



System C Healthcare plc
Interim Financial Statements
Six months ended 30 November 2006

improving patient care through effective IT

System C Healthcare plc

Interim results for the six months ended 30th November 2006.

System C Healthcare plc ("the company"), a leading independent provider of IT implementation solutions for the UK healthcare sector, announces its unaudited interim results for the six months ended 30 November 2006.

Financial Summary

For the first time we are reporting our interim financial statements under International Financial Reporting Standards ("IFRS"), and comparative results for the six month period ended 30 November 2005 have also been restated in accordance with IFRS. The financial highlights for the six months ended 30 November 2006 are:

- Revenue £6.5m (2005: £8.6m)
- Profit before tax ("PBT") £0.3m (2005: £0.4m)
- Basic earnings per share 0.25p (2005: 0.77p per share)
- Operating cash inflow £0.6m (2005: £0.4m outflow)
- Net funds £8.6m (2005: £7.0m)
- Interim dividend of 0.12p per share declared

A reconciliation of the changes arising from the adoption of IFRS on the income statement and on equity are given in notes (r) and (s).

Ian Denley, Chief Executive said:

"Within System C we have expertise gained over twelve years' successful development and delivery of IT solutions to the NHS. Despite the recent hiatus in deployments within the National Programme caused by the changes in Local Service Providers ("LSP's") responsibilities, we have continued to develop and diversify our business and remain well placed, both organisationally and financially, to take advantage of the strong future we believe lies ahead for healthcare informatics."

For further information please contact

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Notes to Editors

System C Healthcare plc, established in 1983, specialises in the provision of information systems and solutions to the healthcare sector. Its team of professionals has an average of 14 years healthcare experience and can provide all aspects of systems design, development and deployment services. System C is founded upon the belief that IT solutions, when effectively implemented, can significantly contribute towards improving patient care.

System C has installed patient-focused IT systems at over 30 NHS Trusts. The company also offers a wide range of services to Local Service Providers, the NHS and third-party suppliers. These include programme/project/change management, design, build and test, implementation, training, data migration, interfacing and helpdesk/support services.

System C employs around 180 staff who are divided between the company's offices in Maidstone, Warrington and Bristol as well as being located throughout the UK at customer sites. System C was recently voted 60th in the Sunday Times 100 best SMEs to work for in 2006. The company has ISO 9001 quality accreditation and encourages staff development through the National Standard, Investors in People, and has accreditation from the Institute of IT Training. System C is a member of Health Level Seven UK (HL7 UK), a group of leading suppliers promoting effective and consistent implementation of healthcare information standards in the UK.

Website: www.systemc.com

Chairman's Statement

Introduction

System C has been operating in challenging conditions in our core UK market, and as a result revenues fell by £2.1m. However, through implementation of a targeted cost control programme we have minimised the impact to our bottom line, resulting in only a small operating loss for the period of less than £0.1m. This combined with interest income resulted in PBT of £0.3m, a marginal fall from the same period in the prior year. In addition, we have generated operating cash inflows of £0.6m in the six month period thereby strengthening our cash and balance sheet position.

As well as managing our costs, the Company has been focusing on diversification of our customer base within Healthcare IT. We have announced significant new contract wins, and have broadened the scope of our business into the private sector. In addition we are in advanced contract negotiations that, once successfully completed, will provide an order book that secures a significant proportion of revenue in the next financial year and beyond.

Services

Within the NHS National Programme for IT ("the National Programme"), Accenture's announcement in September 2006 of their withdrawal from the National Programme, and the final transfer of LSP responsibilities from Accenture to CSC in the North East and East clusters on January 8 2007, led to a hiatus in deployments during this period. This resulted in a £2m decline in our Services revenues from the prior year.

We believe that the restructuring of the LSP situation has been largely resolved, and that deployment progress on the National Programme is beginning to improve. Although it is now clear that the ramp-up will be more gradual than the rapid acceleration we had previously expected, the total market potential in the medium to long term remains substantial.

Products

Products revenues fell marginally year-on-year, this was due to the knock-on effect of the slow down within the National Programme. However a focus on achieving more profitable sale opportunities resulted in an increase in the PBT margin to 25% (19% in the prior year).

