

# **CVS Group plc**

**Interim report for the six months to 31 December 2008**

## Financial highlights

	Six months ended 31 December 2008 (Unaudited)	Six months ended 31 December 2007 (Unaudited)	Growth %
<b>Adjusted results before exceptional items, fair value adjustments, share based payments and amortisation of intangibles:</b>			
EBITDA (adjusted) <sup>1</sup>	<b>£6.08m</b>	£4.44m	37
Profit before income tax (adjusted) <sup>2</sup>	<b>£3.90m</b>	£2.48m	57
Profit after income tax (adjusted) <sup>3</sup>	<b>£2.68m</b>	£1.67m	60
Cash generated from operations (adjusted) <sup>4</sup>	<b>£5.59m</b>	£3.96m	41
Earnings per share (adjusted) <sup>5</sup>	<b>5.2p</b>	3.2p	63
<b>Reported results:</b>			
Revenue	<b>£37.24m</b>	£28.54m	30
Operating profit	<b>£3.42m</b>	£0.84m	309
Profit/(loss) before income tax	<b>£1.87m</b>	£(1.59m)	n/a
Profit/(loss) after income tax	<b>£1.07m</b>	£(1.83m)	n/a
Cash generated from operations	<b>£5.59m</b>	£2.81m	99
Basic and diluted earnings/(loss) per share	<b>2.1p</b>	(3.5p)	n/a

<sup>1</sup>See page 4 for a reconciliation of profit/(loss) before income tax for the period to adjusted earnings before interest, income tax, depreciation and amortisation, share-based payments, other gains and exceptional items ("adjusted EBITDA").

<sup>2</sup>See note 13 of the interim financial information, for a reconciliation of profit/(loss) before income tax for the period to adjusted profit before income tax.

<sup>3</sup>See note 7 of the interim financial information, for a reconciliation of profit/(loss) after income tax for the period to adjusted profit after income tax.

<sup>4</sup>See page 8 for a reconciliation of cash generated from operations to adjusted cash generated from operations.

<sup>5</sup>See note 7 of the interim financial information, for a reconciliation of basic and diluted earnings per share to adjusted earnings per share.

- Adjusted EBITDA margin improved from 15.4% to 16.3%.
- Businesses that we have held for more than 12 months are the dominant part of the Group, driving cost efficiencies and buying power.
- Like-for-like sales growth of 2.3%.
- Laboratory revenue growth of 182% to £4.1m.
- 48% of the acquisitions consideration funded from internally generated cash.
- Successfully acquired and integrated 11 surgeries in the six months to 31 December (28 surgeries acquired by the Group in the 2008 calendar year). A further two surgeries have been acquired since the period end.
- Development of new crematorium division.

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

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

# CVS Group plc

## Chairman's statement

### Introduction

I am pleased to report the interim results of CVS Group plc ("CVS", "the Group", or "the Company") for the six months ended 31 December 2008.

CVS is one of the leading veterinary services providers in the UK. The Group strategy recognises that the value of veterinary businesses lies in the quality of their staff and the relationships they enjoy with their existing clients. Professional management expertise and other services are therefore provided centrally to all Group practices, relieving them of their administrative burden and enabling local staff to concentrate fully on clinical care.

In line with that strategy, CVS acquired 11 surgeries and a pet crematorium in the six months ended 31 December 2008, and a further two surgeries so far in the second half.

### Summary of results

#### *Financial performance*

The Group has grown significantly since the comparable half year. The number of surgeries increased by 21.1% to 161 at 31 December 2008 compared to 133 a year earlier. Reflecting the increased number of surgeries, revenue grew 30.5% from £28.54m to £37.24m. Like-for-like revenue growth, which relates to sites that have been owned by the Group for a full 12 month period, was 2.3%. This is a particularly encouraging result given the current economic climate and demonstrates the robustness of the business.

CVS has continued to expand by acquisition and further develop its leading position as a national consolidator and operator of veterinary practices and laboratories. During the period under review, CVS further broadened its operations with the acquisition of its first pet crematorium.

