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Application has been made for all the issued ordinary shares in CVS to be admitted to trading on AIM, a market operated by the London Stock Exchange. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 10 October 2007. The Ordinary Shares are not dealt in on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority and the AIM Rules are less demanding than those of the Official List of the UK Listing Authority.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers.

The London Stock Exchange has not itself examined or approved the contents of this document.

The whole of the text of this document should be read, including the section entitled "Risk Factors" in Part III of this document.

A copy of this document, which is drawn up as an Admission Document in accordance with the AIM Rules, has been issued in connection with the application for admission to trading of the Ordinary Shares on AIM. The Placing and Admission will not constitute an offer of transferable securities to the public within the meaning of section 102B of the FSMA and does not require an approved prospectus under section 85 of FSMA. Accordingly, this document does not constitute a prospectus for the purposes of the Prospectus Regulations 2005 and has not been pre-approved by the FSA pursuant to section 85 of FSMA.

The Directors, whose names appear on page 7, and the Company accept responsibility for the information contained in this document, including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and this document makes no omission likely to affect the import of such information. In connection with this document and/or the Placing, no person is authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised.

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# CVS Group plc

*Incorporated and registered in England and Wales under the Companies Act 1985 (as amended)  
with registered number 06312831*

**Placing of 45,205,800 Ordinary Shares of 0.2p each at a price of  
205p per Ordinary Share and Admission to trading on AIM**

**NOMINATED ADVISER AND BROKER**

**PANMURE GORDON & CO**

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## Share Capital immediately following Admission

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
352,000,000	£704,000	Ordinary Shares of 0.2p each	51,563,475	£103,126.95

Panmure Gordon, which is authorised and regulated by the FSA, is the Company's nominated adviser and broker and is acting exclusively for the Company and no-one else in connection with the Placing and Admission. Panmure Gordon is not acting for, nor will it be responsible to, any person other than the Company for providing the protections afforded to its own customers or for advising any other person on the contents of this document or any transaction or arrangement referred to in this document. No representation or warranty, express or implied, is made by Panmure Gordon as to any of the contents of this document and no liability whatsoever is accepted by Panmure Gordon for the accuracy of any information or opinions contained in this document or for the omission of any material information. The responsibilities of Panmure Gordon as the Company's nominated adviser and broker for the purposes of the AIM Rules for Nominated Advisers are owed solely to the London Stock Exchange and are not owed to the Company or any Director or to any other person in respect of his decision to acquire Ordinary Shares in reliance on any part of this document.

This document does not constitute an offer to sell, an invitation to subscribe for, or the solicitation of an offer to subscribe for or buy, Ordinary Shares in any jurisdiction outside the United Kingdom where such offer or solicitation may lead to a breach of any legal or regulatory requirement. This document should not be distributed directly or indirectly to any persons with addresses in the United States, Canada, Japan, Australia, South Africa or the Republic of Ireland, or to any corporation, partnership or other entity created or organised under the laws thereof. The Ordinary Shares have not been and will not be registered under the applicable securities laws of the United States, Canada, Japan, Australia, South Africa or the Republic of Ireland.

Certain statements contained in this document constitute "forward-looking statements". In some cases, forward looking statements can be identified by terms such as "may", "intend", "might", "will", "should", "could", "would", "believe", "anticipate", "expect", "estimate", "predict", "project", "potential" or the negative of these terms and similar expressions. Such forward-looking statements are based on assumptions and estimates and involve risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those "Risk Factors" discussed in Part III of this document. New factors may emerge from time to time that could cause the Group's business not to develop as it expects, and it is not possible for the Company to predict all such factors. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. Where information has been sourced from a third party the Company confirms that such information has been accurately reproduced and that as far as it is aware and is able to ascertain from information published by that third party no facts have been omitted that would render the reproduced information inaccurate or misleading.

Other than in accordance with the Company's obligations under the AIM Rules or as otherwise required by law, the Company undertakes no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company, to its Directors or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this document. Information or other statements presented in this document regarding market growth, market size, development of the market and other industry data pertaining to the Group's business consist of estimates based on data and reports compiled by industry professionals or organisations and analysts and the Company's knowledge of its sales and markets. The information on the Company's website does not form a part of this document.

Copies of this document will be available to the public free of charge at the offices of Panmure Gordon at Moorgate Hall, 155 Moorgate, London EC2M 6XB during normal business hours on any day, excluding Saturdays, Sundays and public holidays, from Admission for a period of one month.

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## KEY INFORMATION

*The following information does not purport to be complete and is derived from, is qualified in its entirety by, and should be read in conjunction with, more detailed information appearing elsewhere in this document. Financial information has been extracted from the historical financial information set out in Part V(B) of this document. See Part III entitled 'Risk Factors' for a discussion of certain factors which should be taken into account when considering whether to purchase Ordinary Shares. Investors should read the whole of this document and not just rely on the key or summarised information.*

### Introduction

CVS Group plc is one of the leading veterinary service providers in the UK, operating 45 veterinary practices (consisting of 128 individual surgeries) nationwide and three veterinary diagnostic laboratories. CVS is the UK's largest employer of vets with 271 employed, representing 2.2 per cent. of all vets estimated to be registered and practising in the UK. CVS was founded in 1999 with financial backing from funds managed by Sovereign Capital Partners LLP with the objective of consolidating the fragmented UK veterinary services market, and has completed acquisitions for consideration of approximately £32.9 million to date.

### Business Description

The CVS business model is to offer to owner-vets operating under a partnership structure the chance to realise the value of their asset in a market where demographic and other changes are creating a situation whereby new younger vets are now no longer able or inclined to buy into partnerships themselves. The CVS structure offers to remove the administrative burden from the veterinary practices it acquires through the provision of central services such as finance, human resources, marketing, health and safety, information technology and purchasing, allowing the practice to concentrate on the provision of clinical care.

CVS now operates 128 surgeries which were acquired in the following periods.

	1999 - June 2004	July 2004 - June 2005	July 2005 - June 2006	July 2006 - June 2007	July 2007 - Present
Surgeries Acquired	17	12	30	62	7

CVS has also acquired three veterinary diagnostic laboratories, which provide laboratory services to CVS practices and to third parties. The laboratory services represent a key saving and growth opportunity to the Group as additional acquired practices drive incremental diagnostic revenues through the CVS laboratories.

Further scale benefits are accessed through the ability to obtain favourable terms from suppliers and wholesalers of veterinary supplies, intra-Group referrals and the operational leverage that the centralised administration structure brings to the Group as it continues to grow.

### Investment Highlights

#### 1. *Leading market position*

CVS operates 128 individual surgeries across the UK, which is more than twice the number operated by the nearest competitor. The Directors believe that the Group has built a reputation in the veterinary profession as the leading national consolidator, without sacrificing its reputation for working alongside the profession as a consolidator.

#### 2. *Nationwide Infrastructure*

CVS's nationwide network of 128 veterinary surgeries is capable of significant operational leverage. Efficiency is improved as more administrative services can be delivered by the head office. Scale also brings benefits in the buying of drugs and equipment.

#### 3. *Organic profit growth*

CVS (UK) Limited has demonstrated the ability to extract organic profit growth from the practices it acquires in the post-acquisition period, over and above the profit growth attributable to the immediate contribution of those acquisitions. This is driven by scale efficiencies,

operational leverage, pricing management, collective buying power, and growth in the underlying market for veterinary care.

#### 4. ***Growth through acquisition***

Consolidation in the UK veterinary market is being driven by demographic changes in the profession which are creating an opportunity to acquire more practices as the industry moves from a fragmented partnership structure towards a more corporate-owned structure. CVS has made 40 separate acquisitions and is therefore well proven in its ability to assess the attractiveness of potential new acquisitions and successfully integrate and operate them thereafter.

#### 5. ***Financially robust***

The CVS business model is highly cash generative, with the last three financial years of trading each benefiting from cash generation through working capital as a result of strong cash receipts at the point of sale, favourable credit terms with suppliers and low levels of stock. In addition, property rental costs are low at under 5 per cent. of revenues, and capital expenditure is also relatively low. No new money is being raised on Admission through the sale of shares. The Directors anticipate that the acquisition pipeline will be adequately funded through a combination of debt finance and internally generated cash flows.

### **Acquisitive Growth Strategy**

The Group intends to continue its strategy of growth through acquisition in the fragmented UK veterinary market. The Group will consider any individual practice acquisition on its own merits, but in general will focus on veterinary practices with a minimum of four vets employed and a turnover of at least £500,000 per annum. For laboratory acquisitions the principal criteria is that they must be complementary to existing laboratory facilities in terms of the diagnostic services provided.

No new money for the Company is being raised in the Placing. Acquisitions are intended to be funded through a £12 million currently undrawn debt facility that has been agreed with The Royal Bank of Scotland and Barclays and internally generated cash. A two year capital repayment holiday from draw down has been agreed, which will enable the Group to commit more of its own internally generated cash flow towards making further acquisitions.

CVS continues to be approached by veterinary practices and laboratory service providers seeking to sell to the Group and is currently evaluating in excess of 15 potential practice acquisition opportunities (in excess of 30 surgeries). Opportunities to acquire larger practices are being presented more frequently, as a result of direct contact, word of mouth, referrals and correspondence.

### **Organic Growth**

In addition to growth by acquisition the Group is able to grow the performance of the practices that are already part of the Group significantly as a result of growth in the underlying veterinary market combined with the benefits that CVS ownership brings to its practices. Improvements in revenues are brought about through changes in pricing and marketing as well as an increase in intra-Group referrals of patients and the channelling of diagnostic services through the CVS laboratories. Margins are improved by providing access to Group discounts with suppliers and through the provision of central administrative services by CVS's head office.

### **The Veterinary Services Market**

The Directors believe that several factors are contributing to the growth of the market for veterinary services in the UK. The pet population in the UK is growing, in particular the cat population which has grown steadily from 7.5 million in 2002 to 9.9 million in 2007 (Euromonitor August 2007). The Directors believe that the ageing human population has increased the demand for pets as a companion in old age, whilst the phenomenon of 'empty nesters' is also driving demand for pets amongst couples who are yet to have children or older couples whose children have left home and who are seeking a companion as a replacement.

The Directors believe that an ageing pet population combined with the increasing incidence and sophistication of medical interventions and diagnostic services that are available for animals is leading to an increase in the frequency of visits to vets and to an increase in average spend per treatment. A further driver of this trend is the growth of the pet insurance industry which has led to an increase in both the frequency of visits and the complexity of treatments undertaken.

## Key Financial Information

The following table, part of which has been extracted from the historical financial information set out in Part V(B) of this document, summarises the trading record of CVS (UK) for the three 12 month periods ended 30 June 2007. Investors should read the whole of this document and not rely on the summary below.

	<i>12 month period ended</i>		
	<i>30 June 2005 £000</i>	<i>30 June 2006 £000</i>	<i>30 June 2007 £000</i>
Revenue	12,851	20,169	38,972
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	1,304	2,362	5,088
Cash generated from operations	1,420	3,163	6,509
<i>Unaudited financial information</i>			
Like-for-like practice EBITDA growth	23%	19%	17%

Investors should consult the section entitled "Full Year Effect of Acquisitions" on page 12 of this document for further details.

## Current Trading and Prospects

Since 30 June 2007 the Group has continued to grow through a combination of strong like-for-like improvements and the acquisition of seven further veterinary surgeries.

Existing CVS practices have continued to perform strongly since the year end. Company like-for-like sales in the months of July and August saw increases of 9.1 per cent. versus the same period in the financial year to 30 June 2007. The diagnostic division has continued to produce healthy returns and sales growth, as it continues to benefit from the incremental business generated from newly acquired veterinary surgeries.

The acquisition pipeline is buoyant and the Group has experienced an increased level of interest from veterinary practices approaching the Group. Discussions are ongoing with a number of veterinary surgeries. The Directors are confident of the growth opportunities ahead and look forward to continuing to execute their buy and build strategy.

## Dividends

The initial focus post-Admission will be upon the delivery of capital growth for Shareholders. However, the Board intends, subject *inter alia* to the Group's operating performance and ongoing cash requirements and prospects, that the payment of dividends to Shareholders will commence as and when it is appropriate and practicable.

## Board of Directors

Richard Connell, *Non-Executive Chairman*

Simon Innes, *Chief Executive Officer*

Paul Coxon, *Finance Director*

Mark Finn, *Group Operations Director*

David Timmins, *Non-Executive Director*

Christopher Marsh, *Non-Executive Director*

Biographies of the Board appear on page 17 of this document.

## Reasons for Placing and Admission

The Directors believe that the Placing and Admission will raise the public profile of the Group, helping to drive new business and increase awareness of the Group within the veterinary services sector. The Placing will provide liquidity for existing Shareholders both at the point of listing and in secondary market trading following Admission. Access to the public capital markets that will be provided by admission to AIM will give the Group access to further capital if required, or the ability to offer publicly traded shares in the Group as part of the consideration for future acquisitions, although debt facilities and internally generated cash are anticipated to be adequate for the purposes of funding acquisitions for the foreseeable future. No new money is being raised by the Company through the

sale of new Ordinary Shares. Admission of the Company's shares to AIM will also allow management to utilise equity linked employee incentive schemes to incentivise current and future employees.

### **Details of the Placing**

Subject to the Placing becoming unconditional, the Placing will raise approximately £92.7 million before expenses for the Selling Shareholders. Expenses payable by the Group in relation to the Admission process are estimated to amount to approximately £1.4 million.

Nash Sells Limited Partnership II, a fund managed by Sovereign Capital Partners LLP, is offering 35,717,709 Ordinary Shares for sale as part of the Placing. A further 9,230,341 Ordinary Shares are being placed by certain other non-director shareholders. Simon Innes, the Chief Executive, is not selling any of his 1,546,475 Ordinary Shares as part of the Placing. Paul Coxon, the Finance Director, is retaining a holding of 515,500 Ordinary Shares, representing 1.00 per cent. of the issued ordinary share capital of the Company, and is selling 257,750 Ordinary Shares as part of the Placing.

The Non-Executive directors of the Company are each purchasing Ordinary Shares in the Placing as follows:

	<i>Number of Ordinary Shares</i>	<i>Value of Investment</i>
Richard Connell ( <i>Chairman</i> )	24,391	£50,001.55
David Timmins	12,195	£25,000.75
Christopher Marsh	12,195	£25,000.75

Following the Placing, the Directors will be interested in 2,110,756 Ordinary Shares, representing 4.09 per cent. of the issued share capital. Under the terms of the Placing Agreement the Executive Directors have agreed not to dispose of any interests in the Ordinary Shares for a period of one year from Admission except in certain limited circumstances and in the six months following that period, other than on an orderly market basis.

Further details of the Placing Agreement are set out in paragraph 14 of Part VI of this document.

## DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS

<b>Directors</b>	Richard Andrew Connell ( <i>Non-executive Chairman</i> ) Simon Campbell Innes ( <i>Chief Executive</i> ) Paul Daryl Coxon ( <i>Finance Director</i> ) Mark Finn ( <i>Group Operations Director</i> ) David Peter Timmins ( <i>Non-Executive Director</i> ) Christopher Alan Marsh ( <i>Non-Executive Director</i> )	
<b>Business address of the Directors and Registered Office</b>	Unit C Victoria Road Diss IP22 4GA Norfolk	
<b>Company Secretary</b>	Paul Coxon	
<b>Nominated Adviser and Broker</b>	Panmure Gordon (UK) Limited 155 Moorgate London EC2M 6XB	
<b>Solicitors to the Company</b>	DLA Piper UK LLP 3 Noble Street London EC2V 7EE	
<b>Solicitors to the Placing</b>	Travers Smith 10 Snow Hill London EC1A 2AL	
<b>Auditor</b>	PricewaterhouseCoopers LLP The Atrium St Georges Street Norwich NR3 1AG	
<b>Reporting Accountant</b>	PricewaterhouseCoopers LLP Abacus House Castle Park Cambridge CB3 0AN	
<b>Bankers</b>	The Royal Bank of Scotland PLC 36 St Andrew Square Edinburgh EH2 2YB	Barclays Bank PLC 1 Churchill Place London E14 5HP
<b>Registrars</b>	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH	

## **PLACING STATISTICS**

Placing Price	205 pence per share
Number of Ordinary Shares being placed on behalf of Selling Shareholders	45,205,800
Number of Ordinary Shares in issue immediately following Admission	51,563,475
Market capitalisation of the Company at the Placing Price	£105.7 million
Net proceeds of the Placing to be received by the Selling Shareholders	£89.5 million

## **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Publication of this document	5 October 2007
Admission and dealings in the Ordinary Shares to commence on AIM	10 October 2007
CREST accounts credited (where appropriate)	10 October 2007
Date for despatch of definitive share certificates (where applicable)	15 October 2007



## PART I

### INFORMATION ON THE COMPANY

#### **Introduction**

CVS Group plc is one of the leading veterinary services providers in the UK, operating 45 veterinary practices and 128 individual surgeries and three veterinary diagnostic laboratories through its wholly owned subsidiary, CVS (UK) Limited. CVS (UK) Limited was established in August 1999 to acquire and operate veterinary practices which were well established within their local communities and had a reputation for high quality service. The Company strategy recognises that the value of veterinary businesses lies in the quality of their staff and the relationship they enjoy with their existing clients. Professional management expertise and other services are therefore provided centrally to all Group practices, relieving them of their administrative burden and enabling local staff to concentrate on clinical care.

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

In the financial year to 30 June 2007, CVS (UK) Limited generated turnover of approximately £39.0 million. 93 per cent. of turnover in the last financial year was generated by veterinary practices, with the remaining 7 per cent. coming from the diagnostic laboratories. Since the year end, further progress in the execution of CVS's strategy to grow by acquisition has been made with the completion of the purchase of the Nine Mile veterinary practice, based in Surrey, Hampshire and Berkshire and consisting of six veterinary surgeries. This acquisition is expected to make a significant contribution in the coming financial year. A second acquisition of one surgery in Marlow was made in September.

#### **Investment Highlights**

The Directors believe that the CVS business model has a number of competitive advantages which differentiate it in the market place and establish it as an attractive investment opportunity. These include the following:

1. ***Leading market position***

CVS operates 128 individual surgeries across the UK, which is more than twice the number operated by the nearest competitor, and is also the largest employer of vets in the UK with 271 vets, presenting attractive employment opportunities and career flexibility to its staff. The Directors believe that CVS has built a reputation in the veterinary profession as the leading national operator, without sacrificing its reputation for working alongside the profession as a consolidator.

2. ***Nationwide infrastructure***

CVS's nationwide network of 128 surgeries is capable of significant operational leverage. Efficiency is improved as more administrative services can be delivered by the head office. Scale also brings benefits in buying of drugs and equipment.

3. ***Organic profit growth***

CVS has demonstrated the ability to extract strong organic profit growth from the practices it acquires over a number of years, over and above the profit growth attributable to the immediate contribution of those acquisitions. This is driven by scale efficiencies, operational leverage, pricing management, collective buying power, and growth in the underlying market for veterinary care.

#### 4. **Growth through acquisition**

Consolidation in the UK veterinary market is being driven by demographic changes in the profession which are creating an opportunity to acquire more practices as the industry moves from a fragmented partnership structure towards a more corporate-owned structure. Having made 40 separate acquisitions, including 29 under the current management team, CVS is well proven in its ability to assess the attractiveness of potential acquisitions and successfully integrate and operate them thereafter.

#### 5. **Financially robust**

The CVS business model is highly cash generative, with the last three financial years of trading each benefiting from cash generation through working capital as a result of strong cash receipts at the point of sale, favourable credit terms with suppliers and relatively low levels of stock. In addition, property rental costs are low at under 5 per cent. of revenues, and capital expenditure is also relatively low. No new money is being raised on Admission through the sale of shares. The Directors anticipate that the acquisition pipeline will be adequately funded through a combination of debt finance and internally generated cash flows.

### **Business Overview**

CVS currently employs approximately 1,214 staff, including 271 vets, as well as using additional locums, and is the largest national consolidator and operator of veterinary practices. CVS is comprised of two divisions: the practice division comprised of 44 small animal practices and one equine specialist practice and the diagnostic division made up of three laboratories. 34 staff are employed in the head office function based in Diss, Norfolk.

The provision of central services by CVS enables individual surgeries to focus on the provision of clinical care. The services provided bring cost and revenue synergies to CVS as a whole when compared to operating as individual practices. Central laboratory and testing services offered by the diagnostic division provide both savings compared to the provision of such services by third parties and an opportunity for revenue growth. Operational management (on a regional basis), finance, buying, health and safety, HR, IT and marketing services remove a significant administrative burden from local practices. The current central administration structure is scalable and can continue to support subsequent acquisitions, bringing further cost savings per practice. Best practice is shared amongst managers on a regular basis at monthly management meetings, giving each practice an opportunity to consider alternative approaches to common problems.

CVS has also enjoyed further benefits from its increasing scale including favourable buying terms from wholesalers, drug companies and equipment manufacturers, further efficiencies across the cost base, and increasing inter-practice referrals.

### **History of the Group**

CVS (UK) Limited was founded in 1999 with financial backing from funds managed by Sovereign Capital Partners LLP and debt from The Royal Bank of Scotland. Since that time CVS has acquired 45 practice groups for a total consideration to date of approximately £32.9 million. CVS now operates 45 practices with a total of 128 individual surgeries and three diagnostic laboratories. Acquisitions made since incorporation are as follows:

<i>Practice</i>	<i>Date Acquired</i>	<i>Number of surgeries</i>	<i>Location</i>
Barton Veterinary Hospital & Surgery	August 1999	1	Canterbury
Melbourne Veterinary Centres	December 1999	2	Cannock & Bloxwich
Castle View Veterinary Hospital	April 2000	1	Wakefield
Studley Road Veterinary Surgery	June 2000	1	Luton
Riverside Veterinary Clinic	August 2000	1	Bewdley
South Beech Veterinary Surgery	September 2000	1	Wickford
Morley Veterinary Centres	January 2001	2	Taunton
Haygate Veterinary Centres	April 2002	4	Telford
Johnston Veterinary Clinic	July 2002	1	Wellingborough
Ark Veterinary Clinics	March 2004	3	Nottingham area
Mercia Veterinary Surgery	July 2004	1	Tamworth
Abbey Veterinary Centres	July 2004	2	Shrewsbury & Shawbury
Button & Allen Veterinary Hospitals	October 2004	2	Lowestoft & Gorleston

<i>Practice</i>	<i>Date Acquired</i>	<i>Number of surgeries</i>	<i>Location</i>
Coastline Veterinary Surgeries	November 2004	2	Lowestoft
Avenue Veterinary Surgery	February 2005	1	Redcar
Roslyn Veterinary Centre	February 2005	1	Middlesbrough
Linden House Veterinary Centre	March 2005	1	Diss
Orchard Veterinary Centres	March 2005	2	Nottingham area
Bridge Veterinary Group	July 2005	4	Teeside & Cleveland
Firstvets& White Lion Group	December 2005	8	Midlands, the North East & Glasgow
Springfield Veterinary Group	January 2006	8	Rotherham & Sheffield
Harris Hill & Gibbons Group	February 2006	4	Wiltshire
Hunters Bar Group	February 2006	2	Yorkshire & Derbyshire
Mildmay Veterinary Centres	March 2006	2	Winchester & Basingstoke
Medway City Veterinary Centre	April 2006	1	Rochester
Scott Dunns Equine Clinic	June 2006	1	Wokingham
Ayres Veterinary Group	September 2006	4	Tyne & Wear
Beaumont Veterinary Group	September 2006	3	Oxford area
Buchanan Veterinary Group	September 2006	4	South West Manchester
Maison Dieu Veterinary Group	September 2006	3	Dover, Canterbury, Deal
Priory Veterinary Group	September 2006	2	Nottingham area
Selsdon & Warlingham Group	September 2006	2	South of Croydon
Southdown Veterinary Group	September 2006	3	Hove & Shoreham
Tawe Veterinary Group	September 2006	3	Swansea
Old Golf House Group	October 2006	4	Norfolk & Suffolk
Active Vetcare Limited	January 2007	9	Berkshire & Buckinghamshire
County Vets Group	January 2007	3	Staffordshire and Cheshire
Plunkett Veterinary Centres	February 2007	2	Margate and Ramsgate
Regan and Colleagues Group	March 2007	10	Manchester, Bolton and Wigan area
Carrick Veterinary Group	April 2007	3	Derbyshire
Fromus Veterinary Group	May 2007	2	Suffolk
Raddenstiles Veterinary Centre	June 2007	2	Exmouth
Grove Veterinary Group	June 2007	3	Norfolk
Nine Mile Veterinary Group	July 2007	6	Surrey, Hampshire and Berkshire
Pet Healthcare	September 2007	1	Marlow

In addition the Group has acquired three diagnostic laboratories: Precision Histology International (Weybread, April 2002), Rest Associates (Cambridge, June 2001) and a facility acquired as part of the purchase of Active Vetcare Group (January 2007) which is expected to build capacity during the financial year to 30 June 2008.

### Financial Information

The following table, which has in part been extracted from the historical financial information set out in Part V(B) of this document, summarises the trading record of CVS (UK) Limited for the three 12 month periods ended 30 June 2007. Investors should read the whole of this document and not rely on the summary below.

	<i>12 month period ended</i>		
	<i>30 June 2005</i>	<i>30 June 2006</i>	<i>30 June 2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Revenue	12,851	20,169	38,972
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	1,304	2,362	5,088
Cash generated from operations	1,420	3,163	6,509
Number of practices as at 30 June	18	26	43
Number of surgeries and laboratories as at 30 June	29	58	121
<i>Like-for-like practice EBITDA growth</i>	23%	19%	17%

Including the effect of acquisitions, EBITDA has grown at a compound annual growth rate of 97.5 per cent. over the same period.

### Full Year Effect of Acquisitions

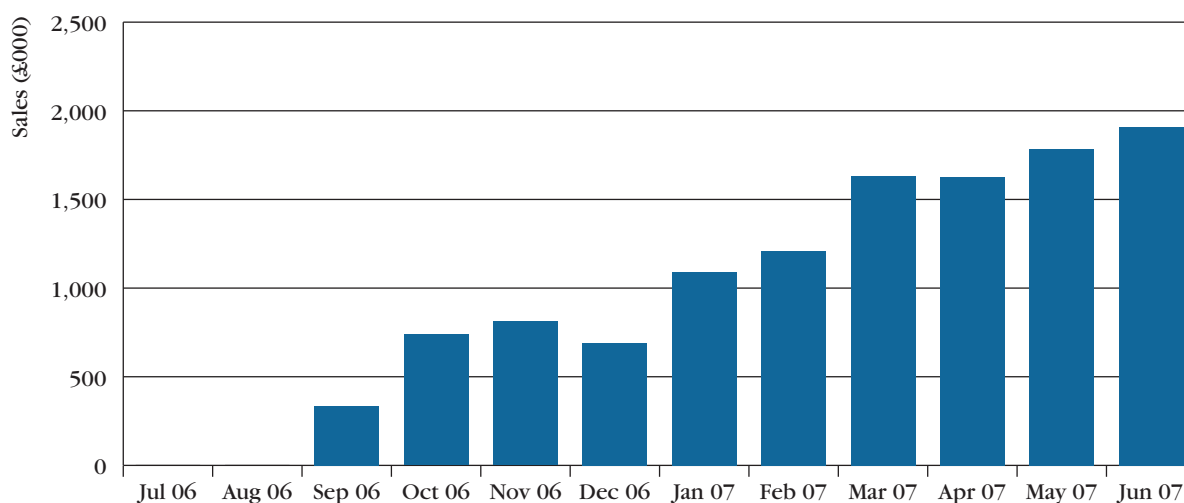
The audited historical financial information on CVS (UK) Limited set out in Part V(B) of this document and summarised above includes the financial results for businesses acquired during the year ended 30 June 2007 only from the date at which they were acquired. The historical financial information presented in Part V(B) of this document cannot and does not report on a full year's trading performance for practices acquired during the year.

The acquisitions made in the year ended 30 June 2007 comprised 17 practices operating from 62 surgeries. The cost of acquiring these 17 practices amounted to approximately £16.2 million. One of those practices (3 surgeries) was acquired on 29 June 2007 (for a consideration of £2.34 million) and therefore only two days of trading are included in the historical financial information presented in Part V(B).

The chart below shows the sales recorded by CVS (UK) Limited on a monthly basis by the 17 practices acquired in the year ended 30 June 2007 since the date of acquisition by CVS.