We are very pleased to announce that we have secured a major 7 year framework contract win to supply our MedWay Patient Management system to an independent healthcare community which I refer to in our Contract Wins/Prospects section. We are also investing in a growing partnership with Microsoft to further develop our Electronic Patient Record products.

Cost Base

We have reduced our cost base by in excess of £2.5m through the implementation of a cost control programme. However we continue to invest in research and development, as well as maintaining the capability and strength of our Services workforce which will generate future revenue opportunities.

Earnings per Share and Dividends

Basic earnings per share for the six months ended 30 November 2006 of 0.25 pence per share (0.77 pence in the prior period) is explained in note (g) below.

Reflecting the Board's confidence in the company's prospects, an interim dividend of 0.12 pence per ordinary share is declared. This will be paid on 13 March 2007 to those shareholders on the register at the close of business on 16 February 2007.

Contract Wins/Prospects

Our prospects within the National Programme remain strong. System C is currently concluding contract details with a number of clients, and we are confident that, once these negotiations have been successfully completed, we will have an order book that secures a significant proportion of our Services revenue in future years. Our specialist expertise and excellent reputation in our marketplace puts us in a good position to secure additional work and expand upon the contracted minimum order book.

In addition, we have continued to diversify into the private sector and have secured a new contract to provide specialist IT healthcare support services to a major player in diagnostic services.

We recently announced that we have signed a framework agreement for a major multi-million pound contract to supply our MedWay Patient Management and Electronic Patient Record system and various ancillary products and services to an independent healthcare community. This is the first large-scale system procurement of its type for some time, and it is very encouraging that we were able to win it against competition from major global product suppliers. This success demonstrates the strength of our MedWay product suite and significantly strengthens our Product order book.

Outlook

The Board continues to believe that healthcare informatics has a strong future, and despite these turbulent times, we continue to focus on securing opportunities, expanding the client base and controlling our cost base so as to maintain and grow our strong cash position. We are ensuring that we retain flexibility in our business to support long term opportunities and will be placing increasing focus on the creation of new products for both the UK and international healthcare markets.

Jim Horsburgh
Chairman

1. Income Statement

	Six months to 30 Nov 2006 (unaudited) £	Six months to 30 Nov 2005 (unaudited) £	Year Ended 31 May 2006 (unaudited) £
Revenue	6,481,903	8,580,971	16,080,264
Cost of sales	(3,388,789)	(4,134,987)	(8,086,450)
Gross profit	3,093,114	4,445,984	7,993,814
Selling and marketing costs	(346,367)	(331,014)	(708,592)
Research and development costs	(631,166)	(586,407)	(1,059,860)
Administration and general overheads	(2,159,470)	(3,390,778)	(6,096,520)
(Loss)/profit from operations	(43,889)	137,785	128,842
Interest receivable	384,411	345,067	713,348
Interest payable	(58,955)	(95,011)	(169,046)
Profit before income tax	281,567	387,841	673,144
Income tax expense/(credit)	(58,247)	261,040	411,262
Profit for the period	223,320	648,881	1,084,406
Earnings per ordinary share	0.25p	0.77p	1.25p
– basic	0.25p	0.75p	1.23p
– diluted			

The results above relate entirely to continuing operations and the figures for the six month period ended 30 November 2005 and the year ended 31 May 2006 have been restated in accordance with IFRS.

