Half Year Report 2009

synergyhealth

Our work protects your world

Financial highlights

	27 September 2009 £m	28 September 2008 £m	Change %
Turnover	142.7	133.1	+7
Adjusted operating profit*	19.2	17.2	+12
Adjusted profit after taxation*	11.2	9.4	+19
Profit after taxation	9.1	6.3	+44
Operating cash flow	41.3	24.0	+73
Net debt	147.8	153.3	–4
Basic earnings per share	16.62	11.68p	+42
Adjusted basic earnings per share*	20.63	17.60p	+17
Interim dividend per share	4.9p	4.2p	+17

*Before amortisation of acquired intangibles and non-recurring items.

Main highlights

- Revenues up 7.2% to £142.7 million (2008: £133.1 million)
- Operating profit* up 11.6% to £19.2 million (2008: £17.2 million)
- Operating profit after amortisation and non-recurring items up 21.4% to £16.1 million (2008: £13.3 million)
- Operating cash flow up 72.5% to £41.3 million (2008: £24.0 million)
- Profit before taxation* up by 19.8% to £14.9 million (2008: £12.4 million)
- Reported profit before taxation up 38.9% to £11.8 million (2008: £8.5 million, including non-recurring charges of £1.3 million)
- Adjusted basic earnings per share* increased 17.2% to 20.63p (2008: 17.60p); basic earnings per share up 42.3% to 16.62p (2008: 11.68p)
- Net debt of £147.8 million (2008: £153.3 million); reduced by £22.4 million since year ended 29 March 2009
- Interim dividend up 16.7% to 4.9p (2007: 4.2p)

* Before the amortisation of acquired intangibles and non-recurring items relating to the move from AIM to the Main Market and the closure of the Bristol linen management facility.

Who we are

Synergy Health delivers a range of specialist outsourced services to healthcare providers and other customers concerned with health management. These services are aimed at supporting our customers to improve the quality and efficiency of their activities, whilst reducing risks to their patients and clients. After first founding its operations in the United Kingdom, Synergy has followed a strategy to expand the business internationally, initially into Europe and more recently into Asia, South Africa and the Middle East.

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Chairman's statement

Results

The first half of this year has been particularly pleasing for Synergy meeting the objectives we set out at the start of the year including improving margins, cash flow and EPS growth. Despite the difficult economic environment our markets have remained resilient and we expect this to continue during the second half of the year.

Over the six months revenues grew 7.2% to £142.7 million, mainly reflecting the consistent growth across the Rest of Europe and the UK. Underlying growth was 5.1% excluding currency effects and non-core businesses. Due to improved margins and continuing revenues growth, operating profit before amortisation of acquired intangibles and non-recurring items grew 11.6%[1] to £19.2 million. Profit before tax, amortisation of acquired intangibles and non-recurring items grew by 19.8% to £14.9 million (2008: £12.4 million). There have not been any non-recurring charges incurred in the year to date.

Synergy's operating cash flow during the period was £41.3 million, an increase of 72.5% from the same period a year ago. This was due mainly to underlying profit growth and an improved focus on working capital. As a result of this, together with a tight control over capital expenditure, our net debt has reduced considerably, from £170.2 million at the end of the last financial year, to £147.8 million. Margin improvement has also been a key objective and during the period net margin before amortisation of acquired intangibles and non-recurring items increased 0.5 percentage points for the six month period to 13.4%, compared with 12.9% in the same period a year ago.

Basic adjusted earnings per share, after adding back amortisation on acquired intangibles and non-recurring items, was 20.63p (2008: 17.60p), a rise of 17.2%.

Dividend

Synergy's dividend policy has been to progressively increase the dividend payment in line with the growth in earnings per share. Accordingly we have increased the interim dividend per share for the period by 16.7% to 4.9p (2008: 4.2p). This interim dividend will be paid on 14 January 2010 to shareholders on the register on 29 December 2009.

Strategy and business review

The Group's primary strategic goals remain to become the global leader in three key areas of health related support services covering sterilisation services, decontamination services and healthcare solutions (focusing on infection prevention). Synergy is a leader in these service lines in a number of geographic regions but to become a global leader an increased coverage is required across Europe (excluding the UK where Synergy already has market leading positions in a number of services) and Asia, which are the two key regions targeted for growth in the near term.

The Group is also seeking new health related markets in which it can apply its core services. For example, our Asian business has applied its radiation technology to decontaminate tropical fruits and we have similar food decontamination services in South Africa.

The demand for our services is partially driven by increasing regulatory requirements in the UK, Europe and Asia, where governments are seeking to raise standards to reduce rates of hospital acquired infections and to improve patient safety. This increased regulation can make the in-house provision of such services more costly compared to Synergy and bears a higher associated level of risk. Synergy has invested heavily in its services over the years and deploys information technology, automated quality systems and extensive experience to support our customers to achieve their desired outcomes. It is often the case that hospitals are looking to outsource as the required investment in technology and people expertise would be prohibitively expensive compared with an outsourced solution.