The Group recorded adjusted earnings before interest, tax, depreciation and amortisation ("adjusted EBITDA") of £6.08m and a statutory profit for the period before taxation of £1.87m. A reconciliation of the two numbers is provided on page four 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 37.0% from £4.44m to £6.08m and the Adjusted EBITDA margin has increased from 15.4% to 16.3% of revenue. This was mainly due to the impact that the expanded practice base has through delivery of operational and purchasing efficiencies. A further factor has been the contribution made from tight cost control.

#### *Acquisition activity*

The pipeline of potential acquisitions remains strong. In the six months to 31 December 2008, 11 new surgeries were acquired. Also the Group acquired the strategically important Rossendale Pet Crematorium Limited ("RPCL"). It is anticipated that the acquisitions in the period will contribute an annualised turnover of around £6.9m. A further two surgeries, have been acquired since the period end, and are expected to contribute an annualised turnover of around £1.7m.

I am pleased to confirm that the acquisitions in the period have been smoothly and successfully integrated into the Group.

#### *Cash flow and funding position*

Adjusted cash generated from operations increased by 41.1% to £5.59m from £3.96m. This increase demonstrates the Group's continued ability to convert operating profits into cash efficiently.

The Group spent £5.93m on acquisitions in the first half, of which £2.86m was funded from internally generated cash and the balance of £3.07m from the remainder of the Company's £12.0m acquisition facility. The Group expects to continue to fund future acquisition activity from internally generated cash.

As at 31 December 2008, the Group had cash balances of £1.2m and total bank debt of £43.5m. 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 facilities throughout the period.

# CVS Group plc

## Chairman's statement (continued)

### *Earnings per share*

Adjusted earnings per share increased by 2.0p (63%) to 5.2p from 3.2p in the comparable period. Basic and diluted earnings per share were 2.1p per share (2007: loss of 3.5p per share). A reconciliation of the two measures of earnings per share is provided in note 7 to the interim consolidated financial information.

### **Dividends**

The directors propose that no interim dividend should be declared for the period ended 31 December 2008. No final dividend for 2008 was paid (2007: £nil). The Board, at this point in time, believes that cash generated from operations should continue to be reinvested into the purchase of further businesses. The Board will continue to review its dividend policy on an ongoing basis.

### **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 utilising the buying power of the Group.

The Directors believe that CVS has 7% of the UK small animal veterinary market measured by wholesaler spend, which demonstrates the significant further consolidation opportunity.

### **Our people**

The Group continues to be the largest employer in the veterinary profession with 1,689 staff at 31 December 2008. The Group currently employs an estimated 3.1% 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 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 and discussions are ongoing in relation to further prospective acquisitions. The resilience of the business to the current recession augurs well for the time when more normal economic conditions eventually return.

**Richard Connell**  
**Chairman**

# CVS Group plc

## Consolidated income statement for the six month period ended 31 December 2008 (unaudited)

	Note	Six months ended 31 December 2008 (Unaudited) £'000	Six months ended 31 December 2007 (Unaudited) £'000	Year ended 30 June 2008 (Audited) £'000
<b>Revenue</b>	5	<b>37,237</b>	28,542	62,150
Cost of sales		<b>(22,459)</b>	(17,304)	(38,121)
<b>Gross profit</b>		<b>14,778</b>	11,238	24,029
Exceptional administrative expenses	4	-	(1,764)	(1,764)
Other administrative expenses		<b>(11,362)</b>	(8,638)	(18,502)
Total administrative expenses		<b>(11,362)</b>	(10,402)	(20,266)
Other gains	7	-	-	316
<b>Operating profit</b>		<b>3,416</b>	836	4,079
Fair value adjustments in respect of financial assets and liabilities	6	<b>(130)</b>	(642)	(347)
Exceptional finance expense	6	-	(287)	(556)
Other finance expense	6	<b>(1,469)</b>	(1,598)	(3,184)
Finance income	6	<b>49</b>	104	132
Net finance expense		<b>(1,550)</b>	(2,423)	(3,955)
<b>Profit/(loss) before income tax</b>		<b>1,866</b>	(1,587)	124
Income tax expense	9	<b>(793)</b>	(243)	(734)
<b>Profit/(loss) for the period attributable to equity shareholders</b>		<b>1,073</b>	(1,830)	(610)
<b>Earnings/(loss) per ordinary share for profit/(loss) attributable to the equity shareholders (expressed in pence per share) ("EPS")</b>				
Basic and diluted	7	<b>2.1p</b>	(3.5p)	(1.2p)

