

## CVS Group plc

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

CVS, one of the UK's leading providers of veterinary services, is pleased to announce maiden interim results since its AIM flotation in October 2007.

## KEY POINTS

	Six months ended		% Change
	31.12.07 £'000	31.12.06 £'000	
Revenue	28,542	16,349	+74.6
Adjusted EBITDA**	4,404	2,152	+104.6
EBITDA	2,640	2,152	+22.7
Adjusted profit before tax**	2,449	867	+182.5
(Loss)/profit before tax	(1,587)	312	n/a
Earnings per share			
Adjusted**	4.3p	1.3p	+230.8
Basic and diluted	(3.5p)	0.2p	n/a

For ease of comparison the figures above are shown on an underlying basis as well as an actual basis.

\*\* Adjusted figures are before IPO costs, one-off finance expenses (including fair value adjustments on hedge instruments) and amortisation.

- Revenue growth of 74.6% with like for like revenue growth of 5.4%
- Significant EBITDA growth £2.25m – increase of 104.6%
- Strong cash generation of £3.96m in the period (2006/7: £2.02m) – increase of 96.4%
- Continued acquisition growth
  - 134 surgeries at period end – increase of 54%
  - 12 surgeries post period end and one major laboratory acquisition more than doubling revenue of laboratory division
- Bank funding secured including acquisition facility of £12.0m
- Successful AIM flotation in October 2007

Commenting on the outlook, Chairman Richard Connell said:

“The focus on delivering growth both organically and through acquisition and, in particular, cash and profit generation, is expected to continue. The recently announced acquisitions provide a good platform for second half performance, which has started well, and discussions are ongoing in relation to other prospective acquisitions”.

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# CVS Group plc

## Chairman's statement

### Introduction

I am pleased to announce the maiden interim results of CVS Group plc ("CVS", "the group", or "the company") for the six months ended 31 December 2007.

This has been both a very important and successful period for the group, encompassing a change from private equity ownership following our admission to the Alternative Investment Market ("AIM") on 10 October 2007.

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

In line with that strategy, CVS acquired 13 surgeries in the six months ended 31 December 2007, and a further 12 surgeries and one diagnostic laboratory so far in the second half.

### Results

The group has grown significantly since the comparable half year. The number of surgeries increased by 54.0% to 134 at 31 December 2007 compared to 87 a year earlier. Reflecting the increased number of surgeries, revenue grew 74.6% from £16.35m to £28.54m. Like for like revenue growth, which relates to sites that have been owned by the group for the whole of the current and comparable periods, was 5.4%.

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

The group recorded adjusted earnings before interest, tax, depreciation and amortisation ("adjusted EBITDA") of £4.40m and a loss for the period after taxation of £1.83m. A reconciliation of the two numbers is provided on page 4 of the interim report.

Adjusted EBITDA has grown by 104.6% from £2.15m to £4.40m and has increased from 13.2% to 15.4% of revenue. This is due to a combination of factors including:

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

Cash generated from operations (before exceptional payments) increased by 96.4% to £3.96m from £2.02m. Cash generated from operations (after exceptional payments) increased to £2.81m, an increase of 39.5% over the comparable period. The difference is due to payments of £1.15m (of the £1.76m charge) in relation to non-recurring IPO related costs.

Adjusted earnings per share were 4.3p, up from 1.3p in the comparable period. Basic and diluted loss per share after exceptional items were 3.5p per share. A reconciliation of the two numbers is provided in note 6 to the interim consolidated financial information.

### Funding

On 4 October 2007 the group entered into a banking facility agreement with The Royal Bank of Scotland plc and Barclays Bank plc comprising a £32.0m term loan, an acquisition facility of £12.0m and a working capital facility of £2.0m.

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

The group spent £5.0m on acquisitions in the first half, of which £2.5m was funded from internally generated cash and the balance of £2.5m from the £12.0m acquisition facility.

# CVS Group plc

## Chairman's statement (continued)

### Hedging

In respect of the £32.0m term loan facility the group has entered into an interest rate swap to hedge against interest rate volatility. This uses a cap and collar to limit the group's exposure to rate increases whilst allowing it to take advantage of potential interest rate reductions.

