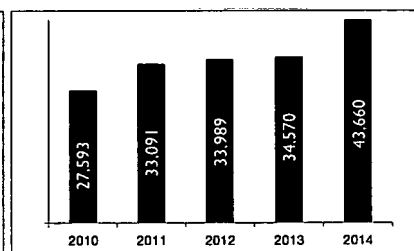
5 year revenue



5 year EBITDA



Number of cremations



## MiVetClub

MiVetClub, our buying group, was launched in August 2013. Our aim is to use our buying strength and range of complementary businesses to provide a unique offering of services to other practices so as to strengthen their business as well as our own.

[www.MiVetClub.co.uk](http://www.MiVetClub.co.uk)

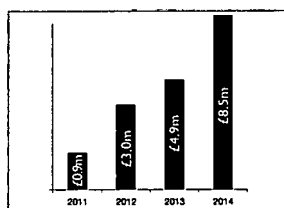
## Animed Direct

Our on-line business was established in 2010 and has grown rapidly. Its revenues are from the sale of prescription drugs, non prescription drugs, pet food and other animal related products. Sales to Europe began during 2013 but remain a small proportion of the business.

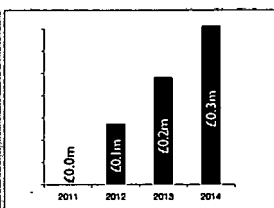
210,000 customers  
4,200 product lines  
[www.animeddirect.co.uk](http://www.animeddirect.co.uk)

### Animed Direct

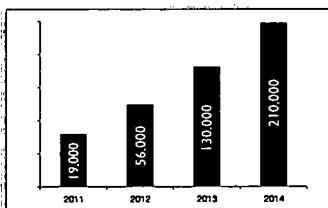
4 year sales



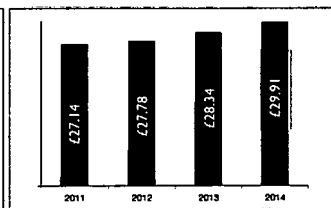
4 year EBITDA



Number of customers



Average transaction values

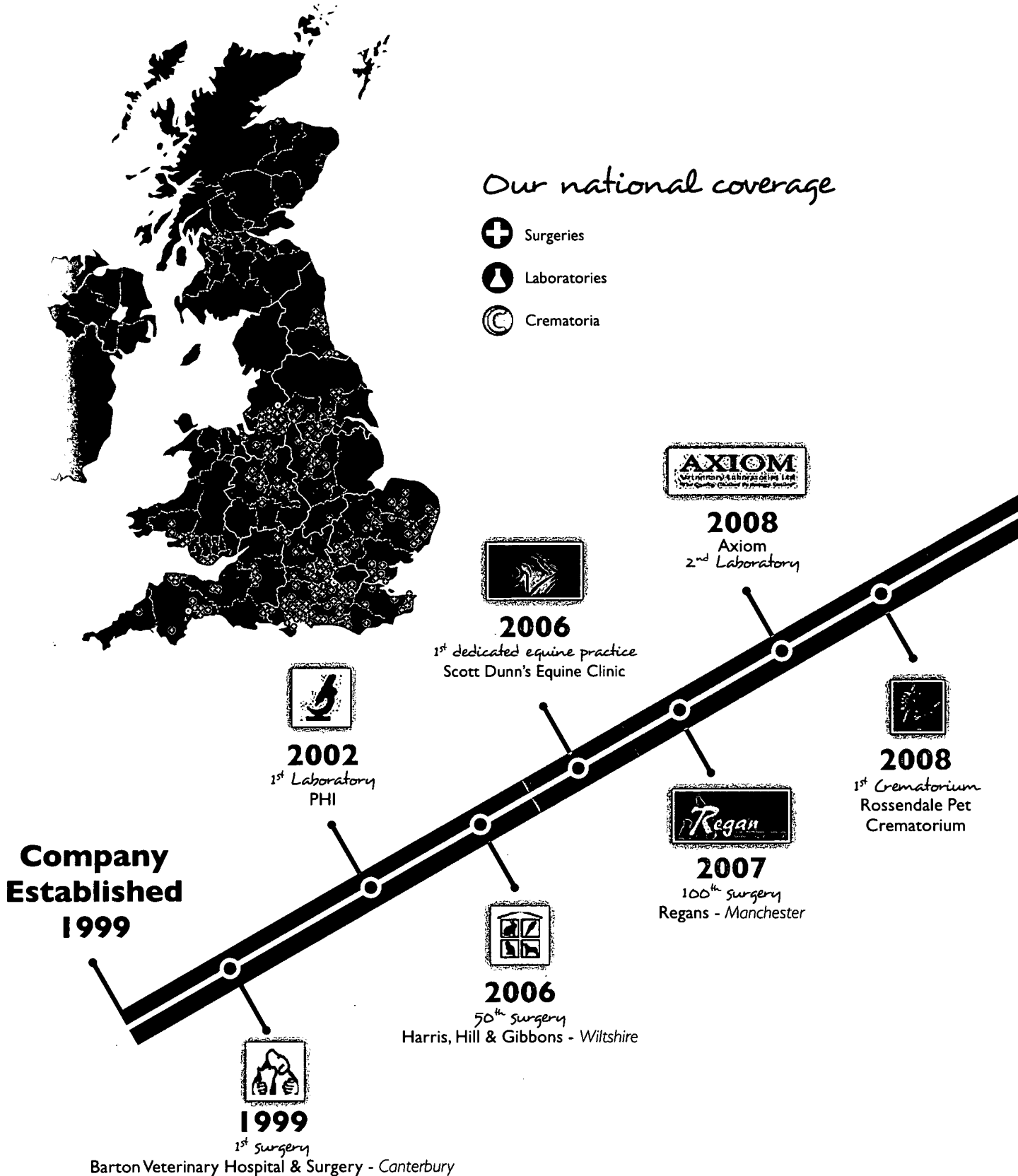


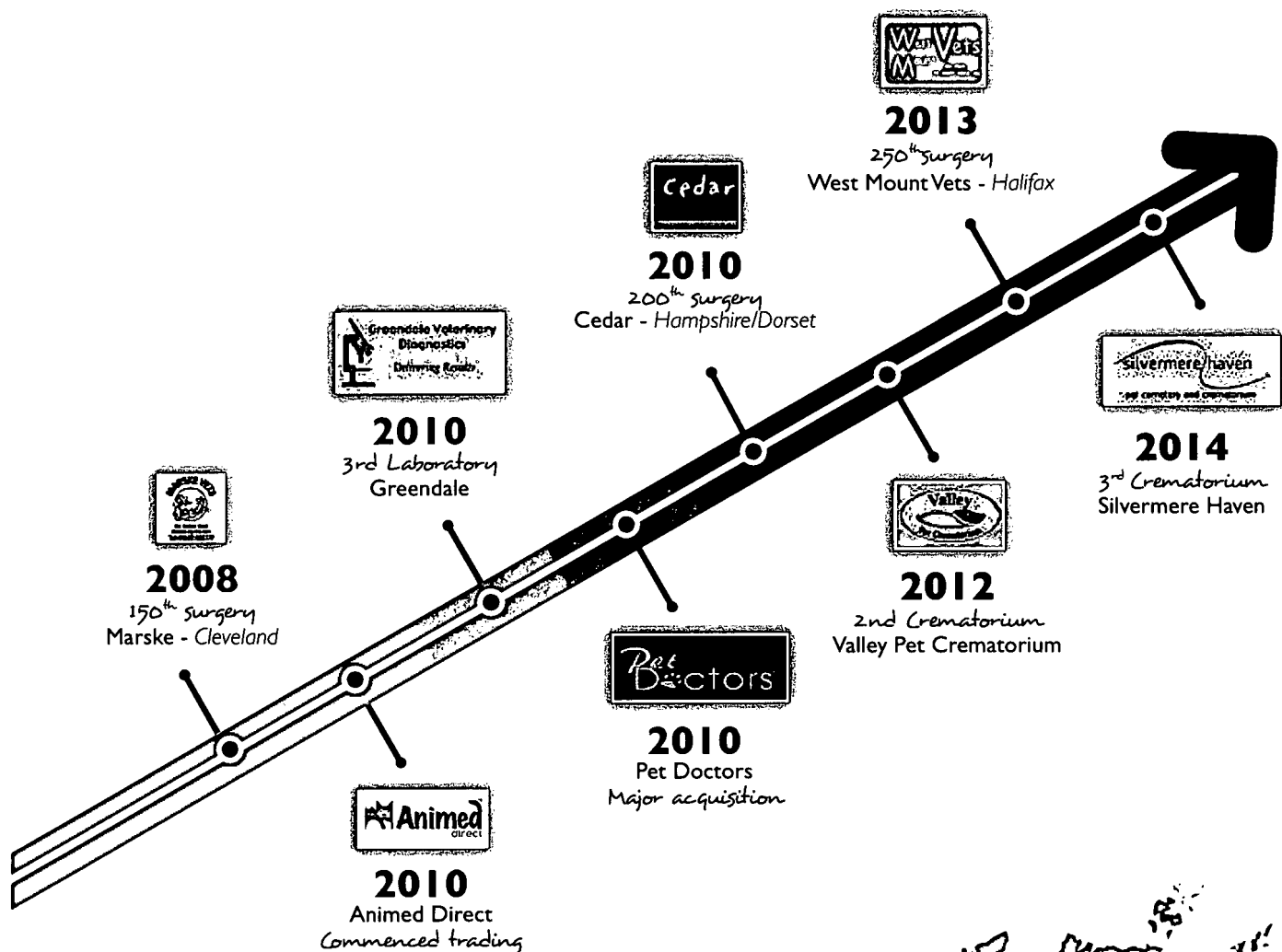


# History of the business

## Constantly progressing

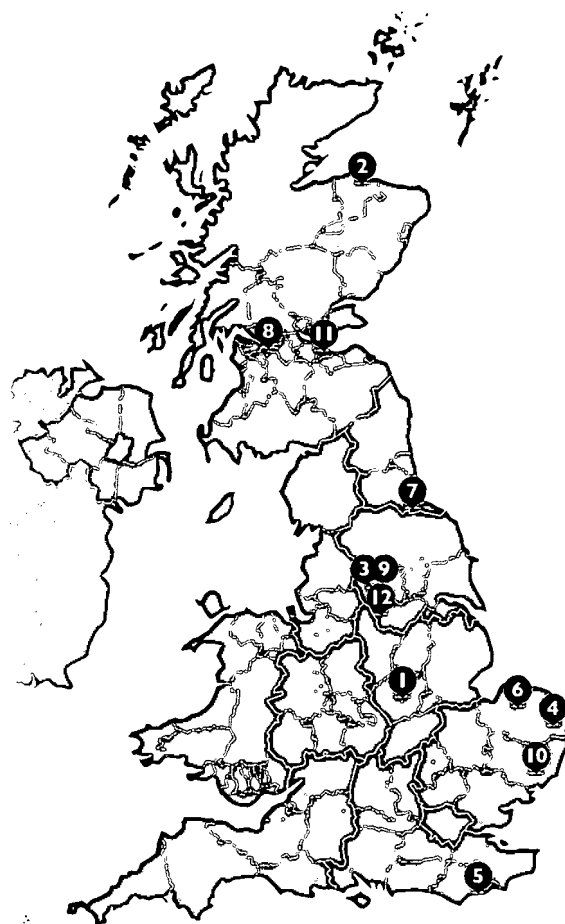
Our vision is to continue to be the largest and most comprehensive provider of veterinary services to pet owners in the UK whilst providing a growing return to our shareholders.





## Our recent acquisitions

- |  |   |
|--|---|
| 1. Crescent Veterinary Clinic<br>(15/7/13) Melton Mowbray<br>Small animal, large animal and equine | 7. Oaklands<br>(16/12/13) Yarm<br>Small animal and equine |
| 2. Miller & Swann<br>(2/9/13) Elgin<br>Small animal  | 8. 3 Mile<br>(7/4/14) Glasgow<br>Small animal             |
| 3. Westmount Vets Limited<br>(20/9/13) Halifax<br>Small animal                                     | 9. Ashfield<br>(28/4/14) Halifax<br>Small animal          |
| 4. Anchorage<br>(30/9/13) Acle<br>Small animal, large animal and equine                            | 10. Riversbrook<br>(28/7/14) Ipswich<br>Small animal      |
| 5. Coopers Vets<br>(4/11/13) Hastings<br>Small animal  | 11. West End Vets<br>(09/8/14) Edinburgh<br>Small animal  |
| 6. Larwood & Kennedy Limited<br>(11/11/13) Dereham<br>Small animal, large animal and equine        | 12. Anrich<br>(12/8/14) Huddersfield<br>Small animal      |





## Chairman's statement

*Further strong progress  
in all business areas*

**Richard Connell** - Non-executive Chairman

### Results

I am very pleased to report that CVS has made further strong progress in all business areas during the year. All divisions delivered good organic growth and this was enhanced by further acquisitions in our Veterinary Practice and Crematoria Divisions. We continued to invest in the development of our services, our staff and our premises, providing improved customer service.

Revenue grew by 19.0% to £142.9m (2013: £120.1m) and like-for-like sales increased by 6.9%. Adjusted EBITDA increased by 19.7% to £19.7m (2013: £16.5m). Operating profit rose to £7.5m (2013: £6.7m). Adjusted EPS grew by 17.3% to 19.0p (2013: 16.2p) and cash generated from operations increased to £20.7m (2013: £16.7m).

### Business initiatives

For many years much of the Group's growth has come from acquisitions. Whilst this has remained important during the year, and will continue to be so, the Group's scale and geographic density increasingly allows us to build on strengths as is demonstrated by the like-for-like sales increase of 6.9%. Our initiatives on our Healthy Pet Club scheme, increased focus on referral work, carrying out more of our own out-of-hours work and, most importantly, our passion for excellent customer service have enabled us to maximise the benefit from the increase in confidence in the UK economy. We will develop all of these areas further in 2015 and beyond.

I am particularly pleased with the expansion of our referrals business. John Innes has made excellent progress during the year in developing the existing referral centres and the acquisition of Lumbry Park in July 2014 for fitting out as a first-class multi-disciplinary referral centre is an exciting step forward. This fit out will take some time and we expect to see the benefit in our 2016 financial year.

We continued to invest in acquisitions. During the year we spent £12.4m to acquire 18 surgeries, through the acquisition of 10 practices and our third crematorium. Subsequent to the year end we achieved the milestone of our 100th practice acquisition, West End Vets (three surgeries in Edinburgh) as well as acquiring Riversbrook (two surgeries in Ipswich) and Anrich (one surgery) in Huddersfield.

In a further broadening of the Group's offering many of our practice acquisitions now include some element of equine or large animal business and, whilst these businesses are quite different in nature from small animal business, we are increasingly confident that they should form a core part of the Group.

Our increase in scale will allow us to fund more acquisitions in future years and there appears to remain a large number of independent businesses that recognise the benefits of becoming part of a larger specialist group.

## **Our people**

The Group remains the largest employer in the UK's veterinary profession with approximately 2,780 staff today, including around 640 vets. Our people are our most important asset and enable the Group to deliver its strategy. I would like to thank them all, including those new to CVS, for their expertise and professionalism in providing the best possible care and service to all our customers and their pets.

We continue to focus on the development of our staff and to improve our clinical and non-clinical training. As we employ an increasing number of experts in their fields we are able to provide more and more of this training internally. Our focus on excellent customer service will remain a key element.

## **Dividends**

It is proposed to pay a dividend of 2.5p per share in December 2014 – a 25% increase on the 2.0p per share paid in 2013. With a strong pipeline of acquisitions, as well as significant opportunities for organic growth, the Board believes that shareholder value can best be grown by reinvesting the majority of operational cash flow back into the business. However, the increased scale and growth of our business can also support a meaningful increase in the level of dividend.