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

Non-GAAP measure: Adjusted EBITDA*	Note	£'000	£'000	£'000
Profit/(loss) before income tax		<b>1,866</b>	(1,587)	124
Adjustments for:				
Exceptional administrative expenses	4	-	1,764	1,764
Net finance expense	6	<b>1,550</b>	2,423	3,955
Depreciation		<b>763</b>	461	1,042
Amortisation	10	<b>1,831</b>	1,343	2,934
Other gains	7	-	-	(316)
Share option expense	8	<b>69</b>	33	110
<b>Adjusted EBITDA</b>		<b>6,079</b>	4,437	9,613

\*Adjusted EBITDA represents earnings before interest (net finance expense), income tax, depreciation, amortisation share based payments, other gains and exceptional administrative expenses.

# CVS Group plc

## Consolidated balance sheet as at 31 December 2008 (unaudited)

	Note	31 December 2008 (Unaudited) £'000	31 December 2007 (Unaudited) £'000	30 June 2008 (Audited) £'000
<b>Non-current assets</b>				
Intangible assets	10	37,400	29,614	33,685
Property, plant and equipment		7,387	5,156	6,757
Investments		72	23	399
Deferred income tax assets		659	513	426
Derivative financial instruments		-	-	613
		<b>45,518</b>	35,306	41,880
<b>Current assets</b>				
Inventories		1,947	1,452	1,829
Trade and other receivables		4,955	3,697	5,108
Cash and cash equivalents		1,212	736	392
		<b>8,114</b>	5,885	7,329
<b>Total assets</b>	5	<b>53,632</b>	41,191	49,209
<b>Current liabilities</b>				
Trade and other payables		(7,865)	(8,736)	(8,272)
Current income tax liabilities		(549)	(235)	(54)
Borrowings		(666)	(30)	(50)
Derivative financial instruments		-	(269)	-
		<b>(9,080)</b>	(9,270)	(8,376)
<b>Non-current liabilities</b>				
Borrowings		(42,872)	(33,912)	(40,410)
Deferred income tax liabilities		(2,022)	(1,351)	(2,043)
Derivative financial instruments		(1,797)	-	-
		<b>(46,691)</b>	(35,263)	(42,453)
<b>Total liabilities</b>	5	<b>(55,771)</b>	(44,533)	(50,829)
<b>Net liabilities</b>		<b>(2,139)</b>	(3,342)	(1,620)

## CVS Group plc

### Consolidated balance sheet as at 31 December 2008 (unaudited) (continued)

	Note	31 December 2008 (Unaudited) £'000	31 December 2007 (Unaudited) £'000	30 June 2008 (Audited) £'000
<b>Capital and reserves attributable to equity holders of the Company</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		58,461	57,258	58,980
<b>Total deficit</b>		<b>(2,139)</b>	<b>(3,342)</b>	<b>(1,620)</b>

The interim financial information on pages 4 to 21 was approved by the board of directors on 16 March 2009.

## CVS Group plc

### Consolidated statement of changes in equity for the six month period ended 31 December 2008 (unaudited)

	Share capital	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2007 (audited)	103	-	125	(61,420)	59,648	(1,544)
Transfer to capital redemption reserve	-	592	-	-	(592)	-
Retained loss for the period	-	-	-	-	(1,830)	(1,830)
<b>Total recognised income and expense</b>	-	<b>592</b>	-	-	<b>(2,422)</b>	<b>(1,830)</b>
Credit to reserves for share-based payments	-	-	-	-	33	33
Deferred tax relating to share-based payments	-	-	-	-	(1)	(1)
	-	-	-	-	32	32
<b>At 31 December 2007 (unaudited)</b>	<b>103</b>	<b>592</b>	<b>125</b>	<b>(61,420)</b>	<b>57,258</b>	<b>(3,342)</b>