The group previously partially hedged its exposure to interest rate movements in respect of the previous term loan. Movements in interest rates in the period resulted in a fair value charge to the income statement of £0.64m in the period.

### Acquisitions

The pipeline of potential acquisitions remains strong. In the six months to 31 December 2007, 13 new surgeries were acquired. A further 12 surgeries, together with a strategically important laboratory (Axiom Veterinary Laboratories Limited ("AVL")), were acquired since the period end.

The diagnostic services offered by AVL complement the existing diagnostic services of the group. The enhanced laboratory division consisting of 7 sites will more than double the number of existing sites and will be able to offer a broader range of diagnostic services to clients. The acquisition will increase laboratory turnover by c. 140% (annualised).

### Staff

Our people continue to be key to the group in delivering its strategy. I would like to thank each of them for their co-operation and devotion in giving our clients the best possible clinical care and service.

The group continues to be the largest employer in the veterinary profession with 1,516 staff. The group currently employs an estimated 2.6% of practising vets in the UK, which gives some indication of the significant scope left for expansion in the UK market.

### Business environment

The group is a market leader in acquiring and managing veterinary practices within the UK. The directors believe that CVS has 6.4% of the UK small animal veterinary market measured by number of surgeries, which demonstrates the significant further consolidation opportunity.

### Strategy

We will continue our strategy of growth through acquisition in the fragmented UK veterinary market combined with organic growth of existing practices. We aim to deliver continuing improved returns post acquisition of veterinary practices by growing and managing those practices more efficiently, centralising administration and leveraging the buying power of the augmented group.

### Future outlook

The focus on delivering growth both organically and through acquisition and, in particular, cash and profit generation, is expected to continue. The recently announced acquisitions provide a good platform for second half performance, which has started well, and discussions are ongoing in relation to other prospective acquisitions.

**Richard Connell**

**Chairman**

## CVS Group plc

### Consolidated income statement for the six month period ended 31 December 2007 (unaudited)

	Note	Six months ended 31 December 2007 (Unaudited) £'000	Six months ended 31 December 2006 (Unaudited) £'000	Year ended 30 June 2007 (Audited) £'000
<b>Revenue</b>	4	<b>28,542</b>	16,349	38,972
Cost of sales		<b>(16,241)</b>	(9,688)	(22,818)
<b>Gross profit</b>		<b>12,301</b>	6,661	16,154
Exceptional administrative expenses	3	<b>(1,764)</b>	-	-
Other administrative expenses		<b>(9,701)</b>	(5,351)	(13,260)
Total administrative expenses		<b>(11,465)</b>	(5,351)	(13,260)
<b>Operating profit</b>		<b>836</b>	1,310	2,894
Fair value adjustments in respect of financial assets and liabilities	5	<b>(642)</b>	44	351
Exceptional finance expense	5	<b>(287)</b>	-	-
Other finance expense	5	<b>(1,598)</b>	(1,115)	(2,682)
Finance income	5	<b>104</b>	73	210
Net finance expense		<b>(2,423)</b>	(998)	(2,121)
<b>(Loss)/profit before income tax</b>	4	<b>(1,587)</b>	312	773
Income tax expense	7	<b>(243)</b>	(213)	(427)
<b>(Loss)/profit for the period attributable to equity shareholders</b>		<b>(1,830)</b>	99	346
<b>(Loss)/earnings per ordinary share for (loss)/profit attributable to the equity holders of the company (expressed in pence per share) ("EPS")</b>				
Basic and diluted	6	<b>(3.5p)</b>	0.2p	0.7p

The above results relate to continuing operations, including acquisitions (further details of which are provided in note 11).

<b>Non-GAAP measure: Adjusted EBITDA*</b>	Note	£'000	£'000	£'000
(Loss)/profit before income tax		<b>(1,587)</b>	312	773
Adjustments for:				
Exceptional administrative expenses	3	<b>1,764</b>	-	-
Net finance expense	5	<b>2,423</b>	998	2,121
Depreciation		<b>461</b>	243	577
Amortisation	8	<b>1,343</b>	599	1,617
<b>Adjusted EBITDA</b>	2	<b>4,404</b>	2,152	5,088

\*Adjusted EBITDA represents earnings before interest (net finance expense), tax, depreciation, amortisation and exceptional administrative expenses.

