

Delivering healthcare solutions

Synergy Healthcare plc *Half Year Report 2007*



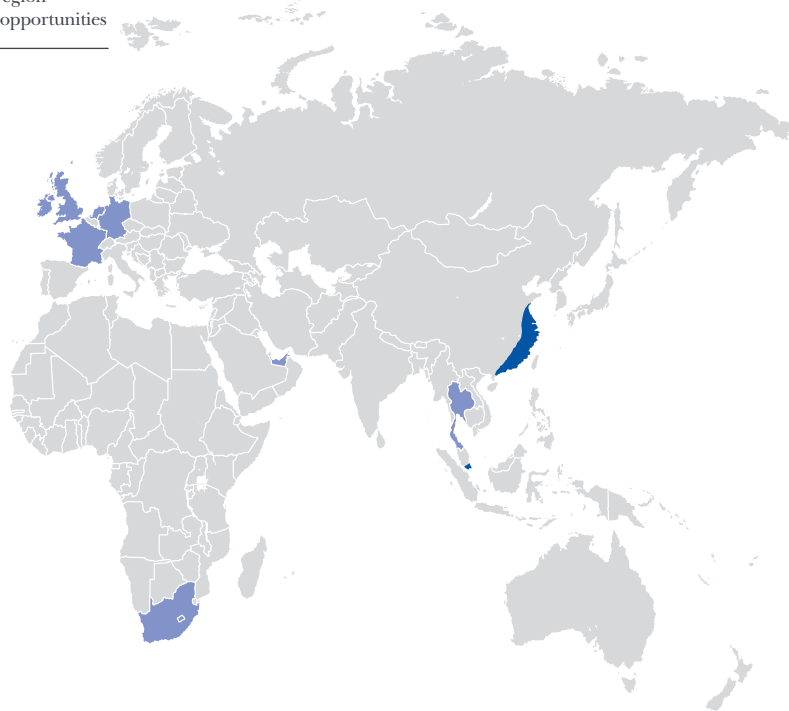
Financial highlights

	30 September 2007 £m	1 October 2006 £m	Change %
Turnover	102.0	66.9	+52
Operating profit*	15.3	7.1	+115
Profit after taxation	8.5	4.4	+93
Operating cash flow	19.1	12.9	+48
Net debt	110.7	2.1	–
Basic earnings per share	15.98p	11.91p	+34
Adjusted earnings per share*	16.53p	12.98p	+27
Interim dividend	3.5p	2.8p	+25

*before intangible amortisation and non-recurring items.

Our geographic expansion of services

- Existing operations by region
- Targeted development opportunities



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Synergy Healthcare plc (AIM: SYR), a leading provider of outsourced sterilisation and infection control support services in Europe, Asia and South Africa, announces half year results for the six months ended 30 September 2007.

Operating highlights

Strong growth across the Group – Patient Care sales up 19.4%, Surgical up 14.2% and Commercial up 7.4% (on a like for like basis)

Improved Group operating margin (before intangible amortisation and non-recurring items) up 4.3% to 15.0%

Forward order book increased by £65 million to £765 million

- Major UK Surgical contracts awarded
 - Three Chinese hospitals have signed a Memorandum of Understanding to outsource sterilisation to Synergy
 - Patient Care has been awarded a number of linen contracts in both the UK and the Netherlands
-

New sterilisation facilities opened in Venlo, Netherlands and Manchester to drive second half growth

Dunstable to become operational again in December following its temporary closure due to fire last year

Strategy is to increase share in existing markets while targeting new, high growth international markets for infection control and sterilisation services

Dr Richard Steeves, Chief Executive of Synergy Healthcare, commented:

“Synergy has performed well during the first half with strong underlying sales and profit growth further boosted by the contribution from Isotron. Our investments in new infection control technologies including our patient screening service for MRSA are now beginning to make good progress, with take-up at several NHS hospitals.

“The second half has started well across all our markets and we continue to progress our international expansion, particularly in China. With the control of infection becoming increasingly important in all aspects of healthcare, there is strong momentum for growth in each of the Group’s businesses and the Board looks forward to another successful full year performance.”

Chairman's statement

In the first half, Synergy continued its consistent track record of strong earnings per share growth. Sales are up 52% at £102.0 million, operating profits (before finance costs, amortisation of intangibles, and tax) are up 115% at £15.3 million, basic earnings per share are up 34.2% and adjusted basic earnings per share are up 27.3%.

These results reflect a strong performance from all areas of the Group including Isotron, which was acquired on 1 January 2007. The underlying business has continued to perform well, whilst a number of major new projects that will sustain the growth in future months and years were implemented. Our investments in new infection control technologies including our new patient screening service for MRSA are beginning to make progress in line with our strategy and business model.

Dividend

The Board has declared an interim dividend of 3.5p per share (2006: 2.8p), an increase of 25%. The dividend will be paid on 14 December 2007 to shareholders on the register on 30 November 2007.