	Share capital	Capital redemption reserve	Revaluation reserve	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2008 (audited)	103	592	125	(61,420)	58,980	(1,620)
Fair value movement of cash flow hedging derivative	-	-	-	-	(2,280)	(2,280)
Revaluation of available for sale investments	-	-	-	-	(11)	(11)
Deferred tax relating to items charged directly to retained	-	-	-	-	638	638
Net income recognised directly in equity	-	-	-	-	(1,653)	(1,653)
Retained profit for the period	-	-	-	-	1,073	1,073
<b>Total recognised income and expense</b>	-	-	-	-	<b>(580)</b>	<b>(580)</b>
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>58,461</b>	<b>(2,139)</b>

# CVS Group plc

## Consolidated cash flow statement for the six month period ended 31 December 2008 (unaudited)

	Note	Six months ended 31 December 2008 (Unaudited) £'000	Six months ended 31 December 2007 (Unaudited) £'000	Year ended 30 June 2008 (Audited) £'000
<b>Cash flows from operating activities</b>				
Cash generated from operations before exceptional payments		5,588	3,959	8,268
Exceptional administrative expenses*		-	(1,146)	(1,764)
<b>Cash generated from operations</b>	12	<b>5,588</b>	2,813	6,504
Taxation paid		(54)	-	(95)
Interest received		49	104	132
Interest paid		(1,314)	(1,003)	(3,418)
Net cash generated from operating activities		<b>4,269</b>	1,914	3,123
<b>Cash flows from investing activities</b>				
Acquisition of businesses	11	(4,073)	(3,284)	(5,673)
Acquisition of subsidiaries (net of cash acquired)	11	(1,854)	(1,752)	(6,322)
Purchase of property, plant and equipment		(897)	(642)	(2,099)
Purchase of intangible assets	10	(17)	(35)	(23)
Proceeds from sale of property, plant and equipment		45	-	17
Proceeds from sale of available for sale investments		316	-	-
Net cash used in investing activities		<b>(6,480)</b>	(5,713)	(14,100)
<b>Cash flows from financing activities</b>				
Finance lease principal payments		(30)	(4)	(13)
Repayment of loan stock, preference shares and associated redemption premiums		-	(11,714)	(11,714)
Repayment of bank loan		(8)	(20,252)	(20,455)
Receipt of borrowings (net of debt issue costs)		3,069	33,883	40,929
Net cash from financing activities		<b>3,031</b>	1,913	8,747
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>820</b>	(1,886)	(2,230)
Cash and cash equivalents at start of period		392	2,622	2,622
<b>Cash and cash equivalents at end of period</b>		<b>1,212</b>	736	392

\*Cash paid in respect of exceptional administrative expenses incurred in relation to the Company's admission to the Alternative Investment Market – see note 4 for further details.

# CVS Group plc

## Notes to the interim consolidated financial information

### 1. General information

The principal activity of the Group and of the Company is to operate companion animal veterinary practices and complementary veterinary businesses, including diagnostic laboratories and pet crematoria.

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

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

This interim consolidated financial information does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

### 2. Basis of preparation

The interim consolidated financial information of CVS Group plc is for the six months ended 31 December 2008 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 2009.

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 2009. The IFRS and IFRIC interpretations that will be applicable at 30 June 2009, 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 2008. The interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2008, 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 2008 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 judgments, 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 judgments 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 2008.

The Group has net liabilities as at 31 December 2008. The Group has traded profitably since the balance sheet date with the profits generated contributing to the funding of the Group's working capital requirements. In addition, the Group has a £2m working capital facility, of which there had been no draw down at the balance sheet date and had cash and cash equivalents at that date of £1,212,000. The Group has operated within the levels of its current debt facility and complied with both the financial and non-financial covenants contained in the facility agreement therein throughout the period under review and to the date of the approval of this interim report. The Group is forecasting that it will continue to operate within the level of its current facility and comply with the financial and non-financial covenants contained in the facility agreement. On this basis the directors consider it appropriate to prepare the interim consolidated financial information on the going concern basis.