If approved at the Annual General Meeting, the dividend will be paid on 22 December 2014 to shareholders on the register on 5 December 2014. The ex-dividend date will be 4 December 2014.

## **Outlook**

The outlook for CVS is very promising with signs of a return to more favourable market conditions. The initiatives we progressed in 2014 will serve us well in the current year, leading us to expect further growth in all divisions.

The Board is optimistic about the Group's future. It estimates that CVS only has an 11% share of the UK small animal veterinary market and a negligible share of the equine and large animal veterinary market. This demonstrates the major opportunity for further growth and consolidation and we expect to make further practice acquisitions.

# Business review

## *Focused on customer service*

In the year CVS acquired 10 practices operating from 18 locations. These practices contributed £6.5m of revenue and £1.5m EBITDA in the year. Practices acquired during the year and after the year end are set out on page 11. The acquisitions were a mixture of small animal, large animal and equine surgeries, reflecting our increasing knowledge and understanding of the differing characteristics of these businesses and our ability to manage them.

Adjusted EBITDA as a percentage of sales improved in the year from 18.7% in 2013 to 19.6% in 2014. This was despite a small fall in the margin after drugs percentage from 84.9% to 84.6% and reflects the increasing productivity of our practices.

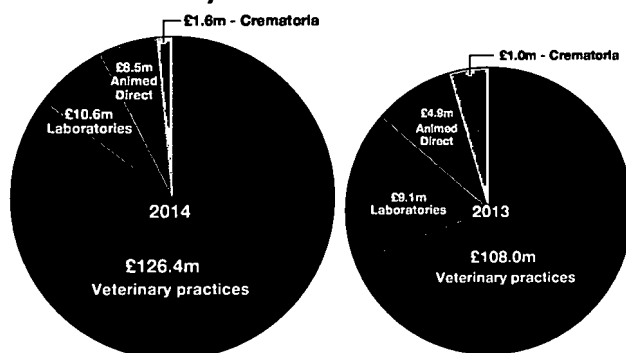
Like-for-like sales grew by 4.1%, supported by a number of successful initiatives.

Simon Innes - Chief Executive

## Introduction

CVS Group is managed across four divisions: Veterinary Practices, Laboratories, Crematoria and Animed Direct, our on-line dispensary and retailer. Veterinary Practices are the core of our business but all areas grew substantially during 2014.

## Turnover by division



Our first five own brand products were launched in the year. Whilst the current product range is sold in relatively small volumes those in the pipeline for 2015 are larger volume products. These products have been well received by both our customers and our staff. The own brand label is available only in our surgeries and those of our MiVetClub members. The introduction of own brand differentiates CVS in the market and protects our margins.

The Healthy Pet Club loyalty scheme has continued to show tremendous growth in the year. Over 55,100 pets were added to the scheme increasing membership by over 45% and bringing the total membership to 162,000. The scheme provides preventative medicine to our customers' pets as well as a range of discounts and benefits. We gain from improved customer loyalty, encouraging clinical compliance, protecting revenue generated from drug sales, and bringing more customers in to our surgeries. Monthly subscription revenue generated in the year increased to £13.9m (2013: £9.5m) and the year end run rate represented 12.0% of practice revenue. The development and extension of the Healthy Pet Club scheme will remain a focus for the division.

All vets are required to provide 24 hour cover for their customers. The Veterinary Practice Division does this partly through our own vets but also through third parties. Providing this service ourselves significantly improves the experience of our customers and their pets. In areas where we have a high density of surgeries it is also more efficient and effective to provide this through our own vets.

## Veterinary practices

	2014	2013
	£m	£m
Like-for-like revenue	108.3	103.8
2013 acquisitions	11.6	4.2
2014 acquisitions	6.5	-
<b>Total revenue</b>	<b>126.4</b>	<b>108.0</b>
<b>Adjusted EBITDA £m</b>	<b>24.7</b>	<b>20.1</b>
<b>EBITDA margin %</b>	<b>19.6</b>	<b>18.7</b>

Revenue amounted to £126.4m (2013: £108.0m), an increase of 17.1% on the prior year. Adjusted EBITDA increased by 22.7% from £20.1m to £24.7m. These increases include the impact of acquisitions in both 2013 and 2014.



During 2014 we established four dedicated emergency out-of-hours centres. Whilst the majority of work in these centres is to existing customers whose emergency cover was being provided by third parties, we are also performing out-of-hours work for other veterinary practices. There are a small number of other regions where we have sufficient density of practices to establish emergency out-of-hours centres and we will be doing so during 2015. We will also be seeking to extend our service to third party veterinary practices.

We have continued to develop the practice management systems of the Veterinary Practice Division during the year. The only practices not now using the Robovet system are some of those that were acquired during 2014. The data available at practice and vet level helps us to identify improvements by highlighting opportunities to improve the service to our customers. There is no doubt that this helps us to improve our results. The next stage in the development of this system is to improve the linking of data from all practices so that we can perform analysis at divisional level and further improve our understanding and management of the business.

On 1 July 2013, Professor John Innes joined us as Referrals Director to run and expand our referrals business. John has been a leading figure in the academic and animal orthopaedic worlds for many years; most recently he has been closely involved in developing clinical services at the University of Liverpool. John brings his own orthopaedic expertise to the Group and has begun to improve our referrals business elsewhere. He has already introduced two new diploma holders with specialisms in cardiology and small animal surgery and we will recruit more in the future.

The development of our referrals business is a key priority for CVS. In July 2014 we acquired Lumbry Park in Alton, Hampshire and our aim is to develop this 13,000 square foot site into a first-class, multi-disciplinary referrals centre. It will provide a full range of specialisms on one site, using the most modern equipment including both a CT ("Computed Tomography") and an MRI ("Magnetic Resonance Imaging") scanner. The level of our expertise and technology will provide a base for exceptional service to our customers. It is likely that the site will start to operate late in our 2015 financial year. As a medium term objective we will be seeking other locations around the UK in which to establish further referral centres.

We continued to invest strongly in our surgeries, spending over £1.7m on refurbishing a number of premises including Springfield in Rotherham, Norton Mills in Taunton, Carrick Vets in Chesterfield and completion of The Grove in Fakenham.

Overall we have spent £3.3m on capital expenditure at our practices, demonstrating our commitment to improving our ability to serve our customers and provide a professional environment in which to do so.

MiVetClub, our buying group, was established in the autumn of 2013. During 2014 we supplied drugs to six surgeries for two customers with whom we share our buying power. We are in discussions with a number of other potential customers to do the same as well as aiming to provide

other services such as health and safety expertise and administering loyalty club schemes. Whilst currently small, the business adds modestly to our profitability and we believe that it has significant long term potential.

Our own recruitment business, Pet Medic Recruitment ([www.petmedicrecruitment.com](http://www.petmedicrecruitment.com)), has focussed on providing locums for the Veterinary Practice Division. This initiative is helping to deliver our continuing aims of improving service and reducing costs. The business also provides locums to third parties and sources permanent staff.

Our team within the Veterinary Practice Division will always be one of our most valuable assets and one that we aim to continue to develop. The two essential skills of retail management experience and clinical expertise are combined through our Director of Practice Operations being supported by our Director of Clinical Services and Director of Referrals. They are supported by regional and local practice managers. Many of the regional managers are vets with many years' experience of operating in practice.

The development of the team is a constant focus within the division from the day people join us. Our graduate training scheme is well known by graduates and highly respected in the Universities providing veterinary degrees. This scheme is designed to assist the newly qualified vet make the challenging transition from University to day-to-day practice. 35 graduates were recruited and went through this scheme during 2014 and a total of 67 have now gone through the scheme in the past two years. We have developed a senior manager Aspirational Leadership Programme to develop the management and business abilities of our vets, practice managers and head nurses. A further 30 people attended these courses during 2014 bringing the total to 54 and the programme is now an established part of our training. Clinical development remains a core aspect of our training. All of our vets and nurses are provided with a wide range of training on surgical procedures, nutrition and drugs both through in-house expertise and external courses. We also sponsor further qualifications for vets such as certificates and diplomas. Increasingly this training is carried out in-house by our own experts.

## Laboratories

	2014	2013
	£m	£m
Like-for-like revenue	10.0	9.1
Analyser business	0.6	-
<b>Total revenue</b>	<b>10.6</b>	<b>9.1</b>
<b>Adjusted EBITDA £m</b>	<b>1.3</b>	<b>1.1</b>
<b>EBITDA margin %</b>	<b>12.3</b>	<b>12.0</b>

The Laboratory Division generated revenue of £10.6m, a 16.5% increase on the prior year figure of £9.1m. Adjusted EBITDA increased by 18.7% from £1.1m to £1.3m.

The adjusted EBITDA of the laboratory testing business improved during the year but as a percentage of sales it fell slightly reflecting the price pressures in this market. This fall was offset by the higher EBITDA percentage on the new analyser business.

Like-for-like revenue in the laboratory testing business increased by 10.2% following a 7.6% increase in the previous year. The competitive price pressures within the industry abated slightly during the year and the margin after materials costs fell only slightly from 77.7% to 76.5%, the majority of this fall being in the first half of the year.

The business continues to focus on prompt and reliable customer service to drive growth. The enhancement of the sales team in 2013 continued to drive benefits in 2014. A bespoke reporting system and a standard set of analysers have now been established across all laboratories allowing tests performed at one location to be analysed by our expert pathologists wherever they are in the country. This results in a quicker service to customers and a more efficient work force.

A number of farm animal tests were introduced during 2014 and whilst the level is currently small we aim to grow the

volumes of those tests as well as to introduce a wider range of tests. This will help us to provide a more comprehensive service to our customers.

Our in-practice analyser business was launched in the first half of the year. Our focus has been to install Fuji and Boule analysers in our own practices; hence, the majority of the £0.6m of revenue is internal to the Group. We expect to have completed our internal rollout in the next few months and we will then switch our efforts to third party sales.

## Crematoria

	2014	2013
	£m	£m
Like-for-like revenue	1.4	1.0
Silvermere Haven	0.2	-
<b>Total revenue</b>	<b>1.6</b>	<b>1.0</b>
<b>Adjusted EBITDA £m</b>	<b>0.5</b>	<b>0.5</b>
<b>EBITDA margin %</b>	<b>31.2</b>	<b>41.3</b>

The Crematoria Division delivered revenue of £1.6m (2013: £1.0m) an increase of 58.1%. Like-for-like sales were 35.3% higher. About two thirds of this increase arose from the higher internal sales as the division took on more of the waste management and cremation work from our own surgeries that was previously performed by third parties.

Adjusted EBITDA increased by 19.4% but remained at a rounded figure of £0.5m. The increase in turnover led to only a small increase in adjusted EBITDA because of a negligible contribution from Silvermere Haven and the lower level of profitability of the increased internal work of Valley (when compared to Rossendale).

The acquisition of Silvermere Haven, based in Cobham, in January 2014, is an important step in the strategic

development of the Crematoria Division. The acquisition improves our geographic coverage and will allow almost all of our veterinary surgeries to be serviced internally, both for cremations and waste collection. The transfer of this work from our current third party provider has begun and is expected to be completed in the summer of 2015.

After taking on our internal work Silvermere Haven will have sufficient remaining capacity to expand our external sales to other veterinary practices and individual customers in its area.

## Animed Direct

	2014	2013
	£m	£m
<b>Revenue</b>	<b>8.5</b>	<b>4.9</b>
<b>Adjusted EBITDA £m</b>	<b>0.3</b>	<b>0.2</b>
<b>EBITDA margin %</b>	<b>3.6</b>	<b>3.4</b>

Animed Direct, our on-line dispensary and retailer, had another excellent year. Revenue was £8.5m, a 74.3% increase on the prior year figure of £4.9m. Adjusted EBITDA increased by 80.2% from £0.2m to £0.3m. Whilst the business currently provides a relatively small contribution to the Group it is now well established and clearly has potential for significant further growth.

The business focusses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive. The business now has a customer database of over 210,000 people. The average value of each purchase during the year was £29.91 (2013: £28.34) an increase of 5.5%.

The business has continued to expand its revenue by developing its search engine optimisation, on-line advertising and prompt customer service.

In the first half of 2014 significant effort was expended on installing racking and reorganising the warehouse to

enable Animed Direct to distribute our own brand products and reagents for analysers to practices. Significant costs were incurred to achieve this and profitability reduced. The second half saw the business return to similar profitability levels as in 2013.

The development of local language websites for European countries, selling in euros, has taken longer than hoped. The plethora of different regulations and medicine licences across Europe has created a number of challenges that we have almost overcome. We expect our first local language website in France to be launched within the next couple of months and a German site to follow before the end of the financial year. It is likely that these European sales will initially not generate any additional profit and we broadly aim to breakeven in the first few years of trading on these sites.

## Central administration

Central administration costs include those of the Veterinary Practice Division regional management support structure and Healthy Pet Club administration as well as central finance, IT, human resource and purchasing functions. Total costs for the central administration segment were £7.1m (2013: £5.4m), representing 5.0% of revenue (2013: 4.5%).

The continued growth of the Group has required increased costs to support it and to establish a firm foundation on which the Group can grow over the next few years. The Group now expects these costs to fall as a percentage of sales.

The increased scale of the business has required growth in the support structure in the Veterinary Practice Division regional management and Healthy Pet Club teams. At the same time the human resources function has recruited additional staff regionally, rather than at the Diss head office, to provide closer support to the operations teams. The finance function was reorganised during the year and additional expertise brought on board to provide more in-depth financial analysis. The IT function has taken on additional staff to upgrade the practice management system and infrastructure across the estate.

# Finance review

*Continuing growth and a healthy balance sheet*

Nick Perrin - Finance Director

## Financial highlights

CVS has continued to deliver growth in revenues, profit and earnings per share. Key financial highlights are shown below:

	2014	2013	Change %
Revenue (£m)	142.9	120.1	19.0
Adjusted EBITDA (£m)	19.7	16.5	19.7
Adjusted profit before tax (£m)	14.3	12.1	17.8
Adjusted earnings per share (p)	19.0	16.2	17.3
Operating profit (£m)	7.5	6.7	12.3
Profit before tax (£m)	6.3	5.5	14.5
Basic earnings per share (p)	8.3	7.1	16.3

Management uses Adjusted EBITDA and Adjusted earnings per share ("EPS") as the basis for assessing the underlying financial performance of the group. These figures exclude certain non-recurring and non-trading items and hence assist in understanding the underlying performance of the group. These terms are not defined by International Financial Reporting Standards and therefore may not be directly comparable with other companies' adjusted profit measures.

An explanation of the difference between the reported operating profit figure and Adjusted EBITDA is shown below:

	2014	2013
	£m	£m
Operating profit as reported	7.5	6.7
Adjustments for:		
Amortisation and depreciation	10.1	8.7
Share option expense	1.4	0.7
Costs of business acquisitions	0.7	0.4
Adjusted EBITDA	19.7	16.5

The 19.7% improvement in the Adjusted EBITDA figure compared with the prior year arises primarily from the underlying growth within Veterinary Practices (£1.8m), acquisitions during the year (£1.5m) and the full year effect of previous year acquisitions (£1.3m) offset by an increase in central administration costs (£1.7m).

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) was 13.8%, the same as in 2013. This reflects three main factors: a substantial increase in the margin in the Veterinary Practice Division due to improved productivity; the lower inherent margins of Animed Direct and the Laboratory Division and the growth in those businesses; and an increase in central costs as we invested to establish a base for future growth.

Adjusted earnings per share (as defined in note 11 to the financial statements) increased 17.3% to 19.0p (2013: 16.2p). Basic earnings per share were 16.3% higher than prior year at 8.3p (2013: 7.1p).