#### Monthly Sales of Acquired Practices

*Year to 30 June 2007*



The majority of the acquisitions were completed during the latter half of the financial year.

The sales generated from these practices since their acquisition by CVS (UK) Limited amounted to approximately £11.8 million in the year ended 30 June 2007. Two further practice acquisitions have been made since 1 July 2007, which operate from seven sites. As these two acquisitions were made since 30 June 2007, no revenue is included within the audited historical financial information referred to above in respect of these newly acquired practices. In the last financial year preceding their respective acquisition dates, these recently acquired practices recorded combined sales of approximately £2.4 million.

### Acquisitive Growth Strategy

The Group intends to continue its strategy of growth through acquisition in the fragmented UK veterinary market combined with organic growth of existing practices. The Group's strategy is to deliver continuing improved returns post-acquisition of veterinary practices by effectively growing and managing those practices.

The Directors believe that a significant opportunity exists for CVS to build on its first mover advantage and status as a leading national consolidator and operator to increase market share over the coming years and enjoy further favourable scale benefits. Further acquisitions are always under consideration, but care is taken to ensure that each potential new practice group is compatible with the Group's culture. Practices continue to operate under their local brand post-acquisition, alongside the introduction of 'soft' CVS branding. Every potential acquisition is considered on its own merits, but there are a number of criteria which are broadly adhered to. The key factors for selection of potential veterinary practice acquisitions are its current standing in the local community, overall performance

and the willingness of the existing practice team to embrace the Group's approach to business. In addition, potential acquisitions would typically meet the following criteria:

***For veterinary practice acquisitions:***

- Minimum return on investment criteria.
- Minimum of four vets employed per practice, or three where out-of-hours service is shared with another practice.
- Turnover of at least £500,000.
- Established practices or smaller practices if near to an existing cluster.

***For laboratory acquisitions:***

- Minimum return on investment criteria.
- Complementary to existing laboratory facilities.
- Offer a wide range of veterinary diagnostic services.

The principal criteria for an acquisition target are as set out above, with geographic location a secondary consideration. However, the Directors have observed a 'ripple effect' following the successful completion of a purchase, whereby the acquisition of a practice in a certain area can create a lot of follow-up interest from other practices nearby who subsequently look to sell to CVS. This can lead to the development of a 'cluster' of practices within an area, and once such a cluster of acquisitions develops, it becomes possible for nearby practices to support each other in many areas such as the sharing of staff or referral of patients.

CVS continues to be approached both through intermediaries and through direct contacts by veterinary practices and laboratory service providers seeking to sell to CVS and is currently evaluating in excess of 15 potential practice acquisition opportunities (in excess of 30 surgeries). Opportunities to acquire larger practices are being presented more frequently, as a result of direct contact, word of mouth supplier referrals and correspondence. Through internally generated cash-flow and debt facilities negotiated with The Royal Bank of Scotland and Barclays, the Group will have access to at least £12 million of cash for use in the financing of future acquisitions. The Directors believe that it should be possible to continue the Group's acquisitive growth strategy for the foreseeable future, given the fragmented market, demographic trends and lack of direct competition.

Acquisitions that have been made to date have as a whole validated CVS's stated strategy, with the financial performance of businesses once they become part of CVS typically exceeding their performance for equivalent periods preceding acquisition by CVS, in some cases by in excess of 100 per cent. In respect of those practices acquired in the year to 30 June 2006, the practice EBITDA achieved in the financial year to 30 June 2007 represented a return on investment of over 40 per cent. Several of the acquisitions made in the financial year to 30 June 2007 were made towards the end of the period and as such did not make a significant contribution to the financial results for the whole of that period. These practices represent an investment of over £16 million and will make a full contribution in the coming financial year to 30 June 2008. Since the year end CVS has acquired two further practices (7 surgeries), which recorded combined sales of £2.4 million in the last year before acquisition.

Acquisitions are intended to be funded through a debt facility that has been agreed with The Royal Bank of Scotland and Barclays and internally generated cash. The Group will continue to service a fully drawn £32 million term loan post-Admission, and has agreed a further £14 million facility consisting of a £12 million acquisition facility and a £2 million working capital facility. The agreed interest rate on both of the facilities and the term loan is LIBOR plus 1.5 per cent. A two year capital repayment holiday from draw down has been agreed, which will enable the Group to commit a significant part of its own internally generated cash flow towards making further acquisitions as necessary.

### **Veterinary Services**

CVS operates veterinary centres throughout the country, with a strong presence in the Midlands, the North of England, East Anglia, the Home Counties and the South Coast, together with a small number of practices in Swansea and Glasgow. At surgery level, CVS offers a full range of veterinary services including procedures, check-ups and veterinary products for dogs, cats, birds, small mammals, reptiles

and horses through the specialist equine practice. Services offered throughout the practice division include consultations, periodic health checks, dispensing of prescribed medicines, dentistry, surgical procedures (removal of tumours, wound repairs, soft tissue and orthopaedic procedures), hospitalisation, laboratory testing, nurse clinics for older animals, nutrition advice, home visits, pet passports, emergency care, vaccinations, euthanasia (and burial or cremation), some catteries and kennelling and the sale of specialist pet food.

Veterinary practice is a highly skilled occupation which requires trained clinical personnel. The Group currently employs 271 vets and veterinary pathologists. Through its acquisitions to date the Group has built up a considerable base of professional staff including both nurses and vets.

### **Laboratory Services**

In addition to the provision of veterinary care through its practice division, CVS also conducts laboratory-based diagnostic testing for its own practices and for third parties at facilities in Weybread (Precision Histology International) and Cambridge (Rest Associates). An additional facility based in Slough was acquired as part of the acquisition of Active Vetcare Limited in January 2007.

Conducting laboratory activities in-house brings several benefits to CVS:

- Revenue retention within CVS.
- The ability to drive growth in the laboratory division itself as a result of diverting all laboratory testing from newly acquired practices through the CVS laboratories.
- Possession of an expertise in pathology.
- Potential for clinical training to take place at the laboratory locations.

The laboratory division is therefore a good example of the kind of benefits which can be enjoyed by CVS practices after acquisition.

Further acquisitions of laboratories will be considered in the future, in particular where the proposed acquisition would add to CVS's diagnostic capabilities. At present the laboratory division specialises in histology, but has a small but growing activity in, for example, the area of biochemistry.

### **Additional Revenue Streams**

The Directors have identified numerous opportunities for the generation of new revenue streams beyond general veterinary practice. These additional revenue streams are not central to the core strategy of growth by acquisition and operational efficiency improvements, but do represent potentially lucrative additional revenues. The core business is intended to continue to be built around veterinary practice and laboratory services. The following opportunities are all regarded as ways to increase the utilisation of existing assets.

- *Insurance* - CVS's veterinary surgeries offer Petplan insurance to their customers. The Group receives a commission from Petplan for every policy that is sold and individual staff members are incentivised to sell policies. The Directors are of the opinion that Petplan is currently a high quality insurance product. CVS's approach to the insurance market is to note that whilst a small amount of incremental revenue can be generated from direct sales of insurance policies, the greater benefit to CVS can be found in the form of the increased propensity of insured animals to receive treatment and in particular more expensive treatment.
- *Diagnostic Laboratory Services* - CVS provides diagnostic laboratory services not only to its own practice network, but also to third parties. In the financial year to 30 June 2007, provision of such services to third parties outside the Group accounted for in excess of 75 per cent. of laboratory revenues. This activity is expected to grow as more acquisitions are made in this area and existing facilities grow to reach full capacity, and as the profession continues its trend towards increasing utilisation of diagnostic services.
- *Specialist Referrals* - as CVS grows and acquires more specialist vets the opportunity to cross-refer patients to specialist centres across the UK increases and generates incremental revenues where otherwise these may have been referred outside the Group.
- *Other Activities* - There are several other potential growth opportunities that have been identified by the Directors including catteries, kennels, grooming, behavioural classes (all within existing practices) and crematorium services.

Many of these potential new revenue streams could be undertaken as CVS grows with minimal requirement for additional expenditure.

### **Customers of the Group**

The practice division of CVS comprises small animal veterinary practices providing first opinion support to pet owning customers and second opinion (referral) support to both CVS and other veterinary practices. Equine activities consist of one specialist equine veterinary practice (Scott Dunns) which was acquired on 1 June 2006, and is based in Berkshire. This equine practice provides veterinary support services to a broad client base including racehorse trainers, polo clubs and many individual owners of horses and ponies.

The diagnostic division comprises three laboratories providing a wide range of services to veterinary practices including histopathology, clinical chemistry and microbiology testing. The Group's laboratories provide laboratory testing and sampling services as well as diagnostic opinion from a team of pathologists. Laboratory services are provided to third party veterinary practices outside the Group as well as CVS's own practices.

### **Wholesaler Arrangements**

One of the advantages that CVS can bring to acquired practices is the opportunity to receive Group discounts on supplies. For example, CVS's wholesaler of pharmaceutical products, foodstuffs, toys and other similar items is National Veterinary Services ("NVS"), a division of Dechra Pharmaceuticals plc. NVS supplies a significant majority of CVS's consumables and goods for resale. CVS's scale has enabled it to negotiate an advantageous supply agreement for these items with NVS.

The Directors are aware of two other competing suppliers (W. & J. Dunlops Limited and Centaur Services Limited) who could deliver an equivalent wholesaling service.

Purchasing terms are negotiated centrally but individual practices have the ability to order stock directly from the wholesaler. Discounts and rebates continue to rise as the Group grows.

### **Property**

All of CVS's properties are leasehold with the exception of three freehold properties - two veterinary sites (Wellingborough and Shepshed) and the laboratory site in Weybread. Rental costs amounted to less than 5 per cent. of revenues in the financial year to 30 June 2007.

### **Current Trading and Prospects**

Since 30 June 2007 CVS has continued to grow through a combination of strong like-for-like improvements and the acquisition of further veterinary surgeries.

CVS has acquired seven veterinary surgeries since the year end (the Nine Mile practice group on 2 July and Pet Healthcare Marlow in September). The post-acquisition results have been in line with expectations.

Existing CVS practices have also continued to perform well since the year end. Company like-for-like sales in the months of July and August saw increases of 9.1 per cent. versus the same period in the financial year to 30 June 2007. The diagnostic division has continued to produce healthy returns and sales growth, as it continues to benefit from the incremental business generated from newly acquired veterinary surgeries.

Cash generation from trading activities is strong and continues to increase. Funding of acquisitions since the year end has consisted of a combination of cash and bank facilities. The Directors believe that the bank funding arrangements negotiated by CVS shortly before Admission, together with internally generated cash-flow from existing practices, will be sufficient to fund growth through further acquisitions for the foreseeable future. There are no new Ordinary Shares being issued on Admission.

The acquisition pipeline is buoyant and CVS has experienced an increased level of interest from veterinary practices approaching it. Discussions are ongoing with a number of veterinary surgeries. The Directors are confident of the growth opportunities ahead and look forward to continuing to execute their buy and build strategy.

## Reasons for Placing and Admission

The Directors believe that the Placing and Admission will bring the following advantages to the Group:

- Admission should have the effect of raising the public profile of CVS, which it is anticipated will help to drive new business, as well as increasing awareness of CVS within the veterinary services sector.
- The Placing will provide liquidity for existing shareholders both at the point of listing and in secondary market trading following Admission. Nash Sells Limited Partnership II, a fund managed by Sovereign Capital Partners LLP, is the largest shareholder of the Group and is placing 35,717,709 of the shares it currently holds with new institutional investors.
- Admission of the Group's shares to AIM will allow management to put in place equity linked employee incentive schemes. These schemes will help to incentivise current employees, as well as assisting the CVS Group in attracting new high-quality employees in the future.
- Access to the public capital markets that will be provided by admission to AIM will give the Group access to further capital if required, or the ability to offer publicly traded shares in the Company as part of the consideration for future acquisitions. The Directors believe that the Group could benefit from this facility in future in continuing its acquisition-led growth strategy, although debt facilities and internally generated cash are anticipated to be adequate for the purposes of funding acquisitions for the foreseeable future.

## Details of the Placing and Admission

Pursuant to the Placing, which has been arranged by Panmure Gordon, the Sale Shares have been conditionally placed with institutional and other investors in the United Kingdom at the Placing Price.

Subject to the Placing becoming unconditional, the Placing will raise approximately £92.7 million before expenses for the Selling Shareholders. Expenses payable by the Group in relation to the Admission process are estimated to amount to approximately £1.4 million.

Application has been made for all of the Ordinary Shares (including the Sale Shares) to be admitted to trading on AIM. The Sale Shares have not been marketed in whole or in part to the public in conjunction with the application for Admission.

The Placing is conditional, *inter alia*, upon:

- (a) the Placing Agreement becoming unconditional, save for Admission, and not having been terminated in accordance with its terms prior to Admission; and
- (b) Admission taking place on 10 October 2007 or such later date as Panmure Gordon and the Group may agree not being later than 17 October 2007.

Further details of the Placing Agreement are set out in paragraph 14 of Part VI of this document.

Nash Sells Limited Partnership II, a fund managed by Sovereign Capital Partners LLP, is offering 35,717,709 Ordinary Shares for sale as part of the Placing. A further 9,230,341 Ordinary Shares are being placed by certain other non-director shareholders. Simon Innes, the Chief Executive, is not selling any of his 1,546,475 Ordinary Shares as part of the Placing. Paul Coxon, the Finance Director, is retaining 515,500 of his Ordinary Shares and is selling 257,750 Ordinary Shares as part of the Placing.

The Non-Executive directors of the Group are each purchasing Ordinary Shares in the Placing as follows:

	<i>Number of Ordinary Shares</i>	<i>Value of Investment</i>
Richard Connell ( <i>Chairman</i> )	24,391	£50,001.55
David Timmins	12,195	£25,000.75
Christopher Marsh	12,195	£25,000.75

Following the Placing the Directors and key employees will retain the majority of their pre-Admission shareholdings representing in total 5.76 per cent. of the issued share capital following Admission. The Directors believe that this level of shareholding, combined with the Long Term Incentive Plan to be put in place on, and subject to, Admission to incentivise key employees, will ensure that key staff remain sufficiently interested in the business to align their interests with those of other shareholders.



Following the Placing, the Executive Directors will be interested in 2,061,975 Ordinary Shares, representing 4.00 per cent. of the issued share capital following Admission. Under the terms of the Placing Agreement the Directors have agreed not to dispose of any interests in the Ordinary Shares for a period of one year from Admission except in certain limited circumstances and in the six months following that period, other than on an orderly market basis; having undertaken only to sell shares through Panmure Gordon for this six month period.

## **Board of Directors**

### ***Richard Connell (52), Non-Executive Chairman***

Mr. Connell has been involved in the financial sector for more than 25 years and has worked with 3i Group, Amvescap, and HSBC. He is a Chartered Accountant and has held executive positions in marketing and general management. In addition to working with the Group, he is Chairman of Dignity plc, Ideal Stelrad Group, and Unifeeder A/S. Richard has a degree from Oxford University.

### ***Simon Innes (47), Chief Executive***

Mr. Innes was appointed as Chief Executive of CVS (UK) Limited in January 2004. Prior to this he was Chief Executive of Vision Express from 2000 to 2004, over which time he built the business up to £220 million turnover and 205 practices, and reversed a loss-making position to create one of the most profitable corporate optical operators in the UK. The growth strategy that was successful at Vision Express is now being implemented in the veterinary industry by CVS. Prior to Vision Express, Mr. Innes was on the board of Hamleys PLC as Operations Director, where amongst other responsibilities he was involved in opening 60 concession stores in just 3 months for Hamleys in conjunction with Debenhams. Before Hamleys, Mr. Innes gained ten years of management experience at Marks & Spencer, and now has a total of 17 years of experience in the retail sector. Mr. Innes served for seven years in the British Army, achieving the rank of Captain in the Royal Engineers.

### ***Paul Coxon (42), Finance Director***

Mr. Coxon was appointed as Finance Director of CVS (UK) Limited in August 2003. He has a total of 19 years of experience in finance and accounting. He qualified as a chartered accountant with KPMG Peat Marwick in 1991. Prior to working at CVS, Mr. Coxon was the Finance Director of Allied Grain (South), a £160 million turnover subsidiary of Associated British Foods PLC.

### ***Mark Finn (48), Group Operations Director***

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

### ***David Timmins (55), Non-Executive Director***

Mr. Timmins recently left Genus plc where he was Group Finance Director for over 3 years. He played a prominent role in the reverse acquisition of Sygen International plc, an Official List company, which involved a significant institutional fund raising. He has veterinary sector experience through a Genus plc business division. He is a graduate and a Chartered Accountant with more than 15 years of experience as CFO in listed companies.

### ***Christopher Marsh (63), Non-Executive Director***

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

## **Key Employees**

### ***Brian Pound (65), Corporate Development Director of CVS (UK) Limited***

Mr. Pound was Managing Director of various companies within the Solvay SA Group (Belgium) from 1979 to 1999 with a cumulative turnover of £200 million, three of which were manufacturers and suppliers to the veterinary profession. He was one of the founding directors of CVS and has managed the acquisition process since the company started.

## **Dividend Policy**

The initial focus post Admission will be upon the delivery of capital growth for Shareholders. However, the Board intends, subject *inter alia* to the Group's operating performance and ongoing cash requirements and prospects, that the payment of dividends to Shareholders will commence as and when it is appropriate and practicable.

On 12 September 2007, the High Court approved a reduction in the share capital of CVS whereby the nominal values of both the ordinary and the preferred ordinary shares were reduced from £30 to £0.05. This capital reduction was effected to create an adequate level of distributable reserves in CVS to permit the redemption of its preference shares and the payment of outstanding dividends on its preferred ordinary shares, in each case on, and subject to, Admission. The Company will have in excess of £50 million of distributable reserves after Admission.

## **Taxation**

A general guide to the taxation of dividends for Shareholders who are resident in the UK is set out in paragraph 10 of Part VI of this document and your attention is drawn to this section. Persons who are in doubt about their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their professional adviser.

## **CREST**

The Company's Articles permit its shares to be evidenced in uncertificated form. The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission and Euroclear UK & Ireland Limited (formerly CRESTCo) has agreed to such admission. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST system if the relevant Shareholder(s) so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

## **Corporate Governance**

The Directors recognise the importance of high standards of corporate governance and intend that the Company, where practicable for a public company of its size and nature, will comply with the principal provisions of the Combined Code.

The Company has established audit, nominations and remuneration committees of the Board with formally delegated duties and responsibilities.

The Audit Committee has a primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. It will receive and review reports from the Group's management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee will meet at least twice a year and will have unrestricted access to the Group's auditors. The chairman of the Audit Committee is David Timmins and its other members are Richard Connell and Christopher Marsh.

The Remuneration Committee will review the performance of the Executive Directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration Committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. The chairman of the Remuneration Committee is Christopher Marsh and its other members are Richard Connell and David Timmins.

The Nominations Committee is responsible for making recommendations on the appointment of additional Directors and for reviewing the composition of the Board and membership of the board committees. The chairman of the Nominations Committee is Richard Connell and its other members are David Timmins and Christopher Marsh.

**Employee Incentives**

The Company has established an LTIP in order to assist in the retention and motivation of its Directors and employees. Further details of the LTIP are set out in paragraph 6 of Part VI of this document.

**Admission and Dealings**

Application has been made to the London Stock Exchange for the entire issued and to be issued share capital of the Company to be admitted to trading on AIM. It is expected that Admission will be effective and that dealings in the Ordinary Shares will commence on 10 October 2007.

**Additional Information**

The attention of prospective investors is drawn to the additional information contained in Parts II to VI (inclusive) of this document. In particular, prospective investors are advised to consider carefully Part III of this document, entitled "Risk Factors".

## PART II

### INFORMATION ON THE MARKET

#### Market Size

Figures on the small animal pet population of the UK since 2002 show relatively stable populations across animal types, with the exception of the cat population which has grown throughout the period from 7.5 million to 9.9 million:

<i>Population (millions)</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Dogs	6.2	6.5	6.8	6.8	6.8	6.7
Cats	7.5	8.0	8.9	9.2	9.6	9.9
Small mammals	4.2	4.5	4.8	5.2	5.5	5.7
Reptiles	1.9	1.9	2.0	2.0	2.2	2.3
Total	<u>19.8</u>	<u>20.9</u>	<u>22.5</u>	<u>23.2</u>	<u>24.1</u>	<u>24.6</u>

*Source: Euromonitor "Pet Food and Pet Care Products in the United Kingdom" August 2007*

The Pet Food Manufacturers Association currently estimates that at least one out of every two UK households owns a pet.

Of 3,932 veterinary practices in the UK in 2007, 2,103 were small animal specialists, 60 were large animal specialists, 134 were equine specialists and the remaining 1,635 practices were mixed (*RCVS 2007*). The trend in recent years has been a reduction in the number of mixed animal practices as practices have begun to specialise in a particular animal type. CVS's 127 small animal practices therefore represent 6 per cent. of the small animal market by number of surgeries (excluding mixed practices), and 3 per cent. of all veterinary surgeries in the UK.

The number of veterinary surgeons registered with the RCVS in 2007 was 22,162, broken down as follows:

UK General Practice	13,380
In practice overseas (excl. Republic of Ireland)	2,607
Republic of Ireland	1,175
Government Service	856
Universities and Colleges	791
Research Institutes	21
Industry and commerce	266
Charities and Trusts	357
Non-practising	2,687
Other	22
TOTAL	<u>22,162</u>

The Royal College of Veterinary Surgeons estimates that of the 13,380 vets assumed to be in practice in the UK only an estimated 91 per cent. (12,173) were likely to be actually engaged in general practice. CVS employs 271 practising vets, therefore indicating a 2.2 per cent. market share measured by reference to the number of vets estimated to be in general practice in the UK.

#### Market Growth Drivers

The Directors have identified several potential drivers of growth within the veterinary industry and therefore believe that there is potential for significant organic growth in the business beyond growth achieved through acquisition alone. The Directors believe that there is a particular trend towards expansion of the veterinary insurance market. With pet owners becoming increasingly concerned for the welfare of their pets, the growing market for pet insurance is seen by the Directors as an opportunity for the Group as it is likely to lead to an increase in the frequency and complexity of veterinary treatment.

A trend which is also expected to continue is the phenomenon of ‘empty nesters’ whereby couples or single adults waiting until later in life to have children are more likely to seek a companion in the intervening time, or to seek one once children have left home.

As veterinary science progresses it is becoming possible to offer more complicated and expensive procedures for animals such as orthopaedic implants or radiotherapy, which could be required with more frequency if pets continue to live longer. The Directors expect that these drivers will continue to combine to increase the frequency of visits to the vets and to increase average spend per treatment. Preventative medicines and nutrition are also growth areas. Another driver that the Directors expect to be significant is the ageing human population in the UK, as older people are more likely to seek a companion in later life.

The Directors also believe that the veterinary market is inherently recession-resistant in that spending on pet healthcare is not seen as a discretionary item by consumers.

### **Demographic Change Creating a Consolidation Opportunity**

The Directors believe that corporate-owned veterinary practices represent 15 per cent. of the UK small animal market measured by number of surgeries, implying that there is significant further consolidation opportunity. CVS currently employs an estimated 2.2 per cent. of practising vets in the UK, which also suggests that there is significant scope left for expansion in the UK market.

The availability of practices for acquisition has increased due to continuing market and demographic changes in the veterinary profession. The Directors expect this trend to continue. 74 per cent. of veterinary graduates are women, and 51 per cent. of practising vets are now women. 25 per cent. of female vets work on a part-time basis, whilst only 5 per cent. of male vets work on a part-time basis. These trends suggest that there is a growing opportunity to expand the CVS group structure amongst a new generation of vets which is increasingly working part time and therefore has less time to devote to the administrative burden of operating a veterinary practice outside of the provision of clinical care. In addition to this, the administrative burden borne by independent veterinary partnerships is significant (e.g. employment law, health and safety) and can reduce the amount of time that vets have available to dedicate to the provision of clinical care.

The Directors believe that a growing proportion of younger vets are not willing to buy into practices. Many are looking for a different work-life balance, have other priorities, or simply do not have access to the financial resources to buy into a practice. This creates a situation where there are fewer potential purchasers of practices, making the attraction for vets of selling to CVS even greater as a way of realising the value in their practices. In general the Directors expect these trends to gradually move the UK veterinary profession away from a partnership dominated environment into one where more veterinary surgeons are employees of larger organisations.

The Directors believe that from a vet’s perspective CVS is one of very few credible buyers in the UK market at present, particularly for larger practices with a value of more than £750,000. The professional reputation of CVS is endorsed by those who have already been acquired, and the Directors believe that relief from the administrative burden, whilst retaining the ability to carry out clinical work, represents a significant attraction to many vets. Many vendor vets still work with CVS to this day, which the Directors see as a strong endorsement.

### **Competition**

CVS is the largest corporate owner of veterinary surgeries in the UK, with 128 surgeries. The closest competitors are Medivet (56 surgeries), Companion Care (39), Goddards (35), Vets4Pets (30) and Pet Doctors (28). The Directors believe that CVS’s leading position represents a significant first mover advantage, as the reputation of the Group continues to spread within the industry, leading to further acquisition opportunities.

### ***Joint Venture model***

Companion Care and Vets4Pets operate a joint venture model, opening up new veterinary surgeries on greenfield sites in competition with local providers. This model is to some extent reliant on finding vets who are willing to invest alongside the operator. Companion Care is now one of the top three fastest growing corporates in the industry after CVS and is achieving some success with the joint venture model. The Directors believe that Vets4Pets is growing more slowly than Companion Care due in part to property restrictions on ‘greenfield’ sites. CVS’s strategy of buying established, profitable

practices is, in the Directors' opinion, a faster and less risky way of achieving high returns when compared to the joint venture business model. Part of CVS's strategy is to build a reputation within the profession for working alongside vets and assisting them in realising the value in their practices, and the Directors believe that this positive reputation can be more difficult for a joint venture operator to achieve when setting up new practices in competition with existing local surgeries.

### ***Consolidation model***

Of the non-joint venture competitors, CVS is the most active in terms of acquisitions made in the last two years, particularly in relation to larger practices. Goddards remains focused on the London area and has stated no plans to make any acquisitions outside Greater London, whilst Pet Doctors have not made an acquisition in over 18 months. Medivet is the closest competitor to CVS in terms of number of surgeries operated. To date Medivet have only acquired practices in the South of England. None of these competitors has a national infrastructure, meaning that they can only compete with CVS in certain local areas.

### **Charitable Organisations**

A feature of the UK veterinary industry is that a certain portion of veterinary care is provided or funded by charitable organisations such as PDSA, the RSPCA, the National Canine Defence League and many smaller local organisations.

There is little competition for customers between CVS and these charitable organisations, who operate few veterinary practices of their own. Charities also address a different market to CVS, focusing on assisting low-income pet owners to provide veterinary care for animals whose owners would not otherwise be able to afford veterinary care. For example, PDSA will only treat animals belonging to owners who can prove that they are in receipt of income support or housing benefit. CVS carries out some treatments in its own surgeries on behalf of charities.

## PART III

### RISK FACTORS

Potential investors should carefully consider the risks described below before making any decision to invest in the Company. The investment described in this document may not be suitable for all those who receive it. Before making a final decision, investors in any doubt about the action they should take are advised to consult a person authorised under the FSMA 2000 who specialises in advising on the acquisition of shares and other securities.

Investment in the Company carries a degree of risk including the risks referred to below in relation to the Company and the Ordinary Shares. The risks referred to below are the risks which are considered to be material but are not the only risks relating to the Company and the Ordinary Shares. There may be additional material risks that the Company and the Directors do not currently consider to be material or of which the Company and the Directors are not currently aware. Potential investors should review this document carefully and in its entirety and consult with their professional advisors before acquiring any Ordinary Shares. If any of the risks referred to in this document were to occur, the financial position and prospects of the Group could be materially adversely affected. If that were to occur, the trading price of the Ordinary Shares and/or the level of dividends or distributions (if any) received from the Ordinary Shares could decline significantly and investors could lose all or part of their investment.

