



Your pets • our priority

# **CVS Group plc**

**Interim report for the six months to 31 December 2009**

## Financial highlights

	Six months ended 31 December 2009 (Unaudited)	Six months ended 31 December 2008 (Unaudited)	Growth %
<b>Adjusted results before income tax, net finance expense, depreciation, amortisation, share option expense and transaction costs relating to acquisitions:</b>			
Adjusted EBITDA <sup>1</sup>	<b>£7.12m</b>	£6.08m	17
Adjusted earnings per share <sup>2</sup>	<b>7.2p</b>	5.2p	38
<b>Reported results:</b>			
Revenue	<b>£41.48m</b>	£37.24m	11
Operating profit	<b>£3.79m</b>	£3.42m	11
Profit before income tax	<b>£2.81m</b>	£1.87m	50
Profit after income tax	<b>£2.02m</b>	£1.24m*	62
Cash generated from operations	<b>£6.64m</b>	£5.59m	19
Basic and diluted earnings per share	<b>3.9p</b>	2.4p*	63

<sup>1</sup>See page 5 for a reconciliation of profit before income tax for the period to adjusted earnings before income tax, net finance expense, depreciation, amortisation, share option expense and transaction costs relating to acquisitions ("adjusted EBITDA").

<sup>2</sup> See note 6 of the interim financial information, for a reconciliation of basic and diluted earnings per share to adjusted earnings per share.

\* Restated – see note 2 of the interim financial statements for details.

- Sales growth of 11.4%.
- Underlying like-for-like sales of 1.5% in the five months to 30 November 2009 (ignoring effects of adverse weather conditions in December); like-for-like sales growth of 0.5% for six month period.
- Adjusted EBITDA margin improved from 16.3% to 17.2%.
- Cash generated from operations increase by 18.9%.
- Acquisitions continued to be funded from internally generated cash.

*Commenting on these results, CVS Chief Executive, **Simon Innes** said:*

*“I am delighted to report another strong set of results with growth in revenues, earnings and cash generation, demonstrating the resilience of our business to the challenging economic conditions.*

*I am pleased with the acquisitions made in the period and in particular with the significant acquisition announced today”*

# CVS Group plc

## Chairman's statement

### Introduction and summary

I am pleased to announce the results of CVS Group plc ("CVS", "the Group", or "the Company") for the period ended 31 December 2009. This is a strong set of results despite the recent turbulent economic climate and extreme weather in December. The Group has continued to grow and deliver significant improvements in profitability.

CVS is one of the leading providers of veterinary and related services in the UK with 170 veterinary surgeries, 5 laboratories and a pet crematorium. The Group is comprised of three operating divisions and a central support function.

#### *Veterinary services*

The Group is a leading national veterinary surgery consolidator, operating 170 veterinary surgeries across the UK, primarily focused on the small animal market. The veterinary services division provides an increasing base of surgeries which are a significant contributor to the growth opportunities of the laboratory and crematorium divisions.

This is the primary division generating 89.5% (£37.14m) of Group revenues. The division has delivered 12% revenue growth (£4.08m) over the prior year and includes the impact of the acquisition of 9 new surgeries. Adjusted EBITDA for the veterinary services division grew by 22.3% from £6.64m to £8.12m.

#### *Laboratory services*

The Group operates 5 laboratories in the UK which provide diagnostic services to the Group's veterinary surgeries (23% of revenues) and also to non-Group veterinary surgeries (77% of revenues). Services are generally provided via postal and courier services allowing complete coverage of the UK.

The laboratory division generated 9.7% (£4.02m) of Group revenues. Revenue was 1% down on the prior year and adjusted EBITDA reduced by £0.03m to £0.66m.

#### *Crematorium services*

This facility provides services to a large number of the Group's surgeries as well as to non-Group surgeries and to the general public. Since acquisition, pet crematorium work emanating from CVS veterinary practices in the midlands and north of England have been re-routed to this facility on a phased basis.

The crematorium division was acquired during the first half of the prior year. In the current period 23% of its revenues were derived from the Group's veterinary surgeries. This division continues to perform ahead of expectations.

#### *Central administrative function*

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

## Summary of Group results

### *Financial performance*

The Group recorded adjusted earnings before interest, tax, depreciation and amortisation ("adjusted EBITDA") of £7.12m and a statutory profit for the period before taxation of £2.81m. A reconciliation of the two numbers is provided on page five of the interim report. The Board considers that adjusted EBITDA and adjusted earnings per share (as described in the financial highlights) provide a more meaningful basis for assessing the underlying performance of the Group.

Adjusted EBITDA has grown by 17% from £6.08m to £7.12m and the adjusted EBITDA margin has increased from 16.3% to 17.2% of revenue. This was mainly due to the impact that the expanded practice base has through delivery of operational and purchasing efficiencies.

### *Acquisition activity*

The Group acquired two practices in the six month period to December 2009. The acquisition in Berkshire has traded for over five months as part of the Group and its performance has been ahead of expectations. The other practice was acquired in November and has performed in line with expectations.