# CVS Group plc

## Consolidated balance sheet as at 31 December 2007 (unaudited)

	Note	31 December 2007 (Unaudited) £'000	31 December 2006 (Unaudited) £'000	30 June 2007 (Audited) £'000
<b>Non-current assets</b>				
Intangible assets	8	29,614	16,400	26,283
Property, plant and equipment		5,156	2,818	4,245
Investments		23	23	23
Deferred income tax assets		513	439	578
Derivative financial instruments		-	66	373
		<b>35,306</b>	19,746	31,502
<b>Current assets</b>				
Inventories		1,452	771	1,226
Trade and other receivables		3,697	2,237	2,904
Cash and cash equivalents		736	1,009	2,622
		<b>5,885</b>	4,017	6,752
<b>Total assets</b>	4	<b>41,191</b>	23,763	38,254
<b>Current liabilities</b>				
Trade and other payables		(8,736)	(4,561)	(7,380)
Current income tax liabilities		(235)	-	(116)
Borrowings	10	(30)	(10,248)	(11,119)
Derivative financial instruments	11	(269)	-	-
		<b>(9,270)</b>	(14,809)	(18,615)
<b>Non-current liabilities</b>				
Borrowings	10	(33,912)	(9,943)	(20,028)
Deferred income tax liabilities		(1,351)	(802)	(1,155)
		<b>(35,263)</b>	(10,745)	(21,183)
<b>Total liabilities</b>	4	<b>(44,533)</b>	(25,554)	(39,798)
<b>Net liabilities</b>		<b>(3,342)</b>	(1,791)	(1,544)

## CVS Group plc

### Consolidated balance sheet as at 31 December 2007 (unaudited) (continued)

	Note	31 December 2007 (Unaudited) £'000	31 December 2006 (Unaudited) £'000	30 June 2007 (Audited) £'000
<b>Capital and reserves attributable to equity holders of the Company</b>				
Share capital		103	103	103
Revaluation reserve		125	125	125
Merger reserve		(61,420)	(61,420)	(61,420)
Retained earnings		57,850	59,401	59,648
<b>Total equity</b>		<b>(3,342)</b>	<b>(1,791)</b>	<b>(1,544)</b>

The interim financial information was approved by the board of directors on 17 March 2008.

## CVS Group plc

### Consolidated statement of changes in equity for the six month period ended 31 December 2007 (unaudited)

	Share capital	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 July 2006 (audited)	103	125	(61,420)	59,302	(1,890)
Retained profit for the period	-	-	-	99	99
<b>At 31 December 2006 (unaudited)</b>	<b>103</b>	<b>125</b>	<b>(61,420)</b>	<b>59,401</b>	<b>(1,791)</b>

	Share capital	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 July 2006 (audited)	103	125	(61,420)	59,302	(1,890)
Retained profit for the year	-	-	-	346	346
<b>At 30 June 2007 (audited)</b>	<b>103</b>	<b>125</b>	<b>(61,420)</b>	<b>59,648</b>	<b>(1,544)</b>

	Share capital	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 July 2007 (audited)	103	125	(61,420)	59,648	(1,544)
Retained loss for the period	-	-	-	(1,830)	(1,830)
Employee share option scheme:					
- Value of employee services	-	-	-	33	33
- Deferred tax on share options	-	-	-	(1)	(1)
<b>At 31 December 2007 (unaudited)</b>	<b>103</b>	<b>125</b>	<b>(61,420)</b>	<b>57,850</b>	<b>(3,342)</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 (the revalued amount was frozen as deemed cost on transition to IFRS). The revaluation reserve is not a distributable reserve until realised.