Profit before tax for the year increased from £5.5m to £6.3m. Adjusted profit before tax excludes the impact of amortisation of intangible assets and one off transaction costs. We believe this more fairly reflects the underlying performance of the business and shows a 17.8% increase in the year from £12.1m to £14.3m.

## Long term growth

The group has generated consistent growth in the scale of its business and profits over recent years. A summary of the compound annual growth rates ("CAGR") over the past five years in key financial figures is as follows:

	2014	2009	CAGR %
Revenue (£m)	142.9	76.6	13.3
Adjusted EBITDA (£m)	19.7	12.5	9.5
Adjusted profit before tax (£m)	14.3	7.7	13.2
Adjusted earnings per share (p)	19.0	10.7	12.3

## Cash flow and net debt

Cash generated from operations was £20.7m (2013: £16.7m). The increase reflects the growth in EBITDA and an improvement in working capital. The growth of the Veterinary Practice Division and Animed Direct result in an improvement in working capital as these businesses receive payment from customers before they have to pay their suppliers.

Net debt increased slightly to £31.3m (2013: £30.0m). The cash generated was used shown as follows:

	2014	2013
	£m	£m
Cash generated from operations	20.7	16.7
Capital expenditure	(5.3)	(4.1)
Acquisitions	(12.4)	(7.7)
Taxation paid	(2.5)	(2.1)
Interest paid	(1.2)	(1.2)
Proceeds from ordinary shares	0.5	0.1
Dividends paid	(1.1)	(0.8)
(Increase)/reduction in net debt	(1.3)	0.9

Capital expenditure included £1.7m spent on the refurbishments across the Group, £1.7m was spent on maintaining and improving equipment, £0.9m on laboratory analysers and £0.9m on IT systems development.

£12.4m was paid for the 18 surgeries and one pet crematorium which were acquired during 2014. These businesses have been integrated into the Group and are trading as expected.

Taxation paid increased in line with the profits of the Group. The interest payment of £1.2m was similar to last year and reflects both stable interest rates and the overall debt levels of the Group.

Proceeds from ordinary shares were primarily from the exercise of options under the Group's approved SAYE scheme which allows staff to save regular amounts each month over a three year period and benefit from increases in the Group's share price over that time.

The Group's net debt comprises the following:

	2014	2013
	£m	£m
Borrowings repayable:		
within one year	3.6	2.2
after more than one year	29.9	33.6
Total borrowings	33.5	35.8
Cash in hand and at bank	(2.2)	(5.8)
Net debt	31.3	30.0

The £33.5m of borrowings is the outstanding amount of a £36.0m loan drawn down in 2011. £3.6m of the borrowings are to be repaid in the year ending 30 June 2015 and £4.0m in the following year. The balance of the loan is repayable in September and December of 2016.

On 20 September 2013 the Group signed a Revolving Credit Facility agreement to borrow up to a further £10.0m. The facility runs to December 2016 - the same date as the £36.0m loan. This facility is on broadly the same terms and under the same covenants as that loan.

The additional £10.0m was unutilised at 30 June 2014 but is available to fund further acquisitions. The Board remains committed to expanding the Group through further acquisitions in all divisions, as well as through organic growth. The opportunities for acquisitions in all areas of the Group's business remain strong.

The Board considers that maintaining a reasonably leveraged balance sheet is appropriate for the Group, given the strong, stable and improving nature of its cash flows and the opportunities to acquire businesses that enhance profitability. Whilst the loan agreements allow a borrowings to EBITDA ratio of up to 3.0 times the Board generally seeks to operate within a ratio of 2.5 times EBITDA.

The Group manages its banking arrangements centrally. The Group sweeps funds daily from its various bank accounts into deposit accounts to optimise interest generation.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. The bank facility agreement requires that at least 60% of the interest rate exposure on the loan is hedged and the hedge has been maintained at 60% throughout the year.

## Taxation

The Group's effective tax rate was 24.5% (2013: 26.7%). A reconciliation of the expected tax charge at the standard rate to the actual charge in millions of pounds and as a percentage of profit before tax is shown below:

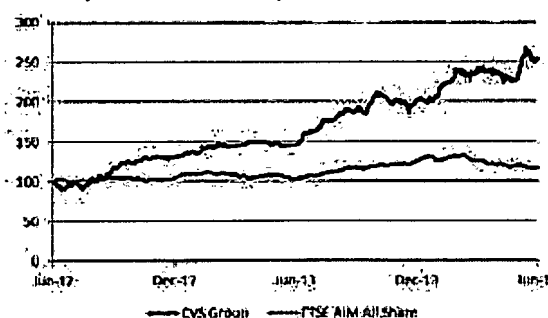
	£m	%
Profit before tax	6.3	
Expected tax at standard rate of tax	1.4	22.5
Expenses not deductible for tax	0.2	3.0
Adjustments to prior year tax charge	0.2	3.1
Benefit of tax rate change	(0.3)	(4.1)
Actual charge/ Effective rate of tax	1.5	24.5

All of the Group's revenues and the majority of expenses are subject to corporation tax. The main expenses which are not deductible for tax are costs relating to acquisitions. Tax relief against some expenses, mainly depreciation, is received over a longer period than that for which the costs are charged in the financial statements.

The tax charge of £1.5m is the same as for the prior year despite an increase in profitability. This is due to the reduction in the standard rate of corporation tax which not only reduces the corporation tax charge for the year but has led to a one off reduction in the deferred tax liability to reflect the reduced rate.

## Share price performance

At the year end the market capitalisation was £190.5m (327p per share) compared to £107.2m (188p per share) at the previous year end. The graph below shows the total shareholder return performance compared to the FTSE AIM All Share index. The values indicated in the graph show the share price movement based on a hypothetical £100 holding in ordinary shares from 1 July 2013 to 30 June 2014.



## Key contractual arrangements

The directors consider that the Group has only one significant third party supplier contract which is for the supply of veterinary drugs. In the event that this supplier ceased trading the Group would be able to continue in business without any disruption in trading by purchasing from alternative suppliers.

## Forward looking statements

Certain statements in this Annual Report are forward-looking. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

# Principal risks and uncertainties

The Group's businesses are subject to a wide variety of risks. Some of the most significant risks are explained below together with details of actions that have been taken to mitigate these risks.

Risk	Description	Mitigating Factors
<b>Economic environment</b>	A poor economic environment poses a risk to the Group through reduced consumer spending on veterinary, laboratory, crematoria and on-line services.	<p>The recent improvement in the UK economy has helped the business to improve revenue and profitability but the Group seeks to become more resilient to future downturns in economic conditions.</p> <p>The expansion of the Group's business to provide a broader based service including referrals, out-of-hours, equine and large animal services spreads the risk of a downturn in any one business.</p> <p>The Veterinary Practice Division has continued to grow its Healthy Pet Club loyalty schemes during the year as one way of mitigating this risk. The scheme has the significant benefits of stimulating customer loyalty, ensuring clinical compliance in preventive medicine, protecting revenue from drug sales, and bringing customers into the surgery.</p> <p>The further development of an own brand product range will help to reduce the risk of customers buying drugs on-line, whilst the growth of Animed Direct protects the Group further as customers switching to buying on-line will still be buying from CVS.</p>
<b>Competition</b>	The Group is exposed to risk through the actions of competitors.	The geographic spread of the Group's businesses and the fragmented nature of the market mean that the Directors do not consider this to be a significant risk. Furthermore, the expansion of the Group's Healthy Pet Club loyalty schemes, the expansion into other business areas and the growth of Animed Direct, our on-line dispensary and pet shop, provide further mitigation against the risk of competition.
<b>Adverse weather</b>	In common with many businesses the Group's revenue is adversely affected during sustained periods of severe winter weather.	The increasing proportion of income through the Healthy Pet Club and on-line through Animed Direct reduces the risk of lost income through poor weather. As the Group widens its geographical presence the exposure to this risk will be further mitigated.
<b>Key personnel</b>	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. Our graduate recruitment scheme is recognised across the industry and our Aspirational Leadership Programme helps to develop and retain senior staff. The involvement of senior personnel is encouraged through the operation of the Group's LTIP scheme. An annual SAYE scheme, available to all staff, aids the retention of other staff.
<b>Clinical standards</b>	If clinical standards expected by customers, industry forums and regulatory authorities are not maintained the Group is at risk of losing revenue.	The Group has established a formal organisation structure such that clinical policies and procedures are developed by veterinary experts. Day-to-day monitoring and staff training ensures compliance. The Group has further mitigated risk by ensuring that suitable insurance policies are taken out at both an individual and corporate level.
<b>Adverse publicity</b>	Adverse publicity could result in a reduction in customer numbers and in revenue.	The Group has policies and procedures in place to ensure that high standards of customer service and clinical excellence are maintained. The individual branding of our practices reduces the risk of publicity at one practice impacting on another.
<b>Changes in veterinary regulations</b>	Changes in veterinary regulations could impact on the work we are allowed to perform and the way we work.	No significant proposed changes are known. Any changes are likely to impact on our competitors in the same way they impact on the Group.
<b>Changes in taxation</b>	Most changes in taxation cannot be predicted and the impact of any change can be variable.	<p>The only changes in taxation that have been proposed and impact on the Group is a reduction in the corporation tax rate from 21% to 20% from 1 April 2015. This will benefit the Group.</p> <p>Changes in taxation are likely to impact on our competitors in the same way they impact on the Group.</p>
<b>Reliance on one supplier of medicines</b>	The majority of medicines are purchased through one wholesaler.	A two year supply agreement was signed in May 2013 to secure the provision of medicines. Three wholesalers who can supply most medicines; hence supply is available if the existing CVS wholesaler were to withdraw. CVS also has direct relationships with many manufacturers which would enable direct supply should any difficulties occur.

# Key performance indicators ('KPIs')

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

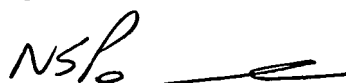
	2014/2013	Definition	Changes in 2014
<b>Revenue</b>	<b>£142.9m</b> £120.1m	Total revenue of the Group.	Acquisitions in the year and the annualisation of the prior year's acquisitions generated additional revenue of £14.1m. Other significant factors were as for like-for-like sales performance noted below.
<b>Like-for-like sales performance</b>	<b>6.9%</b> 3.4%	Revenue generated from all operations compared to prior year on a pro-forma basis (i.e. including unaudited pre-acquisition revenues in respect of acquisitions in the current and comparative periods).	The percentage increase was helped by the growth in Healthy Pet Club membership, the development of Animed Direct and higher volumes in the Laboratories. Significant competitive pressures continued at some locations, reducing their revenue.
<b>Healthy Pet Club revenue</b>	<b>11.8%</b> 8.0%	Revenue received from Healthy Pet Club members as a percentage of total revenue for the year.	The growth of Healthy Pet Club membership from 111,900 to 162,000 led to the increase for the year. The end of year run rate for this percentage had risen to approximately 12%.
<b>Gross margin after materials percentage</b>	<b>82.9%</b> 84.3%	Gross margin after deducting the cost of drugs and other goods sold or used by the business from revenue expressed as a percentage of total revenue.	The fall in this percentage primarily reflects the higher level of growth of the Animed Direct and other businesses compared to the Veterinary Practice Division. As these businesses have a relatively low margin the average for the Group has fallen.
<b>Adjusted EBITDA</b>	<b>£19.7m</b> £16.5m	Earnings before income tax, net finance expense, depreciation, amortisation, costs relating to business combinations and share option expense.	A £4.6m increase in adjusted EBITDA in the Practice Division and smaller increases in the other divisions has been partly offset by increased central costs incurred to build a foundation for further development of the Group.
<b>Adjusted EPS</b>	<b>19.0p</b> 16.2p	Earnings, adjusted for amortisation, costs relating to business combinations and non-recurring tax credits net of the notional tax impact of the above, divided by the weighted average number of issued shares.	The increase primarily reflects the improvement in the adjusted EBITDA.
<b>Cash generated from operations</b>	<b>£20.7m</b> £16.7m		The increase primarily reflects the improvement in EBITDA of the business.
<b>Return on investment on acquisitions made during the year</b>	<b>20.9%</b> 20.7%	Annualised adjusted EBITDA relating to acquisitions during the year compared to the consideration paid.	The limited change in the figure indicates that the Group continues to be able to make acquisitions at similar EBITDA multiples as in the past.

The strategic report on pages 4 to 21 was authorised by the Board of Directors on 19 September 2014 and was signed on its behalf by:

**Nick Perrin**

Finance Director

19 September 2014





# Group Directors

Left to right: **Simon Innes, Mike McCollum, Rebecca Cleal, Richard Connell and Nick Perrin**

## **Richard Connell (59)** Non-Executive Chairman

Richard Connell is a Chartered Accountant and worked in investment management with 3i Group, Invesco and HSBC. In addition to his role with CVS, he is Chairman of a number of other companies and was previously Chairman of Dignity plc, Mercury Pharma, and Ideal Stelrad Group. Richard is Chairman of the Audit Committee and the Nominations Committee.

## **Simon Innes (54)** Chief Executive

Simon Innes was appointed as Chief Executive in January 2004. Prior to this he was Chief Executive of Vision Express from 2000 to 2004, over which time he built the business up to £220m turnover and 205 practices, and reversed a loss-making position to create one of the most profitable corporate optical operators in the UK. Prior to Vision Express, Simon was on the board of Hamleys PLC as Operations Director and gained ten years' management experience at Marks & Spencer. He also served seven years in the British Army, achieving the rank of Captain in the Royal Engineers.

## **Mike McCollum (47)** Non-Executive Director

Mike McCollum is Chief Executive Officer of Dignity plc, a FTSE 250 listed provider of funeral services. Like CVS this is a multi-site, acquisitive, service business. As Finance

Director he was a prime mover in the 2002 leveraged buyout, whole-business securitisation in 2003 and IPO in 2004. He became Chief Executive in 2009. Mike is a solicitor and holds an MBA from Warwick University. He is Chairman of the Remuneration Committee.

## **Nick Perrin (54)** Finance Director

Nick Perrin was appointed as Finance Director in January 2013. He has extensive experience in multisite retail and service business. During 2012 Nick was interim Chief Financial Officer at Praesepe plc, a leading UK bingo and gaming centre operator and from 2008 to 2010 was Finance and IT Director at Genting UK plc, which operated the largest number of casinos in the UK. He previously spent nine years at the Co-operative Group, initially as Group Financial Controller and then as Finance Director of the Specialist Retail Division.

## **Rebecca Cleal (33)** Company Secretary

Rebecca Cleal joined CVS in July 2009 as the Group's first in-house solicitor, specialising in commercial property. Prior to this she had worked for 3 years in private practice in both Kent and Norfolk. Rebecca has a master's degree from the University of Kent and was appointed as Company Secretary on 1 January 2013.



# Corporate governance statement

All Directors are able to take independent professional advice on the furtherance of their duties if necessary. They also have access to the advice and services of the Company Secretary, and, where it is considered appropriate and necessary, training is made available to Directors. All Directors receive updates on the duties and responsibilities of being a Director of a listed Company. This covers legal, accounting and tax matters as required. The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £10.0m.

Those attending and the frequency of Board and Committee meetings held in the financial year were as follows:

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
<b>Number of meetings</b>	10	2	2	**1
Richard Connell	10	2	2	**1
Simon Innes	10	*2	*2	*1
Nick Perrin	10	*2	*2	*1
Mike McCollum	10	2	2	1

\*In attendance by invitation of the respective Committee.

\*\* The Nomination and final Remuneration Committee meeting of the financial year are normally held in June but were held in July due to illness.

Rebecca Cleal - Company Secretary

## Principles of Corporate Governance

The Directors are committed to maintaining high standards of corporate governance and, as far as is considered practicable and appropriate for a public company of CVS's size, seek to apply the principles of good governance set out in The UK Corporate Governance Code issued in May 2010. However, we do not comply with the UK Corporate Governance Code but we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the Corporate Governance Code we consider to be relevant to the company, even though it is not compulsory for AIM listed companies.