Additionally cost leadership has always been a key component of the Group's strategy, requiring our business units to have the lowest cost per unit of output compared with their competitors. This is particularly important in the current environment when customers are seeking increased efficiency and greater value for money to reduce their own cost base.

1 During the six months ending 28 September 2008 Synergy incurred a non-recurring charge of £1.3 million relating to the move from AIM to the Main Market together with the closure costs of the Bristol linen management facility as part of a programme to offset increased costs.

Chairman's statement

As a result of the challenging circumstances that the Group faced last year we set ourselves a number of short-term objectives. These were set out in last year's annual report and are as follows:

- Talent management
- Increasing capacity utilisation
- Increased cross selling
- Improving cash flow management and reducing debt
- Reinforcing cost leadership
- Business focus
- Developing a significant presence in Asia
- Continuing expansion in health related markets

The Group is on target to meet all of these eight primary objectives and the successes to date are reflected in the improved margins, cash flow and the continued growth in the business. The problems experienced last year, involving higher than expected input costs, have been largely dealt with supported by the restructuring actions taken in the second half of the last financial year.

Synergy has an attractive portfolio of services across the three major regions of the UK, the Rest of Europe and Asia and South Africa. Our revenues are driven largely by the number of patients treated in the Rest of Europe and the UK with an increasing exposure to the faster growing Chinese market. The NHS remains a key customer for Synergy although only 30% of our operating profits are derived from this market. Looking ahead we expect the demand for our services in the Rest of Europe and the UK to remain consistent with recent experiences, whilst we believe that our continued investments in China will generate higher organic growth.

In the Suzhou region of China, Synergy has successfully transitioned three initial decontamination hospital contracts and has recently added a fourth hospital. The service has been favourably received by our customers and we are in active dialogue with further customers in the Suzhou and Shanghai areas. Additionally, Synergy is assessing possibilities for three more facilities in China.

A catalyst for success in China are new regulatory guidelines, which only came into force in December, having been issued in April. Hospitals have a four year window in which to upgrade their standards. Synergy is in talks with the Ministry of Health in China and a number of provincial governors with a view to creating shared service centres. To put the opportunity in context there are close to 500 hospitals in the United Kingdom, which compares to around 20,000 in China together with a new build rate of some 600 hospitals a year.

Regions

United Kingdom

Our objective in the UK is to refocus the business on Synergy's core strengths as outlined in our strategy. We have identified over £20 million of revenue from non-core businesses which are being wound down or sold. As a result total UK revenues grew 0.4% to £77.6 million, with underlying revenue growth of 4.1%.

All of the Group's services and products are available to the UK market. Following acquisitions in recent years, we have sought to rationalise our healthcare solutions product offerings and to focus products around the management of infection control and improving the effectiveness of operating theatres. Certain product lines are therefore being rationalised or simply run for cash whilst contracts expire or alternative solutions are taken up by customers.

Laboratory revenues, whose main customers are in the industrial and commercial sector, have declined compared with last year which saw a significant step up in revenues.

Linen management remains a core offering for the region. After last year's difficulties with input costs we closed a facility, stopped bidding for new work and focused instead on improving margins. The strategy has successfully lifted margins by more than 3% compared to the same period last year.

The strongest growing service line within the UK remains decontamination services which grew at over 14%. The nature of the outsourcing market has changed over the last year, as the Department of Health's National Decontamination Programme (NDP) has drawn to a close and NHS Trusts are seeking more bespoke solutions to their requirements. Synergy has a proven track record across the

whole range of outsourcing options and is well positioned to provide attractive solutions to NHS Trusts and other customers. The new facility in Merseyside was accredited in the summer and will open shortly and we are nearing financial close with the Sheffield and Leicester NDP contracts where we are the sole preferred bidder. On another large service outside of the NDP, Synergy was selected as preferred bidder, but the customer subsequently decided to delay outsourcing the service. We remain active in the market and, in recent months, have increased the size of our commercial team to develop the market.

Sterilisation revenues grew by 6.2% which is a creditable performance given the reduced demand from our non-healthcare customers. Our team have proactively identified new revenue streams from existing and new customers to offset the effects felt from the economic slowdown. In addition this business achieved a slight improvement in margin.

Overall for the region, operating profit before amortisation of acquired intangibles and non-recurring items was £7.3 million, an increase of 1% from the same period a year before (2008: £7.2 million). Operating margin has been maintained at 9.4%.

The profit and margin position reflects the strong and profitable growth in decontamination services and, to a lesser extent, sterilisation and linen services. Last year's difficulties with the implementation of new decontamination contracts have now been overcome and the ongoing margin is close to the levels previously achieved.

The operating margin improvements have been offset by reduced margins in our healthcare solutions offering which has been adversely affected by the weakness of the pound versus the US Dollar and to a lesser extent the Euro. This has added over £0.6 million of cost for imported materials compared with the same period last year. Laboratory margins have also fallen, due to declining revenues and a largely fixed cost base. Both of these business issues are being addressed.