#### Merger reserve

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

## CVS Group plc

### Consolidated cash flow statement for the six month period ended 31 December 2007 (unaudited)

	Note	Six months ended 31 December 2007 (Unaudited) £'000	Six months ended 31 December 2006 (Unaudited) £'000	Year ended 30 June 2007 (Audited) £'000
<b>Cash flows from operating activities</b>				
Cash generated from operations before exceptional payments		3,959	2,016	6,509
Exceptional administrative expenses*		(1,146)	-	-
<b>Cash generated from operations</b>	12	<b>2,813</b>	2,016	6,509
Interest received		104	73	210
Interest paid		(1,003)	(521)	(1,227)
Net cash generated from operating activities		<b>1,914</b>	1,568	5,492
<b>Cash flows from investing activities</b>				
Acquisition of businesses	9	(3,284)	(4,730)	(10,319)
Acquisition of subsidiaries (net of cash acquired)	9	(1,752)	-	(5,843)
Purchase of property, plant and equipment		(642)	(441)	(1,349)
Purchase of intangible assets		(35)	(73)	(143)
Proceeds from sale of property, plant and equipment		-	-	4
Net cash used in investing activities		<b>(5,713)</b>	(5,244)	(17,650)
<b>Cash flows from financing activities</b>				
Finance lease principal payments		(4)	(7)	(9)
Repayment of loan stock, preference shares and associated redemption premiums		(11,714)	-	-
Repayment of bank loan		(20,252)	-	-
Receipt of borrowings (net of debt issue costs)		33,883	2,229	12,326
Net cash from financing activities		<b>1,913</b>	2,222	12,317
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,886)</b>	(1,454)	159
Cash and cash equivalents at start of period		2,622	2,463	2,463
<b>Cash and cash equivalents at end of period</b>		<b>736</b>	1,009	2,622

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

# CVS Group plc

## Notes to the interim consolidated financial information

The notes below represent an extract from the Interim Financial Statements.

### 1. Basis of preparation

The interim consolidated financial information of CVS Group plc is for the six months ended 31 December 2007 and is unaudited. The group has chosen not to adopt the full disclosure requirements of IAS 34, 'Interim Financial Reporting'. Therefore, this interim financial information is not fully in compliance with International Financial Reporting Standards. However, the interim consolidated financial information has been prepared in accordance with all other applicable International Financial Reporting Standards that are expected to apply to the group's financial statements for the year ended 30 June 2008.

These accounting policies are based on the EU-adopted International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations that the group expects to be applicable at 30 June 2008. The IFRS and IFRIC interpretations that will be applicable at 30 June 2008 including those that will be applicable on an optional basis, are not known with certainty at the time of preparing the interim financial information and therefore may change.

The interim consolidated financial information includes the financial information of the company and its subsidiary undertakings, made up to 31 December 2007. A reconstruction of the CVS Group took place during the period, as described below, in preparation for the admission of the company's shares to the AIM market of the London Stock Exchange in October 2007.

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

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

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

The statutory accounts of CVS (UK) Limited in respect of the year ended 30 June 2007 have been delivered to the Registrar of Companies, upon which the company's auditors have given a report which was unqualified and did not contain a statement under Section 237(2) or 237(3) of the Companies Act 1985.

The preparation of the interim report requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the interim report. Although these estimates and assumptions are based on management's best judgement at the date of the interim report, actual results may differ from these estimates.

The group has net liabilities as at 31 December 2007. The group has traded profitably since the balance sheet date with the profits generated contributing to the funding of the group's working capital requirements. In addition, the group has a £2m working capital facility, of which there had been no draw down at the balance sheet date. On this basis the directors consider it appropriate to prepare the interim consolidated financial information on the going concern basis.

# CVS Group plc

## 1. Basis of preparation (continued)

### *First time adoption of IFRS*

For accounting periods up to 30 June 2006, the financial statements of CVS (UK) Limited group were prepared under UK Generally Accepted Accounting Principles (“UK GAAP”). From 1 July 2006, CVS (UK) Limited elected to prepare its annual financial statements in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (EU) and implemented in the UK. The group used 1 July 2004 as its transition date to IFRS and translated its balance sheet at that date. In addition results previously published under UK GAAP were re-stated under IFRS for the years ending June 2005 and 2006. The reconciliation of net liabilities and profit under UK GAAP to IFRS are set out in the consolidated financial statements of CVS (UK) Limited for the year ended 30 June 2007, which are available upon request from the company’s registered office.