2. Balance Sheet

	At 30 Nov 2006 (unaudited) £	At 30 Nov 2005 (unaudited) £	At 31 May 2006 (unaudited) £
ASSETS			
Non-current assets			
Property, plant and equipment	822,277	1,471,991	1,021,429
Intangible assets	198,262	167,414	161,332
Deferred income tax assets	1,189,698	1,064,604	1,205,163
	<u>2,210,237</u>	<u>2,704,009</u>	<u>2,387,924</u>
Current assets			
Trade and other receivables	6,961,082	7,278,540	7,455,366
Cash and cash equivalents	9,578,854	9,450,289	9,547,985
	<u>16,539,936</u>	<u>16,728,829</u>	<u>17,003,351</u>
LIABILITIES			
Current liabilities			
Trade and other payables	2,241,947	1,949,480	2,516,434
Current income tax liabilities	42,784	189,086	0
Borrowings	826,805	1,386,978	992,366
	<u>3,111,536</u>	<u>3,525,544</u>	<u>3,508,800</u>
NET CURRENT ASSETS	<u>13,428,400</u>	<u>13,203,285</u>	<u>13,494,551</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>15,638,637</u>	<u>15,907,294</u>	<u>15,882,475</u>
Non-current liabilities			
Borrowings	197,704	1,024,511	528,122
Provisions and other liabilities	86,472	97,683	81,407
	<u>284,176</u>	<u>1,122,194</u>	<u>609,529</u>
NET ASSETS	<u>15,354,461</u>	<u>14,785,100</u>	<u>15,272,946</u>
SHAREHOLDERS' EQUITY			
Share capital	894,380	884,594	892,765
Share premium account	9,751,562	9,624,055	9,731,885
Capital redemption reserve	3,127,023	3,127,023	3,127,023
Own shares held in trust	(1,235,381)	(1,235,381)	(1,235,381)
Retained earnings	2,816,877	2,384,809	2,756,654
TOTAL EQUITY	<u>15,354,461</u>	<u>14,785,100</u>	<u>15,272,946</u>

The figures as at 30 November 2005 and 31 May 2006 have been restated in accordance with IFRS.

3. Statement of changes in Shareholders' Equity

	Attributable to equity holders of the company						
	Share capital	Share premium account	Capital redemption reserve	Own shares held in trust	Retained earnings	Special reserve	Total Equity
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	£	£	£	£	£	£	£
As at 1 June 2005	414,684	0	134	0	511,624	1,308,496	2,234,938
Profit for the period	0	0	0	0	648,881	0	648,881
Share based payments change	0	0	0	0	37,334	0	37,334
Deferred tax (note 7d)	0	0	0	0	(108,730)	0	(108,730)
Issue of new shares	469,910	0	0	0	0	0	469,910
Premium on 1p ordinary shares issued	0	10,798,920	0	0	0	0	10,798,920
Issue costs	0	(1,354,461)	0	0	0	0	(1,354,461)
Credit on conversion of the Company's £1 convertible participating preference shares	0	0	3,126,889	0	0	0	3,126,889
Premium on settlement of accrued dividend	0	179,596	0	0	0	0	179,596
Employee benefits trust	0	0	0	(1,235,381)	0	0	(1,235,381)
Release of special reserve	0	0	0	0	1,308,496	(1,308,496)	0
Dividends	0	0	0	0	(12,796)	0	(12,796)
As at 30 November 2005	884,594	9,624,055	3,127,023	(1,235,381)	2,384,809	0	14,785,100
Profit for the period	0	0	0	0	435,525	0	435,525
Share based payments change	0	0	0	0	37,333	0	37,333
Deferred tax (note 7d)	0	0	0	0	(6,224)	0	(6,224)
Issue of new shares	8,171	0	0	0	0	0	8,171
Premium on issue of new shares	0	107,830	0	0	0	0	107,830
Dividends	0	0	0	0	(94,789)	0	(94,789)
As at 31 May 2006	892,765	9,731,885	3,127,023	(1,235,381)	2,756,654	0	15,272,946
Profit for the period	0	0	0	0	223,324	0	223,324
Share based payments change	0	0	0	0	28,629	0	28,629
Issue of new shares	1,615	0	0	0	0	0	1,615
Premium on issue of new shares	0	19,677	0	0	0	0	19,677
Dividends	0	0	0	0	(191,727)	0	(191,727)
As at 30 November 2006	894,380	9,751,562	3,127,023	(1,235,381)	2,816,880	0	15,354,464

The figures for the six month period ended 30 November 2005 and the year ended 31 May 2006 have been restated in accordance with IFRS.