## Board of Directors

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

The business of the Company and its subsidiaries is the combined responsibility of the Board, which is responsible for controlling and leading the Group. The Board responsibilities include:

- Setting the strategy of the Group and making major strategic decisions;
- Approving other significant operational matters;
- Agreeing annual budgets and monitoring results;
- Monitoring funding requirements;
- Reviewing the risk profile of the Group and ensuring adequate internal controls are in place;
- Approving all acquisitions and major capital expenditure; and
- Proposing dividends to shareholders.

Both the Chairman, Richard Connell, and Mike McCollum have been independent Non-Executive Directors throughout the year. Mindful of their other commitments they have formally confirmed to the Board that they have sufficient time to devote to their responsibilities as Directors of the Group.

The Board has appointed three Committees: the Audit Committee, the Remuneration Committee and the Nominations Committee. All operate within defined terms of reference. Details of the committees are set out below.

## The Audit Committee

The Committee consists of two Non-Executive Directors, Richard Connell and Mike McCollum.

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

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

The agenda of each meeting is 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 regular items.



In the year ended 30 June 2014 and up to the date of this report the actions taken by the Audit Committee to discharge its duties included:

- Organising a tender process for the audit which led to a change in auditors to Grant Thornton UK LLP;
- Reviewing the 2014 annual report and financial statements and the interim report issued in March 2014. As part of these reviews the Committee received a report from the external auditors on their audit of the annual financial statements and on their review of the interim report;
- Reviewing the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements;
- Meeting with the external auditors, without management being present, to discuss any issues arising from the audit;
- Agreeing the fees to be paid to the external auditors for their audit of the 2014 financial statements and review of the interim report;
- Considering the need for an internal audit function; and
- Reviewing the performance and independence of the external auditors.

The Audit Committee has a programme for reviewing its effectiveness.

## The Remuneration Committee

The Chairman of the Remuneration Committee is Mike McCollum. Its other member is Richard Connell. It reviews the performance of Executive Directors, sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of the shareholders, utilising the services of external consultants as appropriate.

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. It also reviews the ongoing appropriateness and relevance of the Company's remuneration. The Chief Executive and Finance Director are invited to attend meetings as appropriate but are not permitted to participate in discussions relating to their own remuneration.

The Remuneration Report can be found on pages 28 to 30.

## The Nominations Committee

The Chairman of the Nominations Committee is Richard Connell and its other member is Mike McCollum. It meets at least once annually. The Nominations Committee is responsible for reviewing the structure, size and composition including skills, knowledge and experience of the CVS Board. It is also responsible for the co-ordination of the annual evaluation of the performance of the Board and of its committees.

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

## Relations with shareholders

Copies of the Annual Report and Financial Statements are issued to all shareholders and copies are available on the Group's website ([www.cvsgroupplc.com](http://www.cvsgroupplc.com)). The Group also uses its website to provide information to shareholders and other interested parties. The Company Secretary also deals with correspondence as and when it arises throughout the year.

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

The Chief Executive and Finance Director have regular meetings with institutional investors, private client brokers, individual shareholders, fund managers and analysts to discuss information made public by the Group.

The Chairman and the Non-Executive Director are always available to shareholders on all matters relating to governance and strategy. They may be contacted through the Company Secretary at [company.secretary@cvsvets.com](mailto:company.secretary@cvsvets.com).

## Internal control

The Board is ultimately responsible for the Group's system of internal control and reviewing its effectiveness on an on-going 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 internal control procedures are delegated to the Executive Directors and senior management and are reviewed in the light of the on-going assessment of the Group's significant risks.

## Internal audit

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

## Going concern

At the balance sheet date the Group had cash balances of £2.2m and an unutilised overdraft facility of £5.0m. A £10.0m Revolving Credit Facility was signed on 20 September 2013 and was unutilised at the year end. Since the year end, the Group has continued to trade profitably and to generate cash. Although the Group had net current liabilities of £9.7m at 30 June 2014, the Directors consider that the £5.0m overdraft and £10.0m Revolving Credit Facility enable them to meet all current liabilities when they fall due. After consideration of market conditions, the Group's financial position (including the level of headroom available within the bank facilities), its profile of cash generation and the timing and amount of bank borrowings repayable, the Directors have formed a judgement at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

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

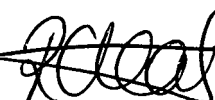
- The close involvement of the Executive Directors in all aspects of the day-to-day operations, including regular meetings with senior staff from across the Group and a review of the monthly operational reports compiled by senior management;
- Clearly defined responsibilities and limits of authority. The Board has responsibility for strategy and has adopted a schedule of matters which are required to be brought to it for decision;
- A comprehensive system of financial reporting, forecasting and budgeting. Detailed budgets are prepared annually for all parts of the business. Reviews occur through the management structure culminating in a Group budget which is considered and approved by the Board. Group management accounts are prepared monthly and submitted to the Board for review. Variances from budget and prior year are closely monitored and explanations are provided for significant variances. Independent of the budget process, the Board regularly reviews revised profit, cash flow and bank covenant compliance forecasts which are updated to reflect actual performance trends; and
- 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.

## By order of the Board

**Rebecca Cleal**

Company secretary  
19 September 2014



# Directors' report for the year ended 30 June 2014

The Directors present their annual report together with the audited consolidated financial statements for the year ended 30 June 2014.

## Principal activities and results

The principal activities of the Group are to operate animal veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line dispensary business. The principal activity of CVS Group plc is that of a holding company.

The Group made a profit after taxation of £4.8m (2013: £4.0m).

## Business review

The information that fulfils the requirements of the business review, including details of the 2014 results, key performance indicators, principal risks and uncertainties and the outlook for future years are set out in the Chairman's Statement (page 12), the Business Review (pages 14 to 17) and the Financial Review (including key performance indicators and principal risks and uncertainties) (pages 18 to 21).

## Dividends

The Directors recommend the payment of a dividend of 2.5p per share (2013: 2.0p) amounting to £1.4m (2013: £1.1m). Subject to approval at the Annual General Meeting, the dividend will be paid on 22 December 2014 to shareholders on the register at the close of business on 5 December 2014. The aggregate dividends recognised as distributions in the year ended 30 June 2014 amounted to £1.1m (2013: £0.8m). No interim dividends (2013: £nil) have been paid during the year.

## Directors

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

R Connell  
S Innes  
M McCollum  
N Perrin

Biographical details of the Directors are provided on page 22.

## Re-election of Directors

The Articles of Association of the Company, require all Directors to be re-elected at intervals of not more than 3 years. The Board have decided that it is appropriate for all Directors to be reappointed each year so in accordance with that decision all directors will stand for re-election at the Annual General Meeting.

## Directors' remuneration and interests

The Remuneration Report is set out on pages 28 to 30. It includes details of Directors' remuneration, interests in the shares of the Company, share options and pension arrangements.

## Environment

The Group recognises the significance of environmental responsibility and undertakes clinical compliance reviews to ensure environmental standards are conformed with in addition to provision of training to its employees to ensure compliance. Although the Group's activities do not have a major impact on the environment, every effort is made to reduce any effect.

## Health and safety

The Group is fully aware of its obligations to maintain high health and safety standards at all times, and the safety of our customers and employees is of paramount importance. The Group's operations are managed at all times in such a way as to ensure, so far as reasonably practical, the health, safety and welfare of all of our employees and all other persons who may be attending our premises.

## Corporate governance

The Board's Corporate Governance Statement is set out on pages 23-25.

## Financial instruments

Details of the Group's financial risk management objectives and 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 2014 are set out in note 24 to the financial statements.

At 11 September 2014 the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued ordinary share capital of the Company:

	Number of shares	% of total issued
The Bank of New York (Nominees) Limited	8,472,507	14.55
Chase Nominees Limited	5,097,505	8.75
Octopus Investments	4,741,255	8.14
Nortrust Nominees Limited	3,056,688	5.25
Chase Nominees Limited Des: Artemis	3,000,000	5.15
Hargreave Hale	2,757,539	4.73
HSBC Global Custody Nominee	2,250,000	3.86
Nutraco Nominees Limited	2,058,623	3.53
Chase Nominees Limited Des: Lendron	1,885,574	3.24

## Employees

Consultation with employees takes place through a number of regional meetings throughout the year and an annual staff survey. The aim is to ensure that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the general progress of their business units and of the Group as a whole. To enhance communication within the Group, a committee is in place which is constituted of regional members from all areas of the business with the aim of improving consultation and communication levels.

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

The Group operates a long term incentive plan for Executive Directors and senior managers. Details are included in the Remuneration Report on pages 28 to 30. The Group also has a Save As You Earn scheme now in its fifth year under which employees are granted an option to purchase Ordinary shares in the Company in three years' time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise value. The exercise price in respect of options issued in the year was at a 20% discount to the share's market value at the date of invitation. The scheme is open to all Group employees including the Executive Directors. Details of the scheme are included in the Directors' Remuneration Report on pages 28 to 30.

## Market value of land and buildings

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

## Directors' third-party indemnity provision

A qualifying third-party indemnity provision as defined in section 234 of the Companies Act 2006 was in force during the year and also at the balance sheet date for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year.

## Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Corporate and Financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Disclosure of information to auditors

The Directors confirm that:

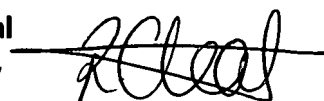
So far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's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

## By order of the Board

**Rebecca Cleal**

Company secretary

19 September 2014



# Remuneration report

**Mike McCollum**  
Chairman of the Remuneration Committee

As an AIM quoted company, CVS Group plc is not required to comply with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The information is unaudited.

## Remuneration policy

Remuneration policy in respect of Executive Directors is designed to ensure that the Group achieves its potential and increases shareholder value. In respect of basic salary, the objective is to ensure that the Group attracts and retains high calibre executives with the skills, experience and motivation necessary to direct and manage the affairs of the Group. Annual bonuses and long term incentive plans are seen as an important part of each Director's total remuneration and are designed to drive and reward exceptional performance. The policy also provides for post-retirement benefits through contributions to Executive Directors' personal pension schemes, together with other benefits such as a company car, life and medical insurance.

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

Remuneration consists of the following elements:

### Base pay

Executive Directors' base pay is designed to reflect the experience, capabilities and role within the business. Salary levels are reviewed annually and are benchmarked against similar listed companies.

### Annual bonus

All Executive Directors participate in the Group's annual bonus scheme, which is based on the achievement of individual and Group performance targets. The bonus for 2014 was awarded based on Adjusted EBITDA performance and achievement of personal objectives for both Executive Directors. In 2015 the bonus will be awarded based on Adjusted EBITDA performance alone. This is intended to further align management incentives with shareholders objectives.

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

### Pension and other benefits

The Chief Executive also participates in a defined contribution pension arrangement. The Finance Director participated in a defined contribution pension arrangement up until 31 March 2014 when this was replaced by a payment in lieu of a pension. Both Executive Directors participate in other benefits, including the provision of a company car and medical and life insurance.

### Long term incentive plan ("LTIP")

Both Executive Directors and certain other senior employees are entitled to be considered for the grant of awards under the LTIP. After due consideration, the Remuneration Committee makes awards to selected participants. The awards take the form of nominal cost options over a specified number of Ordinary Shares. Awards are not transferable or assignable.

The long term incentive plan rewards the future performance of the Executive Directors and certain other employees by linking the size of the award to the achievement of Group performance targets.

Details of plans that have not yet vested are set out below.

On 15 July 2011, the Remuneration Committee approved awards ("LTIP5"), which have the following performance conditions:

- Awards will vest in full if real growth in an adjusted EPS measure shows growth of 6.0 per cent per year over the measurement period of three years commencing 1 July 2011;
- No awards will vest if real growth in the adjusted EPS measure is less than growth of 2.0 per cent per year over the measurement period;
- If growth of between 2.0 per cent and 4.0 per cent is achieved, awards will vest on a straight line basis between 40 per cent and 60 per cent of the Ordinary Shares which are the subject of the award; and
- If growth of between 4.0 per cent and 6.0 per cent is achieved, awards will vest on a straight line basis between 60 per cent and 100 per cent of the Ordinary Shares which are the subject of the award.

Further awards were granted on 23 July 2012 ("LTIP6"), which have the following performance conditions:

- Awards will vest in full if real growth in an adjusted EPS measure shows growth of 4.0 per cent per year over the measurement period of three years commencing 1 July 2012;
- No awards will vest if real growth in the adjusted EPS measure is less than growth of 2.0 per cent per year over the measurement period;
- If growth of between 2.0 per cent and 3.5 per cent is achieved, awards will vest on a straight line basis between 35 per cent and 80 per cent of the Ordinary Shares which are the subject of the award; and

- If growth of between 3.5 per cent and 4.0 per cent is achieved, awards will vest on a straight line basis between 80 per cent and 100 per cent of the Ordinary Shares which are the subject of the award.

Further awards were granted on 5 December 2013 ("LTIP7"), which have the following performance conditions:

- Awards will vest in full if real growth in an adjusted EPS measure shows growth of 10.0 per cent per year over the measurement period of three years commencing 1 July 2013;
- No awards will vest if real growth in the adjusted EPS measure is less than growth of 6.0 per cent per year over the measurement period; and
- If growth of between 6.0 per cent and 10.0 per cent is achieved, awards will vest on a straight line basis between 40 per cent and 100 per cent of the Ordinary Shares which are the subject of the award.

The adjusted EPS measure for the purposes of monitoring the achievement of performance targets for LTIP5 and LTIP6 reflects adjustments for amortisation of intangibles, income tax, share based payments, exceptional items and fair value adjustments in respect of derivative financial instruments and available for sale assets. The adjusted EPS measure for the purposes of monitoring the achievement of performance targets for LTIP7 is as for LTIP5 and LTIP6 except that it does not reflect an adjustment for share based payments. The CAGR targets stated above are over and above the increase in the Retail Price Index over the related three year vesting period.

In addition and irrespective of the adjusted earnings per share performance target, no award will vest unless in the opinion of the Remuneration Committee the underlying performance of the Group has been satisfactory over the measurement period.

## Directors' remuneration

	Basic salary, allowance and fees £'000	Benefits in kind £'000	Performance related bonus £'000	2014 Total £'000	2013 Total £'000
<b>Non-Executive Chairman</b>					
<b>R Connell</b>	103	-	-	103	102
<b>Executive Directors</b>					
<b>S Innes</b>	307	27	310	644	532
<b>N Perrin<sup>1</sup></b>	187	14	94	295	132
<b>P Coxon<sup>2</sup></b>	-	-	-	-	78
<b>Non-Executive Directors</b>					
<b>M McCollum<sup>3</sup></b>	40	-	-	40	10
<b>D Timmins<sup>4</sup></b>	-	-	-	-	34
	<b>637</b>	<b>41</b>	<b>404</b>	<b>1,082</b>	<b>888</b>

<sup>1</sup> Appointed 1 January 2013 <sup>2</sup> Resigned 31 December 2012 <sup>3</sup> Appointed 2 April 2013 <sup>4</sup> Resigned 31 March 2013

S Innes, N Perrin and P Coxon participated in a defined contribution pension arrangement. During the year, the Group contributed £46,000, £22,000 and £Nil respectively (2013: £45,000, £11,000 and £7,000).

Benefits in kind include the provision of a company car, and medical and life insurance for each Executive Director.

No Director waived emoluments in respect of the years ended 30 June 2014 or 30 June 2013.

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.