## 2. Summary of significant accounting policies

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

### **Share-based payments**

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

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

### **Derivative financial instruments and hedging activities**

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

Derivative financial instruments are recognised and stated at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments, by discounted cash flows, or by the use of option valuation models. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

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

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

### *Cash flow hedging*

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

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

# CVS Group plc

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

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

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

### Exceptional items

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

### Use of non-GAAP profit measures

#### *Adjusted EBITDA and adjusted earnings per share*

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

Adjusted EBITDA is calculated by reference to (loss)/profit before income tax, adjusted for interest (net finance expense), depreciation, amortisation and exceptional items (see below). Adjusted earnings per share, is calculated by reference to (loss)/profit after income tax, adjusted for amortisation, exceptional items (see below) and fair value adjustment required by IAS 32 and IAS 39 (see below).

- IAS 32 and IAS 39 'Financial Instruments' – fair value re-measurements – under IAS 32 and IAS 39, the group applies hedge accounting to its various hedge relationships (principally interest rate swaps) when it is allowed under the rules of IAS 39 and practical to do so. The group is not always able to apply hedge accounting to the arrangements, but continues to enter into these arrangements as they provide certainty or active management of the interest rates applicable to the group. The group believes these arrangements remain effective and economically and commercially viable hedges despite the inability to apply hedge accounting.

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

- Exceptional items – due to their significance and special nature, certain other items which do not reflect the group's underlying performance are excluded from adjusted profit. These gains or losses can have a significant impact on both absolute profit and profit trends, consequently, they are excluded from the adjusted EBITDA and earnings per share of the group.

# CVS Group plc

## 3. Exceptional administrative expenses

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

## 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:

#### Six month period ended 31

#### December 2007

	Veterinary practices £'000	Laboratories £'000	Head office £'000	Group £'000
Revenue <sup>1</sup>	27,103	1,439	-	<b>28,542</b>
Amortisation	-	-	1,343	<b>1,343</b>
Depreciation	395	36	30	<b>461</b>
Profit/(loss) before income tax	3,108	243	(4,938)	<b>(1,587)</b>
Total assets	9,343	1,698	30,150	<b>41,191</b>
Total liabilities	(7,429)	(1,307)	(35,797)	<b>(44,533)</b>
Capital expenditure	1,347	25	4,674	<b>6,046</b>

<sup>1</sup>Inter-segment revenue of £453,000, representing laboratory sales to veterinary practices, has been eliminated on consolidation.

#### Six month period ended 31

#### December 2006

	Veterinary practices £'000	Laboratories £'000	Head office £'000	Group £'000
Revenue <sup>1</sup>	13,143	3,206	-	<b>16,349</b>
Amortisation	-	-	599	<b>599</b>
Depreciation	176	53	14	<b>243</b>
Profit/(loss) before income tax	1725	97	(1,510)	<b>312</b>

# CVS Group plc

## 4. Segmental reporting (continued)

Total assets	15,884	1,592	6,287	<b>23,763</b>
Total liabilities	(12,481)	(1,270)	(11,803)	<b>(25,554)</b>
Capital expenditure	700	45	4,501	<b>5,246</b>

<sup>1</sup>Inter-segment revenue of £218,000, representing laboratory sales to veterinary practices, has been eliminated on consolidation.

## Year ended 30 June 2007

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

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

# CVS Group plc

## 5. Finance (income) and expense

	<b>Six months ended 31 December 2007 (Unaudited) £'000</b>	Six months ended 31 December 2006 (Unaudited) £'000	Year ended 30 June 2007 (Audited) £'000
<b>Other finance expense</b>			
Bank loans and overdraft	947	357	1,021
Debt finance costs	44	29	70
Loan stock redemption premium	427	597	1,195
Preference share redemption premium	22	24	51
Participating dividend on preferred ordinary shares	156	108	344
Finance charges payable under finance leases	2	-	1
Other finance expense	<b>1,598</b>	1,115	2,682
<b>Exceptional finance expense</b>			
Write off of debt issue costs relating to bank loans redeemed in the period	287	-	-
<b>Fair value adjustments in respect of financial assets and liabilities</b>	<b>642</b>	(44)	(351)
<b>Bank interest receivable</b>	<b>(104)</b>	(73)	(210)
<b>Net finance expense</b>	<b>2,423</b>	998	2,121

Fair value adjustments in respect of financial assets and liabilities reflect movements in the valuation of a hedging instrument taken out to partially hedge interest rate exposure on a term loan facility. This derivative financial instrument did not qualify for hedge accounting, and as such, the fair value movement is recognised in the income statement.