# CVS Group plc

## Chairman's statement (continued)

### *Acquisition activity (continued)*

The Group has signed an agreement on 19 February 2010 to purchase Veterinary Enterprises & Trading Limited ("VET"). The completion of the deal is subject to approval of resolutions relating to the share placement at a general meeting to be held on 10 March 2010. It is anticipated that the completion date for the transaction will be 11 March 2010. The total consideration for VET, including repayment of existing debt is £12.2m.

VET is a similar business to the Group operating in the same small animal veterinary surgical market and offering complementary diagnostic services. Having been established as a single practice, VET has grown predominantly by acquisition and now operates across the south east of England. The proposed acquisition represents a significant step in the Group's consolidation of the veterinary market within a highly populous part of England, without adversely affecting its existing, ongoing programme to acquire small animal veterinary surgeries.

VET consists of three main components, 27 small animal surgeries (Pet Doctors), a referral centre (Wey Referrals) and a laboratory (Greendale). The Directors believe that the proposed acquisition is a good fit both operationally and geographically. The acquisition of Wey Referrals should provide an opportunity to increase the level of referrals generated from within the Group. Greendale represents a good geographical and operational fit with the Group's existing laboratory business.

Following the proposed acquisition and integration of the two businesses, the enlarged group will operate 197 veterinary surgeries, have approximately 2,000 staff and will increase its combined small animal market share to approximately 8%. The Directors believe that the scale, market presence and revenue diversification of the enlarged Group will deliver continued growth and improve financial performance and strength.

The Directors believe that the adoption of the Group's business model will enable revenue growth and margin improvement over time as has been the case with historical acquisitions, in particular, the utilisation of the Group's central services and its buying terms. Other than transaction costs the Directors do not anticipate any significant exceptional costs from integrating the proposed acquisition.

Accordingly, the Board believes that the proposed acquisition will be earnings-enhancing in the first full financial year of ownership following completion with further opportunities for earnings enhancement going forward, through revenue and cost synergies, organically growing the business and improving margins.

The total consideration, including payment of existing debt, is £12.2m and is being financed by a combination of a share placing of £9.0m and £3.2m from cash. The placing has been fully subscribed on 19 February 2010 and is subject to approval at the general meeting.

The scale of the acquisition provides a step change in the size of the Group with a 16% increase in surgeries and an annualised turnover increase of circa £13.0m. In addition, it removes a competing consolidator and also removes a platform for any potential new entrant into the market.

### *Cash flow and funding position*

Cash generated from operations increased by 18.9% to £6.64m from £5.59m which demonstrates the Group's continued ability to convert operating profits into cash efficiently.

The Group spent £0.65m on acquisitions in the first six months, all of which was funded from internally generated cash. As at 31 December 2009, the Group had net debt of £36.90m comprising cash balances of £6.07m and bank debt and finance lease liabilities of £42.97m. This is a reduction of £3.88m compared to 30 June 2009. The Group also had a working capital facility of £2m which remained undrawn at the period end. The Group has operated comfortably within its agreed bank facilities and banking covenants were fully complied with throughout the period.

### *Earnings per share*

Adjusted earnings per share increased by 2.0p (38%) to 7.2p from 5.2p in the comparable period. Basic and diluted earnings per share were 3.9p per share (2008: 2.4p per share). A reconciliation of the two measures of earnings per share is provided in note 6 to the interim consolidated financial information.

# CVS Group plc

## Chairman's statement (continued)

### Dividends

The directors propose that no interim dividend should be declared for the period ended 31 December 2009. No final dividend for 2009 was paid (2008: £nil). The Board, at this point in time, believes that cash generated from operations should continue to be reinvested into the purchase of further businesses. The Board will continue to review its dividend policy on an ongoing basis.

### Strategy

The Group will continue its strategy of growth through acquisition in the fragmented UK veterinary market combined with organic growth of existing practices. The Group aims to deliver continuing improved returns post acquisition of veterinary practices by growing and managing those practices more efficiently, centralising administration and utilising its buying power.

The Directors believe that CVS has 7% (pre VET acquisition) of the UK small animal veterinary market measured by number of surgeries, which demonstrates the significant further consolidation opportunity.

### Our people

The Group continues to be the largest employer in the veterinary profession with 1,813 staff at 31 December 2009. The Group currently employs an estimated 3% of practising vets in the UK, which gives some indication of the significant scope left for expansion in the UK market.

Our people continue to be key to the Group in delivering its strategy. I would like to thank each of them for their skill and professionalism in providing the best possible care and service.

### Outlook

The adverse weather in December also affected trading in January but the impact is not expected to be material for the year as a whole. The focus on delivering growth both organically and through acquisition and, in particular, cash and profit generation, is expected to continue. Following completion of the VET acquisition, the Board intends to continue its strategy of evaluating additional, selective acquisition opportunities that emerge. Having funded the majority of the VET acquisition from the Placing proceeds, the Group can use its remaining surplus funds for future acquisition of both specific known targets as well as anticipated pipeline opportunities yet to be identified. The board looks forward to the future with confidence.