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

### Save As You Earn (SAYE)

The Group operates an incentive scheme for all staff, including the Executive Directors, being the CVS Group Save As You Earn ("SAYE") plan, an HM Revenue & Customs approved scheme. A SAYE scheme is operated for each year. Under all schemes, awards are made at a 20% discount to the closing mid-market price on the day preceding the date of invitation, vesting over a three year period. There are no performance conditions attached to any of the SAYE schemes.

### Service agreements

Simon Innes entered into his service agreement on 4 October 2007 and Nick Perrin entered into his on 1 January 2013. Both agreements 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 bonuses, medical and life insurance, car allowance and contributions to personal pension plans.

Richard Connell has a letter of appointment for an initial term and secondary term of three years, consecutively from 4 October 2007. Mike McCollum has a letter of appointment for a three year term from 2 April 2013. Their appointments can be terminated by the Company or the Non-Executive Directors by giving six months' notice.

## Directors' interests in shares

The interests of the Directors as at 30 June 2014 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
<b>R Connell</b>	83,891
<b>M McCollum</b>	20,000
<b>S Innes</b>	546,475
<b>N Perrin</b>	10,000

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

## Share options

Options over ordinary shares awarded to Executive Directors under the LTIPs and SAYE schemes in place at 19 September 2014 are as follows:

	Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting	Exercise price	Number of shares
<b>S Innes</b>	LTIP5	15 July 2011	95p	30 June 2014*	0.2p	333,710
	LTIP6	23 July 2012	123p	30 June 2015	0.2p	301,020
	LTIP7	5 December 2013	250p	30 June 2016	0.2p	121,200
	SAYE4	28 November 2011	119p	1 January 2015	95.4p	9,430
<b>N Perrin</b>	LTIP7	5 December 2013	250p	30 June 2016	0.2p	92,500
	SAYE6	29 November 2013	269p	1 January 2017	215p	4,186

\*These awards have now partly vested.

At 30 June 2014, the market price of the Ordinary shares was 327p.

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

	Scheme	Number of shares	Exercise date	Exercise price	Share price at exercise date
<b>S Innes</b>	LTIP4	269,413	5 December 2013	0.2p	257p

Gains arising on the exercise of options for S Innes amounted to £690,467.

## On behalf of the Remuneration Committee

**Mike McCollum**

19 September 2014



# Independent auditors' report to the members of CVS Group plc

We have audited the financial statements of CVS Group plc for the year ended 30 June 2014 which comprise the Consolidated income statement, the Statement of consolidated comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statements of changes in equity, the Consolidated and Company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.


## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

  
**James Brown**  
**(Senior Statutory Auditor)**

for and on behalf of  
Grant Thornton UK LLP,  
Statutory Auditor,  
Chartered Accountants,  
Ipswich

19 September 2014

# Consolidated income statement for the year ended 30 June 2014

	Note	2014 £m	2013 £m
<b>Revenue</b>	4	<b>142.9</b>	120.1
Cost of sales	6	(96.3)	(78.2)
<b>Gross profit</b>		<b>46.6</b>	41.9
Administrative expenses	6	(39.1)	(35.2)
<b>Operating profit</b>		<b>7.5</b>	6.7
Net finance expense	5	(1.2)	(1.2)
<b>Profit before income tax</b>	4	<b>6.3</b>	5.5
Income tax expense	9	(1.5)	(1.5)
<b>Profit for the year attributable to owners of the Parent</b>		<b>4.8</b>	4.0
<b>Earnings per ordinary share (expressed in pence per share) ("EPS")</b>			
<b>Basic</b>	11	<b>8.3p</b>	7.1p
<b>Diluted</b>	11	<b>8.0p</b>	6.8p

The following table is provided to show the comparative earnings before interest, tax, depreciation and amortisation ("EBITDA") after adjusting for costs relating to business combinations and share option expense.

<b>Non-GAAP measure: Adjusted EBITDA</b>	Note	2014 £m	2013 £m
Profit before income tax		<b>6.3</b>	5.5
Adjustments for:			
Net finance expense	5	<b>1.2</b>	1.2
Depreciation	14	<b>2.8</b>	2.5
Amortisation	13	<b>7.3</b>	6.2
Share option expense	12	<b>1.4</b>	0.7
Costs relating to business combinations		<b>0.7</b>	0.4
<b>Adjusted EBITDA</b>	4	<b>19.7</b>	16.5

# Consolidated statement of comprehensive income for the year ended 30 June 2014

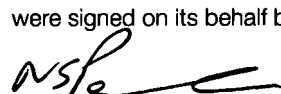

	Note	2014 £m	2013 £m
<b>Profit for the year</b>		<b>4.8</b>	4.0
<b>Other comprehensive income</b>			
- items that will or may be reclassified to profit/loss in future periods			
Cash flow hedges:			
Fair value gains	17	<b>0.2</b>	0.2
Other comprehensive income for the year, net of tax		<b>0.2</b>	0.2
<b>Total comprehensive income for the year attributable to owners of the Parent</b>		<b>5.0</b>	4.2

# Consolidated and Company balance sheets as at 30 June 2014

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<b>Non-current assets</b>					
Intangible assets	13	58.8	53.5	-	-
Property, plant and equipment	14	14.5	11.4	-	-
Investments	16	0.1	0.1	63.1	61.7
Deferred income tax assets	23	1.1	0.6	-	-
		74.5	65.6	63.1	61.7
<b>Current assets</b>					
Inventories	19	4.6	3.5	-	-
Trade and other receivables	20	13.8	12.4	6.2	7.0
Cash and cash equivalents	26	2.2	5.8	-	-
		20.6	21.7	6.2	7.0
<b>Total assets</b>	4	<b>95.1</b>	<b>87.3</b>	<b>69.3</b>	<b>68.7</b>
<b>Current liabilities</b>					
Trade and other payables	21	(25.7)	(21.6)	-	-
Current income tax liabilities		(1.0)	(0.9)	-	-
Borrowings	22	(3.6)	(2.2)	-	-
		(30.3)	(24.7)	-	-
<b>Non-current liabilities</b>					
Borrowings	22	(29.9)	(33.6)	-	-
Deferred income tax liabilities	23	(3.7)	(4.1)	-	-
Derivative financial instruments	17	-	(0.2)	-	-
		(33.6)	(37.9)	-	-
<b>Total liabilities</b>	4	<b>(63.9)</b>	<b>(62.6)</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>		<b>31.2</b>	<b>24.7</b>	<b>69.3</b>	<b>68.7</b>
<b>Shareholders' equity</b>					
Share capital	24	0.1	0.1	0.1	0.1
Share premium		9.2	8.7	9.2	8.7
Capital redemption reserve		0.6	0.6	0.6	0.6
Revaluation reserve	25	0.1	0.1	-	-
Merger reserve		(61.4)	(61.4)	-	-
Retained earnings		82.6	76.6	59.4	59.3
<b>Total equity</b>		<b>31.2</b>	<b>24.7</b>	<b>69.3</b>	<b>68.7</b>

The notes on pages 36 to 60 are an integral part of these consolidated financial statements.

The financial statements on pages 32 to 60 were authorised for issue by the Board of Directors on 19 September 2014 and were signed on its behalf by:

**Nick Perrin**

**Simon Innes**

Finance Director

Chief Executive

Company registration number: 06312831

# Consolidated statement of changes in equity for the year ended 30 June 2014

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2012	0.1	8.6	0.6	0.1	(61.4)	72.3	20.3
Profit for the year	-	-	-	-	-	4.0	4.0
<b>Other comprehensive income</b>							
Cash flow hedges:							
Fair value gains	-	-	-	-	-	0.2	0.2
<b>Total other comprehensive income</b>	-	-	-	-	-	0.2	0.2
<b>Total comprehensive income</b>	-	-	-	-	-	4.2	4.2
<b>Transactions with owners</b>							
Issue of ordinary shares	-	0.1	-	-	-	-	0.1
Credit to reserves for share-based payments	-	-	-	-	-	0.7	0.7
Deferred tax relating to share-based payments	-	-	-	-	-	0.2	0.2
Dividends to equity holders of the Company	-	-	-	-	-	(0.8)	(0.8)
<b>Transactions with owners</b>	-	0.1	-	-	-	0.1	0.2
<b>At 30 June 2013</b>	<b>0.1</b>	<b>8.7</b>	<b>0.6</b>	<b>0.1</b>	<b>(61.4)</b>	<b>76.6</b>	<b>24.7</b>

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2013	0.1	8.7	0.6	0.1	(61.4)	76.6	24.7
Profit for the year	-	-	-	-	-	4.8	4.8
<b>Other comprehensive income</b>							
Cash flow hedges:							
Fair value gains	-	-	-	-	-	0.2	0.2
<b>Total other comprehensive income</b>	-	-	-	-	-	0.2	0.2
<b>Total comprehensive income</b>	-	-	-	-	-	5.0	5.0
<b>Transactions with owners</b>							
Issue of ordinary shares	-	0.5	-	-	-	-	0.5
Credit to reserves for share-based payments	-	-	-	-	-	1.4	1.4
Deferred tax relating to share-based payments	-	-	-	-	-	0.8	0.8
Deferred tax relating to financial instruments	-	-	-	-	-	(0.1)	(0.1)
Dividends to equity holders of the Company	-	-	-	-	-	(1.1)	(1.1)
<b>Transactions with owners</b>	-	0.5	-	-	-	1.0	1.5
<b>At 30 June 2014</b>	<b>0.1</b>	<b>9.2</b>	<b>0.6</b>	<b>0.1</b>	<b>(61.4)</b>	<b>82.6</b>	<b>31.2</b>

# Company statement of changes in equity for the year ended 30 June 2014

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2012	0.1	8.6	0.6	58.6	67.9
<b>Profit for the year</b>	-	-	-	<b>0.8</b>	<b>0.8</b>
<b>Transactions with owners</b>					
Issue of ordinary shares	-	0.1	-	-	0.1
Credit to reserves for share-based payments	-	-	-	0.7	0.7
Dividends to equity holders of the Company	-	-	-	(0.8)	(0.8)
<b>Transactions with owners</b>	-	<b>0.1</b>	-	<b>(0.1)</b>	-
<b>At 30 June 2013</b>	<b>0.1</b>	<b>8.7</b>	<b>0.6</b>	<b>59.3</b>	<b>68.7</b>

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2013	0.1	8.7	0.6	59.3	68.7
<b>Profit/(loss) for the year</b>	-	-	-	<b>(0.2)</b>	<b>(0.2)</b>
<b>Transactions with owners</b>					
Issue of ordinary shares	-	0.5	-	-	0.5
Credit to reserves for share-based payments	-	-	-	1.4	1.4
Dividends to equity holders of the Company	-	-	-	(1.1)	(1.1)
<b>Transactions with owners</b>	-	<b>0.5</b>	-	<b>0.3</b>	<b>0.8</b>
<b>At 30 June 2014</b>	<b>0.1</b>	<b>9.2</b>	<b>0.6</b>	<b>59.4</b>	<b>69.3</b>

# Consolidated and Company cash flow statement for the year ended 30 June 2014

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<b>Cash flows from operating activities</b>					
<b>Cash generated from operations</b>	27	<b>20.7</b>	16.7	<b>0.6</b>	0.7
Taxation paid		(2.5)	(2.1)	-	-
Interest paid		(1.2)	(1.2)	-	-
<b>Net cash generated from operating activities</b>		<b>17.0</b>	13.4	<b>0.6</b>	0.7
<b>Cash flows from investing activities</b>					
Acquisitions (net of cash acquired)	15	(12.4)	(7.7)	-	-
Purchase of property, plant and equipment	14	(4.9)	(3.6)	-	-
Purchase of intangible assets	13	(0.4)	(0.5)	-	-
<b>Net cash used in investing activities</b>		<b>(17.7)</b>	(11.8)	-	-
<b>Cash flows from financing activities</b>					
Dividends paid		(1.1)	(0.8)	(1.1)	(0.8)
Proceeds from issue of ordinary shares	24	0.5	0.1	0.5	0.1
Repayment of bank loan	26	(2.3)	-	-	-
<b>Net cash used in financing activities</b>		<b>(2.9)</b>	(0.7)	<b>(0.6)</b>	(0.7)
<b>Net (reduction)/increase in cash and cash equivalents</b>	26	<b>(3.6)</b>	0.9	-	-
Cash and cash equivalents at beginning of year		5.8	4.9	-	-
<b>Cash and cash equivalents at end of year</b>	26	<b>2.2</b>	5.8	-	-

# Notes to the consolidated financial statements for the year ended 30 June 2014

## I. General Information

The principal activity of the Group is to operate companion animal veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line pharmacy business. The principal activity of the Company is that of a holding company.

CVS Group plc is a public limited company incorporated and domiciled in England and Wales and its shares are quoted on the AIM market of the London Stock Exchange.

### *Companies in the consolidated financial statements*

The principal subsidiary undertakings included within the consolidation are as follows:

Name of subsidiary	Principal business
CVS (UK) Limited	Veterinary and diagnostic services
Pet Doctors Limited	Veterinary services
Village Referrals Limited	Veterinary services
Precision Histology International Limited	Veterinary diagnostic services
Axiom Veterinary Laboratories Limited	Veterinary diagnostic services
Greendale Veterinary Diagnostics Limited	Veterinary diagnostic services
Rosendale Pet Crematorium Limited	Animal cremation and provision of burial grounds
Silvermere Haven Limited	Animal cremation and provision of burial grounds
Valley Pet Crematorium Limited	Animal cremation
Animed Direct Limited	On-line dispensary
Pet Medic Recruitment Limited	Recruitment services
Mi Vet Club Limited	Veterinary goods and services buying club

Apart from CVS (UK) Limited, all of the above subsidiaries are indirectly held by CVS Group plc. All Companies are registered in England and Wales.

All equity shareholdings are wholly owned except for Village Referrals Limited which is 96% owned. The non-controlling interest in Village Referrals Limited amounting to £6,000 (2013: £6,000) has not been recognised in these financial statements as it is not considered material.

## 2. Summary of significant accounting policies

### *Basis of preparation*

The consolidated financial statements of CVS Group plc have been prepared in accordance with EU-adopted International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations and in line with those provisions of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for certain financial instruments that have been measured at fair value.

At the balance sheet date the Group had cash balances of £2.2m and an unutilised overdraft facility of £5.0m. A £10.0m Revolving Credit Facility was signed on 20 September 2013 and was unutilised at the year end. Since the year end, the Group has continued to trade profitably and to generate cash. Although the Group had net current liabilities of £9.7m at 30 June 2014, the Directors consider that the £5.0m overdraft and £10.0m Revolving Credit Facility enable them to meet all current liabilities when they fall due. After consideration of market conditions, the Group's financial position (including the level of headroom available within the bank facilities), its profile of cash generation and the timing and amount of bank borrowings repayable, the Directors have formed a judgement at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements. The accounting policies which follow relate to the Group and are applied by the Company as appropriate.

## *Critical accounting estimates and judgements*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates. The following estimates and judgements have the most significant effect on the amounts recognised in the financial statements.

### *Intangibles acquired in business combinations*

Determining the value of intangibles (patient data records, customer lists and trade names) acquired in business combinations, requires a critical judgement based on estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value. In addition, an estimate of the useful life of the intangible asset has to be made, over which period the cash flows are expected to be generated. Details of intangibles acquired through business are provided in note 15 of the financial statements.

### *Impairment of goodwill*

Determining whether goodwill is impaired requires the estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires a critical judgement of the future cash flows expected to arise from the cash generating unit at a suitable discount rate in order to calculate the present value. Details of the impairment review are provided in note 13 to the financial statements.

### *Determination of discount rates used in business combinations and impairment reviews*

The discount rates used in business combinations and impairment reviews are based on the current cost of capital of the business adjusted for management's perception of risk. While management believe the discount rates used are the most appropriate rates, a change in these assumptions could result in an impairment charge. Details of the discount rates used are provided in note 13 of the financial statements.