#### Risks relating to the Company's business

##### *Business Integration*

The Company proposes to acquire and operate further separate veterinary practices in the United Kingdom. There is a risk that fully integrating these businesses and those already acquired may take longer or cost more than is currently anticipated by the Company, which could impact on the profitability of the Company. Specific factors to note include:

- the Group's veterinary practices tend to operate on a number of different management reporting and information technology systems. The lack of a standardised reporting system across the practice network consequently makes the production of consolidated management and financial information more difficult. Delays in the smooth integration of these systems may adversely impact the Company;
- there is no guarantee that any businesses acquired by the Company will continue to operate profitably after their integration into the Group;
- there may be liabilities within the businesses and companies acquired both historically and in the future and the Company's ability to successfully recover any resultant losses pursuant to a claim under the acquisition agreements relating to these practices is dependant upon, amongst other matters, the continued solvency of the vendors, who may continue to work at the practices that are acquired and their ability to meet any claim or claims;
- annual growth rates may be affected by practice refurbishments and site closures;
- there can be no guarantee that relationships established with pet owners and suppliers will continue as forecast;
- the provisions of the TUPE (the Transfer of Undertakings (Protection of Employment) Regulations 2006) are likely to inhibit the Group's ability to change the terms and conditions of acquired employees in the future should it wish to do so; and
- head office costs are likely to continue to grow as further acquisitions are made.

##### *Key Personnel*

The Company is dependent on its key management, the loss of whose services could materially and adversely affect the Company and impede the achievement of its objectives. The Directors cannot give assurances that key personnel will continue to remain with the Group.

In many of its acquisitions to date the Company has retained the services of the former owners as vets and to act as managers for that veterinary practice. In the event that some or all of these managers cease working for the Company this may adversely impact the performance of the Company. Where previous owners have chosen to leave a practice it has been the experience of the Company to date that this occurs amicably and according to a mutually agreed plan and has not negatively impacted on performance.

Due to the specialised nature of the Company's business, the ability to develop the Company's business will depend in part upon its ability to attract and retain not only suitable management but also appropriately qualified veterinary practitioners. The Group sometimes experiences difficulties recruiting vets into certain practices and regions. The Group has dealt with this by using locums or recruiting vets from abroad in the short term whilst more permanent replacements are sought. There can be no assurance that the Company will be able to attract and retain appropriately qualified veterinary practitioners in the future.

Staff turnover in the veterinary profession tends to be high because vets typically choose to change roles in order to broaden their skills base and pursue new experiences or to take advantage of academic opportunities. There may therefore be a lack of staff continuity at practices which may result in client dissatisfaction. There may also be increased costs caused by the need to employ locums to fill vacancies whilst permanent staff are recruited.

The availability of experienced pathologists may affect the ability of the Group to deliver continued growth in the laboratory division of the Group's business.

#### *Future Capital Requirements*

The Directors expect that the Company will have access to adequate working capital for its present requirements under its banking facilities to carry out its stated objectives. However there is a risk that additional funds may be required to fund the Company's longer term objectives over and above current bank facilities and cash generated from operations, which include the potential acquisition of further related businesses. Future business acquisitions may require funding by future debt and equity finance. It is difficult for the Directors to predict the timing and amount of the Company's capital requirements with accuracy and the Company may require further financing. Any additional equity financing may dilute existing Shareholders and debt financing, if available, may involve restrictions on the Company's financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

#### *Competition Risk*

The actions of existing competitors, or the entry of new competitors into the market, particularly by way of adopting an integrated business model similar to the Company's, could result in decreased profitability and loss of market share. Whilst the Company believes that it is well positioned in its target business areas, there can be no assurance that the Company will be able to maintain its present competitive position in the future.

In relation to the Group's acquisitive growth strategy, there can be no guarantee that competition law will not operate to restrict the Group's ability to make particular acquisitions in particular localities. The effect of competition regulation will need to be assessed on a case by case basis in connection with each proposed acquisition by reference to the Group's existing presence at that time in any given region. If competition law does operate to restrict acquisitions, the Group may have to modify its expansion plans.

The further development of internet based suppliers (e.g. of veterinary pharmaceuticals) may impact on the Company's business.

#### *Taxation risk in respect of management shares*

Whilst the Directors consider that Ordinary Shares which have previously been allotted to certain of the Directors have been allotted at market value, there can be no guarantee that HMRC will not seek to argue that the market value of the Ordinary Shares when granted was higher than the price paid for them. If HMRC were to make this argument successfully, the Company could face tax liabilities.



### *Locums*

Whilst the Directors do not consider the risk to be significant, there can be no guarantee that HMRC will not seek to argue that the locums used by the Group are in fact Group employees. If HMRC were to make this argument successfully, the Company could face tax liabilities.

### *Management of growth*

The ability of the Company to implement its strategy in a rapidly evolving market requires effective planning and management control systems. The Directors anticipate that further expansion will be required to respond to market opportunities and the potential growth in its client base. The Company's growth plans may place a significant strain on the Company's management, operational, financial and personnel resources. Therefore the Company's future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Company's growth could have a material adverse effect on the Company's business, financial condition and results of operations.

Growth rates of profit may not be maintainable in the long term as synergies are exhausted.

The performance of the Company's businesses may be adversely affected by changes such as an increase in overheads or contracting out of lower margin out-of-hours services in certain practices, changes in management or a reduction in sales to pet owners who do not view the combined businesses favourably.

### *Capacity of PHI site*

The PHI site is approaching capacity, although management believes that there is scope to increase laboratory throughput in the short-term through continued operational efficiencies. If the PHI site does reach capacity, the Group may have to turn away, and therefore risk losing, clients.

### *Availability of further acquisitions*

The Group intends to undertake the acquisition of additional veterinary practices which fit within its business model. There is a risk that appropriate acquisition opportunities may not be available or that the target practices may not enter into dealings with the Group. There is no guarantee that future potential acquisitions will be available on favourable terms, if at all, or that they will be integrated successfully.

### *Property leases*

The veterinary practices operate almost exclusively through leased premises. There may be an adverse impact on the Company's business and profitability if the Company is unable to renegotiate acceptable leases for its premises or locate suitable premises at appropriate rentals if it wishes to expand its business.

### *Client satisfaction and loyalty*

The business operated by the Group is a services business and as such its success is highly dependent on delivering a quality service to its clients and maintaining client satisfaction and loyalty. Any diminution in client satisfaction and loyalty may have an adverse impact on the financial performance of the Company.

### *Importance of intellectual property rights*

The Directors regard the Company's intellectual property and other proprietary rights as important to its success. The Company's ability to continue its business may be affected by its ability to protect and enforce such intellectual property and proprietary rights and any failure to do so for any reason could have a material adverse effect on its business, results of operations and financial conditions.

### *Litigation*

Whilst as at the date of this document, the Group is not involved in any litigation or claims, nor is it aware of any material claims which may result in litigation against any member of the Group, there can be no assurance that the Group will not become involved in litigation which could adversely affect its position. Litigation risks include but are not limited to client claims relating to professional negligence and employee claims.

*Changes to, or increases in, the regulatory burden on the Group may adversely affect the Group's operations and its financial condition*

Various aspects of the Group's operations are subject to regulation and supervision. Breaches of applicable laws or regulations could result in fines or other sanctions on the Group. In addition, there can be no assurance that new or amended laws and regulations will not be imposed on the Group in the future, compliance or failure to comply with which may have a material adverse effect on the Group, its financial condition, results of operations and cash flows.

#### *Wholesalers*

NVS currently supplies a significant majority of CVS's consumables and goods for sale.

Although there are two alternative wholesalers in addition to NVS, if a change of wholesaler was necessary there is no guarantee that current terms could be maintained.

#### *Veterinary market regulators*

Clinical staff are regulated by the Royal College of Veterinary Surgeons and not by CVS.

CVS vets must act in accordance with the rules and regulations of the RCVS, which could include carrying out actions or activities which may run contrary to the commercial interests of the Group. The RCVS regulations may change from time to time and such changes would be outside the control of the Directors and could increase overheads.

The Veterinary Medicine Directorate could impose rules which could be contrary to the commercial interests of the Group or which could increase overheads.

#### *Animal Epidemics*

An animal epidemic could have an adverse effect on the business of CVS, potentially affecting revenues if animal movements were to become restricted. Operating costs may also be adversely affected for example as a result of a temporary restriction on the supply of locums.

### **Risks relating to the Ordinary Shares**

#### *Equity investment*

The value of Ordinary Shares may go down as well as up and investors may not therefore recover their original investment.

#### *Trading on AIM*

The Ordinary Shares will be traded on AIM. No application is being made for the admission of the Ordinary Shares to the Official List. AIM is a market designed for small and growing companies and investment in shares traded on AIM may carry a higher risk than those listed on the Official List. Admission to trading on AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares.

#### *Existing shareholders may limit other shareholders' ability to influence matters requiring shareholder approval*

Upon Admission, the Group's senior management and Selling Shareholders will, in aggregate, beneficially own approximately 12.33 per cent. of the outstanding Ordinary Shares, of which Nash Sells Limited Partnership II will own 4.6 per cent., Nautilus Fiduciary Trust Services will own 0.7 per cent., Ron Trenter will own 0.8 per cent., Paul Coxon will own 1.0 per cent., Simon Innes will own 3.0 per cent. and Brian Pound will own 1.8 per cent. of the outstanding Ordinary Shares. In their capacity as shareholders, they are permitted to vote on any matter that requires shareholder approval as they see fit. Hence they may be able to exert influence over all matters requiring shareholder approval, such as electing directors and approving significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change of control, which could result in a lower price for the Ordinary Shares in the event of a takeover offer for the Company.

#### *Substantial future sales or issues of Ordinary Shares could impact the market price of Ordinary Shares*

Following the Placing, 51,563,475 Ordinary Shares will be in issue and there will be outstanding awards over up to a further 253,169 Ordinary Shares at nominal value. Sales, or the possibility of sales,

of substantial numbers of Ordinary Shares in the public or private market by Shareholders following the Placing could have an adverse effect on the market trading prices of the Ordinary Shares. While the Selling Shareholders and Directors have agreed to certain restrictions on the issue or sale of Ordinary Shares for various limited periods of time following Admission without the prior written consent of Panmure Gordon, as described in paragraphs 14.5 and 15.9 of Part VI of this document, upon the expiration of these lock-up arrangements a large number of additional Ordinary Shares will be eligible for sale. Furthermore, Panmure Gordon may in its sole discretion, and at any time or from time to time, without notice, release all or any portion of the Ordinary Shares subject to these lock-up arrangements. Approximately 5.76 per cent. of the Ordinary Shares in issue following the Placing will be subject to lock-up arrangements.

The issue of additional Ordinary Shares by the Company may cause the dilution of Shareholders' interests.

*There has been no prior public market for the Ordinary Shares and an active public market for the Shares may not develop or be sustained*

There has been no public trading market for the Ordinary Shares prior to Admission. The Directors can give no assurance that an active trading market for the Ordinary Shares will develop or, if such a market does develop, that it will be sustained. If an active trading market does not develop or is not maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected and investors may have difficulty selling their Ordinary Shares. If an active trading market does develop, the market price of the Ordinary Shares may drop below the Placing Price. Any investment in the Ordinary Shares should be viewed as a long-term investment.

*The share prices of publicly traded companies can be highly volatile*

The price of publicly traded shares is subject to volatility, particularly for a period of time following Admission. The market price of the Ordinary Shares and the price which investors may realise for their Ordinary Shares could be subject to significant fluctuations due to a variety of factors, some of which may be outside the Company's control, including amongst other things, actual or anticipated fluctuations in the operating performance of the Group, the performance of the Group's competitors, future competitors, regulatory changes or changes in financial estimates by securities analysts, as well as stock market fluctuations and general economic conditions unrelated to the Group's actual performance or conditions in its key markets. Investors may not be able to resell their Ordinary Shares at or above the price at which the Company is admitted to trading on AIM.

*As a holding company, the Company's ability to pay dividends will depend upon the level of distributable reserves and the level of cash balances*

The payment of dividends by the Company is subject to the Company having sufficient distributable reserves for such purposes after the receipt of amounts from its subsidiaries. The ability of the Company to make dividend payments and the level of any dividend payments will rely on the future underlying profitability achieved in the business.

*The Ordinary Shares will trade in pounds sterling and any dividends will be paid in pounds sterling. Any Shareholder whose principal currency is not pounds sterling may experience exchange rate fluctuations*

The Ordinary Shares will be traded in pounds sterling and any dividends will be paid in pounds sterling. An investor in the Ordinary Shares whose principal currency for accounting and/or tax purposes is not pounds sterling will be exposed to fluctuations in the exchange rate between the relevant currency and pounds sterling.

## **General risks**

*Economic and political circumstances*

General economic conditions, including movements in interest and inflation rates in the Company's markets may have an adverse effect on the Company's activities. The Company may be exposed to risks such as unexpected changes in regulatory requirements, longer payment cycles, problems in collecting debts, fluctuations in currency rates and potentially adverse tax consequences. The Company's operations, business and profitability could be affected by these factors, which are beyond the control of the Company. The Company may be subject to political and other uncertainties such as an outbreak of disease, an act of terrorism or an outbreak of international hostilities.

*Changes in UK and European fiscal policy*

The Group cannot predict the impact of future changes in UK and European fiscal policy on its business. Amendments to existing legislation (particularly if there is an increase in tax rates or a withdrawal of any tax relief) or the introduction of new rules may impact upon the decisions of either existing or potential customers. Changes in the interpretation of existing tax laws or amendments to existing tax laws or the introduction of new tax legislation could materially adversely affect the Group's business and operating results.

*Past performance is not an indicator of future performance*

This admission document includes information about the historical financial performance of the Company. Past performance is not, however, a guarantee as to the future financial performance of the Company, which may be materially different from its past performance and which may be adversely affected by, amongst other things, the risk factors described in this Part III.

**Investors should consider carefully whether an investment in the Company is suitable for them in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.**

## PART IV

### A – ACCOUNTANT’S REPORT ON CVS GROUP PLC



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5 October 2007

Dear Sirs

#### CVS Group plc

##### Introduction

We report on the special purpose financial information set out below. This special purpose financial information has been prepared for inclusion in the admission document dated 5 October 2007 (the “**Document**”) of CVS Group plc (the “**Company**”) on the basis of the accounting policies set out in note 1 to the special purpose financial information. This report is required by Schedule Two of the AIM rules for Companies published by the London Stock Exchange plc (the “**AIM Rules**”) and is given for the purposes of complying with that schedule and for no other purpose.

##### Responsibilities

The Directors of the Company are responsible for preparing the special purpose financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the special purpose financial information gives a true and fair view, for the purposes of the document and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the AIM Rules, consenting to its inclusion in the Document.

##### Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the special purpose financial information. It also included an assessment

of significant estimates and judgments made by those responsible for the preparation of the special purpose financial information and whether the accounting policies are appropriate to the Company's circumstances consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the special purpose financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the special purpose financial information gives, for the purposes of the Document dated 5 October 2007, a true and fair view of the state of affairs of the Company as at the date stated in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

**PricewaterhouseCoopers LLP**  
*Chartered Accountants*

## B – HISTORICAL FINANCIAL INFORMATION ON CVS GROUP PLC

The balance sheet of the Company at 13 July 2007 was as follows:

	<i>Note</i>	<i>£</i>
<b>Current assets</b>		
Cash and cash equivalents	2	1
Total assets		<u>1</u>
<b>Capital and reserves attributable to equity holders of the Company</b>		
Share capital	2	1
Total shareholders' equity		<u>1</u>

### Notes to the special purpose financial information

#### 1. *Accounting policies*

The balance sheet has been prepared in accordance with the historical cost convention and in accordance with International Financial Reporting Standards as adopted by the European Union.

#### 2. *Share Capital*

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

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

#### 3. *Post balance sheet events*

By way of a written resolution dated 17 August 2007:

- the authorised share capital of the Company was increased from £1,000 to £63,000,000 by the creation of 62,999,000 new ordinary shares of £1 each in the capital of the Company, having the rights and being subject to the restrictions set out in the articles of association which were adopted by the Company on the same date;
- 30 issued ordinary shares of £1 each numbered 1 to 30 inclusive in the capital of the Company were consolidated so as to become 1 ordinary share of £30 and 62,399,970 of the authorised but unissued ordinary shares of £1 each in the capital of the Company were consolidated so as to become 2,079,999 ordinary shares of £30 each;
- 1,520,000 of the existing authorised but unissued ordinary shares of £30 each were redesignated as 1,520,000 preferred ordinary shares of £30 each; and
- 600,000 authorised but unissued ordinary shares of £1 each (following the consolidations and redesignations at the above two resolutions) were redesignated as 600,000 preference shares of £1 each.

On 22 August 2007, the Company entered into a share exchange agreement with the shareholders of CVS (UK) Limited, under which CVS Group plc acquired the entire issued share capital of CVS (UK) Limited and issued 542,538 ordinary shares of £30, 1,520,000 preferred ordinary shares of £30 and 592,105 redeemable preference shares of £1 each as consideration for that acquisition. The cumulative liabilities accrued in relation to the preferred ordinary shares and the redeemable preference shares, amounting to £698,000 and £355,000 respectively, were assumed by the Company on the date of the share exchange agreement.

The capital of CVS Group plc was by virtue of a written resolution dated 17 August 2007 taking effect as a special resolution and with the sanction of an Order of the High Court dated 12 September 2007 reduced from £63,000,000, divided into 560,000 ordinary shares of £30 each, 1,520,000 preferred ordinary shares of £30 each and 600,000 redeemable preference shares of £1 each to £704,000 divided into 560,000 ordinary shares of 5p each, 1,520,000 preferred ordinary shares of 5p each and 600,000 redeemable preference shares of £1 each. At the date

thereof, 542,539 of the said ordinary shares, all of the said preferred ordinary shares and 592,105 of the said redeemable preference shares are issued and fully paid or credited as fully paid and the remainder of the said ordinary shares and redeemable preference shares unissued.

By way of a written resolution dated 2 October 2007:

- each of the issued and unissued ordinary shares of 5p each in the capital of the Company were sub-divided into 25 ordinary shares of 0.2p each, each such ordinary share having the rights set out in the articles of association of the Company from time to time.
- each of the issued preferred ordinary shares of 5p each in the capital of the Company were sub-divided into 25 preferred ordinary shares of 0.2p each, each such preferred ordinary share having the rights set out in the articles of association of the Company from time to time.
- each of the issued preferred ordinary shares of 0.2p were redesignated as an ordinary share of 0.2p each in the capital of the Company, each such ordinary share having the rights set out in the articles of association of the Company from time to time.
- upon the redemption of the Preference Shares, each authorised but unissued Preference Share of £1 each will be redesignated as an ordinary share of £1 each in the capital of the Company.
- each of the unissued ordinary shares of £1 each in the capital of the Company were sub-divided into 500 ordinary shares of 0.2p each, each such ordinary share having the rights set out in the articles of association of the Company from time to time.

#### *Costs*

The directors estimate the costs in respect of the proposed Initial Public Offering of the Company will amount to £1,500,000. These costs will be expensed to the income statement when incurred.

#### *Guarantees and commitments*

On 17 August 2007, the Company acceded into an unlimited multilateral cross company guarantee arrangement dated 5 December 2005 with National Westminster Bank plc in respect of all liabilities to the bank payable by each of CVS (UK) Limited, Precision Histology International Limited and Firstvets Limited. The obligations of the Company are secured by a fixed and floating charge over the tangible and intangible assets of the Company. At the balance sheet date the drawings under the overdraft, term loan and loan stock facilities amounted to £29,587,000.

#### *Refinancing*

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



## PART V

### A – ACCOUNTANT’S REPORT ON CVS (UK) LIMITED



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Panmure Gordon (UK) Limited  
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155 Moorgate  
London EC2M 6XB

5 October 2007

Dear Sirs

#### CVS (UK) Limited

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 5 October 2007 (the “**Document**”) of CVS Group plc (the “**Company**”) on the basis of the accounting policies set out below. This report is required by Schedule Two of the AIM rules for Companies published by the London Stock Exchange plc (the “**AIM Rules**”) and is given for the purpose of complying with that Schedule and for no other purpose.

#### Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Document and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the AIM Rules, consenting to its inclusion in the Document.

#### Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Document dated 5 October 2007, a true and fair view of the state of affairs of the Company as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

**PricewaterhouseCoopers LLP**  
Chartered Accountants

## B – HISTORICAL FINANCIAL INFORMATION ON CVS (UK) LIMITED

### CONSOLIDATED INCOME STATEMENTS

		<i>Year ended</i> <i>30 June</i> <i>2005</i> <i>£'000</i>	<i>Year ended</i> <i>30 June</i> <i>2006</i> <i>£'000</i>	<i>Year ended</i> <i>30 June</i> <i>2007</i> <i>£'000</i>
<b>Revenue</b>	4	12,851	20,169	38,972
Cost of sales		<u>(7,936)</u>	<u>(12,081)</u>	<u>(22,818)</u>
<b>Gross profit</b>		4,915	8,088	16,154
Administrative expenses		<u>(3,955)</u>	<u>(6,556)</u>	<u>(13,260)</u>
<b>Operating profit</b>	6	960	1,532	2,894
Finance income	5	6	119	210
Finance expense	5	<u>(583)</u>	<u>(1,515)</u>	<u>(2,331)</u>
<b>Profit before income tax</b>	4	383	136	773
Income tax expense	10	<u>(5)</u>	<u>-</u>	<u>(427)</u>
<b>Profit for the period attributable to equity shareholders</b>	24	<u>378</u>	<u>136</u>	<u>346</u>
<b>Earnings per ordinary share for profit attributable to the equity holders of the group during the year (expressed in pence per share)</b>	11	<u>18.3p</u>	<u>6.6p</u>	<u>16.8p</u>

The above results relate to continuing operations, including acquisitions (further details of which are provided in note 25).

## CONSOLIDATED BALANCE SHEETS

		<i>Year ended</i> <i>30 June</i> <i>2005</i> <i>£'000</i>	<i>Year ended</i> <i>30 June</i> <i>2006</i> <i>£'000</i>	<i>Year ended</i> <i>30 June</i> <i>2007</i> <i>£'000</i>
	<i>Note</i>			
<b>Non-current assets</b>				
Intangible assets	12	6,260	12,498	26,283
Property, plant and equipment	13	1,424	2,318	4,245
Investments	14	-	23	23
Deferred income tax assets	21	-	439	578
Derivative financial instruments	17	-	22	373
		<u>7,684</u>	<u>15,300</u>	<u>31,502</u>
<b>Current assets</b>				
Inventories	15	463	645	1,226
Trade and other receivables	16	1,021	1,640	2,904
Cash and cash equivalents	18	2,759	2,463	2,622
		<u>4,243</u>	<u>4,748</u>	<u>6,752</u>
<b>Total assets</b>		<u>11,927</u>	<u>20,048</u>	<u>38,254</u>
<b>Non-current liabilities</b>				
Borrowings	20	(9,345)	(16,359)	(20,028)
Deferred income tax liabilities	21	(127)	(537)	(1,155)
		<u>(9,472)</u>	<u>(16,896)</u>	<u>(21,183)</u>
<b>Current liabilities</b>				
Trade and other payables	19	(2,107)	(3,987)	(7,380)
Current income tax liabilities	22	(7)	(51)	(116)
Borrowings	20	(2,365)	(1,004)	(11,119)
Derivative financial instruments	17	(2)	-	-
		<u>(4,481)</u>	<u>(5,042)</u>	<u>(18,615)</u>
<b>Total liabilities</b>		<u>(13,953)</u>	<u>(21,938)</u>	<u>(39,798)</u>
<b>Net liabilities</b>		<u>(2,026)</u>	<u>(1,890)</u>	<u>(1,544)</u>
<b>Capital and reserves attributable to equity holders of the Company</b>				
Share capital	23	20	20	20
Share premium	24	436	436	436
Revaluation reserve	24	125	125	125
Retained losses	24	(2,607)	(2,471)	(2,125)
<b>Total shareholders' deficit</b>		<u>(2,026)</u>	<u>(1,890)</u>	<u>(1,544)</u>

**GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	<i>Share capital £'000</i>	<i>Share premium £'000</i>	<i>Revaluation reserve £'000</i>	<i>Retained earnings £'000</i>	<i>Total equity £'000</i>
At 1 July 2004	20	436	125	(2,985)	(2,404)
Retained profit for the year	-	-	-	378	378
<b>At 30 June 2005</b>	<b>20</b>	<b>436</b>	<b>125</b>	<b>(2,607)</b>	<b>(2,026)</b>
Retained profit for the year	-	-	-	136	136
<b>At 30 June 2006</b>	<b>20</b>	<b>436</b>	<b>125</b>	<b>(2,471)</b>	<b>(1,890)</b>
Retained profit for the year	-	-	-	346	346
<b>At 30 June 2007</b>	<b>20</b>	<b>436</b>	<b>125</b>	<b>(2,125)</b>	<b>(1,544)</b>

## CONSOLIDATED CASH FLOW STATEMENTS

		<i>Year ended</i> <i>30 June</i> <i>2005</i> <i>£'000</i>	<i>Year ended</i> <i>30 June</i> <i>2006</i> <i>£'000</i>	<i>Year ended</i> <i>30 June</i> <i>2007</i> <i>£'000</i>
	<i>Note</i>			
<b>Cash flows from operating activities</b>				
Cash generated from operations	28	1,420	3,163	6,509
Interest received		6	119	210
Interest paid		(141)	(500)	(1,227)
Income tax paid		(23)	(111)	-
Net cash generated from operating activities		<u>1,262</u>	<u>2,671</u>	<u>5,492</u>
<b>Cash flows from investing activities</b>				
Acquisition of businesses	25	(2,212)	(5,145)	(10,319)
Acquisition of subsidiaries (net of cash acquired)	25	-	(1,874)	(5,843)
Purchase of property, plant and equipment		(103)	(473)	(1,349)
Purchase of intangible assets		(35)	(72)	(143)
Proceeds from sale of property, plant and equipment		103	31	4
Net cash used in investing activities		<u>(2,247)</u>	<u>(7,533)</u>	<u>(17,650)</u>
<b>Cash flows from financing activities</b>				
Finance lease principal payments		(32)	(20)	(9)
Receipt of borrowings		3,822	4,586	12,326
Net cash from financing activities		<u>3,790</u>	<u>4,566</u>	<u>12,317</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>				
Cash and cash equivalents at start of period		2,805	(296)	159
		(46)	2,759	2,463
Cash and cash equivalents at end of period	18	<u>2,759</u>	<u>2,463</u>	<u>2,622</u>

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1. General information

The principal activity of the group is to acquire (via a buy and build strategy) and operate companion animal veterinary practices and complementary veterinary diagnostic businesses (“laboratories”).

CVS (UK) Limited is a limited liability company incorporated and domiciled in England and Wales.

The address of the registered office is Unit C, Victoria Road, Diss, Norfolk IP22 4GA and the registered number of the company is 03777473.

The group has historically prepared its financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP). In support of its application for admission to the AIM the group is preparing a three year financial history in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board and endorsed by the European Union (“EU adopted IFRS”). The group has used 1 July 2004 as its transition date to IFRS and has translated its balance sheet at that date (see note 35). In addition results previously published under UK GAAP have been re-stated under EU adopted IFRS for the years ending June 2005 and 2006 (see note 35).

### *Companies in the Consolidated Financial Information (“financial information”)*

The financial information presents the financial record for the years ended 30 June 2005, 30 June 2006 and 30 June 2007.

The subsidiary undertakings included within the financial information from the date of their respective acquisition, are as follows:

<i>Name of subsidiary</i>	<i>Registered country</i>	<i>Principal business</i>	<i>Group's equity shareholding</i>
Precision Histology International Limited	England and Wales	Operation of veterinary diagnostic services	100%
The Veterinary Laboratory Limited	England and Wales	Dormant	100%
Veterinary Pathology Partners Limited	England and Wales	Dormant	100%
Firstvets Limited	England and Wales	Dormant	100%
Active Vetcare Limited	England and Wales	Non-trading	100%
Carrick Veterinary Group Limited	England and Wales	Non-trading	100%

### 2. Summary of significant accounting policies

#### *First time adoption of IFRS – transitional arrangements*

For financial periods commencing from 1 January 2007, all AIM quoted companies are required to prepare financial statements under EU adopted IFRS. The AIM admission rules require that financial information presented in an admission document must be prepared on a basis consistent with the basis of preparation to be adopted for the first set of financial statements that are required to be prepared as an AIM quoted company.

Certain income statement and balance sheet items, for the years ended 30 June 2005 and 2006 previously reported under UK GAAP, have been reclassified to comply with the group’s format for reporting under EU adopted IFRS. In addition to this, certain other balances have been re-measured by applying the group’s new accounting policies in accordance with EU adopted IFRSs from 1 July 2004. The information presented below sets out the principal differences between UK GAAP and IFRS as they apply to the group and a reconciliation of the differences arising is set out in note 35.