**Richard Connell**  
Chairman

# CVS Group plc

## Consolidated income statement for the six month period ended 31 December 2009 (unaudited)

	Note	Six months ended 31 December 2009 (Unaudited) £'000	Six months ended 31 December 2008* (Unaudited) £'000	Year ended 30 June 2009 (Audited) £'000
<b>Revenue</b>	4	<b>41,482</b>	37,237	76,605
Cost of sales		<b>(24,334)</b>	(22,459)	(45,657)
<b>Gross profit</b>		<b>17,148</b>	14,778	30,948
Administrative expenses		<b>(13,360)</b>	(11,362)	(23,937)
<b>Operating profit</b>		<b>3,788</b>	3,416	7,011
Fair value adjustments in respect of financial assets and liabilities	5	<b>41</b>	(130)	(48)
Other finance expense	5	<b>(1,037)</b>	(1,469)	(2,580)
Finance income	5	<b>16</b>	49	61
Net finance expense		<b>(980)</b>	(1,550)	(2,567)
<b>Profit before income tax</b>		<b>2,808</b>	1,866	4,444
Income tax expense	8	<b>(790)</b>	(623)	(1,406)
<b>Profit for the period attributable to equity shareholders</b>		<b>2,018</b>	1,243	3,038
<b>Earnings per ordinary share for profit attributable to the equity shareholders (expressed in pence per share) ("EPS")</b>				
Basic	6	<b>3.9p</b>	2.4p	5.9p
Diluted	6	<b>3.9p</b>	2.4p	5.8p

\*Restated as per note 2 to the interim financial statements.

The above results relate to continuing operations, including acquisitions (further details of which are provided in note 10).

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

<b>Non-GAAP measure: Adjusted EBITDA</b>	Note	£'000	£'000	£'000
Profit before income tax		<b>2,808</b>	1,866	4,444
Adjustments for:				
Net finance expense	5	<b>980</b>	1,550	2,567
Depreciation		<b>909</b>	763	1,526
Amortisation	9	<b>2,052</b>	1,831	3,842
Share option expense	7	<b>288</b>	69	117
Transaction costs relating to acquisitions		<b>80</b>	-	-
<b>Adjusted EBITDA</b>		<b>7,117</b>	6,079	12,496

## CVS Group plc

### Statement of consolidated comprehensive income for the six month period ended 31 December 2009 (unaudited)

Note	<b>Six months ended 31 December 2009 (Unaudited) £'000</b>	Six months ended 31 December 2008* (Unaudited) £'000	Year ended 30 June 2009 (Audited) £'000
	<b>2,018</b>	1,243	3,038
<b>Profit for the period</b>			
<b>Other comprehensive income</b>			
Fair value adjustments in respect of financial assets and liabilities	<b>(323)</b>	(2,280)	(2,028)
Revaluation of available for sale investments	<b>8</b>	(11)	(16)
Deferred tax on other comprehensive income	<b>90</b>	638	568
Other comprehensive income for the year, net of tax	<b>(225)</b>	(1,653)	(1,476)
<b>Total comprehensive income for the year attributable to equity shareholders</b>	<b>1,793</b>	(410)	1,562

\*Restated as per note 2 to the interim financial statements.

# CVS Group plc

## Consolidated balance sheet as at 31 December 2009 (unaudited)

	Note	31 December 2009 (Unaudited) £'000	31 December 2008* (Unaudited) £'000	30 June 2009 (Audited) £'000
<b>Non-current assets</b>				
Intangible assets	9	40,286	41,416	41,886
Property, plant and equipment		7,634	7,387	7,467
Investments		75	72	67
Deferred income tax assets		621	659	455
		<b>48,616</b>	49,534	49,875
<b>Current assets</b>				
Inventories		1,957	1,947	1,972
Trade and other receivables		5,071	4,955	5,431
Cash and cash equivalents		6,074	1,212	2,792
		<b>13,102</b>	8,114	10,195
<b>Total assets</b>	4	<b>61,718</b>	57,648	60,070
<b>Current liabilities</b>				
Trade and other payables		(7,752)	(7,865)	(8,452)
Current income tax liabilities		(2,223)	(549)	(1,169)
Borrowings		(4,334)	(666)	(1,924)
		<b>(14,309)</b>	(9,080)	(11,545)
<b>Non-current liabilities</b>				
Borrowings		(38,634)	(42,872)	(41,644)
Deferred income tax liabilities		(4,460)	(5,443)	(4,942)
Derivative financial instruments		(1,697)	(1,797)	(1,463)
		<b>(44,791)</b>	(50,112)	(48,049)
<b>Total liabilities</b>	4	<b>(59,100)</b>	(59,192)	(59,594)
<b>Net assets/(liabilities)</b>		<b>2,618</b>	(1,544)	476

\*Restated as per note 2 to the interim financial statements.