Business review

The Group has performed well during the half year with strong underlying sales and profit growth further boosted by the contribution from Isotron. Before the acquisition of Isotron and excluding divestments, sales were up 16.7% whilst underlying operating margins increased by 0.5%. Sales were up 14.1% and operating profits were up 18.8% on a like for like basis (including Isotron but excluding divestments in the prior year), and operating margins improved 0.7%. The integration of Isotron has been completed and the Company is now focusing on implementing its strategy for the business.

The business is managed on a regional basis with a medium term strategy to increase sales and profits derived from Europe other than the UK (the Rest of Europe) and in particular Asia. During the first half of the year UK sales accounted for 54.9% of the Group whilst sales from the Rest of Europe and Asia accounted for 42.1% and 3.0% respectively. UK operating profits after amortisation and share charges accounted for 38.8% of the Group total whilst the Rest of Europe and Asia accounted for 53.8% and 7.4% respectively.

United Kingdom

Sales in the UK were up 35.2% to £56 million (2006: £41.4 million) with operating profits after amortisation and share scheme charges up 45.6% to £5.0 million (2006: £3.5 million). The UK performed well, with good demand from healthcare providers, particularly for infection control services, including the award of several new linen contracts, an increase in new Surgical contracts and an underlying growth in the number of patients treated by our customers.

Rest of Europe

Sales in the Rest of Europe were up 68.1% to £42.9 million (2006: £25.5 million) with operating profits after amortisation and share scheme charges up 106.4% to £7.0 million (2006: £3.4 million). A particularly strong performance from LTS saw record organic growth with a number of contract wins together with the contribution from three small bolt-on acquisitions.

Asia and South Africa

Asia and South Africa are new regions for Synergy following the acquisition of Isotron. Sales for the region were £3.1 million whilst operating profits after amortisation and share scheme charges were £1.0 million. The region has benefited from strong underlying growth although the performance was held back slightly as a result of the loss of a large customer in Thailand due to a fire at the customer's facility. The resulting volume loss has been picked up by other Isotron customers, most notably in Malaysia, resulting in a resumption of sales growth. The business continues to focus on its strategy, taking advantage of positive macro economics as well as accommodating the needs of our large global customers who are increasingly investing in the region.

Much of Synergy's efforts have been focused in China where the Company has committed to the development of a sterilisation super centre in Suzhou, which is located about 90 minutes to the west of Shanghai. It has had strong support from the global customer base to help bring this facility on line as soon as possible. For the first time Synergy will combine Isotron's commercial sterilisation and Surgical's hospital sterilisation facilities on the same facility.

Three large hospitals in Suzhou have signed a Memorandum of Understanding to outsource their sterilisation services to Synergy, and we remain in discussion with a further three hospitals that are showing equal signs of interest.

Patient Care

Patient Care, which provides a range of services and products to help manage the patient environment, saw sales increase 19.4% to £61.7 million (2006: £51.7 million) driven by demand for all of its services across both the UK and the Netherlands. Operating margins improved 0.9% before Group overheads. Progress has been strong within our linen management businesses with a number of contract wins in both the UK and the Netherlands. In the UK, the market is growing strongly as the NHS appears to be accelerating the outsourcing of this non-clinical service. Our Dunstable facility recommences processing in mid-December which will provide additional capacity to support the anticipated demand. At the same time the pricing environment continues to improve. In the Netherlands, LTS has won a number of new contracts in the primary care market generating record organic growth topped up by three small bolt-on acquisitions. LTS is now looking to extend its activities into Belgium.

The strategy to develop our infection control initiatives is making good progress with the NHS in particular implementing the hygiene code. Sales have grown strongly and our new technologies are beginning to establish themselves. In the first half of the year seven acute hospitals in the UK have created isolation facilities using our AirCleanse™ system and we expect to see this number increase substantially during the second half of the year now that the concept has been demonstrated. Assure, the range of anti-infection cleaning products using Byotrol, is also gaining traction as early adopters become reference sites. The rapid MRSA screening service launched earlier this year has now established its first customer and the Department of Health is recommending screening for all hospital admissions. The wound care business, including Exsudex, continues to progress well and will be launched in Europe towards the end of the financial year.

In line with our strategy of growing the range of services within Patient Care, on 13 November we acquired Vernon-Carus Limited for £16.3 million together with the assumption of £8.1 million of debt. The business is a major supplier to the NHS focusing on infection control and decontamination services. For the year ended 1 April 2007 it had sales of £33 million, operating profit (before exceptional items) of £1.0 million and profit before taxation of £0.2 million, with net assets of £8.5 million. Vernon-Carus will be integrated within Patient Care over the coming two months, and will result in a reduction in the planned capital expenditure for new facilities for Patient Care.

Commercial

Isotron, Synergy's commercial medical sterilisation and materials modification business, has performed satisfactorily, lifting sales by 7.4% on a like for like basis. Cost savings, following the acquisition, have resulted in a margin increase before Group costs of 1.8%. Sales growth was marginally lower than planned driven by a mixture of one off events including the loss of a large customer in Thailand due to a fire at the customer's facility, stock reduction programmes by two of our largest global customers and a product recall by another large multinational customer. The impact of these events had largely fallen away by the start of the second half.