The UK remains very important to Synergy and whilst the volume of patient led activity is not expected to grow at the same rate as previous years, the economic environment will encourage healthcare providers and other potential customers to seek new ways of improving efficiency and reducing costs. Our expectation is that outsourcing of support services will remain a popular way of achieving this objective.

Rest of Europe

Revenues in the Rest of Europe were £60.8 million compared to £52.0 million, an increase of 16.8%. The region benefited from new capacity in Ireland and in Venlo in the Netherlands and from stronger overall demand.

The Group has a leading market position in sterilisation services in Continental Europe and Ireland and linen management in the Netherlands. These well established service lines have provided the basis to develop the region's fledgling decontamination business operating from the Netherlands and more recently, Belgium.

Sterilisation services performed well and has benefited from improved demand within the Netherlands, with significantly improved revenues at the plant in Venlo.

The Dutch linen service has continued to grow steadily, its margin remains stable and cash generation was strong throughout the first half.

Decontamination services saw margins improve following the implementation of the new contract in Belgium.

The operating profit before amortisation of acquired intangibles and non-recurring items was £11.2 million, an increase of 20% from the same period a year before (£9.3 million).

The operating margin climbed from 17.9% to 18.5%, showing the benefits of cost control and improved capacity utilisation.

Asia and South Africa

The Group's business in Asia and South Africa is predominantly in sterilisation services, providing an outsourced solution to medical device, pharmaceutical and food producing companies. We have recently established a decontamination business in China, operating from a newly established shared service centre in Suzhou, near Shanghai, from which the Group also provides sterilisation services. This new facility currently employs a team of 53 people, servicing four hospitals and a number of medical device customers. Revenues are increasing weekly as we implement new hospitals and expand our validation work for new medical device customers, and the annualised run rate is now around £1 million.

Chairman's statement

Revenues from Asia grew 14% during the period from £3.8 million to £4.3 million with growth reduced as a result of a reduction in demand for medical devices in the United States in the wake of the recession, reflecting a market which is mainly funded through healthcare insurance and individual payments.

The Group will continue to expand its sterilisation and decontamination services in the region given the positive market and economic environment.

Asia and China in particular is one of our key areas of focus in the coming years. Our operating model has been validated for the Chinese market with very positive feedback from our customers. Our existing customers are seeing underlying patient volumes increasing by between 12% and 15% per annum. We are currently developing a strategy that will facilitate the development of additional facilities to meet what we expect will be a strong demand for outsourced services propelled by the need to achieve higher regulatory standards.

At the same time we are looking to expand sterilisation services in the region. Our objective is to utilise the existing capacity in Suzhou but we are also examining opportunities to expand our services through additional facilities in time.

Operating profit before amortisation of acquired intangibles and non-recurring items was £1.52 million, an increase of 3.8 per cent from the same period a year before (£1.46 million).

Operating margins were down from 38.9% to 35.4% due to the introduction of capacity in China. Aside from the initial start-up costs in China, underlying margins in the rest of the region improved slightly.

Financial review

The Group's earnings before interest, tax, depreciation, share scheme charges, non-recurring items and amortisation (EBITDA) increased by 11.9% to £35.5 million (£31.8 million) and contributed to the improved cash generation explained below.

Profit after taxation for the period was £9.1 million (2008: £6.3 million), an increase of 44.3% compared with the same period a year ago. This growth was helped by the absence of non-recurring items during the period. Profit after taxation but before the amortisation of acquired intangibles and non-recurring items was £11.2 million (2008: £9.4 million), an increase of 19.0%.

Basic earnings per share increased by 42.3% to 16.62p (2008: 11.68p), whilst fully diluted earnings per share were 16.34p (11.36p), an increase of 43.8%. Adjusted basic earnings per share, after adding back amortisation on acquired intangibles and non-recurring items, improved by 17.2% to 20.63p (2008: 17.60p), whilst on a fully diluted basis earnings per share was up 18.5% to 20.29p (17.12p).

The Group's effective tax rate for the period on earnings before the amortisation of acquired intangibles and non-recurring items was 24.4% (2008: 23.9%) and a similar rate should be achieved over the full year.

Exchange rate movements have had both favourable and adverse impacts on the Group's earnings, with 63.5% of the Group's operating profits before share scheme charges and the amortisation of acquired intangibles generated outside of the UK including 56.0% in the Eurozone. The overall impact of currency movements was to uplift operating profit calculated on this basis by 3.8%.

A key focus in the first half has been to increase operating and free cash flow generation through targeted working capital improvements and keeping firm control on capital expenditure. Operating cash generated from recurring operations increased by 74.6% to £42.4 million (2008: £24.3 million). The main area of improvement was trade and other debtors which reduced by £4.6 million. Free cash flow before investment capital expenditure increased by £19.6 million to £29.9 million and enabled the Group to repay £23.9 million of debt during the first half, fulfilling one of the Group's core objectives.