## CVS Group plc

### Consolidated balance sheet as at 31 December 2009 (unaudited) (continued)

	Note	31 December 2009 (Unaudited) £'000	31 December 2008* (Unaudited) £'000	30 June 2009 (Audited) £'000
<b>Shareholders' equity</b>				
Share capital		103	103	103
Capital redemption reserve		592	592	592
Revaluation reserve		125	125	125
Merger reserve		(61,420)	(61,420)	(61,420)
Retained earnings		63,218	59,056	61,076
<b>Total shareholders' equity/(deficit)</b>		<b>2,618</b>	<b>(1,544)</b>	<b>476</b>

\*Restated as per note 2 to the interim financial statements.

The interim financial information on pages 5 to 23 was approved by the board of directors on 19 February 2010.

## CVS Group plc

### Consolidated statement of changes in equity for the six month period ended 31 December 2009 (unaudited)

	Share capital	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2008 as previously stated (audited)	103	592	125	(61,420)	58,980	(1,620)
Prior year adjustment (note 2)	-	-	-	-	425	425
At 1 July 2008 as restated	103	592	125	(61,420)	59,405	(1,195)
Total comprehensive income for the period	-	-	-	-	(410)	(410)
Credit to reserves for share-based payments	-	-	-	-	69	69
Deferred tax relating to share-based payments	-	-	-	-	(8)	(8)
	-	-	-	-	61	61
<b>At 31 December 2008 (unaudited)</b>	<b>103</b>	<b>592</b>	<b>125</b>	<b>(61,420)</b>	<b>59,056</b>	<b>(1,544)</b>

	Share capital	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2009	103	592	125	(61,420)	61,076	476
Total comprehensive income for the period	-	-	-	-	1,793	1,793
Credit to reserves for share-based payments	-	-	-	-	288	288
Credit to reserves for recycled fair value adjustment in respect of financial assets and liabilities	-	-	-	-	48	48
Deferred tax relating to share-based payments	-	-	-	-	13	13
	-	-	-	-	349	349
<b>At 31 December 2009 (unaudited)</b>	<b>103</b>	<b>592</b>	<b>125</b>	<b>(61,420)</b>	<b>63,218</b>	<b>2,618</b>

# CVS Group plc

## Consolidated statement of cash flows for the six month period ended 31 December 2009 (unaudited)

	Note	Six months ended 31 December 2009 (Unaudited) £'000	Six months ended 31 December 2008 (Unaudited) £'000	Year ended 30 June 2009 (Audited) £'000
<b>Cash flows from operating activities</b>				
<b>Cash generated from operations</b>	11	<b>6,644</b>	5,588	12,380
Taxation paid		(280)	(54)	(828)
Interest received		16	49	61
Interest paid		(994)	(1,314)	(2,658)
Net cash generated from operating activities		<b>5,386</b>	4,269	8,955
<b>Cash flows from investing activities</b>				
Acquisition of businesses	10	(650)	(4,073)	(5,793)
Acquisition of subsidiaries (net of cash acquired)		-	(1,854)	(2,510)
Purchase of property, plant and equipment		(779)	(897)	(1,538)
Purchase of intangible assets	9	(47)	(17)	(45)
Proceeds from sale of property, plant and equipment		19	45	2
Proceeds from sale of available for sale investments		-	316	316
Net cash used in investing activities		<b>(1,457)</b>	(6,480)	(9,568)
<b>Cash flows from financing activities</b>				
Finance lease principal payments		(7)	(30)	(38)
Repayment of bank loan		(640)	(8)	(18)
Proceeds from long term borrowings		-	3,069	3,069
Net cash from financing activities		<b>(647)</b>	3,031	3,013
<b>Net increase in cash and cash equivalents</b>		<b>3,282</b>	820	2,400
Cash and cash equivalents at start of period		<b>2,792</b>	392	392
<b>Cash and cash equivalents at end of period</b>		<b>6,074</b>	1,212	2,792

# CVS Group plc

## Notes to the interim consolidated financial information

### 1. General information

The principal activity of the Group is to operate companion animal veterinary practices, complementary veterinary diagnostic businesses and a pet crematorium.

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

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

This interim consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

### 2. Basis of preparation

The interim consolidated financial information of CVS Group plc is for the six months ended 31 December 2009 and is unaudited. The Group has chosen not to adopt the full disclosure requirements of IAS 34, 'Interim Financial Reporting' as it is not mandatory for AIM listed companies. 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 ending 30 June 2010.

The 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 2010. The IFRS and IFRIC interpretations that will be applicable at 30 June 2010, 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 2009. The interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2009, which have been prepared in accordance with IFRSs adopted by the European Union.

The statutory accounts of CVS Group plc in respect of the year ended 30 June 2009 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 any statement under Section 498 of the Companies Act 2006.

The preparation of the interim report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. In preparing the interim report, the significant judgements made by the management in applying the Group's accounting policies and key source of estimation uncertainty were equivalent to those applied to the audited consolidated financial statements as at and for the year ended 30 June 2009.