#### *Primary financial statements format*

The IFRS primary financial statements are presented in accordance with IAS 1 - ‘Presentation of Financial Statements’.

### *First time adoption exemptions applied*

IFRS 1, 'First-time adoption of International Financial Reporting Standards' sets out the transitional rules which must be applied when IFRS is applied for the first time. The group is required to select accounting policies, in accordance with IFRS, valid at the first reporting date and apply those policies retrospectively. The standard sets out certain mandatory exceptions to retrospective application and certain optional exemptions. None of the available exemptions have been applied on first time adoption of IFRS, with the exception of the exemptions available under IFRS 1, 'First time adoption of IFRS', for restating previous acquisitions and retaining UK GAAP carrying values of freehold property including revaluations as deemed cost at transition, as described below under basis of preparation.

### ***Basis of preparation***

This consolidated financial information presents the financial record for the three years ended 30 June 2007 of CVS (UK) Limited group of companies. The subsidiary undertakings included within the financial record are shown above.

The consolidated financial information has been prepared in accordance with the requirements of the AIM rules and in accordance with this basis of preparation. The basis of preparation describes how the financial information has been prepared in accordance with EU adopted IFRS.

Interest income and expense recorded in the consolidated income statement have been affected by the group's historic financing arrangements, and are not necessarily representative of the interest income and expense that may arise in the future, as the financing arrangements and the debt/equity position of the group may be different in the future.

The group has chosen to utilise the exemption available under IFRS 1, 'First time adoption of IFRS', for restating previous acquisitions. The goodwill arising on business combinations of the group therefore remains as reported at 30 June 2004, but is subject to an annual impairment review. There is no such exemption from the transition date, being 1 July 2004, so any subsequent acquisitions have been accounted for under IFRS 3, 'Business Combinations'.

The group has elected to retain UK GAAP carrying values of freehold property including revaluations as deemed cost at transition.

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

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

### *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 of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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



*Standards, amendments and interpretations effective in 2006/7 with no significant impact in the group*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 2 July 2005 to 1 July 2006 but they are not relevant to the group's operations:

- Amendment to IAS 19 "Employee benefits" on recognising actuarial gains and losses in the SORIE.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" on Financial Guarantee Contracts.
- Amendment to IAS 39 on cash flow hedge accounting of forecast intra-group transactions.
- Amendment to IAS 39 on the fair value option.
- IFRS 6 "Exploration for and evaluation of mineral resources."
- IFRIC 4 "Determining whether an arrangement contains a lease."
- IFRIC 5 "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds."
- IFRIC 6 "Liabilities arising from participating in specific market - waste electrical and electronic equipment (WEEE)."
- IFRIC 7 "Applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies."
- IFRIC 8 "Scope of IFRS 2."
- IFRIC 9 "Reassessment of embedded derivatives."

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

The following standards and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 July 2007 or later periods but which the group has not early adopted:

IFRIC 10 "Interim Financial Reporting and Impairment." Prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The group will apply IFRIC 10 from 1 July 2007, but it is not expected to have any impact on the group's financial statements.

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions." IFRIC 11 addresses how to apply IFRS 2 to share-based payment arrangements in an entity involving an entity's own equity instruments or equity instruments of another entity in the same group. The group will apply IFRIC 11 from 1 July 2007. The impact on the group's financial statements will depend on whether any share based payments are made by the group after this date.

IFRS 7 "Financial Instruments: Disclosure." This standard is effective for accounting periods beginning on or after 1 January 2007. Upon adoption, IFRS 7 will result in disclosure of the significance of financial instruments and qualitative and quantitative information about exposure to risks arising from financial instruments.

IFRS 8 "Operating Segments." This standard is effective for accounting periods beginning on or after 1 January 2009 and introduces new rules on the disclosure of operating results by business segment.

Amendment to IAS 1 "Presentation of Financial Statements" on capital disclosures. This amendment is effective for accounting periods beginning on or after 1 January 2007 and revises and enhances previous disclosures required by IAS 32 and IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions'.

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

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

The following interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 July 2007 or later periods but are not relevant for the group's operations:

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

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

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

***Basis of consolidation***

The consolidated financial information includes the financial information of the company and its subsidiary undertakings. The results of companies and businesses acquired are included in the consolidated income statement from the date control passes. Intra-group transactions and profits are eliminated fully on consolidation.

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.

***Impairment of assets***

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

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

Estimates are based on past experience and expectations of future changes to the market. Growth rate forecasts are extrapolated based on estimated long term average growth rates (estimated at 3 per cent.). The pre-tax discount rate used to calculate value in use is 12.9 per cent. at 30 June 2007 (2006: 13.3 per cent.; 2005: 12.1 per cent.). These discount rates are derived from the group's post tax weighted average cost of capital.

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

## ***Intangible assets***

### ***Goodwill***

All business combinations are accounted for by applying the purchase method. Goodwill arising on acquisitions that have occurred since 1 July 2004 represents the difference between the fair value of the purchase consideration and the fair value of the group's share of the identifiable net assets of an acquired entity. Consideration includes directly attributable costs of the acquisition. In respect of acquisitions prior to 1 July 2004 goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

Goodwill is not subject to amortisation but is reviewed for impairment at the end of the first full period following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

### ***Computer software***

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

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

### ***Patient data records***

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

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

## ***Property, plant and equipment***

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

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

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

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

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

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

### ***Revenue***

Revenue represents amounts recoverable from customers for veterinary services and related veterinary products provided during the period excluding value added tax. Revenue reflects the fair value of veterinary goods or services provided. For small animal treatment, which comprises the majority of revenue, there is generally no time delay between treatment and receipt of cash. For large animal treatment and any pro-longed small animal work, cash is received in arrears, and is provided for in full after three months unless there is specific knowledge to provide for on an alternative basis. The group does not operate any customer loyalty programmes.

### ***Leases***

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

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

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

### ***Foreign currency translation***

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

### ***Inventories***

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

### ***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.

### ***Provisions***

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

### ***Retirement benefit costs***

The group makes contributions to stakeholder and employee personal pension schemes which are defined contribution schemes. These costs are charged to the income statement in the period to which they relate. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

## ***Taxation***

The tax charge for the period comprises both current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability that at the time of the transaction does not affect either accounting or taxable profit. Deferred tax is measured on a non-discounted basis.

A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference.

## ***Share based payments***

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

## ***Financial instruments***

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

### **(a) *Trade receivables***

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

### **(b) *Investments***

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

For held for trading investments, gains and losses arising from changes in fair value are recognised in the income statement. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net result for the period.

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

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

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

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

(d) *Interest-bearing borrowings*

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

(e) *Trade payables*

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

(f) *Equity instruments*

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

(g) *Derivative financial instruments*

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. Given that the derivative financial instruments do not meet the documentation requirements to qualify for hedge accounting they are classified as held for trading.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments, or by discounted cash flows or using option valuation models. Any gains or losses on re-measurement are immediately recognised in the income statement.

(h) *Compound financial instruments*

In accordance with IAS 32, the preferred ordinary shares are considered a compound financial instrument and, accordingly, have been split into an underlying debt instrument, classified within borrowings, and a participating equity element, classified within equity.

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

### ***Segment reporting***

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

### ***Net financing costs***

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

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

### ***Functional currency***

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

### **3. Financial risk management**

The group's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate risk. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring levels of debt finance and the related finance costs. The group uses derivatives to generate the appropriate balance between fixed and floating interest rates. It is not the group's policy to actively trade in derivatives.

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

#### ***Credit risk***

The group has implemented policies that require credit checks on potential customers as appropriate before sales are made. The group has limited exposure to credit risk by virtue of its diverse customer base.

#### ***Liquidity risk***

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.

#### ***Interest rate cash flow risk***

The group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances, all of which earn interest at a floating rate. The group has a policy of maintaining approximately 60 per cent. of its bank debt at fixed rates to ensure a degree of certainty of future interest cash flows through the use of derivative instruments. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature.

#### ***Foreign exchange currency rate risk***

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

#### 4. Segmental reporting

Segment information is presented in respect of the group's business and geographical segments. The primary format, business segments, is based on the group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

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

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period, including acquisitions through business combinations.

##### **Geographical segments**

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

##### **Business segments**

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

##### **Year ended 30 June 2005**

	<i>Veterinary practices</i>	<i>Laboratories</i>	<i>Head office</i>	<i>Group</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Revenue <sup>(1)</sup>	9,645	3,206	-	12,851
Amortisation	-	-	166	166
Depreciation	111	53	14	178
Profit before income tax	1,364	442	(1,423)	383
Total assets	4,129	1,594	6,204	11,927
Total liabilities	(839)	(1,268)	(11,846)	(13,953)
Capital expenditure	232	153	2,088	2,473

(1) Inter-segment revenue of £113,000, representing laboratory sales to veterinary practices, has been eliminated on consolidation.

##### **Year ended 30 June 2006**

	<i>Veterinary practices</i>	<i>Laboratories</i>	<i>Head office</i>	<i>Group</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Revenue <sup>(1)</sup>	16,942	3,227	-	20,169
Amortisation	-	-	563	563
Depreciation	184	67	16	267
Profit before income tax	2,899	199	(2,962)	136
Total assets	5,577	1,593	12,878	20,048
Total liabilities	(2,498)	(1,489)	(17,951)	(21,938)
Capital expenditure	1,090	54	6,848	7,992

(1) Inter-segment revenue of £227,000, representing laboratory sales to veterinary practices, has been eliminated on consolidation.



**Year ended 30 June 2007**

	<i>Veterinary practices £'000</i>	<i>Laboratories £'000</i>	<i>Head office £'000</i>	<i>Group £'000</i>
Revenue <sup>(1)</sup>	36,316	2,656	-	38,972
Amortisation	-	-	1,617	1,617
Depreciation	440	84	53	577
Profit before income tax	6,690	299	(6,216)	773
Total assets	9,085	1,597	27,572	38,254
Total liabilities	(5,981)	(1,119)	(32,698)	(39,798)
Capital expenditure	<u>2,260</u>	<u>51</u>	<u>15,599</u>	<u>17,910</u>

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

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

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Fair value adjustments in respect of financial assets and liabilities	(3)	(24)	(351)
Bank loans and overdraft	186	350	1,021
Debt finance costs	42	53	70
Accrued loan stock redemption premium	220	940	1,195
Accrued preference share redemption premium	48	48	51
Accrued participating dividend on preferred ordinary shares	87	147	344
Finance charges payable under finance leases	<u>3</u>	<u>1</u>	<u>1</u>
Finance expense	<u>583</u>	<u>1,515</u>	<u>2,331</u>
Bank interest receivable	<u>(6)</u>	<u>(119)</u>	<u>(210)</u>
<b>Net finance expense</b>	<u>577</u>	<u>1,396</u>	<u>2,121</u>

**6. Operating profit**

Operating profit is stated after charging/(crediting):

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Amortisation of intangible assets (note 12)	166	563	1,617
Depreciation of property, plant and equipment (note 13):			
- owned	167	251	561
- leased	11	16	16
(Profit) on disposal of property, plant and equipment	(41)	(5)	-
Loss on disposal of intangible assets	-	4	-
Employee benefit expenses (note 7)	6,230	9,435	17,552
Cost of inventories recognised as an expense (included in cost of sales)	2,281	3,523	6,857
Repairs and maintenance expenditure on property, plant and equipment	146	220	410
Trade receivables impairment	50	46	156
Net exchange differences	11	6	-
Operating lease rentals payable:			
- property	427	787	1,893
- plant and machinery	<u>63</u>	<u>135</u>	<u>176</u>

### **Services provided by the group's auditors and network firms**

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

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
<b>Audit services:</b>			
Fees payable to the group's auditors for the audit of the parent company and consolidated financial statements	21	17	17
<b>Non-audit services:</b>			
Tax services	5	15	17
The audit of the company's subsidiaries pursuant to legislation	6	7	6
	<u>32</u>	<u>39</u>	<u>40</u>

The group's auditors for the year ended 30 June 2005 were Hazlewoods LLP. For the years ended 30 June 2006 and 30 June 2007, the group's auditors were PricewaterhouseCoopers LLP.

### **7. Employee benefit expense and numbers**

Employee benefit expense for the group:

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Wages and salaries	5,658	8,584	16,019
Social security costs	533	794	1,460
Other pension costs (note 31)	39	57	73
	<u>6,230</u>	<u>9,435</u>	<u>17,552</u>

Employee benefit expense included within cost of sales is £15,839,000 (2006: £8,449,000; 2005: £5,547,000). The balance is recorded within administrative expenses.

The average number of persons employed by the group (including executive directors) during each year, analysed by category, was as follows:

	<i>Year ended 30 June 2005 Number</i>	<i>Year ended 30 June 2006 Number</i>	<i>Year ended 30 June 2007 Number</i>
Veterinary surgeons and pathologists	66	94	166
Nurses, practice ancillary and technicians	179	284	455
Central support	12	17	31
	<u>257</u>	<u>395</u>	<u>652</u>

### **8. Key management compensation**

The employment costs of key management are as follows:

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Salaries and short-term employee benefits	488	547	797
Post-employment benefits	17	17	18
	<u>505</u>	<u>564</u>	<u>815</u>

The key management figures given above include executive and non-executive directors.

## 9. Directors' emoluments

Emoluments paid by all group companies to the directors of CVS (UK) Limited were:

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Remuneration and benefits for executive services	420	430	599
Pension contributions to defined contribution schemes	14	14	16
	<u>434</u>	<u>444</u>	<u>615</u>

The number of directors for whom the group made contributions to defined contribution pension schemes was 4 (2006: 4; 2005: 4).

The emoluments paid to the highest paid director were:

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Remuneration and benefits for executive services	183	197	252

## 10. Income tax expense

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

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
<b>Current tax expense</b>			
UK corporation tax	7	36	-
Adjustments in respect of prior periods	(1)	(7)	(52)
Total current tax expense	<u>6</u>	<u>29</u>	<u>(52)</u>
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	(1)	(29)	479
Total income tax expense	<u>5</u>	<u>-</u>	<u>427</u>

UK corporation tax is calculated at 30 per cent. (2006: 30 per cent.; 2005: 30 per cent.) of the estimated assessable profit for the year.

### (b) Reconciliation of effective income tax charge

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Profit before income tax	383	136	773
Effective tax charge at 30%	115	41	232
Effects of:			
Expenses not deductible for tax purposes	21	402	284
Movement in unprovided deferred tax assets	(124)	(436)	-
Effect of tax rate change on opening deferred tax balance	-	-	(37)
Effect of small company rates	(6)	-	-
Adjustments to tax charge in respect of previous years	(1)	(7)	(52)
Total income tax charge	<u>5</u>	<u>-</u>	<u>427</u>

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

The UK government has announced that the standard rate of Corporation Tax will be reduced from 30 per cent. to 28 per cent. with effect from 1 April 2008. The impact of the change in rate in future periods will depend on the taxable income in those periods. The effective tax rate is anticipated to continue to exceed the standard rate due to the incidence of expenses (principally relating to an element of amortisation of intangible assets) not deductible for tax purposes.

**11. Earnings per ordinary share**

Earnings per ordinary share is calculated by dividing the profit for the period attributable to equity shareholders by the weighted average number of shares in issue during the year.

There are no potentially dilutive shares or options in issue.

Details of the earnings and weighted average number of shares used in each calculation are set out below:

	<i>Year ended 30 June 2005</i>	<i>Year ended 30 June 2006</i>	<i>Year ended 30 June 2007</i>
Earnings attributable to ordinary shareholders (£)	378,000	136,000	346,000
Weighted average number of ordinary and preferred ordinary shares in issue (note 23)	<u>2,062,539</u>	<u>2,062,539</u>	<u>2,062,539</u>
<b>Earnings per ordinary share (in pence)</b>	<u>18.3p</u>	<u>6.6p</u>	<u>16.8p</u>

**12. Intangible assets**

	<i>Goodwill £'000</i>	<i>Patient data records £'000</i>	<i>Capitalised software £'000</i>	<i>Total £'000</i>
<b>Cost</b>				
At 1 July 2004	4,312	-	108	4,420
Additions arising on acquisitions (note 25)	21	2,011	-	2,032
Additions	-	-	35	35
At 30 June 2005	<u>4,333</u>	<u>2,011</u>	<u>143</u>	<u>6,487</u>
Additions arising on acquisitions (note 25)	78	6,655	-	6,733
Additions	-	-	72	72
Disposals	-	-	(4)	(4)
At 30 June 2006	<u>4,411</u>	<u>8,666</u>	<u>211</u>	<u>13,288</u>
Additions arising on acquisitions (note 25)	48	15,211	-	15,259
Additions	-	-	143	143
At 30 June 2007	<u>4,459</u>	<u>23,877</u>	<u>354</u>	<u>28,690</u>
<b>Amortisation</b>				
At 1 July 2004	-	-	61	61
Amortisation for the year	-	127	39	166
At 30 June 2005	-	<u>127</u>	<u>100</u>	<u>227</u>
Amortisation for the year	-	509	54	563
At 30 June 2006	-	<u>636</u>	<u>154</u>	<u>790</u>
Amortisation for the year	-	1,536	81	1,617
At 30 June 2007	-	<u>2,172</u>	<u>235</u>	<u>2,407</u>
<b>Net book amount</b>				
At 30 June 2005	<u>4,333</u>	<u>1,884</u>	<u>43</u>	<u>6,260</u>
At 30 June 2006	<u>4,411</u>	<u>8,030</u>	<u>57</u>	<u>12,498</u>
At 30 June 2007	<u>4,459</u>	<u>21,705</u>	<u>119</u>	<u>26,283</u>

Amortisation expense has been charged to administrative expenses.

The patient data records were acquired as a component of practice acquisitions. See note 25 for further details.

### ***Impairment of goodwill***

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash generating units according to the level at which management monitor that goodwill, being at the individual acquisition level.

The goodwill allocated to each individual acquisition is not significant compared to the total goodwill. The components of goodwill by business segment is shown below:

	<i>As at</i> <i>30 June</i> <i>2005</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2006</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2007</i> <i>£'000</i>
Veterinary practices	3,007	3,085	3,133
Laboratories	1,326	1,326	1,326
	<u>4,333</u>	<u>4,411</u>	<u>4,459</u>

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

	<i>As at</i> <i>30 June</i> <i>2005</i>	<i>As at</i> <i>30 June</i> <i>2006</i>	<i>As at</i> <i>30 June</i> <i>2007</i>
Period on which management approved forecasts are based	1 year	1 year	1 year
Growth rate applied beyond approved forecast period	3%	3%	3%
Pre-tax discount rate	<u>12.1%</u>	<u>13.3%</u>	<u>12.9%</u>

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

Impairment reviews were performed at 1 July 2004, 30 June 2005, 30 June 2006 and 30 June 2007 by comparing the carrying value of goodwill with the recoverable amount of the cash-generating units to which goodwill has been allocated. Management concluded that no impairment was necessary.

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

### 13. Property, plant and equipment

	<i>Freehold land and buildings £'000</i>	<i>Leasehold improvements £'000</i>	<i>Fixtures, fittings and equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
<b>Cost</b>					
At 1 July 2004	693	115	1,008	111	1,927
Additions arising on acquisitions (note 25)	-	-	180	-	180
Additions	43	46	100	37	226
Disposals	(65)	-	-	(5)	(70)
At 30 June 2005	671	161	1,288	143	2,263
Additions arising on acquisitions (note 25)	-	225	475	14	714
Additions	9	86	318	60	473
Disposals	(9)	(1)	(31)	(29)	(70)
At 30 June 2006	671	471	2,050	188	3,380
Additions arising on acquisitions (note 25)	-	-	1,159	-	1,159
Additions	442	346	325	236	1,349
Disposals	-	-	-	(8)	(8)
At 30 June 2007	1,113	817	3,534	416	5,880
<b>Accumulated depreciation</b>					
At 1 July 2004	12	18	559	80	669
Charge for the year	9	9	135	25	178
Disposals	(3)	-	-	(5)	(8)
At 30 June 2005	18	27	694	100	839
Charge for the year	8	31	207	21	267
Disposals	-	-	(22)	(22)	(44)
At 30 June 2006	26	58	879	99	1,062
Charge for the year	16	58	423	80	577
Disposals	-	-	-	(4)	(4)
At 30 June 2007	42	116	1,302	175	1,635
<b>Net book amount</b>					
At 30 June 2005	653	134	594	43	1,424
At 30 June 2006	645	413	1,171	89	2,318
At 30 June 2007	1,071	701	2,232	241	4,245

Freehold land amounting to £85,000 (2006: £75,000; 2005: £75,000) has not been depreciated. The directors believe that the market value of freehold land is not materially different from its book value.

Included within fixtures, fittings and equipment are assets held under finance leases with a net book value of £nil (2006: £16,000; 2005: £32,000). Depreciation charged in the period on these assets amounted to £16,000 (2006: £16,000; 2005: £11,000).

Depreciation expense has been charged to administrative expenses.

#### 14. Investments

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
Available for sale financial assets	-	23	23

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

The following table shows the aggregate movement in the group's investments during the period:

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
At beginning of the year	-	-	23
Additions arising on acquisitions (note 25)	-	23	-
At end of the year	-	23	23

#### 15. Inventories

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
Goods held for resale	463	645	1,226

The cost of inventories recognised as an expense in cost of sales amounted to £6,857,000 (2006: £3,523,000; 2005: £2,281,000).

#### 16. Trade and other receivables

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
Trade receivables	689	1,026	1,760
Less: Provision for impairment of receivables	(134)	(180)	(336)
Trade receivables - net	555	846	1,424
Other receivables	49	201	324
Prepayments and accrued income	417	593	1,156
	1,021	1,640	2,904

The carrying amount of trade and other receivables is not materially different to fair value.

£156,000 (2006: £46,000; 2005: £50,000) was recognised in the income statement in respect of the impairment of trade receivables balances during the period.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable above. The group does not hold any collateral as security.

## 17. Derivative financial instruments

The carrying values of derivative financial instruments classified as held for trading, and which do not meet the criteria for hedge accounting, in the balance sheet are as follows:

	<i>As at 30 June 2005</i>		<i>As at 30 June 2006</i>		<i>As at 30 June 2007</i>	
	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Current</b>						
Interest rate swaps	-	(2)	-	-	-	-
<b>Non-current</b>						
Interest rate swaps	-	-	22	-	373	-
	-	(2)	22	-	373	-

Derivatives classified as held for trading are classified as a current asset or liability. The full fair value is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet. The notional principal amounts of the outstanding interest rate swap contracts at 30 June 2007 were £12,651,000 (2006: £7,250,000; 2005: £1,500,000). The outstanding interest rate swap contracts expire through to 30 June 2013 (2006: 30 June 2012; 2005: 31 March 2006).

## 18. Cash and cash equivalents

	<i>As at</i>	<i>As at</i>	<i>As at</i>
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	2,785	2,463	2,622
Bank overdraft	(26)	-	-
	<u>2,759</u>	<u>2,463</u>	<u>2,622</u>

## 19. Trade and other payables

	<i>As at</i>	<i>As at</i>	<i>As at</i>
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2005</i>	<i>2006</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Current</b>			
Trade payables	1,070	2,097	3,090
Social security and other taxes	524	988	1,891
Other payables	370	87	152
Accruals and deferred income	143	815	2,247
	<u>2,107</u>	<u>3,987</u>	<u>7,380</u>



## 20. Borrowings

	<i>As at</i> <i>30 June</i> <i>2005</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2006</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2007</i> <i>£'000</i>
<b>Current</b>			
Bank loan	2,350	996	-
Secured loan stock	-	-	9,559
Finance leases	15	8	10
Accrued participating dividend on preferred ordinary shares, including interest thereon	-	-	625
Redeemable preference shares, including redemption premium	-	-	925
	<u>2,365</u>	<u>1,004</u>	<u>11,119</u>
	<i>As at</i> <i>30 June</i> <i>2005</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2006</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2007</i> <i>£'000</i>
<b>Non-current</b>			
Bank loan	2,259	6,840	20,028
Secured loan stock	6,102	8,353	-
Finance leases	24	11	-
Accrued participating dividend on preferred ordinary shares, including interest thereon	134	281	-
Redeemable preference shares, including redemption premium	826	874	-
	<u>9,345</u>	<u>16,359</u>	<u>20,028</u>

### *Secured loan stock and bank loans*

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

	<i>As at</i> <i>30 June</i> <i>2005</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2006</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2007</i> <i>£'000</i>
Within one year or on demand	2,350	996	9,559
Between one and two years	865	9,759	-
Between two and three years	6,372	1,349	1,564
Between three and four years	562	1,349	6,255
Between four and five years	562	1,349	6,255
After five years	-	1,387	5,954
	<u>10,711</u>	<u>16,189</u>	<u>29,587</u>

The balances above are shown net of issue costs of £278,000 (2006: £166,000; 2005: £125,000), which are being amortised over the lives of the bank loan and the secured loan stock.

The carrying amounts of the group's borrowings are denominated in sterling.

The bank loan is secured by a first debenture incorporating fixed and floating charges over the assets and undertakings of each group company. The bank loan is also secured on first legal mortgage charges over freehold property included in property, plant and equipment. For the years ended 30 June 2005 and 2006 the bank loans are repayable by instalments over a period of six years commencing 12 months after each respective draw down (see note 27 for details of the interest rate). As at 30 June 2007, the bank loan facility agreement contains a 3 year capital repayment holiday. The loan is repayable in 12 equal instalments commencing 30 June 2010.

The loan stock is secured by a second debenture incorporating fixed and floating charges over the assets and undertakings of each group company. It is subject to a 60 per cent. repayment premium but no annual interest charge. The premium is payable with the repayment of the loan stock on the earlier of the issuer of the loan stock disposing of its equity interest in the group, or 31 December 2007. The premium is being accrued at a constant rate on the carrying amount shown in the balance sheet. Accrued finance costs are netted against the carrying amount of the borrowings.

#### **Finance leases**

The group has finance leases for various items of fixtures, fittings and equipment. The fair value of the group's lease obligations approximate to their carrying value.

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

	<i>As at</i> <i>30 June</i> <i>2005</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2006</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2007</i> <i>£'000</i>
<b>Minimum lease payments</b>			
Within one year	18	10	12
In more than one year, but not more than five years	28	13	-
	<u>46</u>	<u>23</u>	<u>12</u>
<b>Future finance charges</b>			
Within one year	3	2	2
In more than one year, but not more than five years	4	2	-
	<u>7</u>	<u>4</u>	<u>2</u>
<b>Net minimum lease payments</b>			
Within one year	15	8	10
In more than one year, but not more than five years	24	11	-
	<u>39</u>	<u>19</u>	<u>10</u>

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

#### **Accrued participating dividend on preferred ordinary shares**

The accrued participating dividend on preferred shares is payable when the company has sufficient distributable reserves for that purpose (see note 23 for further details of the preferred ordinary shares).

#### **Redeemable preference shares**

	<i>As at</i> <i>30 June</i> <i>2005</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2006</i> <i>£'000</i>	<i>As at</i> <i>30 June</i> <i>2007</i> <i>£'000</i>
<b>Authorised, allotted, called up and fully paid</b>			
592,105 Redeemable preference shares of £1 each	592	592	592
Preference share redemption reserve	234	282	333
	<u>826</u>	<u>874</u>	<u>925</u>

The redeemable preference shares of £1 each are redeemable, together with a 60 per cent. premium, on the earlier of the preference shareholder disposing of its equity interest in the group, or 31 December 2007.

## 21. Deferred income tax

Carrying values for deferred income tax assets/(liabilities) are shown below:

	<i>As at 30 June 2005</i>		<i>As at 30 June 2006</i>		<i>As at 30 June 2007</i>	
	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Deferred income tax	-	(127)	439	(537)	578	(1,155)

Provision for deferred income tax assets and liabilities is made at a rate of 28 per cent. (2006: 30 per cent.; 2005: 30 per cent.) on all temporary differences.

### *Deferred income tax assets*

Deferred income tax assets are comprised as follows:

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
Tax effect of temporary differences:			
Unutilised tax losses carried forward	-	242	226
Other short term temporary differences	-	197	352
	-	439	578

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

Deferred tax assets have not been recognised in respect of the following items, because the directors believe that it is not probable that future taxable profits would be available against which the group can utilise the benefits.