## *Changes in accounting policy and disclosure*

*Standards and interpretations to existing standards (some of which have yet to be adopted by the EU) which are not yet effective and are under review as to their impact on the Group.*

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2014 or later periods but which the Group has not early adopted:

- IFRS 10 'Consolidated Financial Statements' effective for annual periods beginning on or after 1 January 2014.
- IAS 27 (revised) 'Separate Financial Statements' effective for annual periods beginning on or after 1 January 2014.
- IAS 32 amendment 'Offsetting Financial Assets and Financial Liabilities' effective for annual periods beginning on or after 1 January 2014.
- IAS 36 amendment 'Recoverable Amount Disclosure for Non-Financial Assets' effective for annual periods beginning on or after 1 January 2014.
- IAS 39 amendment 'Novation of Derivatives and Continuation of Hedge Accounting' effective for annual periods beginning on or after 1 January 2014.

## *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 2014.

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 to ensure consistency with the policies adopted by the Group.



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

## Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker ("CODM"). The CODM has been determined to be the Board of Directors, as it is primarily responsible for the allocation of resources to segments and the assessment of the performance of segments. Details of the group's operating segments are provided in note 4 of the financial statements.

## Property, plant and equipment

Property, plant and equipment are stated at cost (being the purchase cost, together with any incidental costs of acquisition) less accumulated depreciation and any accumulated impairment losses. The assets' residual values and useful lives are reviewed annually, and adjusted as appropriate. Depreciation is provided so as to write off the cost of property, plant and equipment, less their estimated residual values, over the expected useful economic lives of the assets in equal annual instalments at the following principal rates:

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

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

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

## Intangible assets

### Goodwill

With the exception of the acquisition of CVS (UK) Limited which was accounted for using the principles of merger accounting, all business combinations are accounted for by applying the acquisition method. Goodwill arising on acquisitions that have occurred since 1 July 2004 is stated after separate recognition of intangible assets and represents the difference between the fair value of the purchase consideration and the fair value of the Group's share of the identifiable net assets of an acquired entity. In respect of acquisitions prior to 1 July 2004 goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice. Goodwill is carried at cost less accumulated impairment losses.

### Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives of three years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

### Patient data records, customer lists and trade names

Acquired patient data records, customer lists and trade names 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 these items 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 are assumed to be £nil. Patient data records, customer lists and trade names are reviewed for impairment if conditions exist that indicate review is required. Amortisation is provided so as to write off the cost over the expected economic lives of the asset in equal instalments at the following principal rates:

Patient data records	10% per annum
Customer lists	6.67% per annum
Trade names	10% per annum.

## Impairment of non-current assets

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



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

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

## *Inventories*

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

## *Financial instruments*

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

### *(a) Trade and other receivables*

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment 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 excess of 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*

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 other Comprehensive Income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net result for the year.

In accordance with IAS 39 "Financial Instruments: Recognition and measurement", available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

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

### *(c) Financial liabilities and equity*

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

### *(d) Interest-bearing borrowings*

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

### *(e) Trade and other payables*

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

### *(f) Equity instruments*

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



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

### *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 swap arrangements is calculated as the present value of the estimated future cash flows. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the income statement.

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the 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 other Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement where material. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement. The classification of the effective portion when recognised in the income statement is the same as the classification of the hedged transaction. Any element of the re-measurement of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the income statement within finance costs.

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

### *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, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

## Revenue

Revenue represents amounts receivable from customers for veterinary services, related veterinary products, the sale of products on-line and crematoria services provided during the year. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured; typically this is when a diagnostic procedure, a veterinary consultation or a cremation is completed. Revenue is measured at the fair value of the consideration received, excluding value added tax.

In respect of customer loyalty schemes, where monies are received by way of monthly subscriptions, appropriate adjustments are made through deferred and accrued income to recognise revenue when the underlying service has been performed. Revenue in respect of customer loyalty schemes is recognised net of a provision for expected cancellations based on historic cancellation data.

## Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful economic life of the asset and the lease term.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

## Share-based payments

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

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

## Foreign currency translation

### *Functional and presentational currency*

The financial information in this report is presented in Sterling, the functional currency of the Company and its subsidiaries, rounded to the nearest £0.1m.

### *Transactions and balances*

Transactions denominated in foreign currencies are translated into sterling (the functional currency of the Company and its subsidiaries) at the rate of exchange ruling at the date of transaction. All realised foreign exchange differences are taken to the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and any gain or loss on these transactions are recognised in the income statement.

## Retirement benefit costs

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

## Net financing costs

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

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



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

*Use of non-GAAP measures**Adjusted EBITDA, Adjusted Profit Before Tax ("Adjusted PBT") and adjusted EPS*

The Directors believe that adjusted EBITDA, adjusted PBT and adjusted EPS provide additional useful information for shareholders on underlying trends and performance. These measures are used for internal performance analysis. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures. It is not intended to be a substitute for, or superior to, IFRS measurements of profit or earnings per share.

Adjusted EBITDA is calculated by reference to profit before income tax, adjusted for interest (net finance expense), depreciation, amortisation, costs relating to business combinations, share option expense and exceptional items.

Adjusted profit before income tax is calculated as profit on ordinary activities before amortisation, taxation, costs relating to business combinations and exceptional items.

Adjusted earnings per share is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of Ordinary shares in issue in the period. This measure has been changed from that used in prior years in order to bring it into line with the measure more normally used by city analysts.

*Like-for-like sales*

Like-for-like sales comprise the revenue generated from all operations compared to the prior year (on a pro forma basis, i.e. including pre acquisition revenues in respect of acquisitions in the current and comparative periods), after adjusting for sites under refurbishment and discontinued operating activities.

*Share premium*

The share premium reserve comprises the premium received over the nominal value of shares for shares issued.

*Capital redemption reserve*

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

*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.

## 3. Financial risk management

*Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative instruments to manage its exposure to interest rate movements. It is not the Group's policy to actively trade in derivatives.

Given the size of the Group, the Board monitors financial risk management. The policies set by the Board of Directors are implemented by the Group's finance department.

*a) Market risk**i) Foreign exchange currency rate risk*

The Group has very limited exposure to foreign exchange risk as substantially all of its transactions are denominated in the Company's functional currency of Sterling. The Group has a policy to minimise foreign exchange currency rate risk through the regular monitoring of foreign currency flows. Currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Group management. The Group does not currently hedge any foreign currency transactions but continues to keep this policy under review.

*ii) Cash flow and fair value interest rate risk*

The Group has interest bearing assets and liabilities. The Group's income and operating cash inflows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At the year end, the Group had interest hedging arrangements in place covering £20.3m of debt. This allows the Group to minimise its exposure to significant interest rate increases whilst enabling the Group to take advantage of interest rate reductions. The strategy for undertaking the hedge is to match the loan liability with a coterminous derivative that allows interest to float within an agreed range and thereby limits the cash flow exposure relating to interest.

Excluding the impact of the interest rate swap arrangement, bank borrowings bear interest at 1.50% to 2.75% above LIBOR.

During the year the bank borrowings carried a rate averaging 2.0% above LIBOR.

At 30 June 2014, the Group has considered the impact of movements in interest rates over the past year and has concluded that a 1% movement is a reasonable benchmark. At 30 June 2014, if interest rates on Sterling denominated borrowings had been 1% higher or lower with all other variables held constant, post tax profit and the movement in net assets for the year would have been approximately £0.4m (2013: £0.4m) lower or higher, mainly as a result of the movement in interest rates on the floating rate borrowings, net of the hedging derivative instrument in place.

#### b) Credit risk

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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

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

Group management monitor the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 30 June 2014 gross trade receivables amounted to 5.0% of revenue for the year (2013: 5.8%). Of these gross trade receivables 52% (2013: 62%) were more than one month overdue.

The maximum exposure to credit risk at 30 June 2014 is the fair value of each class of receivable as disclosed in note 18 to the financial statements.

#### c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities.

The Group actively maintains cash balances and a mix of long-term and short-term finance facilities that are designed to ensure the Group has sufficient available funds for operations and acquisitions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

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

30 June 2014	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	Total £m
<b>Non-derivative financial liabilities:</b>					
Borrowings	3.9	4.3	26.1	-	34.3
Trade and other payables	20.8	-	-	-	20.8
<b>Derivative contracts:</b>					
Interest rate swap arrangements	0.4	0.5	0.2	-	1.1
	25.1	4.8	26.3	-	56.2

30 June 2013	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	Total £m
<b>Non-derivative financial liabilities:</b>					
Borrowings	2.4	3.9	4.2	26.1	36.6
Trade and other payables	16.5	-	-	-	16.5
<b>Derivative contracts:</b>					
Interest rate swap arrangements	0.4	0.4	0.4	0.5	1.7
	19.3	4.3	4.6	26.6	54.8



## 3. Financial risk management (continued)

*Capital risk management*

The Group's policy is to maintain a strong capital base, defined as bank facilities plus total shareholders' equity, so as to maintain investor, creditor and market confidence and to sustain future development of the business. Within this overall policy, the Group seeks to maintain an optimum capital structure by a mixture of debt and retained earnings.

The bank facilities include both financial and non-financial covenants. There have been no breaches of the terms of the respective loan agreements, breach of covenant or any defaults during the current or comparative years.

Funding needs are reviewed periodically and also each time a significant acquisition is made. A number of factors are considered which include the net debt/adjusted EBITDA ratio, future funding needs (usually potential acquisitions) and Group banking arrangements.

	2014 £m	2013 £m
Net debt (see note 26)	31.3	30.0
Adjusted EBITDA (see note 4)	19.7	16.5
<b>Ratio</b>	<b>1.59</b>	<b>1.82</b>

There were no changes to the Group's approach to capital management during the year.

The primary source of funding for the Group is internally generated cash. The Group's debt facilities were fully drawn down throughout the year with the exception of a £5.0m working capital facility and a £10.0m Revolving Credit Facility which were both undrawn at 30 June 2014.

*Fair value measurement*

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2014, by level of fair value hierarchy:

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

	30 June 2014			30 June 2013		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
<b>Assets</b>						
Available-for-sale financial assets (note 16)	0.1	-	0.1	0.1	-	0.1
<b>Liabilities</b>						
Derivative financial instruments (interest rate swap arrangements) (note 17)	-	-	-	-	0.2	0.2

## 4. Segmental reporting

The operating segments are based on the Group's management and internal reporting structure and monitored by the Group's CODM. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing borrowings and associated costs, taxation related assets/liabilities, costs relating to business combinations and head office salary and premises costs.

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

## Operating segments

The Group is split into four operating segments (veterinary practices, laboratories, crematoria and Animed Direct) and a centralised support function for business segment analysis. In identifying these operating segments, management generally follows the group's services lines representing its main products and services.

Each of these operating segments are managed separately as each segment requires different specialisms, marketing approaches and other resources.

Year ended 30 June 2014	Veterinary practices	Laboratories	Crematoria	Animed Direct	Head office	Group
	£m	£m	£m	£m	£m	£m
Revenue	126.4	10.6	1.6	8.5	(4.2)	142.9
Profit/(loss) before income tax	16.1	1.1	0.4	0.3	(11.6)	6.3
Adjusted EBITDA	24.7	1.3	0.5	0.3	(7.1)	19.7
Total assets	81.2	6.4	2.3	3.0	2.2	95.1
Total liabilities	(23.0)	(1.7)	(0.6)	(2.8)	(35.8)	(63.9)
<b>Reconciliation of adjusted EBITDA</b>						
Profit/(loss) before income tax	16.1	1.1	0.4	0.3	(11.6)	6.3
Net finance expense	-	-	-	-	1.2	1.2
Depreciation	2.3	0.2	0.1	-	0.2	2.8
Amortisation	6.1	-	-	-	1.2	7.3
Share option expense	-	-	-	-	1.4	1.4
Costs relating to business combinations	0.2	-	-	-	0.5	0.7
<b>Adjusted EBITDA</b>	<b>24.7</b>	<b>1.3</b>	<b>0.5</b>	<b>0.3</b>	<b>(7.1)</b>	<b>19.7</b>

Year ended 30 June 2013	Veterinary practices	Laboratories	Crematoria	Animed Direct	Head office	Group
	£m	£m	£m	£m	£m	£m
Revenue	<sup>2</sup> 108.0	<sup>2</sup> 9.1	1.0	4.9	(2.9)	120.1
Profit/(loss) before income tax	13.0	0.7	0.4	0.2	(8.8)	5.5
Adjusted EBITDA	20.1	1.1	0.5	0.2	(5.4)	16.5
Total assets	76.3	5.4	1.7	2.4	1.5	87.3
Total liabilities	(20.4)	(1.4)	(0.3)	(2.2)	(38.3)	(62.6)
<b>Reconciliation of adjusted EBITDA</b>						
Profit/(loss) before income tax	13.0	0.7	0.4	0.2	(8.8)	5.5
Net finance expense	-	-	-	-	1.2	1.2
Depreciation	2.1	0.1	0.1	-	0.2	2.5
Amortisation	5.0	0.3	-	-	0.9	6.2
Share option expense	-	-	-	-	0.7	0.7
Costs relating to business combinations	-	-	-	-	0.4	0.4
<b>Adjusted EBITDA</b>	<b>20.1</b>	<b>1.1</b>	<b>0.5</b>	<b>0.2</b>	<b>(5.4)</b>	<b>16.5</b>

<sup>1</sup>Inter-segment revenue representing Laboratory sales and Crematoria fees to Veterinary Practices eliminated on consolidation.

<sup>2</sup>In prior years revenue between Laboratories and between Veterinary Practices was eliminated within the Central Administration division. This elimination is now made within each division and comparatives have been restated.

## 5. Finance expense

	2014	2013
	£m	£m
Interest expense, bank loans and overdraft	1.1	1.2
Amortisation of debt arrangement fees	0.1	-
<b>Finance expense</b>	<b>1.2</b>	<b>1.2</b>

## 6. Expenses by nature

	2014	2013
	£m	£m
Amortisation of intangible assets	7.3	6.2
Depreciation of property, plant and equipment	2.8	2.5
Employee benefit expenses	64.4	55.4
Cost of inventories recognised as an expense (included in cost of sales)	25.7	19.7
Repairs and maintenance expenditure on property, plant and equipment	1.4	1.3
Trade receivables impairment charge	1.5	0.3
Operating lease rentals payable	7.8	7.0
Other expenses	24.5	21.0
<b>Total cost of sales and administrative expenses</b>	<b>135.4</b>	<b>113.4</b>

### Services provided by the Company's auditor and associates

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

	2014	2013
	£'000	£'000
<b>Audit services:</b>		
Fees payable to the Group auditors for the audit of the Parent Company and consolidated financial statements	15	42
<b>Other services:</b>		
Tax services	-	15
The audit of the Company's subsidiaries pursuant to legislation	41	36
Other services pursuant to legislation	-	7
All other services	-	3
	<b>56</b>	<b>103</b>

## 7. Employee benefit expense and numbers

Employee benefit expense for the Group:	2014	2013
	£m	£m
Wages and salaries	57.0	49.8
Social security costs	5.6	4.7
Other pension costs (note 30)	0.4	0.2
Share-based payments (note 12)	1.4	0.7
	<b>64.4</b>	<b>55.4</b>

Employee benefit expense included within cost of sales is £61.5m (2013: £50.8m). The balance is recorded within administrative expenses.



The average monthly number of persons employed by the Group (including Executive Directors) during the year analysed by category, was as follows:

	2014 Number	2013 Number
Veterinary surgeons and pathologists	671	592
Nurses, practice ancillary and technicians	1,971	1,772
Crematoria staff	29	15
Central support	115	100
	<b>2,786</b>	<b>2,479</b>

The Company has no employees, other than the Directors. The Directors received remuneration in respect of their services to the company from a subsidiary company.