### Use of non-GAAP profit measures

#### *Adjusted EBITDA*

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

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## 2. Basis of preparation (continued)

### Prior year adjustments

In accordance with the provisions of IAS 8 “Accounting policies, changes in accounting estimates and errors,” a prior year adjustment has been made to recognise deferred tax liabilities (in accordance with the provisions of IAS 12 “Income taxes”) arising on intangibles acquired in certain business combinations in prior periods that were not previously recognised, with a corresponding adjustment to goodwill. The effect of this adjustment in the period ended 31 December 2008 is to increase goodwill by £4,016,000, increase deferred tax liabilities by £3,421,000, reduce the income tax charge for the period (and thereby reduce the reported loss for the period ended 31 December 2008) by £170,000 and increase brought forward retained earnings by £425,000.

The effect of the above, for the six month period ended 31 December 2008, is to increase reported basic and diluted EPS from 2.1p to 2.4p.

There is no impact of the above on the comparatives for the year ended 30 June 2009 as the adjustment had already been reflected in the audited financial statements for that period.

## 3. Summary of significant accounting policies

The accounting policies used are consistent with those set out on pages 31 to 40 of the consolidated financial statements of CVS Group plc for the year ended 30 June 2009 (which are available upon request from the Company’s registered office or on the Company’s website), with the exception of;

### IAS 1 (revised) “Presentation of financial statements”

IAS 1 requires entities to choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements. The interim financial information has been prepared under the revised disclosure requirements.

### IFRS 8, “Operating segments” IFRS 8 replaces IAS 14, “Segment reporting”

IFRS 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Management have confirmed that the Group operates in three distinct trading segments, together with a centralised support function. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The Board has determined the operating segments based on these reports.

### IAS 39 (amendment) “Financial Instruments: Recognition and measurement”

The amended IAS 39, applicable from 1 July 2009, requires the fair value movement on the hedged item to be split between the time value movement and the intrinsic value movement. The movement on the time value is recognised in the income statement immediately and the movement in the intrinsic value is recognised directly in equity. The total time value that had been recognised in equity at 1 July 2009 is required to be recycled through the income statement as the forecast transaction is recognised in the income statement.

The impact on the interim financial information for the six month period ended 30 December 2009 of adopting IAS 39 is that an amount of £89,000 has been credited to the income statement that would otherwise have been recognised as a movement in equity, offset by an amount of £48,000, being the amortisation of the total time value of the instrument previously recognised in equity.

### IFRS 3 (revised) “Business combinations”

IFRS 3 (revised) amends the treatment of acquisition costs as part of business combinations. These were previously capitalised as an intangible. From 1 July 2009 the Group expenses all transaction costs relating to acquisition costs directly in the income statement. The charge for the six month period ended 31 December 2009 was £80,000.

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## 4. Segmental reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, operating 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 IFRS 8 "Operating segments" no segmental results are presented for trade with European clients as these are not reported separately for management reporting purposes.

### Operating segments

The Group is split into three operating segments; veterinary practices, laboratories, crematorium and a centralised support function for business segment analysis:

<b>Six month period ended 31 December 2009</b>					
	Veterinary practices £'000	Laboratories £'000	Crematorium £'000	Head office £'000	<b>Group £'000</b>
Revenue <sup>1</sup>	37,136	4,022	324	-	<b>41,482</b>
Profit/(loss) before income tax	5,484	441	112	(3,229)	<b>2,808</b>
Adjusted EBITDA	8,122	662	142	(1,809)	<b>7,117</b>
Total assets	56,680	3,671	724	643	<b>61,718</b>
Total liabilities	(6,958)	(704)	(92)	(51,346)	<b>(59,100)</b>
<b>Reconciliation of adjusted EBITDA</b>					
Profit/(loss) before income tax	5,484	441	112	(3,229)	<b>2,808</b>
Net finance expense	-	-	-	980	<b>980</b>
Amortisation	1,876	124	18	34	<b>2,052</b>
Depreciation	762	97	12	38	<b>909</b>
Share option expense	-	-	-	288	<b>288</b>
Transaction costs relating to acquisitions	-	-	-	80	<b>80</b>
Adjusted EBITDA	8,122	662	142	(1,809)	<b>7,117</b>

<sup>1</sup>Inter-segment revenue of £1,010,000, representing laboratory sales and crematorium fees to veterinary practices, has been eliminated on consolidation.

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## 4. Segmental reporting (continued)

<b>Six month period ended 31 December 2008</b>					
	Veterinary practices £'000	Laboratories £'000	Crematorium £'000	Head office £'000	Group £'000
Revenue <sup>1</sup>	33,052	4,062	123	-	<b>37,237</b>
Profit/(loss) before income tax	4,454	432	28	(3,048)	<b>1,866</b>
Adjusted EBITDA	6,639	688	54	(1,302)	<b>6,079</b>
Total assets	54,054	3,275	297	22	<b>57,648</b>
Total liabilities	(10,250)	(966)	(99)	(47,877)	<b>(59,192)</b>
<b>Reconciliation of adjusted EBITDA</b>					
Profit/(loss) before income tax	4,454	432	28	(3,048)	<b>1,866</b>
Net finance expense	-	(7)	-	1,557	<b>1,550</b>
Amortisation	1,606	154	21	50	<b>1,831</b>
Depreciation	579	109	5	70	<b>763</b>
Share option expense	-	-	-	69	<b>69</b>
Adjusted EBITDA	6,639	688	54	(1,302)	<b>6,079</b>

<sup>1</sup>Inter-segment revenue of £732,000, representing laboratory sales and crematorium fees to veterinary practices, has been eliminated on consolidation.