#### 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.

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## 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 based payments, other gains and exceptional items.

## 3. Summary of significant accounting policies

The accounting policies used are consistent with those set out on pages 29 to 39 of the consolidated financial statements of CVS Group plc for the year ended 30 June 2008 (which are available upon request from the Company's registered office or on the Company's website) with the exception of:

### **Reclassification of administrative expenses to cost of sales**

The comparatives for the period ended 31 December 2007 in relation to cost of sales and administrative expenses have been restated in order to more accurately reflect certain employment expenses in relation to locums' fees amounting to £1,063,000 being included in cost of sales rather than administrative expenses. There is no net effect on operating profit or on net assets.

## 4. Exceptional administrative expenses

Exceptional administrative expenses in respect of the six months ended 31 December 2007 and the year ended 30 June 2008 relate to legal and professional fees incurred in relation to the Company's admission to the Alternative Investment Market on 10 October 2007.

## 5. 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.

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## 5. Segmental reporting (continued)

### Business segments

The Group is split into veterinary practices, laboratories and crematoria (for the period from 6 October 2008) for business segment analysis:

#### Six month period ended 31 December 2008

	Veterinary practices £'000	Laboratories £'000	Crematoria £'000	Head office £'000	Group £'000
Revenue <sup>1</sup>	33,052	4,062	123	-	<b>37,237</b>
Amortisation	1,606	154	21	50	<b>1,831</b>
Depreciation	579	109	5	70	<b>763</b>
Profit/(loss) before income tax	4,454	586	28	(3,202)	<b>1,866</b>
Total assets	11,978	3,275	297	38,082	<b>53,632</b>
Total liabilities	(6,829)	(966)	(99)	(47,877)	<b>(55,771)</b>
Capital expenditure	5,815	39	924	206	<b>6,984</b>

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

#### 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.

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## 5. Segmental reporting (continued)

Year ended 30 June 2008

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

<sup>1</sup>Inter-segment revenue of £1,152,000, representing laboratory sales to veterinary practices, has been eliminated on consolidation.

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## 6. Finance (income) and expense

	<b>Six months ended 31 December 2008 (Unaudited) £'000</b>	Six months ended 31 December 2007 (Unaudited) £'000	Year ended 30 June 2008 (Audited) £'000
<b>Other finance expense</b>			
Bank loans and overdraft	<b>1,420</b>	947	2,484
Debt finance costs	<b>47</b>	44	91
Accrued loan stock redemption premium	-	427	427
Accrued preference share redemption premium	-	22	22
Accrued participating dividend on preferred ordinary shares	-	156	156
Finance charges payable under finance leases	<b>2</b>	2	4
	<b>1,469</b>	1,598	3,184
<b>Exceptional finance expense</b>			
Write off of debt issue costs relating to bank loans redeemed in the period and break costs incurred in the termination of derivative financial instrument	-	287	556
<b>Fair value adjustments in respect of financial assets and liabilities</b>	<b>130</b>	642	347
<b>Bank interest receivable</b>	<b>(49)</b>	(104)	(132)
<b>Net finance expense</b>	<b>1,550</b>	2,423	3,955

Fair value adjustments in respect of financial assets and liabilities reflect movements in the fair value of derivative financial instruments that do not qualify for hedge accounting and the ineffective portion of derivative financial instruments that do qualify for hedge accounting.

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## 7. Earnings/(loss) per ordinary share

### (a) Basic

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

	<b>Six months ended 31 December 2008 (Unaudited)</b>	Six months ended 31 December 2007 (Unaudited)	Year ended 30 June 2008 (Audited)
Earnings/(loss) attributable to ordinary shareholders (£'000)	<b>1,073</b>	(1,830)	(610)
Weighted average number of ordinary shares in issue	<b>51,563,475</b>	51,563,475	51,563,475
Basic earnings/(loss) per share (pence per share)	<b>2.1</b>	(3.5)	(1.2)

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has potentially dilutive ordinary shares being the contingently issueable shares under the Group's long term incentive plan ("LTIP") scheme that was introduced in October 2007 and the Save As You Earn scheme ("SAYE") that was introduced in July 2008. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the contingently issueable shares. There are no other dilutive or potentially dilutive shares in issue.