At the time of acquiring Isotron we set out a strategy to lift sales growth in the medium term with the addition of new capacity in fast growing markets. The business suffers from capacity constraints in some parts of Europe and we are addressing these with targeted new capacity whilst also recognising that the majority of new growth will come from the Asian markets. In addition to adding capacity we are restructuring Isotron's approach to sales and marketing to focus on an outcome based strategy in line with Synergy's business model. We also intend to develop a more focused, segmental approach to our marketing, differentiating medical sterilisation from our other industrial markets. A new Global Director of Sales and Marketing has recently been appointed and further changes to the business model will be implemented over the coming 12 months.

Chairman's statement (continued)

Much effort has been expended on completing the Venlo EtO facility in the Netherlands, which has completed its qualification work and will become operational this week. The opening of Venlo is consistent with our strategy to expand the use of other sterilisation technologies alongside of our predominantly gamma-based business. Our early experience at Venlo leads us to believe there is a strong demand. The team is also progressing with the plans for our new medical device sterilisation facility in Suzhou, China. There has been a recent delay to the granting of certain business licences but we remain hopeful that any remaining issues will be resolved and construction can be started in the New Year, rather than December 2007 as originally planned. Our first Chinese facility will provide gamma and EtO sterilisation technologies for medical devices and other industrial companies and will now also include a surgical instrument processing facility. Three local hospitals with a combined 1,860 beds have signed a Memorandum of Understanding to outsource hospital sterilisation to Synergy. The start of the service will be dependent on the completion of the build project in Suzhou and is expected to be worth more than £1 million per annum. We are also in active dialogue with another three hospitals in Suzhou. We remain committed to further developments in Singapore, Vietnam and India in due course, but we have decided to prioritise China for the coming months whilst at the same time building our management structure in Asia to support future growth.

Surgical

Sales in Surgical, which provides hospital sterilisation services in the UK and the Netherlands, increased 14.2% to £15.6 million (2006: £13.6 million) whilst operating margins before Group costs held steady on the comparable period. The UK operations have benefited from new primary care contracts as well as a general improvement in the market driven by an increased number of patients being treated. We expect to see a further uplift during the second half of the year as hospitals strive to meet the 18 week maximum waiting target set by the Government. Our new facility in Manchester, won under the national decontamination programme, opened on time on 5 November and we expect to have

completed the full customer transfer early in the New Year. Our new contract in Central Lancashire will reach financial close by the end of December 2007. In the Netherlands, the founding contract in Amsterdam has been extended to include processing flexible endoscopes. This new service model, which may include a rental option for endoscopes, is due to be launched in the UK at the end of this financial year. New quality guidance from the UK's Department of Health requires hospitals to upgrade their decontamination of flexible endoscopes, and we are preparing to meet this expected demand.

Bidding for additional contracts in the UK, Netherlands and more recently Belgium remains active, and we are confident that our progress in this area will be sustained. We announced earlier this autumn that we had been selected as preferred bidder for another decontamination project with a 15 year contract value in excess of £4.5 million per annum. In addition the business has won a number of Primary Care Trust contracts which start in December 2007. In the Netherlands progress with new contracts has been slower than we had hoped although we still expect to make progress in the near future. We continue to progress a number of bids in the UK, but as the national programme winds down we will extend the commercial team's focus to The Rest of Europe. Our presence in France, Germany and Ireland through Isotron is opening up these markets to Synergy.

Financial review

The results are presented under IFRS following the Group's early adoption of international accounting standards during 2006.

Group turnover was £102.0 million (2006: £66.9 million) whilst operating profit before amortisation and non-recurring items was £15.3 million (2006: £7.1 million) after share scheme charges of approximately £0.8 million (2006: £0.4 million). Profit after tax before amortisation of intangibles and non-recurring items increased 80% to £8.8 million (2006: £4.9 million).

Basic earnings per share were 15.98p (2006: 11.91p) whilst adjusted basic earnings per share increased by 27.3% to 16.53p (2006: 12.98p). The adjusted earnings per share adds back the amortisation of intangibles but is after deducting

share scheme charges. On a fully diluted basis the adjusted earnings per share increased by 26.9% to 16.07p (2006: 12.66p).

The Group's effective tax rate for the period on earnings before the amortisation of intangibles and non-recurring items was 27% and this should be sustainable over the full year.

Net operating cash flow in the period rose to £19.1 million, representing a cash conversion rate of 125%. There were some adverse working capital movements in the period, including a movement of £2.8 million in trade and other payables, the majority of which represents accruals for exceptional items made at the end of the last financial year which were paid in this year. The movement in trade and other receivables reflects trade debtors, other receivables and prepayments, including an amount of £1.0 million of reorganisation costs paid on the inception of an NHS contract which is being recovered from the customer over contract term. There have been some other adverse movements in trade debtors which we expect to recover in the second half of the year.