<sup>2</sup>The analysis of profit/(loss) before income tax, adjusted EBITDA, total assets and total liabilities as between segments has been amended to be consistent with that for the 6 month period to 31 December 2009. There is no impact on the Group's reported results in total.

<b>Year ended 30 June 2009</b>					
	Veterinary practices £'000	Laboratories £'000	Crematorium £'000	Head office £'000	Group £'000
Revenue <sup>1</sup>	67,879	8,286	440	-	<b>76,605</b>
Profit/(loss) before income tax	9,801	873	174	(6,404)	<b>4,444</b>
Adjusted EBITDA	14,403	1,337	217	(3,461)	<b>12,496</b>
Total assets	49,553	8,935	1,060	522	<b>60,070</b>
Total liabilities	(8,530)	(981)	(110)	(49,973)	<b>(59,594)</b>
<b>Reconciliation of adjusted EBITDA</b>					
Profit/(loss) before income tax	9,801	873	174	(6,404)	<b>4,444</b>
Net finance expense	-	-	-	2,567	<b>2,567</b>
Amortisation	3,443	255	27	117	<b>3,842</b>
Depreciation	1,159	209	16	142	<b>1,526</b>
Share option expense	-	-	-	117	<b>117</b>
Adjusted EBITDA	14,403	1,337	217	(3,461)	<b>12,496</b>

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

# CVS Group plc

## 5. Finance (income) and expense

	<b>Six months ended 31 December 2009 (Unaudited) £'000</b>	Six months ended 31 December 2008 (Unaudited) £'000	Year ended 30 June 2009 (Audited) £'000
Interest expense, bank loans and overdraft	<b>989</b>	1,420	2,481
Debt finance costs	<b>47</b>	47	95
Finance charges in respect of finance leases	<b>1</b>	2	4
	<b>1,037</b>	1,469	2,580
Fair value adjustments in respect of financial assets and liabilities	<b>(41)</b>	130	48
Bank interest receivable	<b>(16)</b>	(49)	(61)
<b>Net finance expense</b>	<b>980</b>	1,550	2,567

Fair value adjustments in respect of financial assets and liabilities for the six month period ended 31 December 2009 reflect the ineffective portion of derivative financial instruments that qualify for hedge accounting and the movements in the fair value of derivative financial instruments that did not qualify for hedge accounting in the prior year.

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## 6. Earnings per ordinary share

### (a) Basic

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

	<b>Six months ended 31 December 2009 (Unaudited)</b>	Six months ended 31 December 2008* (Unaudited)	Year ended 30 June 2009 (Audited)
Earnings attributable to ordinary shareholders (£'000)	<b>2,018</b>	1,243	3,038
Weighted average number of ordinary shares in issue	<b>51,563,475</b>	51,563,475	51,563,475
Basic earnings per share (pence per share)	<b>3.9</b>	2.4	5.9

\*Restated as per note 2 to the interim financial statements.

### (b) Diluted

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

	<b>Six months ended 31 December 2009 (Unaudited)</b>	Six months ended 31 December 2008* (Unaudited)	Year ended 30 June 2009 (Audited)
Earnings attributable to ordinary shareholders (£'000)	<b>2,018</b>	1,243	3,038
Weighted average number of ordinary shares in issue	<b>51,563,475</b>	51,563,475	51,563,475
Adjusted for contingently issueable shares	<b>717,204</b>	146,729	427,176
Weighted average number of ordinary shares for diluted earnings per share	<b>52,280,679</b>	51,710,204	51,990,651
Diluted earnings per share (pence per share)	<b>3.9</b>	2.4	5.8

\*Restated as per note 2 to the interim financial statements.

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## 6. Earnings per ordinary share (continued)

### (c) Non-GAAP measure: Adjusted earnings per share

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

	<b>Six months ended 31 December 2009 (Unaudited) £'000</b>	Six months ended 31 December 2008 (Unaudited) £'000*	Year ended 30 June 2009 (Audited) £'000
Earnings attributable to ordinary shareholders	<b>2,018</b>	1,243	3,038
Adjustments for:			
Amortisation (note 9)	<b>2,052</b>	1,831	3,842
Share option expense (note 7)	<b>288</b>	69	117
Fair value adjustments in respect of financial assets and liabilities (note 5)	<b>(41)</b>	130	48
Transaction costs relating to acquisitions	<b>80</b>	-	-
Tax effect of the above adjustments	<b>(666)</b>	(568)	(1,122)
<b>Adjusted profit after income tax and earnings attributable to ordinary shareholders</b>	<b>3,731</b>	2,705	5,923
<b>Weighted average number of ordinary shares in issue</b>	<b>51,563,475</b>	51,563,475	51,563,475
	<b>Pence</b>	Pence	Pence
<b>Adjusted earnings per share*</b>	<b>7.2p</b>	5.2p	11.5p

\*Restated as per note 2 to the interim financial statements.