	<b>Six months ended 31 December 2008 (Unaudited)</b>	Six months ended 31 December 2007 (Unaudited)	Year ended 30 June 2008 (Audited)
Earnings/(loss) attributable to ordinary shareholders (£'000)	<b>1,073</b>	(1,830)	(610)
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>146,729</b>	-	93,860
Weighted average number of ordinary shares for diluted earnings per share	<b>51,710,204</b>	51,563,475	51,657,335
Basic earnings/(loss) per share (pence per share)	<b>2.1</b>	(3.5)	(1.2)

# CVS Group plc

## 7. Earnings/(loss) 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 of intangibles, share based payments, exceptional items and fair value adjustments, by the weighted average number of shares in issue during the period.

	<b>Six months ended 31 December 2008 (Unaudited) £'000</b>	Six months ended 31 December 2007 (Unaudited) £'000	Year ended 30 June 2008 (Audited) £'000
Earnings/(loss) attributable to ordinary shareholders	<b>1,073</b>	(1,830)	(610)
Adjustments for:			
Amortisation (note 10)	<b>1,831</b>	1,343	2,934
Share option expense (note 8)	<b>69</b>	33	110
Exceptional administrative expenses (note 4)	-	1,764	1,764
Fair value adjustments in respect of financial assets and liabilities (note 6)	<b>130</b>	642	347
Fair value adjustments in respect of available for sale assets*	-	-	(316)
Exceptional finance expense (note 6)	-	287	556
Tax effect of the above adjustments	<b>(426)</b>	(568)	(786)
<b>Adjusted profit after income tax and earnings attributable to ordinary shareholders</b>	<b>2,677</b>	1,671	3,999
<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>5.2p</b>	3.2p	7.8p

\*Fair value adjustments in respect of available for sale assets represent the gain on disposal of the Group's share holding in Centaur Services Limited, an unquoted company, whose shares are not publicly traded. At 30 June 2008, the Group had accepted an offer to purchase the shareholding as part of the purchase of Centaur Services Limited. Therefore, the fair value of the shares was revalued at 30 June 2008 to fair value. The fair value gain arising on revaluation amounted to £316,000 and was recognised in the income statement within other gains.

\*\*The dilutive impact of contingently issueable shares (see note 7b) does not impact on the adjusted earnings per share as stated above.

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### 8. Share-based payments

The Group operates an incentive scheme for certain senior executives, the CVS Group Long Term Incentive Plan (“LTIP”). The LTIP scheme was introduced after the flotation of the Company on AIM in October 2007 and a further grant under the scheme was made in November 2008. Under the LTIP scheme awards vest 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>November 2008 LTIP scheme Number of share awards</b>	<b>October 2007 LTIP scheme Number of share awards</b>
Outstanding at 31 December 2007 and 1 July 2008	-	253,315
Granted during the period	355,861	-
Forfeited during the period	(82,758)	(58,536)
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at 31 December 2008	<b>273,103</b>	<b>194,779</b>
Exercisable at 31 December 2008	-	-

The options outstanding at the period end under the 2007 LTIP scheme have a weighted average remaining contractual life of 2 years and the options outstanding at the period end under the 2008 LTIP scheme have a weighted average remaining contractual life of 3 years. The fair value per option granted and the assumptions used in the calculation are as follows:

<b>Grant date</b>	<b>18 November 2008</b>	<b>10 October 2007</b>
Share price at grant date	<b>£1.45</b>	<b>£2.05</b>
Exercise price	<b>0.2p</b>	<b>0.2p</b>
Number of employees	<b>3</b>	<b>4</b>
Shares under option	<b>355,861</b>	<b>253,315</b>
Vesting period (years)	<b>2 years 8 months</b>	<b>2 years 9 months</b>
Option life (years)	<b>2 years 8 months</b>	<b>2 years 9 months</b>
Expected life (years)	<b>2 years 8 months</b>	<b>2 years 9 months</b>
Expected dividends expressed as a dividend yield	<b>0%</b>	<b>0%</b>
Fair value per option	<b>£1.45</b>	<b>£2.05</b>

The share based payment charge for the period in respect of the options issued under the LTIP scheme amounted to £45,000 (2007: £33,000) and has been charged to administrative expenses.