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
Tax effect of temporary differences:			
Excess of qualifying depreciation over tax allowances	101	-	-
Unutilised tax losses carried forward	242	-	-
Other short term temporary differences	93	-	-
	436	-	-

### *Deferred income tax liabilities*

Deferred income tax liabilities are comprised as follows:

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
Tax effect of temporary differences:			
Excess of tax allowances over qualifying depreciation	(127)	(537)	(1,155)

### **Deferred income tax – net**

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

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Deferred income tax liabilities brought forward - net	(128)	(127)	(98)
Credited/(charged) to the income statement (note 10)	1	29	(479)
Deferred income tax liabilities carried forward - net	<u>(127)</u>	<u>(98)</u>	<u>(577)</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

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

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
Deferred income tax assets	-	439	578
Deferred income tax liabilities	(127)	(537)	(1,155)
Deferred income tax (liabilities) - net	<u>(127)</u>	<u>(98)</u>	<u>(577)</u>

### **22. Current income tax liabilities**

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
Current income tax liabilities	<u>7</u>	<u>51</u>	<u>116</u>

### **23. Equity share capital**

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
<b>Authorised</b>			
1,080,401 Ordinary shares of 1p each	11	11	11
1,520,000 Preferred Ordinary Shares of 1p each	<u>15</u>	<u>15</u>	<u>15</u>
	<u>26</u>	<u>26</u>	<u>26</u>
	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
<b>Allotted, called up and fully paid</b>			
542,539 Ordinary shares of 1p each	5	5	5
1,520,000 Preferred Ordinary Shares of 1p each	<u>15</u>	<u>15</u>	<u>15</u>
	<u>20</u>	<u>20</u>	<u>20</u>

The rights attached to each class of shares are as follows:

### ***Dividends***

The holders of the Preferred Ordinary Shares are entitled to receive a participating dividend, in priority to any payment made to the holders of any other class of shares, as follows:

2.5 per cent. of relevant profit, as defined by the company's memorandum and articles of association, in the relevant financial year up to and including £1 million of profit, and 5 per cent. of the amount by which relevant profit in the relevant financial year exceeds £1 million.

Any arrears of participating dividends carry interest at a rate of 3 per cent. per annum above bank base rate.

Subject to prior payment of all participating dividends for the relevant financial year and all arrears thereof and interest thereon, any profits resolved to be distributed in any financial year or part thereof shall be distributed amongst the holders of equity shares, *pari passu* as if the same are one of the same class of share, pro rata to the number of equity shares respectively held by them.

### ***On winding up***

After payment of liabilities the following order of priority exists:

- (i) First, paying the holders of the Preference Shares the redemption amount in respect of the shares held plus any unpaid interest thereon (see note 20).
- (ii) Second, paying the holders of the Preferred Ordinary Shares all unpaid arrears and accruals of participating dividends plus interest thereon (note 20).
- (iii) Thirdly, paying the holders of the Ordinary Shares the amounts paid up.
- (iv) Fourth, paying the holders of the Preferred Ordinary Shares the amounts paid up.
- (v) Last, distributing the balance between the holders of the equity shares *pari passu*.

### ***Sale***

The total consideration received in respect of equity shares shall be allocated between the sellers of such shares *pari passu* to the extent that the aggregate sale proceeds are apportioned in the priority provided as listed above regarding the allocation of payment after winding up.

### ***Voting rights***

Each equity share carries the right to one vote. Each non-equity share carries no voting right unless redemption is outstanding and the business of the meeting includes a resolution for the winding up of the company.

## 24. Revaluation reserve, share premium and retained earnings

	<i>Revaluation reserve £'000</i>	<i>Share premium £'000</i>	<i>Retained earnings £'000</i>
At 1 July 2004	125	436	(2,985)
Retained profit for the year	-	-	378
<b>At 30 June 2005</b>	<b>125</b>	<b>436</b>	<b>(2,607)</b>
Retained profit for the year	-	-	136
<b>At 30 June 2006</b>	<b>125</b>	<b>436</b>	<b>(2,471)</b>
Retained profit for the year	-	-	346
<b>At 30 June 2007</b>	<b>125</b>	<b>436</b>	<b>(2,125)</b>

### *Revaluation reserve*

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

### *Share premium account*

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares.

## 25. Business combinations

Details of business combinations in the years ending 30 June 2005, 2006 and 2007 are set out below, in addition to an analysis of pre and post acquisition performance of the respective business combinations.

Pre acquisition performance represents the results for the last year prior to acquisition for which accounts are available. The profit before tax figures given for the practice acquisitions exclude any salary or drawings in respect of the partners/proprietors working within the practices. Given the nature of the practices acquired (partnerships or sole traders) and the records maintained by such 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. Nor is it practicable to disclose the revenue or profit/loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of that period. Nor is it practicable to disclose the book value of tangible fixed assets acquired.

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

### *Year ended 30 June 2005:*

<i>Assets and trade</i>	<i>Date of acquisition</i>	<i>Fair value of property plant and equipment acquired £'000</i>	<i>Fair value of intangible assets acquired<sup>(1)</sup> £'000</i>	<i>Cash paid<sup>(2)</sup> £'000</i>
<b>A practice in:</b>				
Staffordshire	09/07/2004	10	245	255
Shropshire	23/07/2004	5	111	116
Suffolk	19/10/2004	30	872	902
Suffolk	19/11/2004	8	159	167
Teeside	07/02/2005	15	151	166
Middlesbrough	07/02/2005	16	178	194
Norfolk	01/03/2005	53	178	231
Nottinghamshire	24/03/2005	43	138	181
		<u>180</u>	<u>2,032</u>	<u>2,212</u>

(1) Intangible assets acquired represents patient data records (£2,011,000) and goodwill (£21,000).

(2) Cash paid includes professional fees of £163,000.

**Analysis of pre and post acquisition performance:**

	<i>Previous year end</i>	<i>Pre-acquisition performance<sup>(1)</sup> £'000</i>	<i>Post-acquisition<sup>(2)</sup> revenue £'000</i>	<i>Post-acquisition<sup>(2)</sup> contribution<sup>(3)</sup> £'000</i>
<b>A practice in:</b>				
Staffordshire	31/03/2004	136	297	17
Shropshire	31/03/2004	(53)	297	(18)
Suffolk	30/04/2004	195	856	162
Suffolk	30/09/2003	43	247	38
Teeside	31/03/2004	66	169	14
Middlesbrough	31/03/2004	100	178	11
Norfolk	31/08/2004	25	162	1
Nottinghamshire	31/01/2004	37	125	(2)
		<u>549</u>	<u>2,331</u>	<u>223</u>

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

(2) Post-acquisition performance represents performance from the date of acquisition to the year end.

(3) Contribution represents the direct operating result of practices prior to the allocation of central overheads on the basis that it is not practicable to allocate these.

**Year ended 30 June 2006:**

<i>Assets and trade</i>	<i>Date of acquisition</i>	<i>Fair value of property plant and equipment acquired<sup>(1)</sup> £'000</i>	<i>Fair value of intangible assets acquired<sup>(1)</sup> £'000</i>	<i>Cash paid<sup>(2)</sup> £'000</i>
<b>A practice in:</b>				
Teeside and Cleveland	01/07/2005	30	874	904
South Yorkshire	30/01/2006	14	771	785
Wiltshire	17/02/2006	20	761	781
South Yorkshire and Derbyshire	20/02/2006	36	337	373
Hampshire	07/03/2006	135	643	778
Kent	28/04/2006	36	623	659
Berkshire	01/06/2006	160	705	865
		<u>431</u>	<u>4,714</u>	<u>5,145</u>

(1) Intangible assets acquired represents patient data records (£4,688,000) and goodwill (£26,000).

(2) Cash paid includes professional fees of £235,000.

**Analysis of pre and post acquisition performance:**

	<i>Previous year end</i>	<i>Pre-acquisition performance<sup>(1)</sup> £'000</i>	<i>Post-acquisition<sup>(2)</sup> revenue £'000</i>	<i>Post-acquisition<sup>(2)</sup> contribution<sup>(3)</sup> £'000</i>
<b>A practice in:</b>				
Teeside and Cleveland	30/09/2004	237	1,442	112
South Yorkshire	31/03/2005	362	926	84
Wiltshire	31/07/2004	309	436	(11)
South Yorkshire and Derbyshire	31/03/2005	206	210	1
Hampshire	30/06/2005	97	345	(16)
Kent	28/02/2005	118	118	(17)
Berkshire	31/07/2005	341	179	27
		<u>1,670</u>	<u>3,656</u>	<u>180</u>

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

(2) Post-acquisition performance represents performance from the date of acquisition to the year end.

(3) Contribution represents the direct operating result of practices prior to the allocation of central overheads on the basis that it is not practicable to allocate these.

### ***Acquisition of Firstvets Limited***

On 5 December 2005, the group acquired the whole of the issued share capital of Firstvets Limited for a total consideration of £1,947,000. The book values of the non-intangible assets and liabilities of Firstvets Limited, and the fair value of the intangible assets, at the date of acquisition are set out below. The directors consider that the book values are equivalent to the fair values.

	<i>£'000</i>
Goodwill	52
Other intangible assets – patient data records	1,967
Property, plant and equipment	283
Investments	23
Inventories	69
Trade and other receivables	87
Cash and cash equivalents	73
Trade and other payables	(481)
Current income tax liabilities	(126)
<b>Net assets acquired</b>	<u>1,947</u>
Consideration satisfied by:	
Cash (including related costs of acquisition amounting to £39,000)	<u>1,947</u>

For the year ended 31 July 2005, Firstvets Limited reported an audited post tax profit of £265,000. For the unaudited period ended 4 December 2005, the turnover was £919,000, operating profit £30,000 and the tax charge £7,000. The post-acquisition turnover of Firstvets Limited amounted to £1,502,000 and the post-acquisition contribution amounted to £27,000.

### ***Year ended 30 June 2007:***

	<i>Date of acquisition</i>	<i>Fair value of property plant and equipment acquired £'000</i>	<i>Fair value of intangible assets acquired<sup>(1)</sup> £'000</i>	<i>Cash paid<sup>(2)</sup> £'000</i>
<b>A practice in:</b>				
Eight UK based practices	15/09/2006	276	3,808	4,084
Norfolk and Suffolk	09/10/2006	26	620	646
Staffordshire and Cheshire	16/01/2007	84	416	500
Kent	05/02/2007	30	256	286
Manchester	05/03/2007	169	1,389	1,558
Suffolk	29/05/2007	22	379	401
Devon	04/06/2007	15	489	504
Norfolk	29/06/2007	100	2,240	2,340
		<u>722</u>	<u>9,597</u>	<u>10,319</u>

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

(2) Cash paid includes professional fees of £182,000.



**Analysis of pre and post acquisition performance:**

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

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

(2) Post-acquisition performance represents performance from the date of acquisition to the year end.

(3) Contribution represents the direct operating result of practices prior to the allocation of central overheads on the basis that it is not practicable to allocate these.

**Acquisition of Active Vetcare Limited and Carrick Veterinary Group Limited**

On 15 January 2007, the group acquired the whole of the issued share capital of Active Vetcare Limited ("AVL") for a total consideration of £6,140,000. On 25 April 2007 the group acquired the whole of the issued share capital of Carrick Veterinary Group Limited ("CVGL") for a total consideration of £406,000. The book values of the non-intangible assets and liabilities of AVL and CVGL, and the fair value of the intangible assets, at the date of acquisition are set out below. The directors consider that the book values are equivalent to the fair values.

	<i>AVL £'000</i>	<i>CVGL £'000</i>	<i>Total £'000</i>
Goodwill	-	27	27
Other intangible assets - patient data records	5,200	435	5,635
Property, plant and equipment	427	10	437
Inventories	132	33	165
Trade and other receivables	245	33	278
Cash and cash equivalents	671	-	671
Current income tax liabilities	(98)	(19)	(117)
Trade and other payables	(437)	(113)	(550)
<b>Net assets acquired</b>	<b>6,140</b>	<b>406</b>	<b>6,546</b>

Consideration satisfied by:

Cash (including related costs of acquisition amounting to £40,000)	6,140	374	6,514
Deferred consideration	-	22	22
Accrued consideration	-	10	10
	6,140	406	6,546

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

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

## 26. Analysis of movement in net debt

	<i>At 1 July 2004 £'000</i>	<i>Cash flow £'000</i>	<i>Non-cash movements £'000</i>	<i>At 30 June 2005 £'000</i>
Cash and cash equivalents	(46)	2,805	-	2,759
Borrowings - current	(661)	(1,689)	-	(2,350)
Finance leases - current	(32)	17	-	(15)
Derivative financial instruments - current	-	-	(2)	(2)
<b>Total current debt</b>	<b>(693)</b>	<b>(1,672)</b>	<b>(2)</b>	<b>(2,367)</b>
Borrowings - non-current	(6,803)	(2,133)	(385)	(9,321)
Finance leases - non-current	(39)	15	-	(24)
Derivative financial instruments - non-current	(5)	-	5	-
<b>Total non-current debt</b>	<b>(6,847)</b>	<b>(2,118)</b>	<b>(380)</b>	<b>(9,345)</b>
<b>Net debt</b>	<b>(7,586)</b>	<b>(985)</b>	<b>(382)</b>	<b>(8,953)</b>

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

	<i>At 1 July 2005 £'000</i>	<i>Cash flow £'000</i>	<i>Non-cash movements £'000</i>	<i>At 30 June 2006 £'000</i>
Cash and cash equivalents	2,759	(296)	-	2,463
Derivative financial instruments	-	-	22	22
<b>Cash and receivables</b>	<b>2,759</b>	<b>(296)</b>	<b>22</b>	<b>2,485</b>
Borrowings - current	(2,350)	1,354	-	(996)
Finance leases - current	(15)	7	-	(8)
Derivative financial instruments - current	(2)	-	2	-
<b>Total current debt</b>	<b>(2,367)</b>	<b>1,361</b>	<b>2</b>	<b>(1,004)</b>
Borrowings - non-current	(9,321)	(5,940)	(1,087)	(16,348)
Finance leases - non-current	(24)	13	-	(11)
<b>Total non-current debt</b>	<b>(9,345)</b>	<b>(5,927)</b>	<b>(1,087)</b>	<b>(16,359)</b>
<b>Net debt</b>	<b>(8,953)</b>	<b>(4,862)</b>	<b>(1,063)</b>	<b>(14,878)</b>

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

	<i>At 1 July 2006 £'000</i>	<i>Cash flow £'000</i>	<i>Non-cash movements £'000</i>	<i>At 30 June 2007 £'000</i>
Cash and cash equivalents	2,463	159	-	2,622
Derivative financial instruments	22	-	351	373
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and receivables	2,485	159	351	2,995
	<hr/>	<hr/>	<hr/>	<hr/>
Borrowings - current	(996)	996	(11,109)	(11,109)
Finance leases - current	(8)	(2)	-	(10)
	<hr/>	<hr/>	<hr/>	<hr/>
Total current debt	(1,004)	994	(11,109)	(11,119)
	<hr/>	<hr/>	<hr/>	<hr/>
Borrowings - non-current	(16,348)	(13,322)	9,642	(20,028)
Finance leases - non-current	(11)	11	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total non-current debt	(16,359)	(13,311)	9,642	(20,028)
	<hr/>	<hr/>	<hr/>	<hr/>
Net debt	(14,878)	(12,158)	(1,116)	(28,152)

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

## 27. Financial instruments

### *Objectives, policies and strategies*

The main financial risks faced by the group are the need to ensure that sufficient funds are available for operations and planned expansion, and the cash flow risk resulting from variable rate interest bearing liabilities.

Sufficient funds are made available for operations and planned expansion through cash balances and the use of long-term loans and short-term debt finance.

Interest rate cash flow risk is partially managed through the use of financial derivatives linked to the group's long-term bank debt. The objective is to limit exposure to increases in interest rates while retaining the opportunity to benefit from interest rate reductions. The group's most significant treasury exposure is in respect of the interest rate payable on bank borrowings. It uses financial instruments to reduce the exposure to this risk.

The secured loan stock is effectively fixed by reference to the 60 per cent. repayment premium.

The group has in place financial derivative arrangements whereby 60 per cent. of borrowings are effectively fixed at 5.45 per cent. through to 30 June 2013.

The group uses fixed rate interest finance lease instruments to finance certain capital expenditure projects. The rates are fixed at the time of each draw down and each draw down is repaid in equal monthly instalments.

The carrying values of derivative financial instruments classified as held for trading, and which do not meet the criteria for hedge accounting, in the balance sheet are set out in note 17.

### ***Fair values of financial assets and liabilities***

Fair values of financial assets and liabilities are disclosed below:

	<i>As at 30 June 2005</i>		<i>As at 30 June 2006</i>		<i>As at 30 June 2007</i>	
	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Primary financial instruments held or issued to finance the group's operations:						
Short-term borrowings	(2,350)	(2,350)	(996)	(996)	(11,109)	(11,109)
Long-term borrowings	(9,321)	(7,794)	(16,348)	(14,426)	(20,028)	(16,816)
Finance leases	(39)	(33)	(19)	(17)	(10)	(10)
Cash and cash equivalents	2,759	2,759	2,463	2,463	2,622	2,622
Interest rate swaps	(2)	(2)	22	22	373	373
	<u>(8,953)</u>	<u>(7,420)</u>	<u>(14,878)</u>	<u>(12,954)</u>	<u>(28,152)</u>	<u>(24,940)</u>

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

### ***Interest rate risk profile of financial assets and liabilities***

	<i>As at 30 June 2005</i>	<i>As at 30 June 2006</i>	<i>As at 30 June 2007</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Fixed rate (fair value interest rate risk)</b>			
Short-term borrowings	(1,410)	(598)	(11,109)
Long-term borrowings	(8,417)	(13,612)	(12,017)
Finance leases	(39)	(19)	(10)
<b>Floating rate (cash flow interest rate risk)</b>			
Cash and cash equivalents	2,759	2,463	2,622
Short-term borrowings	(940)	(398)	-
Long-term borrowings	(904)	(2,736)	(8,011)
	<u>(8,951)</u>	<u>(14,900)</u>	<u>(28,525)</u>

Interest is received at a floating rate on bank balances amounting to £2,622,000 (2006: £2,463,000; 2005: £2,785,000).

The bank overdraft of £26,000 at 30 June 2005 bears interest at 2.5 per cent. above the group's bank base rate.

The £20,283,000 (2006: £7,968,000; 2005 £4,693,000) of bank loans, bear interest at 1.5 per cent. - 2.25 per cent. above LIBOR.

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

### ***Maturity Analysis of Financial Liabilities***

The bank overdraft is repayable on demand. The term loan and finance lease obligations fall due as disclosed in note 20.

### ***Undrawn committed borrowing facilities***

Committed financing facilities that are undrawn at 30 June 2007 total £8,625,000 (2006: £11,141,000; 2005: £7,708,000).

## 28. Cash generated from operations

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Profit/(loss) for the year	378	136	346
Taxation	5	-	427
Net finance costs	577	1,396	2,121
Amortisation of intangible assets	166	563	1,617
Depreciation of tangible fixed assets	178	267	577
(Profit) on disposal of property, plant and equipment	(41)	(5)	-
Loss on disposal of intangible assets	-	4	-
(Increase) in inventories	(66)	(113)	(416)
(Increase) in trade and other receivables	(302)	(532)	(986)
Increase in trade and other payables	525	1,447	2,823
<b>Total net cash flow generated from operations</b>	<b>1,420</b>	<b>3,163</b>	<b>6,509</b>

## 29. Capital commitments

There were no capital commitments which were contracted for, but not provided for, as at 30 June 2007 (2006: £nil; 2005: £nil).

## 30. Operating lease commitments

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

	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>	<i>As at 30 June 2007 £'000</i>
<b>Property</b>			
Expiring in less than one year	628	1,137	2,415
Expiring between two and five years	2,494	4,434	9,059
Expiring after more than five years	3,786	8,356	16,855
	<u>6,908</u>	<u>13,927</u>	<u>28,329</u>
<b>Plant and machinery</b>			
Expiring in less than one year	11	43	73
Expiring between two and five years	15	40	109
Expiring after more than five years	-	-	-
	<u>26</u>	<u>83</u>	<u>182</u>
<b>Total lease commitments</b>			
Expiring in less than one year	639	1,180	2,488
Expiring between two and five years	2,509	4,474	9,168
Expiring after more than five years	3,786	8,356	16,855
	<u>6,934</u>	<u>14,010</u>	<u>28,511</u>

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

### **31. Pension schemes**

The group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the profit and loss account as they fall due. The amounts charged during the year amounted to £73,000 (2006: £57,000; 2005: £39,000). The amount outstanding at the end of the year included in creditors was £5,000 (2006: £2,000; 2005: £5,000).

### **32. Related party transactions**

Newtyle Property, of which Nigel Cayzer, formerly a director of the company, is a partner, received arms length rent of £26,250 from the group whilst Nigel Cayzer was, in year ended 30 June 2006, a director of the company.

Sovereign Capital Partners LLP, an entity which manages the funds of Nash Sells Limited Partnership II, the company's ultimate controlling party, received a management charge of £18,996 (2006: £26,497; 2005: £25,563).

At the year end, the group owed funds managed by Sovereign Capital Partners LLP £9,559,000 (2006: £8,353,000; 2005: £6,102,000) in respect of secured loan stock. During 2007 loan stock redemption costs of £1,195,000 were accrued (2006: £940,000; 2005: £220,000).

Directors of the company as at 30 June 2007, R C Trenter and T J Norris, have respective interests of 6.67 per cent. and 3.33 per cent. in the premiums payable on £4,455,799 of the secured loan stock and in the premiums on the redeemable preference shares.

During the year ended 30 June 2005, the company allotted 61,859 ordinary shares of 1p each to S Innes and 11,930 ordinary shares of 1p each to P D Coxon, directors of the company, at par value. The directors considered the fair value of the shares at the time of allotment to be equal to the par value.

P J Brooks, a director of the company as at 30 June 2007, has an interest by way of a partnership interest in 8,749 ordinary shares, 1,515,270 preferred ordinary shares and 589,737 redeemable preference shares held by funds managed by Sovereign Capital Partners LLP. P J Brooks is a co-beneficiary of a discretionary trust that holds 41,251 ordinary shares of CVS Group plc.

Sovereign Capital Partners LLP as manager of Nash Sells Limited Partnership LLP have entered into an undertaking with Simon Innes, a director of the company, which entitles Simon Innes to an amount equal to three per cent. of the value of the company above an agreed enterprise value, to be paid by Nash Sells Limited Partnership II, by way of a gift, upon receipt of funds by Nash Sells Limited Partnership II following Admission to AIM.

Key management compensation is disclosed in note 8.

### **33. Post balance sheet events**

On 2 July 2007 the group acquired the trade and related assets of a veterinary practice based in Hampshire & Surrey for cash consideration of £2,175,000. The assets acquired comprised plant and equipment of £173,000 and intangible patient data records of £2,002,000. For the year ended 31 March 2007, the practice reported an unaudited pre tax profit of £489,000. Given the nature of the records maintained by the practice it is not practicable to provide details of revenue, profits or recognised gains and losses for the period from the prior period end to the date of acquisition.

On 3 September 2007 the group acquired the trade and related assets of a veterinary practice based in Buckinghamshire for cash consideration of £75,000. The assets acquired comprised stock of £5,000 and intangible patient data records of £70,000. For the year ended 31 March 2007, the practice reported an unaudited pre tax profit of £50,000 (excluding any salary or drawings in respect of the partners/proprietors working in the practice). Given the nature of the records maintained by the practice it is not practicable to provide details of revenue, profits or recognised gains and losses for the period from the prior period end to the date of acquisition.

On 22 August 2007 the entire issued share capital of CVS (UK) Limited was acquired by CVS Group Limited and CVS Group Limited became the immediate parent undertaking of CVS (UK) Limited. On 17 September 2007 CVS Group Limited re-registered as CVS Group plc.

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

£2,000,000. The facility is secured over the assets of the group and of its parent undertaking, CVS Group plc.

#### **34. Ultimate controlling party**

The directors consider Nash Sells Limited Partnership II to be the ultimate controlling party.

Nash Sells Limited Partnership II has a 73.89 per cent. interest in the equity share capital of CVS Group plc, the immediate parent undertaking of CVS (UK) Limited. At 30 June 2005 and 2006, they had a 75.89 per cent. interest in the equity share capital of CVS (UK) Limited.

#### **35. Reconciliation of total shareholders' equity and profit under UK GAAP to IFRS**

CVS (UK) Limited prepared its statutory accounts in accordance with UK GAAP for all reporting periods to 30 June 2006. This financial information has been prepared under IFRS. Accordingly, the group's IFRS transition date for the purpose of this financial information is 1 July 2004. This financial information has been prepared under IFRS and includes comparative IFRS financial information.

In preparing this statement in accordance with IFRS 1, the group has applied the mandatory exemptions of the retrospective application of some aspects of other IFRSs that are relevant to it (financial assets and liabilities derecognised before 1 July 2004 and not re-recognised under IFRS and estimates made under UK GAAP at each relevant reporting date have not been revised as there is no objective evidence that the estimates were in error). The group has elected to retain UK GAAP carrying values of property, plant and equipment including revaluations of freehold property, as deemed cost at transition. It has applied the optional exemption to IFRS 3, which allows business combinations that occurred before 1 July 2004 not to be restated to IFRS.

A description of the significant differences between the group's performance and financial position under UK GAAP and IFRS is set out below, followed by reconciliations of total shareholders' equity between IFRS and UK GAAP at the reporting date, the comparative balance sheet dates and the transition date.

#### ***Explanation of reconciling items between UK GAAP and IFRS***

##### **(a) *Goodwill amortisation***

IFRS 3 'Business Combinations' prohibits the amortisation of goodwill; instead goodwill is subject to annual impairment reviews. Under UK GAAP goodwill was systematically amortised over its estimated life of 5 years.

Under the transitional provisions of IFRS 1, the goodwill balance at 1 July 2004 has been frozen and hence amortisation charges booked in the years to 30 June 2005 and 30 June 2006, under UK GAAP, have been reversed.

##### **(b) *Fair value adjustments in respect of derivative financial instruments***

Under IAS 39, 'Financial Instruments: Recognition and measurement', derivative financial instruments are stated at fair value. Any gains or losses on re-measurement in respect of derivatives that do not qualify for hedge accounting are immediately recognised in the income statement. Under UK GAAP such financial instruments were not reflected on the balance sheet.

##### **(c) *Deferred tax adjustments***

Under UK GAAP deferred tax was recognised in respect of all timing differences that had originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less taxation in the future. Deferred tax under IAS 12 'Income Taxes' is recognised in respect of all temporary differences as at the balance sheet date between the tax bases of assets and liabilities and their carrying value for financial reporting purposes.

A deferred tax liability has been recognised in accordance with IAS 12 on the difference between the carrying value of a previously revalued property (see note 2) in the balance sheet and the tax base of £nil. This liability was not previously required to be recorded under UK GAAP.

##### **(d) *Employee benefits***

Under UK GAAP, in line with common practice, the group did not account for holiday pay accruals unless legally obliged to make cash settlement. IAS 19 'Employee Benefits' explicitly

requires appropriate provision to be made for the cost of holiday entitlements not taken at the balance sheet date.

(e) *Capitalised software*

Under UK GAAP, all capitalised computer software was included within tangible fixed assets. IAS 38 “Intangible assets” requires software that is not an integral part of an item of computer hardware to be classified within intangible assets. As such a reclassification has been made in the transition balance sheet between property, plant and equipment and intangible assets. Neither the useful economic life nor the depreciation/amortisation rate are affected.

(f) *Intangible assets (other than goodwill)*

Under UK GAAP, intangible assets are only recognised when they are separable and as such the group did not recognise any intangible assets arising from acquisitions. Under IFRS 3, intangible assets can arise from contractual or legal rights and need not be separable. Accordingly, an element of the goodwill arising from acquisitions under UK GAAP post transition has been recognised as an intangible asset in the form of patient data records under IFRS. Acquisitions pre transition have not been adjusted as the group has chosen to utilise the exemption available under IFRS 1, for restating previous acquisitions.

(g) *Presentational changes*

The formats of the primary financial statements in this report are presented in accordance with IAS 1 ‘Presentation of financial statements’. In addition to the key accounting policy changes and IFRS adjustments highlighted above, there are a number of presentational changes that have no impact on the results and net assets of the group. The main presentational changes are the reclassification of bank overdrafts from borrowings to cash and cash equivalents and the reclassification of debt issue costs from trade and other payables to borrowings.