The Group continued to invest in its capital asset base and processing capacity, with capital expenditure payments during the period totalling £17.0 million. This includes investments in the new Surgical decontamination and sterilisation facility at Manchester, the new Commercial sterilisation facility at Venlo in the Netherlands and the reinstatement of the Dunstable facility. Synergy is continuing to pursue the Dunstable insurance claim through the legal process and remains optimistic about its prospects for recovery.

The Group had net debt at the half year of £110.7 million, compared with £97.7 million at the March year end. The Group has available bank facilities of over £160 million available for investments and general corporate purposes. The facilities include sufficient headroom to allow the Group to continue to grow and invest, including its participation in the NHS' national decontamination programme and other expansionary projects that are currently under review.

The Group's net finance charge of £3.3 million represents an effective rate of around 6.5% on its debt. This includes a net amount relating to final salary pensions under IAS 19 of less than £0.1 million.

The Group's debt includes net euro-denominated debt of approximately £70 million, which is either held within the Continental European and Irish businesses directly or represents a hedge against euro denominated assets. The level of debt that is held at fixed rates of interest either within the loan agreement or through a swap transaction is slightly below half of the total debt.

Strategy

The Board has set out a clear strategy to continue to develop market share in its existing markets whilst at the same time seeking to take its infection control and sterilisation service models to international, high growth markets. The acquisition of Isotron has given Synergy a platform in Asia and Europe that enables the fulfilment of this strategy in those regions primarily through organic growth. The Board has decided to prioritise the Asian market in the short term as there are clear signs that the markets are ready for both our healthcare and commercial sterilisation services. We expect to focus our capital expenditure in the region as we seek to bring on new medical device and hospital sterilisation facilities. In Europe we will continue to expand our hospital sterilisation business organically retaining our objective to be one of the main market leaders at the end of the decade, whilst maintaining our medical device sterilisation leadership with selective, highly targeted investments in new capacity.

Outlook

The business has performed well during the first half of the year. With the new contract wins the forward order book has increased by £65 million over the last six months to £765 million. The second half has started well with all geographic markets strengthening in both the healthcare and commercial markets. The new Manchester Surgical unit and Venlo Commercial sterilisation facilities have both started on time in November and will add additional growth. The Company is gaining momentum in all of its markets and with the benefit of the wider management team from Isotron, the Board looks forward to another successful full year performance.

Stephen Wilson
Chairman

Consolidated income statement

For the period ended 30 September 2007

	Note	6 months ended 30 September 2007 (unaudited)		
		Before amortisation and non-recurring items £'000	Amortisation and non-recurring items £'000	Total £'000
Continuing operations				
Revenue	5	102,022	–	102,022
Cost of sales		(64,613)	–	(64,613)
Gross profit		37,409	–	37,409
Administrative expenses				
– Administration expenses excluding amortisation of intangibles and share scheme charges		(21,325)	–	(21,325)
– Amortisation of intangibles		–	(2,328)	(2,328)
– Share scheme charges		(761)	–	(761)
		(22,086)	(2,328)	(24,414)
Operating profit	5	15,323	(2,328)	12,995
Profit on business disposal	11	–	993	993
Finance income		530	–	530
Finance costs		(3,825)	–	(3,825)
Net finance costs		(3,295)	–	(3,295)
Profit before tax		12,028	(1,335)	10,693
Income tax	6	(3,220)	1,039	(2,181)
Profit for the period		8,808	(296)	8,512
Attributable to:				
Equity holders of the parent		8,785	(296)	8,489
Minority interest		23	–	23
		8,808	(296)	8,512
Earnings per share				
From continuing and total operations				
Basic	8			15.98p
Diluted	8			15.53p

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

6 months ended 1 October 2006 (unaudited)			Year ended 1 April 2007 (audited)		
Before amortisation and non-recurring items £'000	Amortisation and non-recurring items £'000	Total £'000	Before amortisation and non-recurring items £'000	Amortisation and non-recurring items £'000	Total £'000
66,923	–	66,923	152,563	–	152,563
(45,728)	–	(45,728)	(102,280)	(3,975)	(106,255)
21,195	–	21,195	50,283	(3,975)	46,308
(13,675)	(74)	(13,749)	(30,599)	(1,990)	(32,589)
–	(603)	(603)	–	(2,104)	(2,104)
(388)	–	(388)	(913)	–	(913)
(14,063)	(677)	(14,740)	(31,512)	(4,094)	(35,606)
7,132	(677)	6,455	18,771	(8,069)	10,702
481	–	481	1,906	–	1,906
(720)	–	(720)	(3,792)	–	(3,792)
(239)	–	(239)	(1,886)	–	(1,886)
6,893	(677)	6,216	16,885	(8,069)	8,816
(1,988)	181	(1,807)	(4,891)	2,419	(2,472)
4,905	(496)	4,409	11,994	(5,650)	6,344
4,905	(496)	4,409	11,977	(5,650)	6,327
–	–	–	17	–	17
4,905	(496)	4,409	11,994	(5,650)	6,344
		11.91p			15.43p
		11.62p			15.01p