## CVS Group plc

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

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

The group has potentially dilutive ordinary shares being the contingently issueable shares under the group's long term incentive plan ("LTIP") scheme. The performance criteria for the vesting of the awards under the scheme cannot be assessed at the balance sheet date. Consequently, these contingently issueable shares have been excluded from the diluted EPS calculations. There are no other dilutive or potentially dilutive shares in issue.

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

	<b>Six months ended 31 December 2007 (Unaudited) £'000</b>	Six months ended 31 December 2006 (Unaudited)* £'000	Year ended 30 June 2007 (Audited)* £'000
Weighted average number of ordinary and preferred ordinary shares in issue	<b>Number</b>	Number	Number
Total ordinary and preferred ordinary shares	<b>51,563,475</b>	51,563,475	51,563,475
	<b>£'000</b>	£'000	£'000
(Loss)/earnings attributable to ordinary shareholders	<b>(1,830)</b>	99	346
	<b>Pence</b>	Pence	Pence
Basic and diluted (loss)/earnings per share	<b>(3.5p)</b>	0.2p	0.7p

#### Non-GAAP measure: Adjusted earnings per share

Adjusted earnings per ordinary share is calculated by dividing the profit on ordinary activities after taxation excluding exceptional items and fair value adjustments, by the weighted average number of shares in issue during the period.

	<b>£'000</b>	£'000	£'000
(Loss)/earnings attributable to ordinary shareholders	<b>(1,830)</b>	99	346
Adjustments for:			
Amortisation (note 8)	<b>1,343</b>	599	1,617
Exceptional administrative expenses (note 3)	<b>1,764</b>	-	-
Fair value adjustments in respect of financial assets and liabilities (note 5)	<b>642</b>	(44)	(351)
Exceptional finance expense (note 5)	<b>287</b>	-	-
Adjusted profit after income tax and earnings attributable to ordinary shareholders	<b>2,206</b>	654	1,612
	<b>Pence</b>	Pence	Pence
Adjusted earnings per share	<b>4.3p</b>	1.3p	3.1p

\*The number of shares used for the calculation of EPS for the year ended 30 June 2007 has been re-stated to the number of shares in issue following the capital re-structuring of the company completed on 2 October 2007. This did not result in an increase in the overall share capital but was an increase in the number of shares and a reduction to the nominal value (see note 4).

# CVS Group plc

## 7. Income tax expense

Income tax expense is recognised based on management's best estimate of the weighted average annual statutory income tax rate expected for the full financial year as a percentage of taxable profit ("the effective tax rate").

## 8. Intangible assets

	Goodwill £'000	Patient data records £'000	Capitalised software £'000	Total £'000
<b>Cost</b>				
At 1 July 2006	4,411	8,666	211	13,288
Additions through business combinations	21	4,407	-	4,428
Additions	-	-	73	73
At 31 December 2006	4,432	13,073	284	17,789
Additions through business combinations	27	10,804	-	10,831
Additions	-	-	70	70
At 30 June 2007	4,459	23,877	354	28,690
Additions through business combinations (note 9)*	-	4,639	-	4,639
Additions	-	-	35	35
<b>At 31 December 2007</b>	<b>4,459</b>	<b>28,516</b>	<b>389</b>	<b>33,364</b>
<b>Amortisation</b>				
At 1 July 2006	-	636	154	790
Amortisation for the period	-	559	40	599
At 31 December 2006	-	1,195	194	1,389
Amortisation for the period	-	977	41	1,018
At 30 June 2007	-	2,172	235	2,407
Amortisation for the period	-	1,326	17	1,343
<b>At 31 December 2007</b>	<b>-</b>	<b>3,498</b>	<b>252</b>	<b>3,750</b>
<b>Net book amount</b>				
<b>At 31 December 2007</b>	<b>4,459</b>	<b>25,018</b>	<b>137</b>	<b>29,614</b>
At 30 June 2007	4,459	21,705	119	26,283
At 31 December 2006	4,432	11,878	90	16,400

\*The purchase price allocation exercise in relation to certain business combinations in the period has not been completed as at 31 December 2007. As such, provisional values have been used in this report. The final purchase price allocation will be presented in the full year report. The directors do not anticipate material differences to the provisional values.