**Reconciliation of equity at 1 July 2004 (date of transition to IFRS)**

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Non-current assets</b>				
Intangible assets				
Goodwill		4,312	-	4,312
Other intangible assets	(b)	-	47	47
Total intangible assets		4,312	47	4,359
Property, plant and equipment	(c)	1,305	(47)	1,258
Deferred income tax assets	(h)	27	(27)	-
		<u>5,644</u>	<u>(27)</u>	<u>5,617</u>
<b>Current assets</b>				
Inventories		299	-	299
Trade and other receivables	(i)	833	(114)	719
Cash and cash equivalents	(f)	120	(166)	(46)
		<u>1,252</u>	<u>(280)</u>	<u>972</u>
<b>Total assets</b>		<u>6,896</u>	<u>(307)</u>	<u>6,589</u>
<b>Non-current liabilities</b>				
Borrowings	(g)	(6,956)	114	(6,842)
Derivative financial instruments	(e)	-	(5)	(5)
Deferred income tax liabilities	(h)	-	(128)	(128)
		<u>(6,956)</u>	<u>(19)</u>	<u>(6,975)</u>
<b>Current liabilities</b>				
Trade and other payables	(d)	(1,272)	(29)	(1,301)
Current income tax liabilities		(24)	-	(24)
Borrowings	(g)	(859)	166	(693)
		<u>(2,155)</u>	<u>137</u>	<u>(2,018)</u>
<b>Total liabilities</b>		<u>(9,111)</u>	<u>118</u>	<u>(8,993)</u>
<b>Net liabilities</b>		<u>(2,215)</u>	<u>(189)</u>	<u>(2,404)</u>
<b>Capital and reserves attributable to equity holders of the Company</b>				
Share capital		20	-	20
Share premium		436	-	436
Retained losses		(2,796)	(189)	(2,985)
Revaluation reserve		125	-	125
<b>Total shareholders' deficit</b>		<u>(2,215)</u>	<u>(189)</u>	<u>(2,404)</u>

**Reconciliation of equity at 30 June 2005**

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Non-current assets</b>				
Intangible assets				
Goodwill	(a)	4,795	(462)	4,333
Other intangible assets	(b)	-	1,927	1,927
Total intangible assets		4,795	1,465	6,260
Property, plant and equipment	(c)	1,467	(43)	1,424
Deferred income tax assets	(h)	10	(10)	-
		<u>6,272</u>	<u>1,412</u>	<u>7,684</u>
<b>Current assets</b>				
Inventories		463	-	463
Trade and other receivables	(i)	1,105	(84)	1,021
Cash and cash equivalents		2,759	-	2,759
		<u>4,327</u>	<u>(84)</u>	<u>4,243</u>
<b>Total assets</b>		<u>10,599</u>	<u>1,328</u>	<u>11,927</u>
<b>Non-current liabilities</b>				
Borrowings	(g)	(9,699)	354	(9,345)
Deferred income tax liabilities	(h)	-	(127)	(127)
		<u>(9,699)</u>	<u>227</u>	<u>(9,472)</u>
<b>Current liabilities</b>				
Trade and other payables	(d)	(2,117)	10	(2,107)
Current income tax liabilities		(7)	-	(7)
Borrowings		(2,365)	-	(2,365)
Derivative financial instruments	(e)	-	(2)	(2)
		<u>(4,489)</u>	<u>8</u>	<u>(4,481)</u>
<b>Total liabilities</b>		<u>(14,188)</u>	<u>235</u>	<u>(13,953)</u>
<b>Net liabilities</b>		<u>(3,589)</u>	<u>1,563</u>	<u>(2,026)</u>
<b>Capital and reserves attributable to equity holders of the Company</b>				
Share capital		20	-	20
Share premium		436	-	436
Retained losses		(4,170)	1,563	(2,607)
Revaluation reserve		125	-	125
<b>Total shareholders' deficit</b>		<u>(3,589)</u>	<u>1,563</u>	<u>(2,026)</u>

**Reconciliation of equity at 30 June 2006**

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Non-current assets</b>				
Intangible assets				
Goodwill	(a)	9,631	(5,220)	4,411
Other intangible assets	(b)	-	8,087	8,087
Total intangible assets		9,631	2,867	12,498
Property, plant and equipment	(c)	2,215	103	2,318
Investments		23	-	23
Derivative financial instruments	(e)	-	22	22
Deferred income tax assets	(h)	-	439	439
		<u>11,869</u>	<u>3,431</u>	<u>15,300</u>
<b>Current assets</b>				
Inventories		645	-	645
Trade and other receivables	(i)	1,772	(132)	1,640
Cash and cash equivalents		2,463	-	2,463
		<u>4,880</u>	<u>(132)</u>	<u>4,748</u>
<b>Total assets</b>		<u>16,749</u>	<u>3,299</u>	<u>20,048</u>
<b>Non-current liabilities</b>				
Borrowings	(g)	(16,545)	186	(16,359)
Deferred income tax liabilities	(h)	-	(537)	(537)
		<u>(16,545)</u>	<u>(351)</u>	<u>(16,896)</u>
<b>Current liabilities</b>				
Trade and other payables	(d)	(3,911)	(76)	(3,987)
Current income tax liabilities		(51)	-	(51)
Borrowings		(1,004)	-	(1,004)
		<u>(4,966)</u>	<u>(76)</u>	<u>(5,042)</u>
<b>Total liabilities</b>		<u>(21,511)</u>	<u>(427)</u>	<u>(21,938)</u>
<b>Net liabilities</b>		<u>(4,762)</u>	<u>2,872</u>	<u>(1,890)</u>
<b>Capital and reserves attributable to equity holders of the Company</b>				
Share capital		20	-	20
Share premium		436	-	436
Retained losses		(5,343)	2,872	(2,471)
Revaluation reserve		125	-	125
<b>Total shareholders' deficit</b>		<u>(4,762)</u>	<u>2,872</u>	<u>(1,890)</u>

**Explanation of the effect of transition to IFRS on equity**

	<i>As at 1 July 2004 £'000</i>	<i>As at 30 June 2005 £'000</i>	<i>As at 30 June 2006 £'000</i>
<b>(a) Non-current assets – goodwill</b>			
Recognition of separately identifiable intangibles	-	(2,011)	(8,666)
Accumulated de-recognition of goodwill amortisation	-	1,549	3,606
Reclassification following completion of the purchase price allocation to individual assets	-	-	(160)
	<u>-</u>	<u>(462)</u>	<u>(5,220)</u>
<b>(b) Non-current assets – other intangible assets</b>			
Recognition of separately identifiable intangibles	-	2,011	8,666
Reclassification of intangible assets from property, plant and equipment	47	43	57
Amortisation of separately identifiable intangibles	-	(127)	(636)
	<u>47</u>	<u>1,927</u>	<u>8,087</u>
<b>(c) Property, plant and equipment</b>			
Reclassification of intangible assets from property, plant and equipment	(47)	(43)	(57)
Reclassification following completion of the purchase price allocation to individual assets	-	-	160
	<u>(47)</u>	<u>(43)</u>	<u>103</u>
<b>(d) Trade and other payables</b>			
Reversal of accrual for contingent debt arrangement costs <sup>(1)</sup>	-	60	-
Recognition of holiday pay accrual	(29)	(50)	(76)
	<u>(29)</u>	<u>10</u>	<u>(76)</u>
<b>(e) Derivative financial instruments</b>			
Derivative financial instruments – fair value adjustment	(5)	(2)	22
	<u>(5)</u>	<u>(2)</u>	<u>22</u>
<b>(f) Cash and cash equivalents</b>			
Reclassification of bank overdraft	(166)	-	-
	<u>(166)</u>	<u>-</u>	<u>-</u>
<b>(g) Borrowings</b>			
Reclassification of bank overdraft	166	-	-
Reversal of accrual of loan stock redemption premium <sup>(1)</sup>	-	270	-
Reversal of accrual of dividend on preferred ordinary shares <sup>(1)</sup>	-	-	54
Reclassification of bank loan issue costs	114	84	132
	<u>280</u>	<u>354</u>	<u>186</u>
<b>(h) Deferred taxation</b>			
(Reversal)/recognition of deferred income tax assets	(27)	(10)	439
Recognition of deferred income tax liabilities	(128)	(127)	(537)
	<u>(155)</u>	<u>(137)</u>	<u>(98)</u>
<b>(i) Trade and other receivables</b>			
Reclassification of bank loan issue costs	(114)	(84)	(132)
	<u>(189)</u>	<u>1,563</u>	<u>2,872</u>

(1) These adjustments do not relate to the transition to IFRS, but represent a correction of errors made under UK GAAP.

**Reconciliation of (loss)/profit for the year ended 30 June 2005**

	<i>Note</i>	<i>UK GAAP £'000</i>	<i>Effect of transition to IFRS £'000</i>	<i>IFRS £'000</i>
<b>Revenue</b>		12,851	-	12,851
Cost of sales	(a)	(2,389)	(5,547)	(7,936)
<b>Gross profit</b>		10,462	(5,547)	4,915
Administrative expenses	(b)	(10,948)	6,993	(3,955)
<b>Operating (loss)/profit</b>		(486)	1,446	960
Profit on sale of properties	(c)	45	(45)	-
Finance income		6	-	6
Finance expense	(d)	(916)	333	(583)
<b>(Loss)/profit before tax</b>		(1,351)	1,734	383
Income tax expense	(e)	(23)	18	(5)
<b>(Loss)/profit for the financial period attributable to equity shareholders</b>		<u>(1,374)</u>	<u>1,752</u>	<u>378</u>

**Reconciliation of (loss)/profit for the year ended 30 June 2006**

	<i>Note</i>	<i>UK GAAP £'000</i>	<i>Effect of transition to IFRS £'000</i>	<i>IFRS £'000</i>
<b>Revenue</b>		20,169	-	20,169
Cost of sales	(a)	(3,632)	(8,449)	(12,081)
<b>Gross profit</b>		16,537	(8,449)	8,088
Administrative expenses	(b)	(16,527)	9,971	(6,556)
<b>Operating profit</b>		10	1,522	1,532
Finance income		119	-	119
Finance expense	(d)	(1,263)	(252)	(1,515)
<b>(Loss)/profit before tax</b>		(1,134)	1,270	136
Income tax expense	(e)	(39)	39	-
<b>(Loss)/profit for the financial period attributable to equity shareholders</b>		<u>(1,173)</u>	<u>1,309</u>	<u>136</u>

**Explanation of the effect of transition to IFRS on net income**

	<i>Year ended 30 June 2005 £'000</i>	<i>Year ended 30 June 2006 £'000</i>
<b>(a) Cost of sales</b>		
Reclassification of wages and salaries <sup>(1)</sup>	(5,547)	(8,449)
<b>(b) Administrative expenses</b>		
Reclassification of profit on disposal of fixed assets	45	-
De-recognition of goodwill amortisation	1,549	2,057
Amortisation of separately identifiable intangibles	(127)	(509)
Recognition of holiday pay accrual	(21)	(26)
Reclassification of wages and salaries <sup>(1)</sup>	5,547	8,449
	<u>6,993</u>	<u>9,971</u>
<b>(c) Profit on sale of properties</b>		
Reclassification of profit on disposal of fixed assets	(45)	-
<b>(d) Finance expense</b>		
Fair value adjustments in respect of derivative financial instruments	3	24
Reversal of accrual for contingent debt arrangement costs <sup>(2)</sup>	60	(60)
Reversal of accrual of dividend on preferred ordinary shares <sup>(2)</sup>	-	54
Recalculation of accumulated loan stock redemption premium <sup>(2)</sup>	270	(270)
	<u>333</u>	<u>(252)</u>
<b>(e) Income tax expense</b>		
(Reversal)/recognition of deferred income tax assets	(10)	439
Recognition of deferred income tax liabilities	28	(400)
	<u>18</u>	<u>39</u>
	<u>1,752</u>	<u>1,309</u>

(1) This adjustment does not relate to the transition to IFRS, but represents a presentational adjustment the directors consider necessary to more accurately reflect the nature of the expenses.

(2) These adjustments do not relate to the transition to IFRS, but represent a correction of errors made under UK GAAP.

**36. Reconciliation of cash flows under UK GAAP to IFRS**

The cash flow statements for the years ended 30 June 2007, 30 June 2006 and 30 June 2005 as presented in these financial statements has been subject to a number of presentational adjustments following the transition to IFRS. There is no impact on the net increase/(decrease) in cash and cash equivalents for each year as reported under IFRS compared with that originally reported under UK GAAP.

## PART VI

### ADDITIONAL INFORMATION

#### 1. Responsibility

The Directors, whose names appear on page 7 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All the Directors accept individual and collective responsibility for compliance with the AIM Rules.

#### 2. The Company

- 2.1 The Company was incorporated and registered in England and Wales with registered number 06312831 on 13 July 2007 as a private company limited by shares under the name CVS Group Limited. On 17 September 2007, the Company was re-registered as a public limited company with the name CVS Group plc.
- 2.2 The principal legislation under which the Company operates is the Act and regulations made under the Act. The liability of the Company's members is limited.
- 2.3 The Company is domiciled in the United Kingdom. The registered office and principal place of business of the Company is at Unit C, Victoria Road, Diss IP22 4GA, Norfolk (telephone number 01379 644288).
- 2.4 The following are the important events in the development of the Company's business:
- 2.4.1 Pursuant to the Share Exchange Agreement, the Company acquired the entire issued share capital of CVS (UK) and allotted shares in the capital of the Company to the shareholders of CVS (UK). Further details of the Share Exchange Agreement are set out at paragraph 15.7 of this Part VI.
- 2.4.2 On 12 September 2007, the High Court approved a reduction in the share capital of the Company whereby the nominal value of each of the ordinary and the preferred ordinary shares was reduced from £30 to £0.05. This capital reduction was effected to create an adequate level of distributable reserves in the Company to permit the redemption of its preference shares and the payment of outstanding dividends on its preferred ordinary shares, in each case on, and subject to, Admission.

#### 3. Subsidiaries

The Company is the holding company of the Group. The following table contains details of the Company's principal subsidiaries:

<i>Company name</i>	<i>Principal activity</i>	<i>Country of incorporation</i>	<i>Registered number</i>	<i>Percentage ownership (direct or indirect)</i>
CVS (UK) Limited	Trading and holding company	England & Wales	03777473	100
Precision Histology International Limited	Trading company	England & Wales	02161963	100
The Veterinary Laboratory Limited	Dormant	England & Wales	04176258	100
Veterinary Pathology Partners Limited	Dormant	England & Wales	04616377	100
Firstvets Limited	Dormant	England & Wales	03691594	100
Carrick Veterinary Group Limited	Dormant	England & Wales	04490339	100
Active Vetcare Limited	Dormant	England & Wales	03498427	100

#### 4. Share Capital

- 4.1 Set out below are details of the authorised and issued share capital of the Company (i) as at the date of this document and (ii) as it will be immediately following the Placing and Admission:

		<i>Present</i>		<i>Immediately following Admission</i>	
		<i>Number</i>	<i>Nominal value (£)</i>	<i>Number</i>	<i>Nominal value (£)</i>
<i>Ordinary Shares of 0.2p each</i>					
Authorised	14,000,000	28,000	352,000,000	704,000	
Issued	13,563,475	27,126.95	51,563,475	103,126.95	
<i>Preferred Ordinary Shares of 0.2p each</i>					
Authorised	38,000,000	76,000	-	-	
Issued	38,000,000	76,000	-	-	
<i>Preference Shares of £1 each</i>					
Authorised	600,000	600,000	-	-	
Issued	592,105	592,105	-	-	

- 4.2 On incorporation, the authorised share capital of the Company was £1,000 divided into 1,000 ordinary shares of £1 each and the issued share capital was one ordinary share of £1. On 17 August 2007, 29 ordinary shares of £1 were allotted to Paul Coxon.

- 4.3 The following changes to the authorised and issued share capital of the Company have taken place since incorporation:

- 4.3.1 On 17 August 2007, the Company passed resolutions to:

- 4.3.1.1 increase the authorised share capital of the Company from £1,000 to £63,000,000 by the creation of 62,999,000 new ordinary shares of £1 each in the capital of the Company;
- 4.3.1.2 consolidate the 30 issued ordinary shares of £1 each in the capital of the Company to become 1 ordinary share of £30;
- 4.3.1.3 consolidate 62,399,970 of the authorised but unissued ordinary shares of £1 each in the capital of the Company to become 2,079,999 ordinary shares of £30 each;
- 4.3.1.4 redesignate 1,520,000 of the existing authorised but unissued ordinary shares of £30 each in the capital of the Company as 1,520,000 preferred ordinary shares of £30 each in the capital of the Company;
- 4.3.1.5 redesignate 600,000 authorised but unissued of the ordinary shares of £1 each in the capital of the Company as 600,000 preference shares of £1 each in the capital of the Company; and
- 4.3.1.6 adopt new articles of association in substantially the same form as the articles of association of CVS (UK).

- 4.3.2 On 22 August 2007, the shareholders of CVS (UK) entered into a share exchange agreement whereby they exchanged their shares in CVS (UK) for shares in the Company. Pursuant to that agreement, the Company allotted 542,538 ordinary shares of £30 each, 1,520,000 preferred ordinary shares of £30 each and 592,105 preference shares of £1 each in the capital of the Company to those shareholders. The key terms of the Share Exchange Agreement are summarised more fully at paragraph 15.7 of this Part VI.

- 4.3.3 By virtue of a written resolution dated 17 August 2007 taking effect as a special resolution and with the sanction of an Order of the High Court dated 12 September 2007, the authorised share capital of CVS was reduced from £63,000,000 divided into 560,000 ordinary shares of £30 each, 1,520,000 preferred ordinary shares of £30 each and 600,000 redeemable preference shares of £1 each to £704,000 divided into 560,000



ordinary shares of 5p each, 1,520,000 preferred ordinary shares of 5p each and 600,000 redeemable preference shares of £1 each. The rationale for the share exchange referred to at paragraph 4.3.2 above and the court sanctioned reduction of share capital was to create an adequate level of distributable reserves in CVS to permit the redemption of its preference shares and the payment of the outstanding dividend on the preferred ordinary shares, in each case on, and subject to, Admission.

- 4.3.4 On 2 October 2007, resolutions were passed, (in the case of resolutions (i) and (ii), with immediate effect, and, in the case of resolutions (ii) to (viii) inclusive, conditional upon but effective immediately prior to Admission) to, *inter alia*, (i) subdivide each of the issued and unissued ordinary shares of 5p each in the capital of the Company into 25 ordinary shares of 0.2p each, (ii) sub-divide each of the issued preferred ordinary shares of 5p each in the capital of the Company into 25 preferred ordinary shares of 0.2p each, (iii) redesignate each of the issued preferred ordinary shares of 0.2p as an ordinary share of 0.2p each in the capital of the Company, (iv) grant authority to the Directors for the purposes of section 80 of the Act and in substitution for all existing authorities to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum amount of £34,000 provided that in the case of any such allotment such authority (unless previously renewed, varied or revoked) shall be limited to the allotment of relevant securities up to an aggregate nominal amount equal to one third of the aggregate nominal amount of all the Ordinary Shares in issue and fully paid immediately following Admission, such authority to expire at the end of the next annual general meeting of the Company to be held after the date of passing of this resolution or, if earlier, fifteen months from the date of the passing of the resolution, (v) empower the directors pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred by the resolution referred to in (iv) above as if section 89(1) of the Act did not apply to the allotment, provided that the power conferred by this resolution is limited to: (a) the allotment of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or any territory; and (b) the allotment (otherwise than pursuant to paragraph (a) above) of equity securities for cash up to an aggregate nominal amount equal to 5 per cent. of the aggregate nominal amount of all the Ordinary Shares in issue and fully paid immediately following Admission, and the power will expire at the end of the next annual general meeting of the Company to be held after the date of passing of the resolution or, if earlier fifteen months from the date of the passing of the resolution, (vi) adopt the Articles, (vii) upon the redemption of the preference shares in the capital of the Company, redesignate each authorised but unissued preference share of £1 as an ordinary share of £1 each and (viii) sub-divide each of the unissued ordinary shares of £1 in the capital of the Company into 500 ordinary shares of 0.2p each.
- 4.4 As the allotments of Ordinary Shares described in paragraph 4.3.2 of this Part VI were made for non cash consideration, more than 10 per cent. of the issued share capital of the Company as at the date of this document has been paid for in assets other than cash.
- 4.5 Shortly following Admission, the Company intends to grant awards of up to 253,169 Ordinary Shares under the LTIP, on the terms described in paragraph 6 of this Part VI and based on the Placing Price.
- 4.6 The Ordinary Shares in issue on Admission will be in registered form and, following Admission, will be capable of being held in uncertificated form. In the case of Ordinary Shares held in uncertificated form, the Articles permit the holding and transfer of Ordinary Shares under CREST. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise

than by certificate and transferred otherwise than by written instrument. The Directors have applied for the Ordinary Shares to be admitted to CREST. The records in respect of Ordinary Shares held in uncertificated form will be maintained by Euroclear UK & Ireland Limited and the Company's registrars (details of whom are set out on page 7).

- 4.7 It is anticipated that, where appropriate, share certificates will be despatched by first class post by 15 October 2007. Temporary documents of title will not be issued. Prior to the despatch of definitive share certificates, transfers will be certified against the register.
- 4.8 The International Security Identification Number ("ISIN") of the Ordinary Shares is GB00B2863827 and the Stock Exchange Daily Official List ("SEDOL") number is B286382.
- 4.9 The legislation under which the Ordinary Shares have been created is the Act and regulations made under the Act.
- 4.10 The Ordinary Shares are denominated in sterling.
- 4.11 Save as disclosed in this paragraph 4, as at the date of this document:
  - 4.11.1 the Company did not hold any treasury shares and no Ordinary Shares were held by, or on behalf of, any member of the Group;
  - 4.11.2 no shares have been issued otherwise than as fully paid;
  - 4.11.3 the Company had no outstanding convertible securities, exchangeable securities or securities with warrants;
  - 4.11.4 there are no acquisition rights and/or obligations over the authorised but unissued share capital of the Company and the Company has given no undertaking to increase its share capital;
  - 4.11.5 no capital of any member of the Group is under option or is agreed, conditionally or unconditionally, to be put under option; and
  - 4.11.6 the Company does not have in issue any security not representing share capital.

## **5. Memorandum and Articles of Association**

### ***Memorandum of association***

The principal objects of the Company are set out in paragraph 3 of its memorandum of association (which is available for inspection at the address specified in paragraph 18 of this Part VI) and include the carrying on of business as a general commercial company and acting as a holding company.

### ***Articles of association***

The Articles include provisions to the following effect:

#### **5.1 *Voting rights***

- 5.1.1 Subject to special rights or restrictions as to voting attached to any shares by or in accordance with the Articles, at a general meeting every member present in person has one vote on a show of hands and every member present in person or by proxy has, on a poll, one vote for every Ordinary Share held. No member shall have more than one vote on a show of hands notwithstanding that he may have appointed more than one proxy to attend and vote on his behalf.
- 5.1.2 Where there are joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote or votes of the other joint holder or holders. Seniority is determined by the order in which the names of the holders stand in the register.
- 5.1.3 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall have a casting vote in addition to any other vote to which he may be entitled as a member or as a proxy.
- 5.1.4 Unless the Board otherwise determines, a member shall not be entitled to vote unless all calls or other sums due from him in respect of shares in the Company have been paid.

## 5.2 *Dividends*

- 5.2.1 Subject to the Act and the Articles, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. Subject to the Act, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appear to the Board to be justified by the profits of the Company available for distribution.
- 5.2.2 Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up or credited as paid up (other than amounts paid in advance of calls) on the shares in respect of which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on such shares during any portion or portions of the period in respect of which the dividend is paid.
- 5.2.3 Dividends may be declared or paid in whatever currency the Board decide. Unless otherwise provided by the rights attached to the shares, dividends shall not carry a right to receive interest.
- 5.2.4 All dividends unclaimed for a period of 12 years after having been declared or becoming due for payment shall be forfeited and cease to remain owing by the Company.
- 5.2.5 The Board may, with the authority of an ordinary resolution of the Company:
- 5.2.5.1 offer holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid, instead of cash in respect of all or part of any dividend or dividends specified by the ordinary resolution;
  - 5.2.5.2 direct that payment of all or part of any dividend declared may be satisfied by the distribution of specific assets.
- 5.2.6 There are no fixed or specified dates on which entitlements to dividends payable by the Company arise.

## 5.3 *Pre-emption rights*

In certain circumstances, Shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing Shareholders on a *pro rata* basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to Shareholders.

## 5.4 *Distribution of assets on a winding-up*

On a winding-up, the liquidator may, with the authority of an extraordinary resolution of the Company and any other sanction required by law, divide among the members in kind the whole or any part of the assets of the Company and may value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, transfer any part of the assets of the Company to trustees on such trusts for the benefit of members as he may determine. The liquidator shall not, however (except with the consent of the member concerned) distribute to a member any asset to which there is attached a liability or potential liability for the owner.

## 5.5 *Transfer of shares*

- 5.5.1 Every transfer of shares which are in certificated form must be in writing in any usual form or in any form approved by the Board and shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee.
- 5.5.2 Every transfer of shares which are in uncertificated form must be made by means of a relevant system (such as CREST).
- 5.5.3 The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares if: (a) it is in respect of a share which is not fully paid up; (b) it is in respect of more than one class of share; (c) it is not duly

stamped (if so required); or (d) it is not delivered for registration to the registered office of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued) by the relevant share certificate and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

- 5.5.4 The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares which is in favour of: (a) a child, bankrupt or person of unsound mind; or (b) more than four joint transferees.
- 5.5.5 In the case of shares in certificated form, the registration of transfers of shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Board may from time to time determine. In the case of shares in uncertificated form, the register shall not be closed without the consent of the Operator of the relevant system (as defined in the Articles).

#### 5.6 *Suspension of rights*

If a member or any person appearing to be interested in shares held by such a member has been duly served with a notice under section 793 of the 2006 Act and has failed in relation to any shares (“**default shares**”) to give the Company the information thereby required within 14 days from the date of the notice, then, unless the Board otherwise determines, the member shall not be entitled to vote or exercise any right conferred by membership in relation to meetings of the Company in respect of such default shares. Where the holding represents more than 0.25 per cent. of the issued shares of that class, the payment of dividends may be withheld and such member shall not be entitled to transfer such shares other than by arm’s length sale or unless the member himself is not in default and the member proves to the satisfaction of the Board that no person in default is interested in the shares the subject of the transfer.

#### 5.7 *Untraced shareholders*

The Company is entitled to sell any share of a member who is untraceable, provided that:

- 5.7.1 for a period of not less than 12 years (during which at least three cash dividends have been payable on the share), no cheque, warrant or money order sent to the member has been cashed or all funds sent electronically have been returned;
- 5.7.2 at the end of such 12 year period, the Company has advertised in a national and local (i.e. the area in which the member’s registered address is situated) newspaper its intention to sell such share; and
- 5.7.3 the Company has not, during such 12 year period or in the three month period following the last of such advertisements, received any communication in respect of such share from the member.

The Company shall be indebted to the former member for an amount equal to the net proceeds of any such sale.

#### 5.8 *Variation of class rights*

- 5.8.1 Subject to the Act, all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights, or, in the absence of any such provision, either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a resolution passed at a separate meeting of such holders of shares of that class, but not otherwise. The quorum at any such meeting (other than an adjourned meeting) is two persons holding or representing by proxy at least one third in nominal amount of the issued shares of the class in question.
- 5.8.2 The rights attached to any class of shares shall not, unless otherwise expressly provided in the rights attaching to such shares, be deemed to be varied or abrogated by the creation or issue of shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of any of its own shares.

5.9 *Share capital, changes in capital and purchase of own shares*

- 5.9.1 Subject to the Act and to the Articles, the power of the Company to allot and issue shares shall be exercised by the Board at such times and on such terms and conditions as the Board may determine.
- 5.9.2 Subject to the Act and to any rights attached to any existing shares: (a) any share may be issued with such rights or restrictions as the Company may from time to time determine by ordinary resolution; and (b) the Company may issue redeemable shares.
- 5.9.3 The Company may, by ordinary resolution: increase its share capital; consolidate and divide all or any of its shares into shares of a larger amount; sub-divide its shares or any of them into shares of a smaller amount; cancel any shares not taken or agreed to be taken by any person; and convert all or any of its paid up shares into stock, and re-convert that stock into paid up shares of any denomination.
- 5.9.4 Subject to the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.
- 5.9.5 Subject to the Act, the Company may purchase all or any of its shares of any class (including redeemable shares) in any way.