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### 8. Share-based payments (continued)

The Group operates an incentive scheme for all staff, the CVS Group Save As You Earn (“SAYE”) plan, an Inland Revenue approved scheme. The SAYE scheme was opened for subscription in July 2008. Under the SAYE scheme 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:

	<b>Number of share awards</b>
Outstanding at 1 July 2008	-
Granted during the period	<b>360,088</b>
Forfeited during the period	<b>(13,208)</b>
Exercised during the period	-
Expired during the period	-
Outstanding at 31 December 2008	<b>346,880</b>
Exercisable at 31 December 2008	-

The options outstanding at the period end have a weighted average remaining contractual life of 3 years.

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

\*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 scheme amounted to £24,000 (2007: £nil) and has been charged to administrative expenses.

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## 9. 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").

## 10. Intangible assets

	Goodwill £'000	Customer lists £'000	Patient data records £'000	Capitalised software £'000	Total £'000
<b>Cost</b>					
At 1 July 2007	4,459	-	23,877	354	28,690
Additions arising through business combinations	-	-	4,639	-	4,639
Additions	-	-	-	35	35
At 31 December 2007	4,459	-	28,516	389	33,364
Additions arising through business combinations	8	3,685	1,981	-	5,674
Disposals	-	-	-	(12)	(12)
At 30 June 2008	4,467	3,685	30,497	377	39,026
Additions arising through business combinations (note 11)*	406	435	4,688	-	5,529
Additions	-	-	-	17	17
<b>At 31 December 2008</b>	<b>4,873</b>	<b>4,120</b>	<b>35,185</b>	<b>394</b>	<b>44,572</b>
<b>Amortisation</b>					
At 1 July 2007	-	-	2,172	235	2,407
Amortisation for the period	-	-	1,326	17	1,343
At 31 December 2007	-	-	3,498	252	3,750
Amortisation for the period	-	119	1,465	7	1,591
At 30 June 2008	-	119	4,963	259	5,341
Amortisation for the period	-	174	1,607	50	1,831
<b>At 31 December 2008</b>	<b>-</b>	<b>293</b>	<b>6,570</b>	<b>309</b>	<b>7,172</b>
Net book amount					
<b>At 31 December 2008</b>	<b>4,873</b>	<b>3,827</b>	<b>28,615</b>	<b>85</b>	<b>37,400</b>
At 30 June 2008	4,467	3,566	25,534	118	33,685
At 31 December 2007	4,459	-	25,018	137	29,614

\*The purchase price allocation exercise in relation to certain business combinations in the period has not been completed as at 31 December 2008. 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.

# CVS Group plc

## 11. Business combinations

Details of business combinations in the six month period ended 31 December 2008 are set out below.

<b>Practice acquisitions</b>	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>				
Cleveland	03/07/2008	70	498	568
Surrey	20/10/2008	147	1,199	1,346
Hampshire	24/11/2008	70	2089	2,159
		<b>287</b>	<b>3,786</b>	<b>4,073</b>

<sup>1</sup>Intangible assets acquired represents patient data records (£3,646,000) and goodwill (£140,000).

<sup>2</sup>Cash paid includes professional fees of £98,000.

### Acquisition of Rossendale Pet Crematorium Limited and Joel Veterinary Group Limited

On 6 December 2008, the Group acquired the whole of the issued share capital of Rossendale Pet Crematorium Limited ("RPCL") for a total consideration (inclusive of professional fees) of £1,062,000.

On 1 December 2008 the Group acquired the whole of the issued share capital of Joel Veterinary Clinic Limited ("JVCL") for a total consideration (inclusive of professional fees) of £860,000. Further consideration of £140,000 is being held in Escrow. Immediately following the acquisition of JVCL the trade and related assets were transferred to CVS (UK) Limited.