# CVS Group plc

## 7. Share-based payments

### *Long Term Incentive Plans*

The Group operates an incentive scheme for certain senior executives, the CVS Group Long Term Incentive Plan (“LTIP”). The LTIP scheme was introduced after the flotation of the Company on AIM in October 2007.

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

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

	<b>July 2009  (“LTIP3”) scheme Number of share awards</b>	<b>November 2008  (“LTIP2”) scheme Number of share awards</b>	<b>October 2007  (“LTIP1”) scheme Number of share awards</b>
Outstanding at 1 July 2009	-	324,827	194,779
Granted during the period	556,397	-	-
Forfeited during the period	-	-	-
Exercised during the period	-	-	-
Expired during the period	-	-	-
Outstanding at 31 December 2009	556,397	324,827	194,779
Exercisable at 31 December 2009	-	-	-

The options outstanding at the period end under the LTIP1 scheme have a weighted average remaining contractual life of 6 months, the options outstanding at the period end under the LTIP2 scheme have a weighted average remaining contractual life of 1 year 6 months and the options outstanding at the period end under the LTIP3 scheme have a weighted average remaining contractual life of 2 years 6 months.

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## 7. Share-based payments (continued)

The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	10 July 2009	18 November 2008	10 October 2007
Share price at grant date	£1.28	£1.45	£2.05
Exercise price	0.2p	0.2p	0.2p
Number of employees	9	4	4
Shares under option at date of grant	556,397	407,585	253,315
Vesting period (years)	3 years 0 months	2 years 8 months	2 years 9 months
Option life (years)	3 years 0 months	2 years 8 months	2 years 9 months
Expected life (years)	3 years 0 months	2 years 8 months	2 years 9 months
Expected dividends expressed as a dividend yield	0%	0%	0%
Fair value per option	£1.28	£1.45	£2.05

The share based payment charge for the period in respect of the options issued under the LTIP schemes amounted to £278,000 (2008: £45,000) and has been charged to administrative expenses. National Insurance contributions amounting to £44,000 (2008: £9,000 credit) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

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

The Group operates an incentive scheme for all staff, the CVS Group Save As You Earn (“SAYE”) plan, an Inland Revenue approved scheme. The SAYE1 scheme was opened for subscription in July 2008 and the SAYE2 scheme was opened for subscription in October 2009. Under the SAYE schemes awards are made at a 20% discount of the closing mid-market price on date of invitation, vesting over a three year period. There are no performance conditions attached to the SAYE scheme.

Details of the share options outstanding during the period under the SAYE scheme are as follows:

	SAYE1 Number of share awards	SAYE2 Number of share awards
Outstanding 1 July 2009	287,317	-
Granted during the period	-	260,185
Forfeited during the period	(78,086)	-
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at 31 December 2009	209,231	260,185
Exercisable at 31 December 2009	-	-

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## 7. Share-based payments (continued)

The options outstanding at the period end under SAYE1 scheme have a weighted average remaining contractual life of 1 year 8 months and the option outstanding at the year end under the SAYE2 scheme have a weighted average remaining contractual life of 2 years 11 months.

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

<b>Grant date</b>	<b>17 November 2009</b>	<b>15 July 2008</b>
Share price at grant date	£1.80	£2.62
Exercise price	£1.44	£2.10
Expected volatility*	39.8%	34.2%
Number of employees	127	273
Shares under option at date of grant	260,185	360,088
Vesting period (years)	3 years	3 years
Option life (years)	3 years	3 years
Expected life (years)	3 years	3 years
Expected dividends expressed as a dividend yield	0%	0%
Fair value per option	£0.69	£0.61

\*Expected volatility has been determined by looking at historical share return volatility, coupled with the period most closely matching the expected life of the option, of a comparable group of companies (companies with similar corporate attributes to the Group such as market capitalisation, turnover and number of employees).

The share based payment charge for the period in respect of the options issued under the SAYE schemes amounted to £10,000 (2008: £24,000) and has been charged to administrative expenses.