A summary of the movement in the debt position during the period is set out below:

	£millions
Net debt brought forward at 29 March 2009	(170.2)
Exchange rate impacts	1.2
Free cash flow (prior to discretionary capital investments)	29.9
Discretionary capital expenditure	(8.7)
Acquisition of subsidiaries	(0.4)
Proceeds from share issues	0.4
Net debt carried down at 27 September 2009	(147.8)

As at the end of the period £71.5 million (€77.7 million) of debt was denominated in euros and £6.8 million (CNY 74.6 million) was denominated in Chinese Yuan. As illustrated in the table above, exchange rate movements only accounted for £1.2 million of the reduction in net debt.

At 27 September 2009, the Group had total debt facilities of £206.3 million. This includes £160.0 million under its main committed facility, together with finance leases and locally based secured and unsecured loans and overdrafts, including overseas lines.

The Group's net finance charge totalled £4.3 million (2008: £4.8 million) and represents an effective rate of interest of 5.4%. The level of debt held at fixed rates of interest either within the loan agreement or through interest rate swap transactions is currently 60% of the total debt drawn.

The pension deficit as measured by IAS 19 deteriorated to £14.1 million compared with £9.3 million at the 29 March 2009 year-end. This reflects falling bond yields and an assumed increase in long-term rates of inflation. This will not have any effect on cash flows or profit and loss for the remainder of the current year.

Risks

The directors consider that the principal risks and uncertainties affecting the Group and its performance during the current financial year remain those outlined in the Annual Report for the year ended 29 March 2009.

The principal risks are:

- Financial – includes risks of macroeconomic instability impacting currency volatility and input costs, increased energy costs, failure to meet financial business plans, interest rate risk, credit risk and liquidity risk.
- Operational – threats to the continuity of business operations. Key risks include unexpected loss of capacity and IT systems' disruption.
- People – includes the loss of talented employees and health and safety issues.
- Commercial – includes risks associated with investment in emerging markets and the integrity of security systems covering data and intellectual property.

The Group's risk management policies are fully documented in the Group's Annual report for the year ended 29 March 2009.

Outlook

The Board is pleased with the progress that has been achieved during the first half of the year and, in particular, the improvement in margins and operating cash flow. There remains some work to be done improving margins in our healthcare solutions as well our laboratory businesses. The Group is starting to generate returns on the significant capital investment it has recently made in Europe and Asia and is well positioned to further improve these returns as demand continues to grow in these regions. We are increasingly excited about the opportunities before us, particularly in China where there is a very clear need for our services. We start the second half on plan and look forward to continuing our progress.

Stephen Wilson
Chairman

Condensed consolidated income statement

	Notes	Six months ended 27 September 2009 Before amortisation of acquired intangibles and non-recurring items £'000	Amortisation of acquired intangibles and non-recurring items (note 7) £'000	Total £'000
Continuing operations				
Revenue	6	142,656	–	142,656
Cost of sales		(91,747)	–	(91,747)
Gross profit		50,909	–	50,909
Administrative expenses				
– Administration expenses excluding amortisation of intangibles and share scheme charges		(30,860)	–	(30,860)
– Amortisation of intangibles		(41)	(3,057)	(3,098)
– Share scheme charges		(844)	–	(844)
		(31,745)	(3,057)	(34,802)
Operating profit	6	19,164	(3,057)	16,107
Finance income		1,138	–	1,138
Finance costs		(5,438)	–	(5,438)
Net finance costs		(4,300)	–	(4,300)
Profit before tax		14,864	(3,057)	11,807
Income tax	8	(3,634)	887	(2,747)
Profit for the period		11,230	(2,170)	9,060
Attributable to:				
Equity holders of the parent		11,156	(2,170)	8,986
Minority interest		74	–	74
		11,230	(2,170)	9,060
Earnings per share				
From continuing and total operations				
Basic	10			16.62p
Diluted	10			16.34p

The accompanying accounting policies and notes form part of these financial statements.

Six months ended 28 September 2008			Year ended 29 March 2009		
Before amortisation of acquired intangibles and non-recurring items £'000	Amortisation of acquired intangibles and non-recurring items (note 7) £'000	Total £'000	Before amortisation of acquired intangibles and non-recurring items £'000	Amortisation of acquired intangibles and non-recurring items (note 7) £'000	Total £'000
133,096	–	133,096	274,100	–	274,100
(87,735)	–	(87,735)	(181,587)	–	(181,587)
45,361	–	45,361	92,513	–	92,513
(27,332)	(1,343)	(28,675)	(55,154)	(3,996)	(59,150)
–	(2,564)	(2,564)	(656)	(5,782)	(6,438)
(850)	–	(850)	(1,411)	–	(1,411)
(28,182)	(3,907)	(32,089)	(57,221)	(9,778)	(66,999)
17,179	(3,907)	13,272	35,292	(9,778)	25,514
1,601	–	1,601	3,038	–	3,038
(6,373)	–	(6,373)	(12,220)	–	(12,220)
(4,772)	–	(4,772)	(9,182)	–	(9,182)
12,407	(3,907)	8,500	26,110	(9,778)	16,332
(2,968)	746	(2,222)	(6,131)	2,462	(3,669)
9,439	(3,161)	6,278	19,979	(7,316)	12,663
9,395	(3,161)	6,234	19,881	(7,316)	12,565
44	–	44	98	–	98
9,439	(3,161)	6,278	19,979	(7,316)	12,663
		11.68p			23.45p
		11.36p			23.14p