The book values of the non-intangible assets and liabilities of RPCL and JVCL 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.

	RPCL £'000	JVCL £'000	Total £'000
Goodwill	266	-	<b>266</b>
Other -intangible assets - patient data records	-	1,042	<b>1,042</b>
Other - intangible assets –customer lists	435	-	<b>435</b>
Property, plant and equipment	213	41	<b>254</b>
Inventories	2	20	<b>22</b>
Trade and other receivables	28	11	<b>39</b>
Cash and cash equivalents	176	32	<b>208</b>
Current income tax liabilities	(16)	(105)	<b>(121)</b>
Deferred income tax liabilities	(7)	(4)	<b>(11)</b>
Trade and other payables	(35)	(37)	<b>(72)</b>
<b>Net assets acquired</b>	<b>1,062</b>	<b>1,000</b>	<b>2,062</b>

Consideration satisfied by:

Cash (including related costs of acquisition amounting to £91,000)	1,062	1,000	<b>2,062</b>
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# CVS Group plc

## 12. Cash flow generated from operations

	<b>Six months ended 31 December 2008 (Unaudited) £'000</b>	Six months ended 31 December 2007 (Unaudited) £'000	Year ended 30 June 2008 (Audited) £'000
Profit/(loss) for the financial period	<b>1,073</b>	(1,830)	(610)
Income tax expense	<b>793</b>	243	734
Finance costs	<b>1,599</b>	2,527	4,087
Finance income	<b>(49)</b>	(104)	(132)
Fair value gain on available for sale investments	<b>-</b>	-	(316)
Amortisation of intangible assets	<b>1,831</b>	1,343	2,934
Depreciation of property, plant and equipment	<b>763</b>	461	1,042
Increase in inventories	<b>(96)</b>	(122)	(295)
Decrease/(increase) in trade and other receivables	<b>192</b>	(471)	(1,175)
(Decrease)/increase in trade and other payables	<b>(587)</b>	733	125
Share option expense	<b>69</b>	33	110
<b>Total net cash generated from operations</b>	<b>5,588</b>	2,813	6,504

# CVS Group plc

## 13. Non-GAAP profit measure - Adjusted profit before income tax

Adjusted profit before income tax is calculated by reference to profit/(loss) before income tax, adjusted for amortisation of intangibles, share based payments, exceptional items and fair value adjustments.

	<b>Six months ended 31 December 2008 (Unaudited) £'000</b>	Six months ended 31 December 2007 (Unaudited) £'000	Year ended 30 June 2008 (Audited) £'000
Profit/(loss) before income tax	<b>1,866</b>	(1,587)	124
Adjustments for:			
Amortisation (note 10)	<b>1,831</b>	1,343	2,934
Share option expense (note 8)	<b>69</b>	33	110
Exceptional administrative expenses (note 4)	-	1,764	1,764
Fair value adjustments in respect of financial assets and liabilities (note 6)	<b>130</b>	642	347
Fair value adjustments in respect of available for sale assets (note 7)	-	-	(316)
Exceptional finance expense (note 6)	-	287	556
<b>Adjusted profit before income tax</b>	<b>3,896</b>	2,482	5,519

## 14. Post balance sheet events

On 20 January 2009, the Company acquired the whole of the issued share capital of a veterinary practice based in Suffolk for an estimated total consideration of £610,000 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. For the year ended 30 September 2008, the practice reported an unaudited pre-tax profit of £239,000.

On 2 March 2009 the Group acquired the trade and related assets of a veterinary practice based in South Yorkshire for cash consideration of £620,000. The assets acquired comprised plant and equipment of £45,000 and intangible patient data records of £575,000. For the year ended 30 November 2007, the practice reported an unaudited pre-tax profit of £102,000.

# CVS Group plc

## Independent review report to CVS Group plc

### Introduction

We have been engaged by the Company to review the interim consolidated financial information in the interim report for the six months ended 31 December 2008, which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, 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 2 and 3.

### 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 interim consolidated financial information in the interim report for the six months ended 31 December 2008 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

16 March 2009

### 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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