## 9. Business combinations

Details of business combinations in the six month period ended 31 December 2007 are set out below, in addition to an analysis of pre and post acquisition performance of the respective business combinations.

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

## CVS Group plc

### 9. Business combinations (continued)

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.

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.

#### Six month period ended 31 December 2007:

Assets and trade	Date of acquisition	Fair value of property plant and equipment acquired £'000	Fair value of intangible assets acquired <sup>1</sup> £'000	Cash paid <sup>2</sup> £'000
<b>A practice in:</b>				
Hampshire & Surrey	02/07/2007	173	2,213	2,386
Buckinghamshire	03/09/2007	-	78	78
Hampshire	03/12/2007	50	424	474
Yorkshire	11/12/2007	10	336	346
		<b>233</b>	<b>3,051</b>	<b>3,284</b>

<sup>1</sup>Intangible assets acquired represents patient data records.

<sup>2</sup>Cash paid includes professional fees of £60,000.

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

A practice in:	Previous year end	Pre-acquisition performance <sup>1</sup> £'000	Post-acquisition revenue <sup>2</sup> £'000	Post-acquisition contribution <sup>3</sup> £'000
Hampshire & Surrey	31/03/2007	489	1,140	264
Buckinghamshire	31/03/2007	50	52	(13)
Hampshire	31/03/2007	14	53	(2)
Yorkshire	30/04/2007	126	21	(7)
		<b>679</b>	<b>1,266</b>	<b>242</b>

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

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

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

#### Acquisition of Petmedics Limited and Beechwood Veterinary Practice Limited

On 26 November 2007, the group acquired the whole of the issued share capital of Petmedics Limited ("PML") for a total consideration of £1,518,000. On 30 November 2007 the group acquired the whole of the issued share capital of Beechwood Veterinary Practice Limited ("BVPL") for a total consideration of £600,000. Immediately following the respective acquisitions the trade and related assets were transferred from PML and BVPL to CVS (UK) Limited. The book values of the non-intangible assets and liabilities of PML and BVPL, 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.

# CVS Group plc

## 9. Business combinations (continued)

	PML	BVPL	Total
	£000	£000	£000
Intangible assets – patient data records	1,134	454	1,588
Property, plant and equipment	449	48	497
Inventories	93	11	104
Trade and other receivables	290	32	322
Cash and cash equivalents	88	146	234
Current income tax liabilities	(80)	(39)	(119)
Deferred income tax liabilities	(14)	(3)	(17)
Trade and other payables	(442)	(49)	(491)
<b>Net assets acquired</b>	<b>1,518</b>	<b>600</b>	<b>2,118</b>

Consideration satisfied by:

Cash (including related costs of acquisition amounting to £101,000)	1,491	495	1,986
Accrued consideration	27	105	132
	<b>1,518</b>	<b>600</b>	<b>2,118</b>

For the year ended 30 September 2006, PML reported an unaudited post tax profit of £115,000. For the unaudited period ended 26 November 2007, the turnover was £3,736,000, operating profit £402,000 and the tax charge £78,000. The post-acquisition turnover of PML amounted to £280,000 and the post-acquisition contribution amounted to £25,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these, from the date of acquisition to the period end).

For the year ended 30 November 2006, BVPL reported an unaudited post tax profit of £114,000. For the unaudited period ended 30 November 2007, the turnover was £698,000, operating profit £153,000 and the tax charge £32,000. The post-acquisition turnover of BVPL amounted to £43,000 and the post-acquisition contribution amounted to £11,000 (contribution represents the direct operating result prior to the allocation of central overheads on the basis that it is not practicable to allocate these, from the date of acquisition to the period end).

# CVS Group plc

## 10. Borrowings

	<b>31 December 2007 (Unaudited) £'000</b>	31 December 2006 (Unaudited) £'000	30 June 2007 (Audited) £'000
<b>Current</b>			
Bank loan	24	-	-
Secured loan stock	-	8,950	9,559
Finance leases	6	11	10
Accrued participating dividend on preferred ordinary shares	-	389	625
Redeemable preference shares, including redemption premium	-	898	925
	<b>30</b>	10,248	11,119

	<b>31 December 2007 (Unaudited) £'000</b>	31 December 2006 (Unaudited) £'000	30 June 2007 (Audited) £'000
<b>Non-Current</b>			
Bank loan	33,912	9,928	20,028
Finance leases	-	15	-
	<b>33,912</b>	9,943	20,028

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, and an acquisition facility of £12,000,000 (£2,490,000 of which has been drawn down as at 31 December 2007). The term loan is repayable over a four year period, the first quarterly payment being due on 31 December 2009. The acquisition facility is repayable over a three year period, the first quarterly payment being due on 30 September 2010.