Consolidated statement of recognised income and expense

For the period ended 30 September 2007

	6 months ended 30 September 2007 (unaudited) £'000	6 months ended 1 October 2006 (unaudited) £'000	12 months ended 1 April 2007 (audited) £'000
Exchange differences on translation of foreign operations	2,274	(884)	2,327
Cash flow hedges – derivative instrument effective portion	(31)	–	57
Actuarial (losses)/gains on defined benefit pension schemes	739	–	(412)
Less: provision for deferred tax	(207)	–	123
Net income recognised directly in equity	2,775	(884)	2,095
Profit for the period	8,512	4,409	6,344
Total recognised income and expense for the period	11,287	3,525	8,439
Attributable to:			
Equity holders of the Company	11,258	3,525	8,419
Minority interest	29	–	20
	11,287	3,525	8,439

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

Consolidated balance sheet

At 30 September 2007

	Note	At 30 September 2007 (unaudited) £'000	At 1 October 2006 (unaudited) £'000	At 1 April 2007 (audited) £'000
Non-current assets				
Goodwill		150,504	30,690	146,966
Other intangible assets		46,425	13,704	46,086
Property, plant and equipment		139,413	52,284	129,788
Trade and other receivables		–	68	–
		336,342	96,746	322,840
Current assets				
Inventories		5,484	4,825	4,948
Trade and other receivables		37,866	19,547	32,595
Cash and cash equivalents		4,300	7,887	4,790
Available for sale investments		126	126	126
		47,776	32,385	42,459
Total assets		384,118	129,131	365,299
Capital and reserves attributable to the Company's equity holders				
Share capital	15	333	232	332
Share premium account	15	59,868	59,270	59,479
Translation reserve	15	5,690	214	3,422
Cash flow hedging reserve	15	26	–	57
Merger reserve	15	106,757	430	106,757
Retained earnings	15	26,447	18,077	19,913
Equity attributable to equity holders of the parent		199,121	78,223	189,960
Minority interest		280	–	251
Total equity		199,401	78,223	190,211
Current liabilities				
Bank overdraft		–	–	41
Interest bearing loans and borrowings		9,309	2,628	4,042
Trade and other payables		40,464	27,462	44,325
Current tax liabilities		3,965	2,430	2,145
Deferred government grant		–	115	–
		53,738	32,635	50,553
Non-current liabilities				
Interest bearing loans and borrowings		105,687	7,337	98,359
Retirement benefit obligations		2,270	1,870	2,999
Deferred tax liabilities		16,265	5,612	16,060
Provisions	13	6,583	3,280	6,913
Deferred government grant		174	174	204
		130,979	18,273	124,535
Total liabilities		184,717	50,908	175,088
Total equity and liabilities		384,118	129,131	365,299

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

Consolidated cash flow statement

For the period ended 30 September 2007

	6 months ended 30 September 2007 (unaudited) £'000	6 months ended 1 October 2006 (unaudited) £'000	12 months ended 1 April 2007 (audited) £'000
Cash flows from operating activities			
Cash generated from operations	19,142	12,945	35,486
Interest paid	(3,046)	(533)	(1,927)
Income tax paid	(984)	(2,085)	(6,075)
Net cash generated from operating activities	15,112	10,327	27,484
Cash flows from investing activities			
Acquisition of subsidiary, including overdraft acquired	(6,253)	(520)	(78,281)
Disposal of subsidiary	1,200	100	150
Purchases of property, plant and equipment (PPE)	(17,688)	(7,782)	(21,032)
Purchase of intangible assets	(840)	–	(1,258)
Proceeds from sale of PPE	–	28	3
Purchases of investments	–	(126)	(126)
Interest received	–	364	731
Net cash used in investing activities	(23,581)	(7,936)	(99,813)
Cash flows from financing activities			
Dividends paid	(2,973)	(1,852)	(2,890)
Proceeds from borrowings	11,540	–	68,053
Repayments of borrowings	–	(3,049)	–
New hire purchase loans	–	–	2,200
Repayment of obligations under hire purchase loans	(926)	(557)	(1,402)
Dividend paid to minority shareholders	–	–	(66)
Proceeds from issue of shares	390	99	308
Net cash used in financing activities	8,031	(5,359)	66,203
Net decrease in cash and bank overdrafts	(438)	(2,968)	(6,126)
Cash and bank overdrafts at beginning of period	4,749	11,051	11,051
Exchange differences	(11)	(196)	(176)
Cash and bank overdrafts at end of period	4,300	7,887	4,749
Net cash and cash equivalents comprises:			
Cash at bank	4,300	7,887	4,790
Overdraft	–	–	(41)
	4,300	7,887	4,749

Consolidated cash flow statement (continued)

For the period ended 30 September 2007

	6 months ended 30 September 2007 (unaudited) £'000	6 months ended 1 October 2006 (unaudited) £'000	12 months ended 1 April 2007 (audited) £'000
Cash generated from operations			
Profit for the period	8,512	4,409	6,344
Adjustments for:			
– depreciation and impairments	11,380	6,630	16,141
– amortisation of intangible assets	2,328	603	2,104
– equity settled share-based payments	688	388	906
– gain on disposal of discontinued operations	(993)	–	–
– (profit)/loss on sale of tangible fixed assets	–	(21)	2,325
– finance income	(530)	(481)	(1,906)
– finance costs	3,825	720	3,792
– income tax expense	2,181	1,807	2,472
Changes in working capital:			
– inventories	(691)	(345)	822
– trade and other receivables	(4,745)	235	82
– trade and other payables	(2,813)	(1,000)	2,404
Cash generated from operations	19,142	12,945	35,486

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

Notes to the half year results

For the period ended 30 September 2007

1 General information

Synergy Healthcare plc (“the Company”) and its subsidiaries (together “the Group”) are providers of outsourced sterilisation and infection control support services 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 Newmarket Drive, Derby DE24 8SW.