## 8. Directors' emoluments and key management compensation

	Highest paid Director		Directors' emoluments	
	2014 £m	2013 £m	2014 £m	2013 £m
Aggregate emoluments	0.6	0.5	0.9	0.7
Non-Executive fees	-	-	0.1	0.2
Company contributions to money purchase schemes	-	-	0.1	0.1
	<b>0.6</b>	<b>0.5</b>	<b>1.1</b>	<b>1.0</b>

Retirement benefits are accruing to two Directors (2013: two) under a personal pension plan. The remuneration of the Executive Directors amounting to £1.0m (2013: £0.8m) is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors amounting to £0.2m (2013: £0.2m) is borne by the subsidiary company CVS (UK) Limited and recharged to the Company.

### Share options

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

		Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
S Innes	SAYE4	18 November 2011	1 January 2015	95.4p	9,430
N Perrin	SAYE8	29 November 2013	1 January 2017	215p	4,186

Shares awarded to Executive Directors under the long-term incentive plans ("LTIP5", "LTIP6" and "LTIP7") as at the balance sheet date are as follows:

		Date of grant	Market price on date of grant	Earliest exercise date and vesting date	Number of shares
S Innes	LTIP5	15 July 2011	95p	30 June 2014	333,710
S Innes	LTIP6	23 July 2012	123p	30 June 2015	301,020
S Innes	LTIP7	5 December 2013	250p	30 June 2016	121,200
N Perrin	LTIP7	5 December 2013	250p	30 June 2016	92,500

The exercise price for all shares is 0.2p.

LTIP4 was exercised in the year; see the Remuneration Report on page 30 for further details.

Details of the above schemes are included in the Remuneration Report on pages 28 to 30.



## 8. Directors' emoluments and key management compensation (continued)

*Key management compensation*

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

	2014 £m	2013 £m
Salaries and other short-term employee benefits	1.7	1.5
Post-employment benefits	0.1	0.1
Share-based payments	1.3	0.7
	<b>3.1</b>	<b>2.3</b>

## 9. Income tax expense

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

	2014 £m	2013 £m
<b>Current tax expense</b>		
UK corporation tax	2.3	2.2
Adjustments in respect of previous years	0.2	(0.1)
Total current tax charge	<b>2.5</b>	<b>2.1</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(0.7)	(0.9)
Adjustments in respect of previous years	-	0.4
Effect of tax rate change on opening deferred tax balance	(0.3)	(0.1)
Total deferred tax credit (note 23)	<b>(1.0)</b>	<b>(0.6)</b>
<b>Total income tax expense</b>	<b>1.5</b>	<b>1.5</b>

*Factors affecting the current tax charge*

UK corporation tax is calculated at 22.5% (2013: 23.8%) of the estimated assessable profit for the year. The standard rate of UK corporation tax changed from 23% to 21% with effect from 1 April 2014.

*(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:

	2014 £m	2013 £m
<b>Profit before tax</b>	<b>6.3</b>	<b>5.5</b>
Effective tax charge at 22.5% (2013: 23.8%)	<b>1.4</b>	<b>1.3</b>
<b>Effects of:</b>		
Expenses not deductible for tax purposes	0.2	-
Effect of tax rate change on opening deferred tax balance	(0.3)	(0.1)
Adjustments to deferred tax charge in respect of previous years	-	0.4
Adjustments to current tax charge in respect of previous years	0.2	(0.1)
<b>Total income tax expense</b>	<b>1.5</b>	<b>1.5</b>

The Chancellor of the Exchequer has stated his intention to reduce the main rate of corporation tax from 21% to 20% from 1 April 2015. This change has not been substantively enacted at the balance sheet date and, therefore, is not reflected in these financial statements. Had this change been enacted, then the cumulative effects would have been to decrease the net deferred tax liability provided at the balance sheet date by £0.2m.

## 10. Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the financial year was £0.2m (2013: profit £0.8m).

## 11. Earnings per Ordinary share

### (a) Basic

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

	2014	2013
Earnings attributable to Ordinary shareholders (£m)	4.8	4.0
Weighted average number of Ordinary shares in issue	57,728,337	56,955,040
Basic earnings per share (pence per share)	8.3	7.1

### (b) Diluted

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

	2014	2013
Earnings attributable to Ordinary shareholders (£m)	4.8	4.0
Weighted average number of Ordinary shares in issue	57,728,337	56,955,040
Adjustment for contingently issuable shares	1,808,799	2,308,744
Weighted average number of Ordinary shares for diluted earnings per share	59,537,136	59,263,784
Diluted earnings per share (pence per share)	8.0	6.8



## 11. Earnings per Ordinary share (continued)

*Non-GAAP measure: Adjusted earnings per share*

Adjusted earnings per Ordinary share is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average of ordinary shares in issue in the period.

	2014 £m	2013 £m
Earnings attributable to Ordinary shareholders	4.0	4.0
Add back taxation	1.5	1.5
<b>Profit before taxation</b>	<b>0.0</b>	<b>5.5</b>
Adjustments for:		
Amortisation (note 13)	7.3	6.2
Costs relating to business combinations (note 4)	0.7	0.4
<b>Adjusted profit before income tax</b>	<b>14.3</b>	<b>12.1</b>
Tax effect of the above adjustments at 22.5% (2013: 23.8%)	(3.3)	(2.8)
<b>Adjusted profit after income tax and earnings attributable to owners of the Parent</b>	<b>11.0</b>	<b>9.3</b>
Weighted average number of Ordinary shares in issue	57,728,337	56,995,040
Weighted average number of Ordinary shares for diluted earnings per share	59,537,136	59,263,784
	Pence	Pence
Adjusted earnings per share	19.0p	16.2p
Diluted adjusted earnings per share	18.5p	15.6p

## 12. Share-based payments

*Long Term Incentive Plans*

The Group operates an incentive scheme for certain senior executives, the CVS Group Long Term Incentive Plan ("LTIP").

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

Details of the share options outstanding during the year under the LTIP schemes are as follows:

	July 2013 scheme ("LTIP7") Number of share awards	July 2012 scheme ("LTIP6") Number of share awards	July 2011 scheme ("LTIP5") Number of share awards	October 2010 scheme ("LTIP4") Number of share awards
Outstanding at 1 July 2013	-	670,820	655,341	763,184
Granted during the year	403,700	-	-	-
Forfeited during the year	-	(32,654)	(7,240)	(262,240)
Exercised during the year	-	-	-	*(500,944)
Outstanding at 30 June 2014	403,700	638,166	648,101	-
Exercisable at 30 June 2014	-	-	-	-

Options are exercisable at 0.2p per share.

\*The weighted average share price at the date of exercise was £2.55

Options were valued using the Black-Scholes option pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	<b>LTIP7</b>
Grant date	5 December 2013
Share price at grant date	£2.50
Fair value per option	£2.50
Exercise price	0.2p
Number of employees	26
Shares under option at date of grant	403,700
Vesting period/Option life/Expected life (years)	3 years
Weighted average remaining contractual life	2 years
Expected volatility*	18.87%
Expected dividends expressed as a dividend yield	0.8%

\*Expected volatility has been determined by reference to historical share return volatility of CVS Group plc

The options outstanding at the year end under LTIP6 and LTIP5 have a weighted average remaining contractual life of 1 year and 0 years respectively.

The share based payment charge for the year in respect of the options issued under the LTIP schemes amounted to £1.2m (2013: £0.5m) and has been charged to administrative expenses. National Insurance contributions amounting to £0.5m (2013: £0.1m) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

Further details of the above schemes are included in the Remuneration Report on pages 28 to 30.

#### *Save As You Earn (SAYE)*

The Group operates an incentive scheme for all employees, the CVS Group Save As You Earn ("SAYE") plan, an HM Revenue & Customs approved scheme. The SAYE4 scheme was opened for subscription in December 2011 (with options granted in January 2012) and the SAYE5 scheme was opened for subscription in December 2012 (with options granted in January 2013) the SAYE6 scheme was opened for subscription in December 2013 (with options granted in January 2014). Under the SAYE schemes awards have been made at a 20% discount of the closing mid-market price on date of invitation, vesting over a three year period. There are no performance conditions attached to the SAYE scheme. Details of the share options outstanding during the year under the SAYE scheme are as follows:

	<b>SAYE6</b>	<b>SAYE5</b>	<b>SAYE4</b>	<b>SAYE3</b>
	<b>Number of</b>	<b>Number of</b>	<b>Number of</b>	<b>Number of</b>
	<b>share awards</b>	<b>share awards</b>	<b>share awards</b>	<b>share awards</b>
Outstanding at 1 July 2013	-	189,831	364,972	540,271
Granted during the year	634,552	-	-	-
Forfeited/expired during the year	(25,097)	(16,409)	(59,813)	(2,088)
Exercised during the year	-	*(1,730)	*(10,164)	*(538,183)
Outstanding at 30 June 2014	609,455	171,692	294,995	-
Exercisable at 30 June 2014	-	-	-	-

Options are exercisable at 130p per share for the SAYE5 scheme, 95p for the SAYE4 scheme and 80p for the SAYE3 scheme.

\*The weighted average share price at the date of exercise was £3.06 for the SAYE5 scheme, £3.10 for the SAYE4 scheme and £2.90 for the SAYE3 scheme.

## 12. Share-based payments (continued)

Options were valued using the Black–Scholes option pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	<b>SAYE6</b>
Grant date	29 November 2013
Share price at grant date	£2.69
Exercise price	£2.15
Expected volatility*	18.87%
Number of employees	436
Shares under option at date of grant	634,552
Vesting period/Option life/Expected life (years)	3 years
Weighted average remaining contractual life	2 years 5 months
Expected dividends expressed as a dividend yield	0.7%
Fair value per option	£0.70

\*Expected volatility has been determined by reference to historical share return volatility of CVS Group plc.

The options outstanding at the year end under the SAYE5 and SAYE4 scheme have a weighted average remaining contractual life of 1 year and 5 months and 0 years and 5 months respectively.

The net share based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £0.2m (2013: £0.2m) and has been charged to administrative expenses.

## 13. Intangible assets

	<b>Goodwill</b>	<b>Trade names</b>	<b>Customer lists</b>	<b>Patient data records</b>	<b>Computer software</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost</b>						
At 1 July 2012	17.1	1.5	4.2	53.3	1.0	77.1
Additions arising through business combinations	-	-	0.2	6.5	-	6.7
Other additions	-	-	-	-	0.5	0.5
Disposals	-	-	-	-	(0.3)	(0.3)
At 30 June 2013	17.1	1.5	4.4	59.8	1.2	84.0
Additions arising through business combinations (note 15)	1.1	-	0.8	10.3	-	12.2
Other additions	-	-	-	-	0.4	0.4
<b>At 30 June 2014</b>	<b>18.2</b>	<b>1.5</b>	<b>5.2</b>	<b>70.1</b>	<b>1.6</b>	<b>96.6</b>
<b>Accumulated amortisation</b>						
At 1 July 2012	-	0.3	1.3	22.3	0.7	24.6
Disposals	-	-	-	-	(0.3)	(0.3)
Amortisation for the year	-	0.1	0.3	5.6	0.2	6.2
At 30 June 2013	-	0.4	1.6	27.9	0.6	30.5
Amortisation for the year	-	0.2	0.3	6.5	0.3	7.3
<b>At 30 June 2014</b>	<b>-</b>	<b>0.6</b>	<b>1.9</b>	<b>34.4</b>	<b>0.9</b>	<b>37.8</b>
<b>Net book amount</b>						
<b>At 30 June 2014</b>	<b>18.2</b>	<b>0.9</b>	<b>3.3</b>	<b>35.7</b>	<b>0.7</b>	<b>58.8</b>
At 30 June 2013	17.1	1.1	2.8	31.9	0.6	53.5
At 1 July 2012	17.1	1.2	2.9	31.0	0.3	52.5

Amortisation expense has been charged to administrative expenses.

The patient data records, customer lists and trade names were acquired as a component of business combinations. See note 15 for further details of current year acquisitions.

## Impairment of goodwill

The components of goodwill are disclosed by grouped Cash Generating Units shown below:

	2014 £m	2013 £m
Veterinary practices	14.3	14.3
Laboratories	2.4	2.4
Crematoria	1.5	0.4
	18.2	17.1

The pre-tax discount rate applied to the cash flow projections is derived from the Group's post tax weighted average cost of capital. The risks relating to each segment are considered to be the same, and as such, the discount rate applied to each segment is the same. The Directors consider the growth rate to be consistent between segments; a 1% growth per annum in EBITDA has been assumed for the purposes of assessing net present value of future cash flows, with EBITDA used as an approximation to cash flow. The growth rate is based upon a prudent assessment of market specific growth assumptions. Further details of the impairment tests are disclosed in note 2.

Estimates are based on past experience and expectations of future changes to the market. Growth rate forecasts are extrapolated based on estimated long term average growth rates for the markets in which the CGU operates (estimated at 1.0%). The pre-tax discount rate used to calculate value in use is 11.7% at 30 June 2014 (2013: 9.5%). These discount rates are derived from the Group's post-tax weighted average cost of capital.

Based on the results of the current year impairment review, no impairment charges have been recognised by the Group in the year ended 30 June 2014 (2013: £nil). Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in the year ended 30 June 2014.

## 14. Property, plant and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
<b>Cost</b>					
At 1 July 2012	1.3	6.4	11.2	0.9	19.8
Additions arising through business combinations	0.4	-	0.4	-	0.8
Additions	-	1.7	1.4	0.5	3.6
Disposals	-	(0.1)	(0.7)	(0.1)	(0.9)
At 30 June 2013	1.7	8.0	12.3	1.3	23.3
Additions arising through business combinations (note 15)	0.5	0.1	0.4	-	1.0
Additions	-	1.7	3.1	0.1	4.9
Disposals	-	-	-	(0.1)	(0.1)
<b>At 30 June 2014</b>	<b>2.2</b>	<b>9.8</b>	<b>15.8</b>	<b>1.3</b>	<b>29.1</b>
<b>Accumulated depreciation</b>					
At 1 July 2012	0.2	1.9	7.6	0.6	10.3
Charge for the year	-	0.8	1.5	0.2	2.5
Disposals	-	(0.1)	(0.7)	(0.1)	(0.9)
At 30 June 2013	0.2	2.6	8.4	0.7	11.9
Charge for the year	0.1	0.9	1.6	0.2	2.8
Disposals	-	-	-	(0.1)	(0.1)
<b>At 30 June 2014</b>	<b>0.3</b>	<b>3.5</b>	<b>10.0</b>	<b>0.8</b>	<b>14.6</b>
<b>Net book amount</b>					
<b>At 30 June 2014</b>	<b>1.9</b>	<b>6.3</b>	<b>5.8</b>	<b>0.5</b>	<b>14.5</b>
At 30 June 2013	1.5	5.4	3.9	0.6	11.4
At 1 July 2012	1.1	4.5	3.6	0.3	9.5

Freehold land amounting to £0.2m (2013: £0.2m) has not been depreciated.

## 15. Business combinations

Details of business combinations in the year ended 30 June 2014 are set out below (full details of each acquisition are provided in the History of the Business on page 10), in addition to an analysis of post acquisition performance of the respective business combinations, where practicable.

Given the nature of the veterinary surgeries acquired (mainly partnerships or sole traders) and the records maintained by such practices it is not practicable to disclose the revenue or profit/loss of the combined entity for the year as though the acquisition date for all business combinations effected during the year had been the beginning of that year. It is not practicable to disclose the impact of the business combinations on the consolidated cash flow statement as full ledgers were not maintained for each business combination in relation to all related assets and liabilities post acquisition.