Condensed consolidated statement of comprehensive income

	Six months ended 27 September 2009 £'000	Six months ended 28 September 2008 £'000	Year ended 29 March 2009 £'000
Profit for the period	9,060	6,278	12,663
Other comprehensive income for the period:			
Exchange differences on translation of net investment hedges	(4,633)	1,676	31,673
Cash flow hedges – derivative instrument effective portion	1,086	(3)	(2,792)
Actuarial losses on defined benefit pension schemes	(4,892)	(1,238)	(6,422)
Less: provision for deferred tax	1,363	346	1,422
Net (expense)/income recognised directly in equity	(7,076)	781	23,881
Total comprehensive income for the period	1,984	7,059	36,544
Attributable to:			
Equity holders of the Company	1,910	7,013	36,369
Minority interest	74	46	175
	1,984	7,059	36,544

The accompanying accounting policies and notes form part of these financial statements.

Condensed consolidated balance sheet

	Note	At 27 September 2009 £'000	At 28 September 2008 £'000	At 29 March 2009 £'000
Non-current assets				
Goodwill		195,040	175,823	197,114
Other intangible assets		47,670	48,666	51,060
Property, plant and equipment		204,505	173,220	207,694
Investment property		985	1,000	990
		448,200	398,709	456,858
Current assets				
Inventories		12,612	12,363	12,889
Trade and other receivables		42,948	52,234	48,017
Derivative financial instruments		–	210	–
Cash and cash equivalents		3,913	4,120	5,542
		59,473	68,927	66,448
Total assets		507,673	467,636	523,306
Capital and reserves attributable to the Company's equity holders				
Share capital		338	335	337
Share premium account		61,305	60,542	60,880
Translation reserve		46,307	21,018	50,940
Cash flow hedging reserve		(1,493)	210	(2,579)
Merger reserve		106,757	106,757	106,757
Retained earnings		38,342	35,198	35,905
Equity attributable to equity holders of the parent		251,556	224,060	252,240
Minority interest		622	419	548
Total equity		252,178	224,479	252,788
Current liabilities				
Bank overdraft		953	708	–
Interest bearing loans and borrowings		11,297	6,445	9,423
Trade and other payables		53,293	53,495	52,642
Derivative financial instruments		1,493	–	2,579
Short-term provisions		554	–	1,140
Current tax liabilities		9,165	3,896	4,428
Dividend approved not paid		3,696	–	–
		80,451	64,544	70,212
Non-current liabilities				
Interest bearing loans and borrowings		139,431	150,310	166,377
Retirement benefit obligations		14,079	4,594	9,296
Deferred tax liabilities		13,925	17,221	17,001
Provisions	14	7,229	6,042	7,252
Deferred government grant		380	446	380
		175,044	178,613	200,306
Total liabilities		255,495	243,157	270,518
Total equity and liabilities		507,673	467,636	523,306

The accompanying accounting policies and notes form part of these financial statements.

Condensed consolidated cash flow statement

For the period ended 27 September 2009

	Six months ended 27 September 2009 £'000	Six months ended 28 September 2008 £'000	Year ended 29 March 2009 £'000
Profit for the period	9,060	6,278	12,663
Adjustments (see below)	32,256	17,672	47,450
Cash generated from operations	41,316	23,950	60,113
Interest paid	(4,250)	(5,213)	(9,973)
Income tax received/(paid)	202	(1,769)	(3,584)
Net cash generated from operating activities	37,268	16,968	46,556
Cash flows from investing activities			
Acquisition of subsidiary, including overdraft acquired	(375)	(382)	(3,109)
Purchases of property, plant and equipment (PPE)	(15,944)	(21,690)	(50,187)
Purchase of intangible assets	(177)	(469)	(456)
Proceeds from sale of PPE	–	127	185
Sale of short-term investment	–	359	359
Receipt of government grants	–	–	331
Interest received	–	274	394
Net cash used in investing activities	(16,496)	(21,781)	(52,483)
Cash flows from financing activities			
Dividends paid	–	(3,521)	(5,783)
Proceeds from borrowings	–	8,925	11,718
Repayments of borrowings	(23,067)	(544)	–
New hire purchase loans	–	–	3,154
Repayment of obligations under hire purchase loans	(842)	(1,361)	(2,960)
Proceeds from issue of shares	426	437	777
Net cash (used in)/generated from financing activities	(23,483)	3,936	6,906
Net (decrease)/increase in cash and bank overdrafts	(2,711)	(877)	979
Cash and bank overdrafts at beginning of period	5,542	4,195	4,195
Exchange differences	129	94	368
Cash and bank overdrafts at end of period	2,960	3,412	5,542
Net cash and cash equivalents comprises:			
Cash at bank	3,913	4,120	5,542
Overdraft	(953)	(708)	–
	2,960	3,412	5,542

Condensed consolidated cash flow statement (continued)