These consolidated interim financial statements have been approved for issue by the Board of Directors on 20 November 2007.

2 Summary of significant accounting policies

Basis of preparation

These September 2007 interim consolidated financial statements of the Group are for the six months ended 30 September 2007.

The interim condensed consolidated financial statements for the six months to 30 September 2007 have been prepared on the basis of the accounting policies set out in the Group’s latest annual financial statements for the year ended 1 April 2007. 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 1 April 2007 are not the Group’s statutory accounts for that financial year. Those accounts have been reported on by the Group’s auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements as at 1 April 2007.

The interim condensed consolidated financial statements for the six months to 30 September 2007 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 1 April 2007 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 7 *Financial Instruments: Disclosures*:** The Group will adopt this standard for the first time during the current financial year. This standard requires disclosures that enable users to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments. As IFRS 7 is a disclosure standard, there is no impact of that change in accounting policy on the interim condensed consolidated financial statements. Full details of the change will be disclosed in our annual report for the year .
- **IFRIC 9 *Reassessment of Embedded Derivatives*:** The Group adopted this interpretation as of 2 April 2007, which states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- **IFRIC 10 *Interim Financial Reporting and Impairment*:** The Group adopted IFRIC Interpretation 10 as of 2 April 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

The consolidated interim financial statements have been prepared under the historical cost convention.

3 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 1 April 2007.

4 Estimates

The preparation of 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 uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 1 April 2007.

During the six months ended 30 September 2007 management reassessed its estimates in respect of:

- the recoverable amount of certain property, plant and equipment;
- the recoverable amount of goodwill.

5 Segment information

At 30 September 2007, the Group is organised into three geographical divisions; the UK, Rest of Europe, Asia and South Africa. These divisions are the basis on which the Group reports its primary segment information.

The segment results for the six months ended 30 September 2007 are as follows:

	UK £'000	Rest of Europe £'000	Asia and South Africa £'000	Eliminations and unallocated items £'000	Group £'000
Total gross segment sales	55,978	42,911	3,133	–	102,022
Operating profit before amortisation and share scheme charges	6,559	8,379	1,141	5	16,084
Amortisation of intangibles	(972)	(1,196)	(160)	–	(2,328)
Share scheme charges	(549)	(198)	(14)	–	(761)
Operating profit after amortisation and share scheme charges	5,038	6,985	967	5	12,995
Profit on business disposal					993
Finance costs – net					(3,295)
Profit before income tax					10,693
Income tax expense					(2,181)
Profit for the period					8,512

Notes to the half year results (continued)

For the period ended 30 September 2007

5 Segment information (continued)

The segment results for the six months ended 1 October 2006 are as follows:

	UK £'000	Rest of Europe £'000	Asia and South Africa £'000	Eliminations and unallocated items £'000	Group £'000
Total gross segment sales	41,395	25,528	–	–	66,923
Operating profit before amortisation, share scheme charges and non-recurring items	3,680	3,840	–	–	7,520
Amortisation of intangibles	(147)	(456)	–	–	(603)
Share scheme charges	–	–	–	(388)	(388)
Non-recurring items	(74)	–	–	–	(74)
Operating profit after amortisation, share scheme charges and non-recurring items	3,459	3,384	–	(388)	6,455
Finance costs – net					(239)
Profit before income tax					6,216
Income tax expense					(1,807)
Profit for the period					4,409

The segment results for the year ended 1 April 2007 are as follows:

	UK £'000	Rest of Europe £'000	Asia and South Africa £'000	Eliminations and unallocated items £'000	Group £'000
Total gross segment sales	91,484	60,102	1,396	(419)	152,563
Operating profit before amortisation, share scheme charges and non-recurring items	9,517	9,751	416	–	19,684
Amortisation of intangibles	(738)	(1,289)	(77)	–	(2,104)
Share scheme charges	(738)	(171)	(4)	–	(913)
Non-recurring items	(5,965)	–	–	–	(5,965)
Operating profit after amortisation, share scheme charges and non-recurring items	2,076	8,291	335	–	10,702
Finance costs – net					(1,886)
Profit before income tax					8,816
Income tax expense					(2,472)
Profit for the period					6,344

5 Segment information (continued)

The Group's secondary segment information relates to its business segments; Patient Care, Surgical, Commercial and Managed Equipment Services. The following table provides an analysis of the Group's sales by business segment, irrespective of the origin of the goods and services:

	Sales revenue by business segment		
	6 months to 30 September 2007 £'000	6 months to 1 October 2006 £'000	Year ended 1 April 2007 £'000
Patient Care	61,665	51,654	107,710
Surgical	15,562	13,632	29,687
Commercial	24,795	–	11,828
Managed Equipment Services	–	1,637	3,338
	102,022	66,923	152,563

6 Income tax

	6 months ended 30 September 2007 £'000	6 months ended 1 October 2006 £'000	12 months ended 1 April 2007 £'000
Current tax – UK	820	1,150	1,625
Current tax – Overseas	2,109	1,179	2,665
Adjustment in respect of prior years	–	–	177
	2,929	2,329	4,467
Deferred tax :			
Origination and reversal of temporary differences	(408)	(522)	(2,118)
Adjustment in respect of prior years	–	–	123
Impact of change in corporation tax rate	(340)	–	–
	(748)	(522)	(1,995)
Total tax in income statement	2,181	1,807	2,472

Notes to the half year results (continued)

For the period ended 30 September 2007

7 Dividends

	6 months ended 30 September 2007 £'000	6 months ended 1 October 2006 £'000	12 months ended 1 April 2007 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 1 April 2007 of 5.6p (2006: 5.00p) per share	2,973	1,852	1,852
Interim dividend for the year ended 1 April 2007 of 2.8p	–	–	1,038
Proposed interim dividend for the year ended 30 March 2008 of 3.5p (2007: 2.8p) per share	1,863	1,038	–

The proposed interim dividend was approved by the Board on 20 November 2007 and has not been included as a liability in these financial statements.

8 Earnings per share

	6 months ended 30 September 2007 £'000	6 months ended 1 October 2006 £'000	12 months ended 1 April 2007 £'000
Earnings			
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	8,489	4,409	6,327

	6 months ended 30 September 2007 Shares '000	6 months ended 1 October 2006 Shares '000	12 months ended 1 April 2007 Shares '000
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	53,137	37,026	40,999
Effect of dilutive potential ordinary shares:			
Share options	1,529	921	1,145
Weighted average number of ordinary shares for the purposes of diluted earnings per share	54,666	37,947	42,144
Earnings per ordinary share			
Basic	15.98p	11.91p	15.43p
Diluted	15.53p	11.62p	15.01p

8 Earnings per share (continued)

	6 months ended 30 September 2007 £'000	6 months ended 1 October 2006 £'000	12 months ended 1 April 2007 £'000
Adjusted earnings per share			
Operating profit	12,995	6,455	10,702
Amortisation of intangibles	2,328	603	2,104
Non-recurring items	–	74	5,965
Adjusted operating profit	15,323	7,132	18,771
Net finance costs	(3,295)	(239)	(1,886)
Adjusted profit on ordinary activities before taxation	12,028	6,893	16,885
Taxation on adjusted profit on ordinary activities	(3,220)	(2,088)	(4,891)
Minority interest	(23)		(17)
Adjusted profit for the financial period	8,785	4,805	11,977
Adjusted basic earnings per share	16.53p	12.98p	29.21p
Adjusted diluted earnings per share	16.07p	12.66p	28.42p

9 Share-based payments

The Group operates five separate share option schemes for employees and directors of the Group. The following table summarises the options outstanding by scheme at 30 September 2007 which have been valued in accordance with the provisions of IFRS 2.

Scheme	Options outstanding at 30 September 2007	Weighted average option price (£)	Vesting conditions	Weighted average remaining life in years	Fair value charge in 6 months to 30 September 2007 £'000
The approved share option plan	440,463	5.11	4 years	8.23	71
The unapproved share option plan	880,898	5.08	4 years	5.21	42
Sharesave Scheme	400,298	4.38	3, 5 or 7 years	2.07	45
The Performance Share Plan and Phantom Performance Share Plan	186,351	0.01	3 years 50% EPS growth	1.46	212
Long-Term Incentive Plan	1,075,708	0.01	50% position in TSR table	1.52	391
					761

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 the approved, unapproved and Sharesave schemes and for the EPS 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.

Notes to the half year results (continued)

For the period ended 30 September 2007

10 Acquisition of subsidiaries

Acquisition of Bombeke

On 16 April 2007, the Group acquired the entire issued share capital of Bombeke Holdings B.V. ("Bombeke"), a company registered in the Netherlands. Bombeke provides linen management services in the South of the Netherlands.

The net assets acquired and the related consideration were as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Property, plant and equipment	2,100	–	2,100
Intangible assets	–	1,225	1,225
Inventories	29	–	29
Trade and other receivables	472	–	472
Trade and other payables	(380)	(136)	(516)
Bank overdraft	(914)	–	(914)
Current tax liabilities	(109)	35	(74)
Deferred tax liabilities	(217)	(313)	(530)
	981	811	1,792
Goodwill			1,028
Total consideration			2,820
Satisfied by:			
Cash			2,786
Directly attributable costs			34
			2,820
Analysis of net outflow of cash in respect of acquisition:			
Cash consideration			2,786
Acquisition costs			34
Overdraft acquired with business			914
			3,734

Provisional fair values have been allocated to the acquired assets of Bombeke.