The facility is secured over the assets of the company and its subsidiary undertakings. The non-current bank loan balance is shown net of issue costs of £585,000 which are being amortised over the life of the bank loan.

In addition to the above, the group had an undrawn working capital facility of £2,000,000 at 31 December 2007.

## 11. Financial instruments

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

The group classifies its interest rate swap as a cash flow hedge and utilises hedge accounting to minimise profit and loss volatility in relation to movements in the swap value.

At 31 December 2007, the group recognised a liability in relation to the break costs on a £12.7m interest rate swap agreement that was terminated post year end, amounting to £269,000. This derivative financial instrument did not qualify for hedge accounting, and as such, the fair value loss in the period has been recognised in the income statement.

## 12. Reconciliation of (loss)/profit for the period to net cash generated from operations

	Six months ended 31 December 2007 (Unaudited) £'000	Six months ended 31 December 2006 (Unaudited) £'000	Year ended 30 June 2007 (Audited) £'000
(Loss)/profit for the period	(1,830)	99	346
Income tax expense	243	213	427
Net finance expense	2,423	998	2,121
Amortisation of intangible assets	1,343	599	1,617
Depreciation of property, plant and equipment	461	243	577
Share-based payments	33	-	-
(Increase) in inventories	(122)	(126)	(416)
(Increase) in trade and other receivables	(471)	(597)	(986)
Increase in trade and other payables	733	587	2,823
<b>Total net cash generated from operations</b>	<b>2,813</b>	<b>2,016</b>	<b>6,509</b>

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

On 9 January 2008, the group acquired the whole of the issued share capital of Axiom Veterinary Laboratories Limited (“AVLL”). The total consideration will not be known until the completion accounts have been finalised for this acquisition. The total consideration, the purchase price allocation and details of revenue, profits or recognised gains and losses for the period from the prior period end to the date of acquisition will be disclosed in the full year financial statements of the group. For the year ended 31 December 2006, AVLL reported an audited post tax profit of £266,000.

On 25 February 2008, the group acquired the trade and related assets of a veterinary practice based in Manchester for an estimated total consideration of £850,000. The final consideration will be subject to the finalisation of professional fees. The purchase price allocation exercise has not yet been completed, and will be disclosed in the full year financial statements of the group. 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. For the year ended 30 April 2007, the practice reported an unaudited pre-tax profit (excluding any salary or drawings in respect of the partners/proprietors working within the practice) of £140,000.

On 17 March 2008, the group acquired the trade and related assets of a veterinary practice based in Hampshire for an estimated total consideration of £1,600,000 before professional fees. The total consideration will be subject to the finalisation of professional fees. The purchase price allocation exercise has not yet been completed, and will be disclosed in the full year financial statements of the group. 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. For the year ended 31 March 2007, the practice reported an unaudited pre-tax profit (excluding any salary or drawings in respect of the partners/proprietors working within the practice) of £441,000.

## **Independent review report to CVS Group plc**

### **Introduction**

We been engaged by the company to review the interim consolidated financial information in the interim report for the six months ended 31 December 2007, which comprises the interim consolidated income statement, interim consolidated balance sheet, interim consolidated statement of changes in equity, interim consolidated cash flow statement and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim consolidated financial information.

### **Directors' responsibilities**

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the company's annual financial statements.

This interim report has been prepared in accordance with the basis set out in Notes 1 and 2.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial information in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the AIM Rules for Companies and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for the six months ended 31 December 2007 is not prepared, in all material respects, in accordance with the basis set out in Note 12 and the AIM Rules for Companies.

### **PricewaterhouseCoopers LLP**

Chartered Accountants

Norwich

17 March 2008

### **Notes:**

a) The maintenance and integrity of the CVS Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial information since it was initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.