For the period ended 27 September 2009

	Six months ended 27 September 2009 £'000	Six months ended 28 September 2008 £'000	Year ended 29 March 2009 £'000
Cash generated from operations			
Profit for the period	9,060	6,278	12,663
Adjustments for:			
– depreciation	15,487	13,741	29,586
– amortisation of intangible assets	3,098	2,564	6,438
– equity settled share-based payments	676	637	1,144
– loss on sale of tangible fixed assets	4	14	672
– profit on sale of short-term investment	–	(233)	(233)
– finance income	(1,138)	(1,601)	(3,038)
– finance costs	5,438	6,373	12,220
– income tax expense	2,747	2,222	3,669
Changes in working capital:			
– inventories	268	(2,044)	(2,986)
– trade and other receivables	4,606	(2,619)	6,871
– trade and other payables	2,197	(1,029)	(7,955)
Cash generated from recurring operations	42,443	24,303	59,051
Decrease in other payables for non-recurring items	(1,127)	(353)	1,062
Cash generated from operations	41,316	23,950	60,113

The accompanying accounting policies and notes form part of these financial statements.

Condensed consolidated statement of changes in equity

	Share capital £'000	Share Premium £'000	Merger Reserves £'000	Cash flow hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total attributable to equity holders of the parent £'000	Minority interest £'000	Total equity £'000
Balance at 31 March 2008	333	60,107	106,757	213	19,344	32,740	219,494	373	219,867
Issue of shares	2	435	–	–	–	–	437	–	437
Total recognised income and expense	–	–	–	(3)	1,674	5,342	7,013	46	7,059
Dividends paid	–	–	–	–	–	(3,521)	(3,521)	–	(3,521)
Share-based payments	–	–	–	–	–	637	637	–	637
Balance at 28 September 2008	335	60,542	106,757	210	21,018	35,198	224,060	419	224,479
Issue of shares	2	338	–	–	–	–	340	–	340
Total recognised income and expense	–	–	–	(2,789)	29,922	2,223	29,356	129	29,485
Dividends paid	–	–	–	–	–	(2,262)	(2,262)	–	(2,262)
Share-based payments	–	–	–	–	–	746	746	–	746
Balance at 29 March 2009	337	60,880	106,757	(2,579)	50,940	35,905	252,240	548	252,788
Issue of shares	1	425	–	–	–	–	426	–	426
Total recognised income and expense	–	–	–	1,086	(4,633)	5,457	1,910	74	1,984
Dividends payable	–	–	–	–	–	(3,696)	(3,696)	–	(3,696)
Share-based payments	–	–	–	–	–	676	676	–	676
Balance at 27 September 2009	338	61,305	106,757	(1,493)	46,307	38,342	251,556	622	252,178

Notes to the half year results

1 General information

Synergy Health plc ("the Company") and its subsidiaries (together "the Group") delivers a range of specialist services including outsourced sterilisation and infection control support services to healthcare providers and others concerned in health management, in the UK, Rest of Europe, Asia and South Africa. The Company is registered in the United Kingdom under company registration number 3355631 and its registered office is Ground Floor Stella, Windmill Hill Business Park, Swindon, Wiltshire SN5 6NX.

These condensed consolidated interim financial statements have been approved for issue by the board of directors on 12 November 2009.

2 Summary of significant accounting policies

Basis of preparation

These September 2009 condensed consolidated interim financial statements of the Group are for the six months ended 27 September 2009.

The condensed consolidated interim financial statements for the six months to 27 September 2009 have been prepared on the basis of the accounting policies set out in the Group's latest annual financial statements for the year ended 29 March 2009. These accounting policies are drawn up in accordance with adopted International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The comparative figures for the financial year ended 29 March 2009 are not the Group's statutory accounts for that financial year. Those statutory accounts have been reported on by the Group's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

The condensed consolidated interim financial statements for the six months to 27 September 2009 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

Going concern

The directors have reviewed the Group's medium-term forecasts through to March 2011 along with reasonable possible changes in trading performance and foreign currencies arising from these uncertainties to determine whether the committed banking facilities are sufficient to support the Group's projected liquidity requirements, and whether the forecast earnings are sufficient to meet the covenants associated with the banking facilities.

The Group's committed banking facilities are due for renewal in January 2012 and no matters have been brought to the attention of the directors to suggest that renewal may not be forthcoming.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and have continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

2 Summary of significant accounting policies (continued)

Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 29 March 2009 except for the adoption of new standards and interpretations, noted below. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

- IFRS 8 *Operating Segment*

This standard requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Main board in order to allocate resources to the segments and to assess their performance. The information previously disclosed under the predecessor standard (IAS 14 'Segment Reporting') required the Group to identify two sets of segments, geographical and business, using a risks and rewards approach. The directors have reviewed the geographical segments identified under IAS 14 and consider that these segments are appropriate under IFRS 8.

- IAS 1 *Presentation of Financial Statements (revised 2007)*

This requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, a condensed consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented.

- IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

This interpretation deals with when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how a minimum funding requirement might affect the availability of reductions in future contributions; and when a minimum funding requirement might give rise to a liability. The directors have considered this interpretation and concluded that there is no impact on the financial statements.

- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

This amendment clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The directors have considered this interpretation and concluded that there is no impact on the financial statements.

There are a number of other accounting standards that have become effective in the current period. However, there is no material impact upon the financial statements.

The condensed consolidated interim financial statements have been prepared under the historical cost convention except that derivative financial instruments are stated at their fair value.

3 Statement of compliance

These condensed consolidated interim financial statements have been prepared and approved by the directors in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the EU (adopted IAS 34). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 29 March 2009.

4 Financial risk management

The primary risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. These risks and the Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 29 March 2009.

5 Estimates

The preparation of the condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 29 March 2009.

During the six months ended 27 September 2009, management reassessed its estimates in respect of actuarial assumptions in relation to the Group's defined benefit pension schemes using professional advice and relevant market benchmark data for discount rates and inflation.

The Group continues to pursue the recovery of insurance proceeds for the fire at the Dunstable linen management facility. However, no amounts have been included in these statements for estimated recoveries as the outcome remains uncertain.

6 Segment information

At 27 September 2009, the Group is organised into three geographical divisions; the UK, Rest of Europe, Asia and South Africa. Information reported to the Main board for the purposes of resource allocation and assessment of segment performance focuses on these geographical divisions.

The segment results for the six months ended 27 September 2009 are as follows:

	UK £'000	Rest of Europe £'000	Asia and South Africa £'000	Group £'000
Total revenue	77,597	60,770	4,289	142,656
Operating profit before amortisation, share scheme charges and non-recurring items	7,313	11,218	1,518	20,049
Share scheme charges				(844)
Amortisation of intangibles				(3,098)
Non-recurring items				–
Operating profit after amortisation, share scheme charges and non recurring items				16,107
Finance costs – net				(4,300)
Profit before income tax				11,807
Income tax expense				(2,747)
Profit for the period				9,060

6 Segment information (continued)

The segment results for the six months ended 28 September 2008 are as follows:

	UK £'000	Rest of Europe £'000	Asia and South Africa £'000	Group £'000
Total revenue	77,322	52,013	3,761	133,096
Operating profit before amortisation, share scheme charges and non-recurring items	7,239	9,328	1,462	18,029
Share scheme charges				(850)
Amortisation of intangibles				(2,564)
Non-recurring items				(1,343)
Operating profit after amortisation, share scheme charges and non-recurring items				13,272
Finance costs – net				(4,772)
Profit before income tax				8,500
Income tax expense				(2,222)
Profit for the period				6,278

The segment results for the year ended 29 March 2009 are as follows:

	UK £'000	Rest of Europe £'000	Asia and South Africa £'000	Group £'000
Total revenue	154,668	111,440	7,992	274,100
Operating profit before amortisation, share scheme charges and non-recurring items	14,838	19,594	2,927	37,359
Share scheme charges				(1,411)
Amortisation of intangibles				(6,438)
Non-recurring items				(3,996)
Operating profit after amortisation, share scheme charges and non-recurring items				25,514
Finance costs – net				(9,182)
Profit before income tax				16,332
Income tax expense				(3,669)
Profit for the period				12,663

6 Segment information (continued)

Previously, under IAS 14 the Group provided secondary segment information relating to its business segments. The following table provides an analysis of the Group's sales by business segment, irrespective of the origin of the goods and services:

	Revenues by business segment		
	Six months to 27 September 2009 £'000	Six months to 28 September 2008 £'000	Year ended 29 March 2009 £'000
Healthcare solutions	88,216	85,003	174,989
Decontamination services	23,949	20,989	42,878
Sterilisation services	30,491	27,104	56,233
	142,656	133,096	274,100

7 Non-recurring items

There were no non-recurring items in the six months to 27 September 2009 (Six months ended 28 September 2008: £1.3 million, year ended 29 March 2009: £4.0 million).

In the year to March 2009, £1.7 million was incurred in the closure of linen management facilities in the UK and Netherlands, £0.8 million related to costs and fees for admission to the full list and rebranding and £1.5 million related to other group reorganisation costs.

8 Income tax

	Six months ended 27 September 2009 £'000	Six months ended 28 September 2008 £'000	Year ended 29 March 2009 £'000
Current tax – UK	1,128	57	353
Current tax – Overseas	3,153	2,923	5,890
Adjustment in respect of prior years	–	–	(888)
	4,281	2,980	5,355
Deferred tax:			
Origination and reversal of temporary differences	(1,534)	(758)	(2,034)
Adjustment in respect of prior years	–	–	348
	(1,534)	(758)	(1,686)
Total tax in income statement	2,747	2,222	3,669

The Group's effective tax rate for the period on earnings before the amortisation of intangibles and non-recurring items was 24.4% (2008: 23.9%) and this should be sustainable over the full year.