5.10 *General meetings*

- 5.10.1 The Board may convene a general meeting whenever it thinks fit.
- 5.10.2 A general meeting called for the passing of a special resolution shall be called on not less than 21 clear days' notice. All other general meetings shall be called by not less than 14 clear days' notice. Notice of every general meeting (specifying, amongst other things, the date, time and place of the meeting and the business to be transacted at the meeting) shall be given to the members, the directors and the auditors.
- 5.10.3 The quorum for a general meeting is two members present in person or by proxy and entitled to vote.
- 5.10.4 The Board and, at any general meeting, the chairman of the meeting may make any arrangement and impose any requirement or restriction which it or he considers appropriate to ensure the security or orderly conduct of the meeting. This may include requirements for evidence of identity to be produced by those attending, the searching of their personal property and the restriction of items which may be taken into the meeting place.

5.11 *Appointment of directors*

- 5.11.1 Unless otherwise determined by ordinary resolution, there shall be no maximum number of directors, but the number of directors shall not be less than two.
- 5.11.2 Subject to the Act and the Articles, the Company may by ordinary resolution appoint any person who is willing to act as a director either as an additional director or to fill a vacancy. The Board may also appoint any person who is willing to act as a director, subject to the Act and the Articles. Any person appointed by the Board as a director will hold office only until the conclusion of the next annual general meeting of the Company, unless he is re-elected during such meeting.
- 5.11.3 The Board may appoint any director to hold any employment or executive office in the Company and may also revoke or terminate any such appointment (without prejudice to any claim for damages for breach of any service contract between the director and the Company).

5.12 *Remuneration of directors*

- 5.12.1 The total of the fees paid to the non-executive directors for their services must not exceed £200,000 a year, unless otherwise determined by ordinary resolution. This amount shall be automatically increased each year by the same amount as the increase in the General Index of Retail Prices. The Board may decide to pay additional remuneration to a non-executive director for services which the Board determines are outside the scope of the ordinary duties of such a director, whether by way of additional fees, salary, percentage of profits or otherwise.

5.12.2 The salary or remuneration of executive directors shall be determined by the Board and may be either a fixed sum of money or may altogether or in part be governed by business done or profits made or otherwise determined by the Board.

5.12.3 Each director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as director.

#### 5.13 *Retirement and removal of directors*

5.13.1 At each annual general meeting of the Company, one third of the directors (or the number nearest to but not exceeding one third if the number of directors is not a multiple of three) shall retire from office. In addition, any director who has been a director at each of the preceding two annual general meetings shall also retire. Each such director may, if eligible, offer himself for re-election. If the Company, at the meeting at which a director retires, does not fill the vacancy, the retiring director shall, if willing, be deemed to have been reappointed unless it is expressly resolved not to fill the vacancy or a resolution for the reappointment of the director is put to the meeting and lost.

5.13.2 Without prejudice to the provisions of the Act, the Company may by ordinary resolution remove any director before the expiration of his period of office and may by ordinary resolution appoint another director in his place.

#### 5.14 *Directors' interests*

5.14.1 Subject to the Act and provided that he has disclosed to the directors the nature and extent of any interest, a director is able to enter into contracts or other arrangements with the Company, hold any other office (except auditor) with the Company or be a director, employee or otherwise interested in any company in which the Company is interested. Such a director shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement or proposal.

5.14.2 Save as otherwise provided by the Articles, a director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board concerning any contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he (together with any person connected with him) is to his knowledge materially interested, directly or indirectly. Interests arising purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. However, a director can vote and be counted in the quorum where the resolution relates to any of the following:

5.14.2.1 the giving of any guarantee, security or indemnity in respect of (i) money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings or (ii) a debt or obligation of the Company or any of its subsidiary undertakings for which the director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

5.14.2.2 the participation of the director, in an offer of securities of the Company or any of its subsidiary undertakings, including participation in the underwriting or sub-underwriting of the offer;

5.14.2.3 a proposal involving another company in which he and any persons connected with him has a direct or indirect interest of any kind, unless he and any persons connected with him hold an interest in shares representing one per cent. or more of either any class of equity share capital, or the voting rights, in such company (excluding any shares of that class or any voting rights attached to shares which are held as treasury shares);

5.14.2.4 any arrangement for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award the director any privilege or benefit not generally awarded to the employees to whom such arrangement relates;

5.14.2.5 any proposal concerning the purchase or maintenance of any insurance policy under which he may benefit.

5.14.3 A director shall not vote or be counted in the quorum on any resolution of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

#### 5.15 *Powers of the directors*

5.15.1 The business of the Company shall be managed by the Board, which may exercise all the powers of the Company whether relating to the management of the business or not.

5.15.2 Subject to the provisions of the Act, the Board may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, to issue debentures and other securities and to give security, either outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company and, insofar as it is able, of its subsidiary undertakings, so as to procure that the aggregate principal amount outstanding in respect of borrowings by the Group shall not, without an ordinary resolution of the Company, exceed a sum equal to two times the aggregate of the amount paid up or credited as paid up on the Company's issued share capital and the total amount standing to the credit of the capital and revenue reserves of the Group as shown in the latest audited balance sheet of the Group, after such adjustments and deductions and subject to such exclusions as are specified in the Articles.

5.15.3 The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities, by insurance or otherwise, for any person who is, or has at any time been, a director of or employed by or in the service of the Company or of any company which is a subsidiary company of the Company, or is allied to or associated with the Company or any such subsidiary, or any predecessor in business of the Company or any such subsidiary, and for any member of his family (including a spouse or former spouse) or any person who is, or was, dependent on him.

#### 5.16 *Directors' indemnity and insurance*

5.16.1 Subject to the Act, each director is entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses, damages and liabilities incurred by him in the execution of his duties or otherwise in connection with his duties, powers or office. The indemnity includes any liability incurred in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, he is acquitted, proceedings are otherwise disposed of without any finding or admission of material breach of duty on his part or in connection with any application in which relief is granted to him by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

5.16.2 The Board may purchase and maintain insurance for or for the benefit of any director, employee or trustee of any pension fund or employee share scheme in which employees of any member of the Group are interested. Such insurance may include insurance against liability for negligence, default, breach of duty or breach of trust or any other liability which may lawfully be insured against in relation to the affairs of the Company.

## 6. **Employee Incentives**

### 6.1 *Participation*

The LTIP will be administered by the remuneration committee of the Board (the "**Committee**").

All executive directors and other employees are entitled to be considered for the grant of awards under the LTIP ("**Awards**"). After due consideration, the Committee will make Awards to selected participants. The Awards will take the form of nominal cost options over a specified number of Ordinary Shares. Awards are not transferable or assignable and none of the benefits received under the LTIP will be pensionable.

Other than in exceptional circumstances, the maximum value of Ordinary Shares over which Awards will be granted to an executive in any financial year is 100 per cent. of that executive's basic salary.

#### 6.2 *Performance Targets and Vesting*

The vesting of the Ordinary Shares over which an Award has been made will be dependent upon the achievement of the performance targets. The first performance target selected by the Committee is based on earnings per share ("EPS").

The EPS for the Company over the measurement period (which will normally be three years) would be calculated on the basis of the most recently published results at the date of measurement.

The performance conditions relating to the first Awards will be as follows:

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

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

#### 6.3 *Cessation of employment*

A participant who ceases to be an employee before the end of the measurement period 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) 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 leavers for these purposes.

#### 6.4 *Takeover, amalgamation and reconstruction*

In the case of a takeover that takes place within the measurement period, the EPS of the Company would be calculated during the period commencing on the date of the Award and ending on the occurrence of the takeover, using the method of calculation selected by the Committee. The extent to which Awards will vest will be determined in a manner similar to that outlined for leavers above.

#### 6.5 *Vesting of Awards*

At the end of the measurement period, a participant in the LTIP will only have to pay a nominal sum to obtain full ownership of the Ordinary Shares subject to an Award. Awards may be satisfied out of newly-issued Ordinary Shares or out of an employee trust. The trustee of such a trust would acquire the relevant number of Ordinary Shares by subscribing for new Ordinary Shares or by acquiring existing Ordinary Shares in the market.

#### 6.6 *Taxation*

The LTIP contains provisions to ensure that tax liabilities (including, at the discretion of the Committee, secondary class I National Insurance Contributions) that arise in relation to an Award will be satisfied by the relevant participant.

#### 6.7 *Variation of share capital*

In the event of a variation of the Company's ordinary share capital by way of capitalisation, rights issue, sub-division, consolidation, reduction of share capital, demergers, capital dividend or similar, the number of Ordinary Shares subject to an Award may be adjusted by the Board in such manner as it sees fit.



## 6.8 Amendments to LTIP

The Board may amend the terms of the LTIP on the recommendation of the Committee, provided that shareholder approval is required for certain amendments to the material advantage of participants, unless they are amendments to comply with or take account of applicable legislation or statutory regulations or any change therein or to obtain or maintain favourable taxation treatment for the Company or the participants.

## 6.9 Limits applying to LTIP

No Award may be granted on any date if, as a result, the total number of shares issuable pursuant to Awards, when aggregated with the number of shares issuable pursuant to options and other rights agreed in the previous 10 years under all other employee share schemes of the Company, would exceed 10 per cent. of the issued ordinary share capital of the Company on that date.

## 7. Directors' and Other Interests

7.1 As at the date of this document and immediately following Admission, the interests (all of which are beneficial unless otherwise stated), whether direct or indirect, of the Directors and their families (within the meaning set out in the AIM Rules) in the issued share capital of the Company and the existence of which is known to or could, with reasonable diligence, be ascertained by that Director, are as follows:

<i>Director</i>	<i>Before Admission</i>			<i>Following Admission</i>	
	<i>Number of preferred ordinary shares of 0.2p</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Equity Share capital</i>	<i>Number of Ordinary Shares*</i>	<i>Percentage of Ordinary Share capital*</i>
Simon Innes	-	1,546,475	3.00	1,546,475	3.000
Paul Coxon	-	773,250	1.50	515,500	1.000
Mark Finn	-	-	-	-	-
Richard Connell	-	-	-	24,391	0.050
David Timmins	-	-	-	12,195	0.025
Christopher Marsh	-	-	-	12,195	0.025

\* Assuming the redesignation of the issued preferred ordinary shares of 0.2p each as Ordinary Shares immediately prior to Admission.

7.2 The Company proposes to grant awards pursuant to the LTIP to the following Directors shortly following Admission:

<i>Director</i>	<i>Number of Ordinary Shares subject to awards</i>	<i>Exercise price</i>	<i>Measurement period</i>
Simon Innes	107,317	0.2p	3 years from grant
Paul Coxon	53,658	0.2p	3 years from grant
Mark Finn	58,536	0.2p	3 years from grant

7.3 Save as disclosed in paragraphs 7.1 and 7.2 above, none of the Directors has any interest in the share capital of the Company or of any of its Subsidiaries nor does any member of his or her family (within the meaning set out in the AIM Rules) have any such interest, whether beneficial or non-beneficial.

7.4 As at 4 October 2007 (being the last practicable date prior to the publication of this document) and so far as the Directors are aware, the only persons (other than any Director) who are or will be interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company prior to and immediately following Admission are as follows:

<i>Director</i>	<i>Before Admission</i>		<i>Percentage of Equity Share capital</i>	<i>Following Admission</i>	
	<i>Number of preferred ordinary shares of 0.2p</i>	<i>Number of Ordinary Shares</i>		<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Share capital</i>
Nash Sells Limited					
Partnership II	37,881,750	218,725	73.89	2,382,766	4.62
Ron Trenter	-	3,162,500	6.13	400,000	0.78
Perth Business Corporation	-	2,500,000	4.85	-	-
Terry Norris	-	1,581,250	3.07	-	-
Simon Innes	-	1,546,475	3.00	1,546,475	3.00
Tiger Global Fund Management	-	-	-	4,000,000	7.76
Old Mutual Asset Managers	-	-	-	3,250,000	6.30
Fideility International	-	-	-	2,675,000	5.19
UBS Asset Management	-	-	-	2,675,000	5.19
Artemis Investment Management	-	-	-	2,650,000	5.14
Aegon Asset Management UK	-	-	-	2,500,000	4.85
Rensburg Investment Managers	-	-	-	2,275,000	4.41
F&C Investment Management	-	-	-	1,900,000	3.68
Scottish Widows Investment Partnership	-	-	-	1,800,000	3.49
Morley Fund Management	-	-	-	1,600,000	3.10
Invesco Perpetual	-	-	-	1,575,000	3.05

7.5 Save as disclosed in paragraph 7.4 above, the Company and the Directors are not aware of (i) any persons who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company, nor (ii) any arrangements the operation of which may at a subsequent date result in a change in control of the Company.

7.6 The voting rights of the persons listed in paragraph 7.4 above do not differ from the voting rights of any other holder of Ordinary Shares.

7.7 There are no outstanding loans granted by any member of the Group to any Director nor are there any guarantees provided by any member of the Group for the benefit of any Director.

7.8 The Directors hold the following directorships in addition to that of CVS Group plc and are partners in the following partnerships and have held the following directorships and been partners in the following partnerships within the five years prior to the date of this document:

<i>Director</i>	<i>Current</i>	<i>Previous</i>
Richard Andrew Connell	Bandwood Limited	2e2 Group plc
	Caradon Boilers BIDCO 3 Limited	Brand Finance plc
	Caradon Boilers Holdings Limited	CVS (UK) Limited
	Caradon Radiators BIDCO 2 Limited	Dignity Holdings No.2 Limited
	Caradon Radiators Holdings Limited	Elevenacres Limited
	Corkgrove Limited	Glenvale Transport Limited
	Dignity Plc	Lesney Group Limited
	Henrad (UK) Limited	Lesney Industries Limited
	Ideal Boilers Limited	
	Ideal Stelrad Group Limited	
	Ideal Stelrad Limited	
	ISG Holdings Limited	
	Roundhurst Farms Limited	
	Stelrad Limited	
	Warmshire Limited	
	Simon Campbell Innes	CVS (UK) Limited
Precision Histology International Limited		Eastern Holdings Inc Limited
Veterinary Pathology Partners Limited		Linkmel V.E. Limited
		Mossdown Limited
		Riverside V.E. Limited
		Vision Express (CLS) Limited
		Vision Express Group Limited
		Vision Express Ireland Limited
	Vision Express Joint Ventures Limited	
	Vision Express (UK) Limited	

<i>Director</i>	<i>Current</i>	<i>Previous</i>
Paul Daryl Coxon	Active Vetcare Limited Carrick Veterinary Group Limited CVS (UK) Limited Firstvets Limited Precision Histology International Limited The Veterinary Laboratory Limited Veterinary Pathology Partners Limited	Allied Grain (South) Limited
David Peter Timmins	Broomco (4101) Limited	Animalcare Limited Booktile Limited Brazilian Properties Limited Dental Linkline Limited Easicare Computers Limited Farmstat International Limited Firmaventa Limited GAH Realisation No.2 Limited GD Realisation Number 1 Limited Genus Animal Health Limited Genus Breeding Limited Genus Investments Limited Genus Management Services Limited Genus plc Genus Quest Trustees Limited Genus Trustees Limited Genusxpress Limited HTSPE Limited INS Innovation Limited (formerly RTS Innovation Limited) P E International Consultants Limited PIC Fyfield Investments Limited PIC Fyfield Limited Pig Improvement Company Overseas Limited Pig Improvement Company UK Limited Pig Improvement Group Limited Produce Studies Limited Progen Limited Promar Assist Limited Promar International Limited Promar Studies Limited Robotic Technology Systems Holdings Limited Robotic Technology Systems plc RTS Enabling Technology (Europe) Limited RTS Life Science Limited (formerly RTS Thurnall Limited) RTS North West PLC RTS Thurnall Holdings PLC RTS (US) Holdings Limited Spedivet Limited Supersires Limited Sygen International Limited Syaqua Limited
Christopher Alan Marsh	Alexandra plc Colnpark Properties Limited Framlington AIM VCT PLC Framlington AIM VCT 2 PLC Gaming Ventures plc Hilton Food Group plc Man of the Match Limited Parkwood Group Trustees Limited Polyview Media Limited	Parkwood Holdings plc The Spirit of Sport Limited

<i>Director</i>	<i>Current</i>	<i>Previous</i>
Mark Finn	CVS (UK) Limited	Deantech Limited Gordon Davis (Chemists) Ltd Graham Morris Limited M.E. Dunn Chemist

7.9 Save as disclosed in paragraphs 7.10 and 7.11 of this Part VI, as at the date of this document no Director:

7.9.1 has any unspent convictions in relation to any indictable offences; or

7.9.2 has been bankrupt or entered into an individual voluntary arrangement; or

7.9.3 was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or

7.9.4 has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or

7.9.5 has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or

7.9.6 has been subject to any public criticism by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

7.10 Richard Connell was a director of Elevenacres Limited in respect of which an administrative receiver was appointed on 27 May 2002 and ceased to act on 19 January 2005. The company was dissolved on 8 November 2005. Richard Connell was also a director of Alma Holdings Limited in respect of which a receiver was appointed on 19 February 1992 and ceased to act on 3 September 2001. A further receiver was appointed in respect of this company on 14 July 1997 and ceased to act on 31 July 1998. The company was dissolved on 24 January 2003.

7.11 David Timmins was a director of Fine Art Wallcoverings Limited, Wilson Wilcox Furnishings Limited and Fine Decor Limited in respect of which administrators were appointed on 12 January 1999, 14 January 1999 and 12 February 1999 respectively. David Timmins resigned as a non-executive director from Wilson Wilcox Furnishings Limited on 29 July 1998 and from Fine Decor Limited and Fine Art Wallcoverings Limited on 13 February 1999. In addition, David Timmins was a non-executive director of RTS Networks Group PLC, in respect of which an administrative receiver was appointed on 31 January 2002, and resigned as a non-executive director from such company on 25 September 2001.

## 8. Directors' Service Agreements

8.1 Each of the executive Directors has a service agreement with the Company. Details of these service agreements are set out below:

<i>Director</i>	<i>Date of agreement</i>	<i>Date of expiration of current term of office</i>	<i>Current salary (per annum)</i>
Simon Innes	4 October 2007	N/A	220,000
Paul Coxon	4 October 2007	N/A	110,000
Mark Finn	4 October 2007	N/A	120,000

8.2 The following agreements have been entered into between the Directors and the Company:

8.2.1 A service agreement dated 4 October 2007 with Simon Innes, with effect from 4 October 2007, under which Mr Innes is employed as a director of the Company until terminated by at least 12 months' written notice by the Company to Mr Innes or at least 12 months' written notice by Mr Innes to the Company. Mr Innes' current salary is £220,000 per annum, which is subject to annual review, and he receives other benefits

commensurate with his position including a performance related bonus, access to the LTIP, life assurance, and car allowance;

- 8.2.2 A service agreement dated 4 October 2007 with Paul Coxon, with effect from 4 October 2007, under which Mr Coxon is employed as a director of the Company until terminated by at least 12 months' written notice by the Company to Mr Coxon or at least 12 months' written notice by Mr Coxon to the Company. Mr Coxon's current salary is £110,000 per annum, which is subject to annual review, and he receives other benefits commensurate with his position including a performance related bonus, access to the LTIP, life assurance, car allowance and a contribution by the Company of 10 per cent. of basic salary into a personal pension plan; and
- 8.2.3 A service agreement dated 4 October 2007 with Mark Finn, with effect from 4 October 2007, under which Mr Finn is employed as a director of the Company until terminated by at least 12 months' written notice by the Company to Mr Finn or at least 12 months' written notice by Mr Finn to the Company. Mr Finn's current salary is £120,000 per annum, which is subject to annual review, and he receives other benefits commensurate with his position including a performance related bonus, access to the LTIP, life assurance, car allowance and a contribution by the Company of 10 per cent. of basic salary into personal pension plan.
- 8.3 Richard Connell was appointed a non-executive Director and Chairman of the Company on 18 September 2007 by letter of appointment dated 4 October 2007. The appointment is for an initial fixed term of three years from 4 October 2007, terminable upon (i) the Company giving the non-executive director one week's written notice or the non-executive director giving the Company two weeks' written notice, in both instances, in the event that Admission does not occur before 15 November 2007 or (ii) after Admission, by either party giving six months' written notice to the other (subject to re-election at the next annual general meeting) The fee payable for Richard Connell's services as a non-executive Director is £85,000 per annum and is subject to annual review.
- 8.4 David Timmins was appointed a non-executive Director on 18 September 2007 by letter of appointment dated 4 October 2007. The appointment is for an initial fixed term of three years from 4 October 2007, terminable upon (i) the Company giving the non-executive director one week's written notice or the non-executive director giving the Company two weeks' written notice, in both instances, in the event that Admission does not occur before 15 November 2007 or (ii) after Admission, by either party giving six months' written notice to the other (subject to re-election at the next annual general meeting) The fee payable for David Timmins's services as a non-executive Director is £32,500 per annum and is subject to annual review.
- 8.5 Chris Marsh was appointed a non-executive Director on 18 September 2007 by letter of appointment dated 4 October 2007. The appointment is for an initial fixed term of three years from 4 October 2007, terminable upon (i) the Company giving the non-executive director one week's written notice or the non-executive director giving the Company two weeks' written notice, in both instances, in the event that Admission does not occur before 15 November 2007 or (ii) after Admission, by either party giving six months' written notice to the other (subject to re-election at the next annual general meeting). The fee payable for Chris Marsh's services as a non-executive Director is £30,000 per annum and is subject to annual review.
- 8.6 Save as disclosed in paragraphs 8.2 to 8.5 (inclusive) above, there are no existing or proposed service agreements, appointment letters or consultancy agreements between any of the Directors and the Company which cannot be terminated by the Company without payment of compensation within 12 months.
- 8.7 The aggregate of the remuneration paid and benefits in kind (including bonus payments) granted to the Directors by any member of the Group in respect of the financial year ended 30 June 2007 was £614,559.
- 8.8 There are no arrangements under which any Director has waived or agreed to waive future emoluments nor have there been any such waivers of emoluments during the financial year immediately preceding the date of this document.

## **9. Related Party Transactions**

- 9.1 Simon Innes and Paul Coxon sold their shares in CVS (UK) to the Company in exchange for the allotment by the Company of the same number of shares in the capital of the Company on 22 August 2007 pursuant to the Share Exchange Agreement.
- 9.2 Save as disclosed in paragraph 9.1 above, no Director has any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to, any member of the Group or which are proposed to be acquired by, disposed of by, or leased to, any member of the Group.

## **10. Taxation**

The following statements are intended as a general guide only to current United Kingdom tax legislation and to what is understood to be the current practice of the United Kingdom HM Revenue & Customs (“HMRC”) in relation to United Kingdom residents holding Ordinary Shares as investments and may not apply to certain classes of shareholder. Any person who is in any doubt as to his tax position or is subject to tax in any jurisdiction other than the United Kingdom is strongly recommended to consult his professional advisers immediately.

### **10.1 Taxation of dividends**

- 10.1.1 The Company will not be required to withhold tax at source on any dividends it pays to its shareholders.

#### *10.1.2 United Kingdom resident shareholders*

An individual shareholder who is resident in the United Kingdom for tax purposes and receives a dividend from the Company will generally be entitled to a tax credit in respect of that dividend, currently equal to one-ninth of the cash dividend received or ten per cent., of the aggregate of the cash dividend received and the related tax credit (the “gross dividend”). The related tax credit can be set against the individual shareholder’s total liability to income tax on the dividend.

An individual shareholder who is liable to income tax at no more than the basic rate will be subject to income tax at the rate of ten per cent., on the gross dividend and so the tax credit should satisfy in full that individual shareholder’s liability to income tax on the dividend received.

An individual shareholder who is liable to income tax at the higher rate will be subject to tax at the rate of 32.5 per cent., on the gross dividend to the extent that the gross dividend, when treated as the top slice of that shareholder’s income, falls above the threshold for higher rate income tax. The related tax credit will therefore not fully satisfy that individual shareholder’s liability to income tax on the gross dividend and the shareholder will have to account for additional tax equal to 22.5 per cent., of the gross dividend or 25 per cent., of the cash dividend received.

United Kingdom resident shareholders who are not liable to United Kingdom tax on dividends including pension funds and charities, are not entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

Subject to certain exceptions for traders in securities and insurance companies, a corporate shareholder resident in the United Kingdom for tax purposes will generally not be subject to corporation tax on dividends received from the Company.

#### *10.1.3 Non-United Kingdom resident shareholders*

The right of a shareholder who is not resident in the United Kingdom for tax purposes to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Company will depend upon the existence and the terms of any applicable double tax treaty between the United Kingdom and the country in which the shareholder is resident. However, the amount of any repayment received by such shareholder will be negligible.

A shareholder who is not resident in the United Kingdom may be subject to foreign taxation on dividend income under local law and should consult his own tax adviser concerning his liabilities to tax on dividends received from the Company.

## 10.2 *Capital gains*

A disposal of Ordinary Shares by a shareholder who is either resident or, in the case of an individual, ordinarily resident for tax purposes in the UK, or is not UK resident but carries on a trade, profession, or vocation in the UK through a branch or agency to which the Ordinary Shares are attributable, may, depending on the shareholder's circumstances and subject to any available exemptions or reliefs, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains. A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years and who disposes of the Ordinary Shares during that period may also be liable on his return to UK taxation of chargeable gains (subject to any available exemptions or reliefs).

For UK resident individual shareholders, taper relief may be available to reduce the amount of the gain chargeable to tax. The availability and rate of taper relief will depend upon the period of ownership of the Ordinary Shares and on whether the Ordinary Shares qualify as business assets or not for the individual in question.

For UK resident shareholders within the charge to corporation tax, taper relief is not available but an indexation allowance should be available to reduce the amount of the chargeable gain realised on a disposal of the Ordinary Shares.

## 10.3 *Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

**The statements below summarise the current position and are intended as a general guide only to stamp duty and SDRT. Special rules apply to agreements made by broker dealers and market makers in the ordinary course of their business and to certain categories of person (such as depositories and clearance services) who may be liable to stamp duty or SDRT at a higher rate.**

Agreements to transfer Ordinary Shares within CREST will attract SDRT normally at the rate of 0.5 per cent., of the amount or value of the consideration. The charge to SDRT arises, in the case of an unconditional agreement to transfer such shares within CREST, on the date of the agreement, and in the case of a conditional agreement, on the date the agreement becomes unconditional. The SDRT will be collected through CREST and becomes payable on the date agreed between HMRC and the operator in the CREST system. Claims can be made to cancel or obtain a repayment of the SDRT liability in the same circumstances as for transfers outside CREST (see below).

There is no additional stamp duty or SDRT liability where Ordinary Shares are taken out of CREST (otherwise than pursuant to a transfer on sale), and there is no stamp duty or SDRT liability if Ordinary Shares are deposited in CREST for conversion into uncertificated form (otherwise than pursuant to a transfer on sale or in contemplation of such sale). A transfer of Ordinary Shares on a CREST transfer form pursuant to a transfer on sale for conversion into uncertificated form will not give rise to a charge to stamp duty but will attract an SDRT liability normally at the rate of 0.5 per cent., on the amount or value of the consideration.

Certain agreements to transfer shares to principal traders are not liable to SDRT. Agreements to transfer shares to charities will also not give rise to SDRT or stamp duty.

Where Ordinary Shares are issued to or transferred to issuers or depository receipts or providers of clearance services, or in certain circumstances, their nominees or agents, stamp duty will be payable at higher rates of up to £1.50 per £100 (or part thereof) of the amount or value of the consideration provided, or SDRT will be payable at higher rates of up to 1.5 per cent., of the consideration, or, in certain cases, the value of the shares concerned.

Transfers of Ordinary Shares outside CREST will be liable to *ad valorem* stamp duty normally at the rate of 50 pence per £100 (or part thereof) of the actual consideration paid, in the case of an unconditional agreement to transfer shares outside CREST, on the date of the agreement, and in the case of a conditional agreement, the date the agreement becomes unconditional. The SDRT is payable on the seventh day of the month following the month in which the charge arises. However, where an instrument or transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of this agreement, a claim can normally be made to cancel, or obtain a repayment of, the SDRT liability. In the absence of special

arrangements such as those outlined below in relation to the transfer of Ordinary Shares to investors in the Placing, a purchaser would normally assume the liability to pay the stamp duty and would be liable to pay the SDRT.