The above fair value adjustments are stated net of tax, where appropriate, at an effective tax rate of 25.5%, the prevailing rate in the Netherlands.

The most significant adjustments relate to the recognition of customer relationship intangible assets acquired with the business.

The goodwill arising on the acquisition of Bombeke is attributable to the assembled workforce and the synergies that can be generated following the integration of Bombeke into the Group.

10 Acquisition of subsidiaries (continued)

Acquisition of Regilabs

On 5 April 2007, the Group acquired the entire issued share capital of Regilabs B.V. (“Regilabs”), a company registered in the Netherlands. Regilabs provides laboratory services in the Netherlands.

The fair value of the acquisition undertaken in the year was as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Property, plant and equipment	83	–	83
Intangible assets	–	151	151
Inventories	16	–	16
Trade and other receivables	224	–	224
Trade and other payables	(178)	–	(178)
Cash	43	–	43
Deferred tax liabilities	–	(38)	(38)
	188	113	301
Goodwill			284
Total consideration			585
Satisfied by:			
Cash			525
Directly attributable costs			60
			585
Analysis of net outflow of cash in respect of acquisition:			
Cash consideration			525
Acquisition costs			60
Cash acquired with business			(43)
			542

The above fair value adjustments are stated net of tax, where appropriate, at an effective tax rate of 25.5%, the prevailing rate in the Netherlands.

The most significant adjustments relate to the recognition of customer relationship intangible assets acquired with the business. Other adjustments were required following an assessment of the fair value of the acquired company’s identified assets and liabilities.

The goodwill arising on the acquisition of Regilabs is attributable to the assembled workforce and the synergies that can be generated following the integration of Regilabs into the Isotron laboratory business in the Netherlands.

Notes to the half year results (continued)

For the period ended 30 September 2007

11 Disposal of subsidiary

On 2 April 2007 the Group disposed of the entire issued share capital of Synergy Managed Equipment Services Limited ("SMES"). The net assets at the date of disposal and at 1 April 2007 were as follows:

	£'000
Property, plant and equipment	125
Inventories	220
Trade and other receivables	378
Cash and cash equivalents	15
Current tax liability	(93)
Trade and other payables	(438)
	207
Gain on disposal	993
Total consideration	1,200
Satisfied by:	
Cash	1,315
Directly attributable costs	(115)
	1,200

The impact of SMES on the Group's results in the current and prior period is not disclosed on the grounds of materiality.

12 Bank overdrafts and loans

During the period, the Group increased its net loan borrowings by £10.6 million partly to fund capital expenditure and otherwise to finance working capital. The loan bears interest at market rates.

£73.4 million of the Group's gross debt is denominated in Euros.

13 Provisions

	Cobalt disposal costs £'000	Environmental provision £'000	Other provision £'000	Total £'000
At 1 April 2007	2,132	1,911	2,870	6,913
Additional provision in the year	–	55	–	55
Utilised in the year	–	–	(455)	(455)
Exchange differences	–	60	10	70
At 30 September 2007	2,132	2,026	2,425	6,583

14 Property, plant and equipment

Additions and disposals

During the six months ended 30 September 2007, the Group purchased assets with a total cost of approximately £17.0 million.

15 Statement of changes in equity

	Share capital £'000	Share premium £'000	Merger reserves £'000	Other reserves £'000	Retained earnings £'000	Total attributable to equity holders of the parent £'000	Minority interest £'000	Total equity £'000
Balance at 3 April 2006	231	59,172	430	1,098	15,050	75,981	–	75,981
Issue of shares	1	98	–	–	–	99	–	99
Total recognised income and expense	–	–	–	(884)	4,409	3,525	–	3,525
Dividends paid	–	–	–	–	(1,852)	(1,852)	–	(1,852)
Share-based payments (net of deferred tax)	–	–	–	–	470	470	–	470
Balance at 2 October 2006	232	59,270	430	214	18,077	78,223	–	78,223
Issue of shares	100	209	106,327	–	–	106,636	–	106,636
Total recognised income and expense	–	–	–	3,265	1,629	4,894	20	4,914
Dividends paid	–	–	–	–	(1,038)	(1,038)	(66)	(1,104)
Share-based payments (net of deferred tax)	–	–	–	–	1,245	1,245	–	1,245
Amount arising on acquisition	–	–	–	–	–	–	297	297
Balance at 2 April 2007	332	59,479	106,757	3,479	19,913	189,960	251	190,211
Issue of shares	1	389	–	–	–	390	–	390
Total recognised income and expense	–	–	–	2,237	9,021	11,258	29	11,287
Dividends paid	–	–	–	–	(2,973)	(2,973)	–	(2,973)
Share-based payments (net of deferred tax)	–	–	–	–	486	486	–	486
Balance at 30 September 2007	333	59,868	106,757	5,716	26,447	199,121	280	199,401

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