9 Dividends

	Six months ended 27 September 2009 £'000	Six months ended 28 September 2008 £'000	Year ended 29 March 2009 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 29 March 2009 of 6.8p (2008: 6.6p) per share	3,696	3,521	3,521
Interim dividend for the year ended 29 March 2009 of 4.2p	–	–	–
	3,696	3,521	3,521
Proposed interim dividend for the year ended 28 March 2010 of 4.9p (2008: 4.2p) per share	2,664	2,245	2,262

The proposed interim dividend for the year ended 28 March 2010 was approved by the Board on 12 November 2009 and has not been included as a liability in these financial statements.

10 Earnings per share

	Six months ended 27 September 2009 £'000	Six months ended 28 September 2008 £'000	Year ended 29 March 2009 £'000
Earnings			
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	8,986	6,234	12,565

	Six months ended 27 September 2009 Shares £'000	Six months ended 28 September 2008 Shares £'000	Year ended 29 March 2009 Shares £'000
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	54,082	53,372	53,589
Effect of dilutive potential ordinary shares:			
Share options	905	1,500	710
Weighted average number of ordinary shares for the purposes of diluted earnings per share	54,987	54,872	54,299
Earnings per ordinary share			
Basic	16.62p	11.68p	23.45p
Diluted	16.34p	11.36p	23.14p

10 Earnings per share (continued)

	Six months ended 27 September 2009 £'000	Six months ended 28 September 2008 £'000	Year ended 29 March 2009 £'000
Adjusted earnings per share			
Operating profit	16,107	13,272	25,514
Amortisation of intangibles	3,057	2,564	5,782
Non-recurring items	–	1,343	3,996
Adjusted operating profit	19,164	17,179	35,292
Net finance costs	(4,300)	(4,772)	(9,182)
Adjusted profit on ordinary activities before taxation	14,864	12,407	26,110
Taxation on adjusted profit on ordinary activities	(3,634)	(2,968)	(6,131)
Minority interest	(74)	(44)	(98)
Adjusted profit for the financial period attributable to equity shareholders	11,156	9,395	19,881
Adjusted basic earnings per share	20.63p	17.60p	37.10p
Adjusted diluted earnings per share	20.29p	17.12p	36.61p

11 Share-based payments

The Group operates seven separate share option schemes for employees and directors of the Group. The following table summarises the options outstanding by scheme at 27 September 2009 which have been valued in accordance with the provisions of IFRS 2.

Scheme	Options outstanding at 27 September 2009	Weighted average option price (£)	Vesting conditions	Weighted average remaining life in years	Fair value charge in six months to 27 September 2009 £'000
The Executive share option scheme 2007	621,031	6.85	3 years, EPS growth	8.7	99
The approved share option plan	163,152	4.42	4 years	5.9	22
The unapproved share option plan	417,244	4.31	4 years	5.8	40
Sharesave Scheme	299,932	4.67	3,5 or 7 years	2.0	90
The Performance Share Plan	65,545	0.01	3 years	6.8	45
The Phantom Performance Share plan	63,145	0.01	3 years	6.3	72
Long-Term Incentive Plan	1,059,766	0.01	50% EPS growth 50% position in TSR table	1.9	476
					844

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The estimate of fair value of the services received is measured based on a Black-Scholes model for all the schemes other than the TSR element of the LTIP scheme. A model following similar principles to the Monte Carlo model has been used to calculate the fair value of the TSR element of the LTIP scheme.

12 Acquisition of subsidiaries

Acquisitions in the prior period

In the 12 month period to 29 March 2009, the Group acquired two businesses, Stomerij Kerkhoffs V.O.F. (“Kerkhoffs”) and Wasserij Rozenburg – Giezeman B.V. (“Giezeman”). Details of the net assets acquired and the related consideration were disclosed in the Group’s consolidated financial statements for the year ended 29 March 2009. No amendments to the disclosed fair values have been made.

13 Bank overdrafts and loans

During the period, the Group reduced its net loan borrowings by £22.4 million (2008: increase of £7.0 million). The loan bears interest at market rates as adjusted for interest hedging arrangements. At 27 September 2009, £90.0 million of the Group’s total borrowings were covered by fixed interest arrangements.

£71.5 million of the Group’s gross debt is denominated in Euros.

14 Provisions

	Cobalt disposal costs £’000	Environmental provision £’000	Other provision £’000	Total £’000
At 29 March 2009	2,725	2,981	2,686	8,392
Additional provision in the period	–	69	–	69
Utilised in the period	(36)	–	(624)	(660)
Exchange differences	–	(19)	1	(18)
At 27 September 2009	2,689	3,031	2,063	7,783

15 Property, plant and equipment

Additions and disposals

During the six months ended 27 September 2009, the Group purchased assets with a total cost of approximately £15.5 million.

Statement of directors' responsibilities

We confirm that to the best of our knowledge:

- the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

This report has been approved by the Board of Directors and signed on its behalf by

Stephen Wilson
Chairman

12 November 2009

The condensed consolidated interim financial statements for the six months ended 27 September 2009 will be posted to shareholders on 27 November 2009 and copies will be available from that date from the Company's registered office or website.

Financial Calendar

Full year results announced	June 2010
AGM	September 2010
Interim dividend for 2010	14 January 2010
Final dividend for 2010	October 2010

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