The table below summarises the assets acquired in the year ended 30 June 2014:

	Book value of acquired assets	Adjustments	Fair value
	£m	£m	£m
Property plant and equipment	1.0	-	1.0
Patient data records	-	10.3	10.3
Customer lists	-	0.8	0.8
Goodwill	-	1.1	1.1
Inventory	0.3	(0.1)	0.2
Deferred tax liability (note 23)	-	(0.8)	(0.8)
Trade and other receivables	0.4	-	0.4
Trade and other payables	(0.8)	-	(0.8)
Net assets acquired	0.9	11.3	12.2
Consideration paid - cash			12.2
Deferred consideration paid in respect of prior year acquisitions			0.2
Total consideration paid in year – cash			12.4

Post-acquisition revenue and post-acquisition EBITDA were £4.2m and £0.7m respectively. The post-acquisition period is from the date of acquisition to 30 June 2014. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2014 prior to the allocation of central overheads, on the basis that it is not practicable to allocate these.

The acquisition costs incurred in relation to the above business combinations amounted to £0.4m for the year and are included within other expenses in note 6 of the financial statements.

### *Business combinations in previous years*

Details of business combinations in the comparative year are presented in the consolidated financial statements for the year ended 30 June 2014.

### *Business combinations subsequent to the year end*

Subsequent to the year end the Group acquired the trade and assets of Riversbrook, a veterinary practice based in Ipswich, on 28 July 2014, West End Vets, a veterinary practice based in Edinburgh and Anrich, a veterinary practice based in Huddersfield, for a total cash consideration of £1.5m. Assets acquired comprise intangible patient data records and customer lists with a provisional fair value of £1.5m. The businesses reported unaudited combined pre-tax profits of £0.5m for the years ended 30 April 2013 for both Anrich and West End Vets and 31 March 2014 for Riversbrook. Given the nature of the records maintained by the above practices 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.

## 16. Investments

### *(a) Available-for-sale financial assets*

Available-for-sale financial assets, which are denominated in Sterling, consist of an investment in managed investment funds.

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.



## (b) Shares in subsidiary undertakings

Company	£m
<b>Cost and net book amount</b>	
At 1 July 2012	61.0
Options granted to employees of subsidiary undertakings	0.7
<b>At 30 June 2013</b>	<b>61.7</b>
Options granted to employees of subsidiary undertakings	1.4
<b>At 30 June 2014</b>	<b>63.1</b>

The principle subsidiary undertakings of CVS Group plc, all of which are wholly owned, are set out in note 1. A full list of the Group's subsidiary undertakings will be annexed to the next Annual Return filed at Companies House.

## 17. Derivative financial instruments

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

There is no material impact on the Group income statement resulting from hedge ineffectiveness. There was no ineffective portion of cash flow hedges in 2014 (2013: £nil).

### Cash flow hedges

On 6 December 2011, the Group entered into an interest rate swap arrangement limiting the Group's exposure to interest rate increases. The swap arrangement hedges 60% of a £36.0m term loan facility (£33.7m outstanding at 30 June 2014) by means of an amortising hedge which matches the debt amortisation.

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

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

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

Group	2014		2013	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
<b>Non-current</b>				
Interest rate swap arrangements – cash flow hedges	-	-	-	(0.2)

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 amount of the outstanding interest rate swap arrangement contract at 30 June 2014 was £20.3m. The outstanding interest rate swap arrangement contract expires on 5 December 2016.

### Movements in fair values:

Group	Interest rate swap arrangements £m
Fair value at 1 July 2012	(0.4)
Fair value gain through reserves – hedged	0.2
<b>At 30 June 2013</b>	<b>(0.2)</b>
Fair value gain through reserves – hedged	0.2
<b>At 30 June 2014</b>	<b>-</b>

## 18. Financial instruments

Assets as per balance sheet	2014			2013		
	Loans and receivables	Available-for-sale	Total	Loans and receivables	Available-for-sale	Total
	£m	£m	£m	£m	£m	£m
Available-for-sale financial assets	-	0.1	0.1	-	0.1	0.1
Trade and other receivables (excluding prepayments and accrued income)	7.8	-	7.0	7.5	-	7.5
Cash and cash equivalents	2.2	-	2.2	5.8	-	5.8
	<b>10.0</b>	<b>0.1</b>	<b>10.1</b>	<b>13.3</b>	<b>0.1</b>	<b>13.4</b>

Liabilities as per balance sheet	2014			2013		
	Derivatives used for hedging	Other financial liabilities	Total	Derivatives used for hedging	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
Borrowings	-	(33.5)	(33.5)	-	(35.8)	(35.8)
Trade and other payables (excluding social security and other taxes)	-	(20.8)	(20.8)	-	(16.5)	(16.5)
Derivative financial instruments	-	-	-	(0.2)	-	(0.2)
	-	<b>(54.3)</b>	<b>(54.3)</b>	<b>(0.2)</b>	<b>(52.3)</b>	<b>(52.5)</b>

## 19. Inventories

All inventories are goods held for resale. The directors do not consider the difference between the purchase price of inventories and their replacement cost to be material.

## 20. Trade and other receivables

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Trade receivables				
Within their due period	3.5	2.6	-	-
Past due (between one and six months old) overdue:				
Not impaired	2.3	3.5	-	-
Fully impaired	1.4	0.9	-	-
Total trade receivables	7.2	7.0	-	-
Less: Provision for impairment of receivables	(1.4)	(0.9)	-	-
Trade receivables - net	5.8	6.1	-	-
Amounts owed by group undertakings	-	-	6.2	7.0
Other receivables	2.0	1.4	-	-
Prepayments and accrued income	6.0	4.9	-	-
	<b>13.8</b>	<b>12.4</b>	<b>6.2</b>	<b>7.0</b>

### Group

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

A provision for impairment is established based on historical experience. The amount of the provision was £1.4m (2013: £0.9m). The individually impaired receivables relate mainly to individual customers who are in unexpectedly difficult economic situations. These amounts continue to be legally pursued for collection notwithstanding they are provided against. Movements on the Group's provision for impairment of trade receivables are as follows:

	2014 £m	2013 £m
At beginning of the year	0.9	0.9
Charged to the income statement within administrative expenses	(1.5)	(0.3)
Utilised in the year	2.0	0.3
At end of the year	1.4	0.9

Other receivables do not contain impaired assets.

#### Company

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

## 21. Trade and other payables

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<b>Current</b>				
Trade payables	15.4	13.0	-	-
Social security and other taxes	4.9	5.1	-	-
Other payables	1.5	1.0	-	-
Accruals and deferred income	3.9	2.5	-	-
	25.7	21.6	-	-

## 22. Borrowings

Borrowings comprise bank loans and are denominated in sterling. The repayment profile is as follows:

	2014 £m	2013 £m
Within one year or on demand	3.6	2.2
Between one and two years	4.0	3.7
Between two and three years	25.9	4.0
Between three and four years	-	25.9
	33.5	35.8

The balances above are shown net of issue costs of £0.2m (2013: £0.2m), which are being amortised over the term of the bank loans. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

On 6 December 2011, the Group entered into a banking facility agreement with The Royal Bank of Scotland plc comprising a £36.0m term loan to refinance existing bank indebtedness, and a working capital facility of £4.0m. The term bank loan facility was subject to an initial 24 month capital repayment holiday and repayments amounting to £2.3m were made during the year commencing on 31 December 2013 in staged quarterly instalments. £3.6m of the borrowings are to be repaid in the year ending 30 June 2015 and £4.0m in the following year. The balance of the loan is repayable in September and December 2016.

On 20 September 2013, the Group entered into a Revolving Credit Facility agreement with The Royal Bank of Scotland plc which allows the group to borrow up to £10.0m under this facility. The facility terminates on 6 December 2016.

The overdraft facility was increased to £5.0m on 20 September 2013.

The bank loans, revolving credit facility and overdraft are secured by a first debenture incorporating fixed and floating charges over the assets and undertakings of each Group company. The bank loans and overdraft are also secured on first legal mortgage charges over freehold property included in property, plant and equipment.

### Undrawn committed borrowing facilities

At 30 June 2014 the Group has a committed working capital facility of £5.0m (2013: £4.0m) and a Revolving Credit Facility of £10.0m (2013: £nil). Both facilities were undrawn at 30 June 2014 and 30 June 2013 and are repayable on demand.

## 23. Deferred income tax

Deferred income tax assets comprised:

Group	2014 £m	2013 £m
Tax effect of timing differences:		
Share based payments	1.0	0.5
Losses	0.1	-
Derivative financial instruments	-	0.1
	1.1	0.6

The Group's deferred tax assets have been recognised based on historical performance and future budgets. The Directors believe that it is probable that there will be sufficient taxable profits against which the assets will reverse.

Deferred income tax liabilities comprise excess of qualifying depreciation and amortisation over tax allowances:

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

Group	At 1 July 2013 £m	(Charged)/ credited to the income statement £m	Deferred tax gross up on acquisitions £m	Credited to statement of changes in equity £m	At 30 June 2014 £m
Share based payments	0.5	(0.3)	-	0.8	1.0
Unutilised tax losses carried forward	-	0.1	-	-	0.1
Derivative financial instruments	0.1	-	-	(0.1)	-
Excess of qualifying depreciation and amortisation over capital allowances	(4.1)	1.2	(0.8)	-	(3.7)
	(3.5)	1.0	(0.8)	0.7	(2.6)

Group	At 1 July 2012 £m	(Charged)/ credited to the income statement £m	Deferred tax gross up on acquisitions £m	Credited to statement of changes in equity £m	At 30 June 2013 £m
Share based payments	0.3	-	-	0.2	0.5
Unutilised tax losses carried forward	0.1	(0.1)	-	-	-
Derivative financial instruments	0.1	-	-	-	0.1
Excess of qualifying depreciation and amortisation over capital allowances	(4.8)	0.7	-	-	(4.1)
	(4.3)	0.6	-	0.2	(3.5)

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

## 24. Share capital

	2014 £m	2013 £m
<b>Issued and fully paid:</b>		
58,248,138 (2013: 57,192,140) Ordinary shares of 0.2p each	0.1	0.1

During the year, 500,944 shares were issued for consideration of £1,002 in respect of the vesting of LTIP4, and 538,183 shares were issued for consideration of £430,546 in respect of SAYE3.

Details of shares under option are provided in note 12 to the financial statements.

## Dividends

The Directors have proposed a final dividend of 2.5p (2013: 2.0p) per share (total £1.4m), payable on 22 December 2014 to shareholders on the register at the close of business on 5 December 2014. The dividend has not been included as a liability as at 30 June 2014. During the year a dividend of 2.0p per share amounting to £1.1m was paid.

## 25. 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. The revaluation reserve is not a distributable reserve until realised.

## 26. Analysis of movement in net debt

	At 1 July 2013 £m	Cash flow £m	Non-cash movement £m	At 30 June 2014 £m
Cash and cash equivalents	5.8	(3.6)	-	2.2
Borrowings – current	(2.2)	2.3	(3.7)	(3.6)
Borrowings – non-current	(33.6)	-	3.7	(29.9)
<b>Net debt</b>	<b>(30.0)</b>	<b>(1.3)</b>	<b>-</b>	<b>(31.3)</b>

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

## 27. Cash flow generated from operations

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Profit for the year	4.8	4.0	(0.2)	0.8
Taxation	1.5	1.5	-	-
Total finance costs	1.2	1.2	-	-
Investment income	-	-	-	(1.1)
Amortisation of intangible assets	7.3	6.2	-	-
Depreciation of property, plant and equipment	2.8	2.5	-	-
(Increase)/decrease in working capital:				
Inventories	(0.9)	(0.1)	-	-
Trade and other receivables	(0.5)	(3.2)	(0.6)	0.3
Trade and other payables	3.1	3.9	-	-
Share option expense	1.4	0.7	1.4	0.7
<b>Total net cash flow generated from operations</b>	<b>20.7</b>	<b>16.7</b>	<b>0.6</b>	<b>0.7</b>

## 28. Guarantees and other financial commitments

### Capital commitments

The Group had no capital commitments as at 30 June 2014 (2013: £nil).

### 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 £33.7m at 30 June 2014. The Directors do not expect any material loss to the Company to arise in respect of the guarantees.

## 29. Operating lease commitments

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

	2014			2013		
	Property	Plant and machinery	Total	Property	Plant and machinery	Total
	£m	£m	£m	£m	£m	£m
No later than one year	6.4	0.4	6.8	6.1	0.3	6.4
Later than one year and not later than five years	17.7	0.5	18.2	22.0	0.3	22.3
Later than five years	10.8	-	10.8	27.3	-	27.3
Total	34.9	0.9	35.8	55.4	0.6	56.0

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

## 30. Pension schemes

The Group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the income statement as they fall due. The amounts charged during the year amounted to £0.4m (2013: £0.2m). The amount outstanding at the end of the year included in trade and other payables was £0.1m (2013: £0.1m).

## 31. Related party transactions

Directors' and key management compensation is disclosed in note 8.

### Company

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

	2014 £m	2013 £m
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	(0.2)	(0.3)
Cash advanced to fund payment of dividend	(1.1)	(0.8)
Dividend receivable from CVS (UK) Limited	-	1.1

As at 30 June 2014, the following balances were owed by/due to related companies:

	2014		2013	
	Receivable £m	Payable £m	Receivable £m	Payable £m
CVS (UK) Limited	6.2	-	7.0	-

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

### Transactions with Directors

Annual market based rental payable to the spouse of Simon Innes for the rental of premises amounts to £0.1m (2013: £0.1m), of which £0.1m (2013: £0.1m) was paid in the year.

During the year the following dividends were paid to the Directors: R Connell, £2,000; M McCollum £nil; S Innes £11,000; N Perrin £nil.

## 32. Ultimate controlling party

The Directors consider there is no ultimate controlling party.

## 33. Post Balance Sheet Events

On 7 July 2014, the Group acquired the Freehold Property Lumbry Park, based in Alton for a cash consideration of £1.0m. The property was acquired with the objective of fitting it out as a first class referral centre. The refit will take some time and the Group expect the site to commence operation late in our 2015 financial year.

## Five year history

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Revenue	142.9	120.1	108.7	101.5	85.5
Gross profit	46.6	41.9	39.1	36.7	31.8
Operating profit	7.5	6.7	6.8	6.4	5.7
Exceptional finance expenses	-	-	(1.5)	-	-
Finance expense	(1.2)	(1.2)	(1.5)	(2.1)	(1.9)
Profit before tax	6.3	5.5	3.8	4.3	3.8
Income tax expense	(1.5)	(1.5)	(0.9)	(0.8)	(0.8)
Profit for the year	4.8	4.0	2.9	3.5	3.0
EBITDA					
Adjusted EBITDA	19.7	16.5	15.7	14.5	13.1
Adjusted profit before income tax	14.3	12.1	9.7	9.7	9.4
Cash generated from operations	20.7	16.7	15.6	17.6	12.6
Capital expenditure	(5.3)	(4.1)	(3.6)	(1.9)	(2.1)
Acquisitions	(12.4)	(7.7)	(3.8)	(4.2)	(14.0)
Taxation paid	(2.5)	(2.1)	(2.0)	(1.3)	(1.9)
Interest paid	(1.2)	(1.2)	(1.2)	(1.8)	(1.9)
Exceptional interest paid	-	-	(1.6)	-	-
Debt issuance costs paid	-	-	(0.3)	-	-
Proceeds from ordinary shares	0.5	0.1	-	-	8.6
Loans and borrowings acquired through business combinations	-	-	-	-	(2.4)
Dividends paid	(1.1)	(0.8)	(0.5)	-	-
(Increase)/reduction in net debt	(1.3)	0.9	2.6	8.4	(1.1)
Year end net debt	31.3	30.0	30.9	33.5	41.9
	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	8.3	7.1	6.2	5.7	5.9
Adjusted basic earnings per share	19.0	16.2	12.8	12.5	12.7

## Contact details and advisors

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