## 8. 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").

# CVS Group plc

## 9. Intangible assets

	Goodwill £'000	Customer lists £'000	Patient data records £'000	Capitalised software £'000	Total £'000
<b>Cost</b>					
At 1 July 2008 as previously stated	4,467	3,685	30,497	377	39,026
Prior year adjustment*	3,587	-	-	-	3,587
At 1 July 2008 as restated	8,054	3,685	30,497	377	42,613
Additions arising through business combinations	835	435	4,688	-	5,958
Additions	-	-	-	17	17
At 31 December 2008 as previously stated	4,873	4,120	35,185	394	44,572
Prior year adjustment*	4,016	-	-	-	4,016
At 31 December 2008 as restated	8,889	4,120	35,185	394	48,588
Additions arising through business combinations	247	104	2,102	-	2,453
Additions	-	-	-	28	28
At 30 June 2009	9,136	4,224	37,287	422	51,069
Additions arising through business combinations (note 10)	33	-	372	-	405
Additions	-	-	-	47	47
<b>At 31 December 2009</b>	<b>9,169</b>	<b>4,224</b>	<b>37,659</b>	<b>469</b>	<b>51,521</b>
<b>Amortisation</b>					
At 1 July 2008	-	119	4,963	259	5,341
Amortisation for the period	-	174	1,607	50	1,831
At 31 December 2008	-	293	6,570	309	7,172
Amortisation for the period	-	98	1,837	76	2,011
At 30 June 2009	-	391	8,407	385	9,183
Amortisation for the period	-	142	1,876	34	2,052
<b>At 31 December 2009</b>	<b>-</b>	<b>533</b>	<b>10,283</b>	<b>419</b>	<b>11,235</b>
Net book amount					
<b>At 31 December 2009</b>	<b>9,169</b>	<b>3,691</b>	<b>27,376</b>	<b>50</b>	<b>40,286</b>
At 30 June 2009	9,136	3,833	28,880	37	41,886
At 31 December 2008	8,889	3,827	28,615	85	41,416

\*Restated as per note 2 to the interim financial statements.

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## 10. Business combinations

Details of business combinations in the six month period ended 31 December 2009 are set out below.

Practice acquisitions	Date of acquisition	Fair value of property plant and equipment acquired £'000	Fair value of intangible assets acquired <sup>1</sup> £'000	Cash payable <sup>2</sup>
<b>A practice in:</b>				
Berkshire	13/07/2009	295	25	320
Surrey	30/11/2009	20	380	400
		<b>315</b>	<b>405</b>	<b>720</b>

<sup>1</sup>Intangible assets acquired represents patient data records (£372,000) and goodwill (£33,000).

<sup>2</sup>Cash payable includes deferred consideration outstanding of £70,000.

## 11. Cash flows from operating activities

	Six months ended 31 December 2009 (Unaudited) £'000	Six months ended 31 December 2008* (Unaudited) £'000	Year ended 30 June 2009 (Audited) £'000
Profit for the financial period	2,018	1,243	3,038
Income tax expense	790	623	1,406
Finance costs	996	1,599	2,628
Finance income	(16)	(49)	(61)
Amortisation of intangible assets	2,052	1,831	3,842
Depreciation of property, plant and equipment	909	763	1,526
(Gain)/loss on disposal of property, plant and equipment	(2)	-	11
Decrease/(increase) in inventories	15	(96)	(102)
Decrease/(increase) in trade and other receivables	360	192	(255)
(Decrease)/increase in trade and other payables	(766)	(587)	230
Share option expense	288	69	117
<b>Total cash flows from operating activities</b>	<b>6,644</b>	<b>5,588</b>	<b>12,380</b>

\*Restated as per note 2 to the financial statements.

# CVS Group plc

## 12. Post balance sheet events

On 19 February 2010, the Group entered into an agreement to acquire the entire issued share capital of Veterinary Enterprises & Trading Limited (“VET”), a veterinary group based in the south east of England. The completion of the deal is subject to approval of resolutions relating to the share placement at a general meeting to be held on 10 March 2010. It is anticipated that the completion date for the transaction will be 11 March 2010. The total consideration for VET, including repayment of existing debt is £12.2m.

The purchase price allocation exercise required under IFRS 3 “Business combinations” has not been completed at this stage, and will be disclosed in the full year financial statements of the Group. For the year ended 31 March 2009, VET reported an audited pre-tax loss of £0.2m. The Group will apply its own business model to leverage the VET acquisition and deliver enhanced returns.

# CVS Group plc

## 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 2009, which comprises the interim consolidated income statement, interim statement of consolidated comprehensive income, interim consolidated balance sheet, interim consolidated statement of changes in equity, interim consolidated statement of cash flows 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 interim consolidated 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 consolidated financial information has been prepared in accordance with the basis set out in notes 2 and 3.

### Our responsibility

Our responsibility is to express to the company a conclusion on the interim consolidated 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 interim consolidated financial information in the interim report for the six months ended 31 December 2009 is not prepared, in all material respects, in accordance with the basis set out in Note 2 and the AIM Rules for Companies.

### PricewaterhouseCoopers LLP

Chartered Accountants

Norwich

February 2010

### 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.

# CVS Group plc

## Directors and advisers

### Directors

R Connell (Chairman)  
S Innes (Chief Executive Officer)  
P D Coxon (Finance Director)  
D Timmins (Non-executive Director)  
C Marsh (Non-executive Director)

### Company Secretary

P D Coxon

### Company number

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