The sale of Ordinary Shares to investors in the Placing will give rise to a liability to stamp duty or SDRT as explained above. Arrangements have been made for any stamp duty or SDRT payable in relation to the transfer of Ordinary Shares to investors in the Placing to be borne by the Selling Shareholders to the extent that the stamp duty or SDRT does not exceed 0.5 per cent., of the consideration. Where stamp duty or SDRT is payable at the higher rates outlined above in relation to the transfer of Ordinary Shares to Investors in the Placing or where any non-UK taxes are payable in respect of the Placing, the Investors concerned (rather than the Selling Shareholders) will be responsible for discharging the whole of the liability to stamp duty or SDRT.

**Any person who is in any doubt as to his taxation position, who requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom should consult his professional advisers.**

## **11. Working Capital**

The Directors are of the opinion, having made due and careful enquiry and taking into account available bank and other facilities, that the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of Admission.

## **12. Significant Change**

- 12.1 Save as disclosed in note 3 of Part IV(B), there has been no significant change in the financial or trading position of the Company since 13 July 2007, the date to which the Company's historical financial information has been drawn up.
- 12.2 Save as disclosed in note 33 of Part V(B), there has been no significant change in the financial or trading position of CVS (UK) Limited since 30 June 2007, the date to which CVS (UK)'s historical financial information has been drawn up.

## **13. Litigation**

No member of the Group is involved in any legal or arbitration proceedings which are having or may have a significant effect on the Group's financial position nor, so far as the Company is aware, are any such proceedings pending or threatened by or against any member of the Group.

## **14. Placing Agreement**

In connection with the Placing, the Company, the Directors, Nash Sells Limited Partnership II ("NSLP II") and Panmure Gordon entered into the Placing Agreement on 5 October 2007. The Placing Agreement is conditional on, *inter alia*, Admission occurring on 10 October 2007 or such later date (not being later than 8.00 a.m. on 17 October 2007) as the Company and Panmure Gordon may agree. The principal terms of the Placing Agreement are as follows:

- 14.1 Panmure Gordon has agreed, as agent for NSLP II, to use its reasonable endeavours to procure placees to purchase the Sale Shares owned by NSLP II, at the Placing Price failing which it shall itself as principal purchase such number of those Sale Shares in respect of which it has been unable to procure placees by 5.00 p.m. on the dealing day immediately prior to Admission;
- 14.2 the Company has agreed to pay Panmure Gordon a corporate finance fee of £250,000 conditional on Admission. NSLP II have agreed to pay Panmure Gordon a commission of 2.95 per cent. of the value of the Sale Shares owned by NSLP II at the Placing Price (plus any applicable VAT);
- 14.3 the Company has agreed to pay all of the costs and expenses of and incidental to the Placing and related arrangements (other than stamp duty or stamp duty reserve tax payable on the transfer of the Sale Shares owned by NSLP II which is payable by NSLP II) together with any applicable VAT;
- 14.4 the Company and the Directors have given certain warranties to Panmure Gordon as to the accuracy of the information in this document and as to other matters relating to the Group (and, NSLP II, has given warranties in respect of the Sale Shares owned by them). The liability



of the Directors under these warranties is limited in time and amount. The Company has given an indemnity to Panmure Gordon against any losses or liabilities arising out of the proper performance by Panmure Gordon of its duties under the Placing Agreement;

- 14.5 the Directors have agreed that, subject to certain limited exceptions, they will not dispose of any Ordinary Shares (or any interest therein) before the first anniversary of Admission, without the prior written consent of Panmure Gordon and that any disposal permitted by Panmure Gordon and any disposal of Ordinary Shares between the first anniversary of Admission and the date 6 months thereafter will be made through Panmure Gordon in such orderly manner as they shall reasonably determine;
- 14.6 NSLP II have agreed that, subject to certain limited exceptions, they will not dispose of any Ordinary Shares (or any interest therein) before the date 6 months after Admission without the prior written consent of Panmure Gordon and that any disposal permitted by Panmure Gordon and any disposal of Ordinary Shares between the date 6 months after Admission and the first anniversary of Admission will be made through Panmure Gordon in such orderly manner as they shall reasonably determine; and
- 14.7 Panmure Gordon may terminate the Placing Agreement before Admission in certain circumstances, including for material breach of the warranties referred to above.

## 15. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by any member of the Group and are, or may be, material to the Group or have been entered into by any member of the Group and contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

- 15.1 the Placing Agreement;
- 15.2 Selling Shareholders' arrangements;

In connection with the Placing, the Company, the Selling Shareholders (other than NSLP II) and Panmure Gordon entered into an agreement (the "Selling Shareholders' Agreement") on 5 October 2007. The Selling Shareholders' Agreement is conditional on, *inter alia*, Admission occurring on 10 October 2007 or such later date (not being later than 8.00 a.m. on 17 October 2007) as the Company and Panmure Gordon may agree. The principal terms of the Selling Shareholders' Agreement are as follows:

- 15.2.1 Panmure Gordon has agreed, as agent for each of the Selling Shareholders (other than NSLP II), to use its reasonable endeavours to procure placees to purchase the Sale Shares, in each case at the Placing Price, failing which it shall itself, as principal, purchase such number of Sale Shares in respect of which it has been unable to procure placees by 5.00 p.m. on the dealing day immediately prior to Admission;
- 15.2.2 the Selling Shareholders (other than NSLP II) have agreed to pay Panmure Gordon a commission of 2.95 per cent. of the value of their Sale Shares at the Placing Price (plus any applicable VAT);
- 15.2.3 pursuant to the terms of the Placing Agreement and the Selling Shareholders' Agreement, the Company has agreed to pay all of the costs and expenses of and incidental to the Placing and related arrangements (other than stamp duty or stamp duty reserve tax payable on the transfer of the Sale Shares the subject of the agreement which is payable by the Selling Shareholders (other than NSLP II)) together with any applicable VAT;
- 15.2.4 the Company and the Selling Shareholders (other than NSLP II) have given certain warranties to Panmure Gordon as to the Sale Shares; and
- 15.2.5 Panmure Gordon may terminate the Selling Shareholders' Agreement before Admission in certain circumstances, including for material breach of the warranties referred to above.

15.2.6 The following table contains details of the Selling Shareholders and the Sale Shares to be sold by them pursuant to the Placing:

<i>Name</i>	<i>Business address</i>	<i>Number of Sale Shares</i>
Nash Sells Limited Partnership II	25 Buckingham Gate, London SW1E 6LD	35,717,709
Ron Trenter	Sovereign Capital Partners LLP, 25 Buckingham Gate, London SW1E 6LD	2,762,500
Perth Business Corporation	Stadtle 22, Postfach 185, LI-9490 Vaduz, Liechtenstein	2,500,000
Terry Norris	Edwin Coe LLP, 2 Stone Buildings, Lincoln's Inn, London WC2A 3TH	1,581,250
Nautilus Fiduciary Services Limited	Nautilus Fiduciary Services Limited, Nautilus House, La Cour des Casernes, St Helier, Jersey JE1 3NH	680,641
Steven Brunnock	12 Vermont Woods, Wokingham, Berkshire RG40 4PF	375,000
Brian Pound	CVS Group plc, Unit C, Victoria Road, Diss, Norfolk IP22 4GA	340,000
Harry Hyman	Nexus Structured Finance Limited, Alexandra House, Alexandra Terrace, Guildford, Surrey GU1 3DA	330,000
Paul Coxon	CVS Group plc, Unit C, Victoria Road, Diss, Norfolk IP22 4GA	257,750
Tina Waterman	8 Netley Hill House, Netley Hill Estate, Southampton SO19 6AN	200,000
John Foster	Amber House, Stodmarsh Road, Canterbury, Kent CT3 4AH	187,500
Geoffrey Parkin	Geeling Ltd, Milton House, 25 Milton Street, Wakefield WF2 8TL	187,500
Peter Brooks	28 Kempe Road, London NW6 6SJ	62,700
David Sherratt	Ashridge House, Golf Club Road, Little Gaddesden, Herts HP4 1LY	23,250

15.2.7 Brian Pound has entered into a lock-in agreement pursuant to which he has agreed that, subject to certain limited exceptions, he will not dispose of any Ordinary Shares (or any interest therein) for the 6 months following Admission, without the prior written consent of Panmure Gordon and that any disposal of Ordinary Shares permitted by Panmure Gordon during the 6 months thereafter will be made through Panmure Gordon in such orderly manner as it shall reasonably determine.

15.3 a deed of novation and variation of a subscription agreement dated 13 August 1999;

CVS (UK) entered into a subscription agreement dated 13 August 1999 between (1) Nash Sells & Partners Limited (whose name changed to Sovereign Capital Limited (now Sovereign Capital

Partners LLP)) and Nash Sells Limited Partnership II (“NSLP II”) (together, the “**Investors**”), (2) certain of the directors of CVS (UK) and (3) the founder shareholders of CVS (UK) (“**Initial Subscription Agreement**”). Pursuant to this agreement, NSLP II, Peter Brooks and David Sherratt agreed to subscribe for a number of preferred ordinary shares and preference shares in CVS (UK) and, subject to certain conditions, loan stock.

The Initial Subscription Agreement incorporates certain investor protections which prevent CVS (UK) from doing certain things without the consent of the Investors or a director appointed by the Investors. The Initial Subscription Agreement also places certain restrictions on the transfer and issue of shares and prevents any member of the CVS (UK)’s group from doing anything which would breach the special rights and privileges attaching to the preferred ordinary shares and preference shares without obtaining any consent prescribed in CVS (UK)’s articles of association.

Pursuant to a deed of novation and variation dated 22 August 2007, CVS assumed the rights and obligations of CVS (UK) under the Initial Subscription Agreement and the parties to the deed of novation and variation consented to the substitution of CVS for CVS (UK) under the Initial Subscription Agreement. The deed of novation and variation provides that the Initial Subscription Agreement shall terminate immediately upon Admission.

15.4 a deed of novation and variation of a subscription agreement dated 8 April 2002;

CVS (UK) entered into a subscription agreement dated 8 April 2002 with Sovereign Capital Limited (now Sovereign Capital Partners LLP), Sovereign Capital Limited Partnership II (now NSLP II), Peter Brooks and David Sherratt (“**Further Subscription Agreement**”). The Further Subscription Agreement is supplemental to the Initial Subscription Agreement and provides for a further subscription for loan stock and preferred ordinary shares in CVS (UK).

Pursuant to a deed of novation and variation dated 22 August 2007, CVS assumed the rights and obligations of CVS (UK) under the Further Subscription Agreement and the parties to the deed of novation and variation consented to the substitution of CVS for CVS (UK) under the Further Subscription Agreement. The deed of novation and variation also provides that the Further Subscription Agreement shall terminate immediately on Admission.

15.5 a deed of novation and variation of a subscription agreement dated 19 August 2005;

CVS (UK) entered into a subscription agreement dated 19 January 2005 with Sovereign Capital Limited and NSLP II, Peter Brooks and David Sherratt (“**New Subscription Agreement**”). Under the agreement, NSLP II and Peter Brooks agreed to subscribe for further loan stock as part of a refinancing of CVS (UK). The agreement is supplemental to the Initial Subscription Agreement and the Further Subscription Agreement.

Pursuant to a deed of novation and variation dated 22 August 2007, CVS assumed the rights and obligations of CVS (UK) under the New Subscription Agreement and the parties to the deed of novation and variation consented to the substitution of CVS for CVS (UK) under the New Subscription Agreement. The deed of novation and variation also provides that the New Subscription Agreement will terminate immediately on Admission.

15.6 an amended and restated loan instrument constituting £6,263,660 secured loan stock 2007 in CVS (UK) dated 19 January 2005;

CVS (UK) entered into an amended and restated instrument on 19 January 2005 for the purposes of constituting £6,263,660 secured loan stock (“**Loan Stock**”) created pursuant to a resolution of the board of directors dated 19 January 2005 (“**Loan Note Instrument**”). The Loan Stock is secured by a debenture signed by CVS (UK) on 13 August 1999.

Upon any principal monies outstanding on any loan stock becoming due for repayment pursuant to the conditions in the Loan Note Instrument, a repayment premium equal to 60 per cent. of the principal monies becomes due for payment.

The Loan Stock is to be repaid on Admission out of the Company’s bank facilities.

15.7 Share Exchange Agreement;

On 22 August 2007, CVS entered into a share exchange agreement with the shareholders of CVS (UK), under which CVS acquired the entire issued share capital of CVS (UK) and issued to

the shareholders of CVS (UK), in aggregate, 542,538 ordinary shares of £30, 1,520,000 preferred ordinary shares of £30 and 592,105 preference shares of £1 each as consideration for that acquisition.

- 15.8 a facility agreement between (1) National Westminster Bank plc and (2) CVS (UK) Limited dated 3 May 2007;

CVS (UK) entered into a facility agreement with National Westminster Bank plc (“**NatWest**”) on 3 May 2007 (“**Facility Agreement**”) for term loan funding of £28,867,279. Under the Facility Agreement, CVS (UK) will prepay the term loan (together with accrued interest) on a change of control, listing or on the sale of CVS.

As security for the loan, NatWest has a security package in place across the Group including a composite guarantee, mortgage debentures and a legal charge over a property.

The Facility Agreement is to be repaid out of the New Facility (as defined in paragraph 15.10 below).

- 15.9 Nomad agreement:

CVS entered into a nominated adviser and broker agreement dated 4 October 2007 with Panmure Gordon under which Panmure Gordon has agreed, conditional on Admission, to act as the Company’s nominated adviser as required by the AIM Rules for Companies. The agreement is for an initial period of twelve months and is thereafter terminable by either party on seven days’ notice. Panmure Gordon will receive a fee of £50,000 in relation to the provisions of its services under this agreement.

- 15.10 heads of terms between (1) CVS (UK) and (2) Barclays Bank PLC and The Royal Bank of Scotland plc dated 31 August 2007.

CVS (UK) agreed heads of terms with The Royal Bank of Scotland PLC (“**RBS**” or “**The Royal Bank of Scotland**”) and Barclays Bank PLC (“**Barclays**” or “**Barclays Bank**”) for senior debt facilities of £46,000,000 (“**New Facility**”). The New Facility comprises: (i) up to £32,000,000 term loan to refinance existing debt and refinance the Loan Stock and redemption of the Preference Shares; (ii) an acquisition facility of £12,000,000 to assist with future acquisitions; and (iii) a working capital facility of £2,000,000 to finance short-term working capital requirements. The New Facility is provided by RBS on a “club” basis, with Barclays underwriting 50 per cent. of the term loan. The New Facility is secured by unlimited cross guarantees between the Company and all its subsidiaries, mortgage debentures, first legal mortgages over all UK freehold and long leasehold premises and an assignment over keyman insurance policy for Simon Innes. The New Facility will be in place on Admission.

- 15.11 CVS (UK) entered into an agreement dated 5 December 2005 with Mr and Mrs M. W. Wright for the purchase of the entire issued share capital of Firstvets Limited. The tax warranties expire on 5 December 2012 and all other warranties expired on 5 June 2007.

- 15.12 CVS (UK) entered into an agreement dated 30 January 2006 with (1) Roger Walker, (2) Steven Morton, (3) Julian Corcoran, (4) Geoffrey Allen for the purchase of the business of Springfield Veterinary Group. The warranties under this agreement were given on an indemnity basis and the limitation period for these expires on 17 February 2008.

- 15.13 CVS (UK) entered into an agreement dated 28 April 2006 with Raimund Janz for the business of Medway City Veterinary Centre. The warranty period under this agreement expires on 28 April 2008.

- 15.14 CVS (UK) Limited entered into an agreement dated 9 June 2006 with Peter Scott Dunn for the purchase of the business of Peter Scott Dunn Equine Practice. CVS (UK) retains certain monies. Payment of this retention amount is dependent on certain conditions being satisfied. The warranties under the agreement are given on an indemnity basis and the warranty limitation period expires on 9 December 2007.

- 15.15 CVS (UK) entered into an agreement dated 15 September 2006 with (1) Veterinary Practice Initiatives Limited (in Administration) and (2) Robert William Birchall and Stephen Mark Oldfield for the purchase of the business of Veterinary Practice Initiatives Limited. CVS (UK) retains certain monies which will be paid if certain conditions are satisfied. CVS (UK) does not have

the benefit of any warranties under this agreement as Veterinary Practice Initiatives Limited was in administration.

- 15.16 CVS (UK) entered into an agreement dated 9 October 2006 with (1) Brian Thomas Skinner, (2) John Dallas Wilkinson, (3) Marcus John Wilson, (4) The Old Golfhouse Veterinary Practice Limited for the purchase of the business of the Old Golf House Veterinary Practice. Certain of the warranties under this agreement are given on an indemnity basis. The warranty limitation period expires on 9 April 2008.
- 15.17 CVS (UK) entered into an agreement dated 15 January 2007 with (1) Nicholas Butcher and (2) Nicholas Butcher and Claire Butcher as trustees of the Mrs Shirley Butcher Settlement of 27 July 1999 for the purchase of the entire issued share capital of Active Vetcare Limited. The limitation period for claims under the tax warranties and the tax deed is seven years from completion and 20 months after completion for any other claims.
- 15.18 CVS (UK) entered into an agreement dated 15 January 2007 with (1) Nicholas Butcher and (2) County Vets Limited for the purchase of the business of The County Vets Limited. The warranty period under this agreement expires on 15 July 2008.
- 15.19 CVS (UK) entered into an agreement dated 6 March 2007 with Anthony Regan for the purchase of the business of A. Regan & Colleagues. The warranties under this agreement are given on an indemnity basis and the warranty period expires on 6 March 2009.
- 15.20 CVS (UK) entered into an agreement on 25 April 2007 with Eric McCarrison and Margaret McCarrison for the purchase of the entire issued share capital of Carrick Veterinary Group Limited. Limitation periods for claims under the tax warranties and the tax deed is seven years from completion and 21 months after completion for any other claims.
- 15.21 CVS (UK) entered into an agreement dated 29 May 2007 with Robert James Hill for the purchase of the business of Fromus Veterinary Group. Additional consideration is payable if certain conditions are satisfied. The warranties under the agreement are given on an indemnity basis and the warranty period expires on 29 November 2009.
- 15.22 CVS (UK) entered into an agreement dated 4 June 2007 with Peter Mark Attenburrow to acquire the business of Raddenstiles Veterinary Surgeons for consideration, part of which is held on deposit and its payment is dependent on certain conditions being satisfied. The warranties under this agreement are given on an indemnity basis and the warranty period expires on 4 December 2008.
- 15.23 CVS (UK) entered into an agreement dated 29 June 2007 with (1) Gordon Brown and (2) Simon Gilbert for the acquisition of the business of The Grove Veterinary Group. In addition to the consideration paid on completion, CVS (UK) has retained certain monies. Payment of this retention is dependent on certain conditions being satisfied. The warranties under this agreement are given on an indemnity basis and the warranty limitation period expires on 29 December 2008.
- 15.24 CVS (UK) entered into an agreement dated 2 July 2007 with Timothy David Davies for the purchase of Nine Mile Veterinary Group and Tim Davies Associates. Certain of the consideration was retained and is payable to the vendor subject to the satisfaction of certain conditions. The warranty limitation period expires on 2 January 2009.

## **16. Consents**

- 16.1 PricewaterhouseCoopers LLP has given and not withdrawn its written consent to the inclusion in this document of its reports in Parts IV(A) and V(A) of this document in the form and context in which they appear and has authorised the contents of Parts IV(A) and V(A) of this document.
- 16.2 Panmure Gordon has given and not withdrawn its consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.

## **17. General**

- 17.1 The total costs and expenses of, or incidental to, the Placing and Admission, all of which are payable by the Company, are estimated to be approximately £1.4 million (exclusive of value added tax). This amount does not include the commissions referred to in paragraph 14 of this

Part VI. No expenses of the Placing are being specifically charged to purchasers under the Placing.

- 17.2 Save as disclosed in this document, no person (other than the Company's professional advisers named in this document and trade suppliers) has at any time within the 12 months preceding the date of this document received, directly or indirectly, from the Company or any other member of the Group or entered into any contractual arrangements to receive, directly or indirectly, from the Company or any other member of the Group on or after Admission any fees, securities in the Company or any other benefit to the value of £10,000 or more.
- 17.3 The Company has agreed to pay a fee of £350,000 to Sovereign Capital Partners LLP for advice and assistance in relation to the flotation process from its inception through to Admission, including the provision of project management services and the procurement of bank facilities for the Group.
- 17.4 NSLP II has agreed to provide a gift to Simon Innes, upon receipt of proceeds from Admission, equivalent to 3 per cent. of the enterprise value of the Company over a hurdle rate of £12.5 million enterprise value.
- 17.5 The Placing Price of 205 pence represents a premium of 204.8 pence above the nominal value of 0.2 pence per Ordinary Share. The Placing Price is payable in full on application.
- 17.6 The financial information set out in this document relating to the Group does not constitute statutory accounts within the meaning of section 240 of the Act. The auditor of CVS (UK) is PricewaterhouseCoopers LLP, chartered accountants and registered auditors, who have audited the company's accounts for each of the two financial years ended 30 June 2007. The audit reports were unqualified within the meaning of section 235 of the Act and did not contain a statement under sections 237(2) or (3) of the Act. The auditor of CVS (UK) was Hazlewoods LLP for the financial year ended 30 June 2005. The report was unqualified within the meaning of section 235 of the Act and did not contain a statement under sections 237(2) or (3) of the Act. Statutory accounts of CVS for each of the three financial years ended 30 June 2005, 30 June 2006 and 30 June 2007 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.
- 17.7 The auditor of the Company is PricewaterhouseCoopers LLP, chartered accountants and registered auditors, but no statutory accounts have yet been prepared by the Company.
- 17.8 Save as disclosed in this document, the Company currently has no significant investments in progress and the Company has made no firm commitments concerning future investments.
- 17.9 Save as disclosed in this document, the Directors are not aware of any patents or other intellectual property rights, licences, particular contracts or manufacturing processes on which the Company is dependent.
- 17.10 Save in connection with the application for Admission, none of the Ordinary Shares has been admitted to dealings on any recognised investment exchange and no application for such admission has been made and it is not intended to make any other arrangements for dealings in the Ordinary Shares on any such exchange.
- 17.11 The City Code applies to the Company. Under the City Code, if an acquisition of Ordinary Shares were to increase the aggregate holding of the acquiror and its concert parties to shares carrying 30 per cent. or more of the voting rights in the Company, the acquiror and, depending on the circumstances, its concert parties, would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for the Ordinary Shares by the acquiror or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of shares by a person holding (together with its concert parties) shares carrying between 30 and 50 per cent. of the voting rights in the Company, if the effect of such acquisition is to increase that person's percentage of the voting rights.
- 17.12 Under the 2006 Act if an offeror were to acquire or contract to acquire 90 per cent., in value of the Ordinary Shares to which the offer relates and 90 per cent. of the voting rights attaching to such shares, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire

their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding Shareholders. This notice must be sent no later than three months after the end of the acceptance period. The consideration offered to the Shareholders whose shares are compulsorily acquired under the 2006 Act must, in general, be the same as the consideration that was available under the takeover offer.

- 17.13 The 2006 Act would also give minority Shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. in value of the Ordinary Shares to which the offer relates and 90 per cent. of the voting rights attaching to such shares, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares.

The offeror would be required to give any Shareholder notice of his right to be bought out within one month of that right arising. The rights of minority Shareholders to be bought out must be exercised no later than three months after either the end of the acceptance period or the date on which sell-out notices were given (whichever is later). If a Shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such terms as may be agreed.

#### **18. Documents Available for Inspection**

Copies of the following documents will be available for inspection during usual business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of DLA Piper UK LLP at 3 Noble Street, London EC2V 7EE for a period of 14 days from the date of this document:

- the memorandum and articles of association of the Company.

Dated 5 October 2007

## DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“2006 Act”	the Companies Act 2006;
“Act”	the Companies Act 1985, as amended;
“Admission”	the admission of the Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules;
“AIM”	AIM, a market of that name operated by the London Stock Exchange;
“AIM Rules”	the rules governing the operation of AIM and issued by the London Stock Exchange from time to time, in relation to AIM traded securities comprising of the AIM Rules for Companies and the AIM Rules for Nominated Advisers;
“AIM Rules for Companies”	the AIM Rules for Companies and guidance notes as published by the London Stock Exchange from time to time;
“AIM Rules for Nominated Advisers”	the AIM Rules for Nominated Advisers and guidance notes as published by the London Stock Exchange from time to time;
“Articles”	the articles of association of the Company adopted conditional on Admission;
“Board”	the board of directors of the Company for the time being or a duly constituted committee thereof;
“Business Day”	any day on which banks are generally open for the transaction of normal banking business in London excluding Saturdays, Sundays and public holidays;
“Combined Code”	the Combined Code on Corporate Governance published by the Financial Reporting Council;
“Company” or “CVS Group”	CVS Group plc;
“CREST”	the system for the paperless settlement of share transfers and the holding of uncertificated shares operated by Euroclear UK & Ireland Limited (formerly CRESTCo);
“CVS” or “CVS (UK)”	CVS (UK) Limited, a wholly owned subsidiary of CVS Group;
“Directors”	the directors of the Company as at the date of this document whose names are set out on page 7 of this document and “Director” means any one of them;
“Executive Directors”	Simon Innes, Paul Coxon and Mark Finn;
“FSA”	the Financial Services Authority of the United Kingdom;
“FSMA”	the Financial Services and Markets Act 2000 (as amended);
“Group”	the Company and its subsidiaries, details of which are set out in paragraph 3 of Part VI of this document;
“HMRC”	HM Revenue and Customs;
“LTIP”	the CVS Long Term Incentive Plan, further details of which are set out in paragraph 6 of Part VI of this document;
“London Stock Exchange”	London Stock Exchange plc;
“New Facility”	the senior debt facilities of £46,000,000 further details of which are set out in paragraph 15.10 of Part VI of this document;



“Nomad” or “Panmure Gordon”	Panmure Gordon (UK) Limited of Moorgate Hall, 155 Moorgate, London EC2M 6XB;
“Official List”	the Official List of the UK Listing Authority;
“Ordinary Shares”	ordinary shares of 0.2 pence each in the capital of the Company;
“PHI”	Precision Histology International Limited;
“Placing”	the conditional placing of the Sale Shares pursuant to the Placing Agreement;
“Placing Agreement”	the conditional agreement dated 5 October 2007 between Panmure Gordon, the Company, the Directors and Nash Sells Limited Partnership II relating to the Placing, details of which are set out in paragraph 14 of Part VI of this document;
“Placing Price”	205 pence per Sale Share;
“Prospectus Rules”	the rules published by the FSA under Part VI of FSMA;
“Sale Shares”	the 45,205,800 Ordinary Shares to be sold by the Selling Shareholders pursuant to the Placing;
“Selling Shareholders”	those Shareholders who are selling Sale Shares in the Placing, further details of whom are set out in paragraph 15.2.7 of Part VI of this document;
“Share Dealing Code”	the code on dealings of directors and employees in securities as set out in Annex 1 to Chapter 9 of the Listing Rules of the Financial Services Authority, as amended from time to time, or such other code of dealings as shall be introduced by the Company from time to time;
“Share Exchange Agreement”	the share exchange agreement dated 22 August 2007 between the Company and the shareholders of CVS (UK) Limited whereby the Company acquired the entire issued share capital of CVS (UK) in return for the allotment of shares in the Company to the shareholders of CVS (UK);
“Shareholder”	a holder of an Ordinary Share;
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland; and
“US” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

## GLOSSARY

Histopathology	The microscopic examination of tissue in order to study the manifestations of disease, involving the examination of histological sections of a biopsy or surgical specimen that has been processed and placed onto glass slides
Large animals	Farm animals such as cows, pigs and horses
PDSA	The People's Dispensary for Sick Animals, a leading UK veterinary charity which provides care and funding for the care of pets belonging to people on low incomes
Practice	A single veterinary surgery or group of surgeries generally operating under one trading name
RCVS	The Royal College of Veterinary Surgeons
RSPCA	The Royal Society for Prevention of Cruelty to Animals
Small animals	Dogs, cats, other small mammals, reptiles and birds
Surgery	The premises of a veterinary surgeon