4. Cash Flow Statement

	Six months to 30 Nov 2006	Six months to 30 Nov 2005	Year ended 31 May 2006
	(unaudited)	(unaudited)	(unaudited)
	£	£	£
Cash flows from operating activities			
Cash generated from/(used in) operations	637,605	(278,837)	461,853
Interest paid	(58,955)	(95,011)	(169,046)
Income tax paid	0	0	(1,357)
Net cash generated by/(used in) operating activities	<u>578,650</u>	<u>(373,848)</u>	<u>291,450</u>
Cash flows from investing activities			
Purchases of property, plant and equipment	(164,214)	(42,252)	(54,299)
Capitalised development costs	(98,251)	(56,236)	(102,011)
Interest received	381,099	355,552	716,010
Net cash generated from investing activities	<u>118,634</u>	<u>257,064</u>	<u>559,700</u>
Cash flows from financing activities			
Repayment of borrowings	(495,979)	(457,049)	(933,163)
Issue of equity share capital	21,292	11,059,720	11,175,825
Issue costs	0	(1,354,461)	(1,354,461)
Payments to acquire own shares held in trust	0	(1,235,381)	(1,235,381)
Redemption of non-equity preference shares	0	(71,000)	(71,000)
Dividends paid	(191,728)	(123)	(95,465)
Net cash (used in)/generated from financing activities	<u>(666,415)</u>	<u>7,941,706</u>	<u>7,486,355</u>
Increase in cash and cash equivalents	30,869	7,824,922	8,337,505
Net cash and cash equivalents at start of period*	<u>9,547,985</u>	<u>1,210,480</u>	<u>1,210,480</u>
Net cash and cash equivalents at end of period*	<u>9,578,854</u>	<u>9,035,402</u>	<u>9,547,985</u>

* Net cash and cash equivalents includes overdrafts, if any, which are disclosed as borrowings within current liabilities.

5. Notes to the cashflow statement

	Six months to 30 Nov 2006	Six months to 30 Nov 2005	Year ended 31 May 2006
	(unaudited)	(unaudited)	(unaudited)
	£	£	£
(Loss)/profit from operations	(43,889)	137,785	128,842
(Increase)/decrease in receivables	497,596	207,306	38,424
Increase/(decrease) in payables	(277,137)	(1,047,234)	(664,570)
Depreciation	366,020	459,339	920,882
Amortisation of intangible assets	61,321	62,845	115,242
Charge for share based payments	28,629	37,334	74,667
Movement in provisions	5,065	(136,212)	(152,488)
Loss on disposal of fixed assets	0	0	854
Net cash inflow/(outflow) from operating activities	637,605	(278,837)	461,853

6. Segmental Information

The company's sole activity is the design, development and implementation of computer hardware and software. The directors consider it appropriate to analyse the results and financial position of the company in three distinct segments as this reflects how the business is managed:

- The Products segment relates to business where the company contracts directly with local NHS trusts and other clinical organisations;
- The Services segment relates to the business where the company is subcontracted to perform work on behalf of other organisations where the end customer is also either the NHS or other clinical organisations;
- Development and Shared Services relates to the company's central research and development activities and support services provided to the Products and Services segments.

As the business only operates in the UK the company does not have a secondary reporting format.

	Six months to 30 Nov 2006	Six months to 30 Nov 2005	Year ended 31 May 2006
	(unaudited)	(unaudited)	(unaudited)
BY BUSINESS SEGMENT	£	£	£
REVENUE			
Services	4,719,253	6,684,542	12,609,841
Products	1,762,650	1,896,429	3,470,423
Development and Shared Services	0	0	0
Company	6,481,903	8,580,971	16,080,264
PROFIT BEFORE TAX			
Services	1,780,852	2,602,434	4,742,420
Products	449,543	363,523	634,678
Development and Shared Services	(1,948,828)	(2,578,116)	(4,703,954)
Company	281,567	387,841	673,144

7. Notes to the Interim Financial Statements

Summary of significant accounting policies

a) Basis of preparation

The interim financial statements of System C Healthcare plc are for the six months ended 30 November 2006. They have been prepared in accordance with IAS 34 - Interim Financial Reporting, and are covered by IFRS 1 - First-time Adoption of IFRS, as they are part of the period covered by the company's first IFRS financial statements for the year ending 31 May 2007.

These interim financial statements have been prepared in accordance with those IFRS standards and IFRIC Interpretations issued and effective as at the time of issuing these interim financial statements. The IFRS standards and IFRIC Interpretations that will be applicable at 31 May 2007, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The policies set out below have been consistently applied to all the periods presented. System C's financial statements were prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) until 31 May 2006. UK GAAP differs in some areas from IFRS.

In preparing System C's 2007 interim financial statements, management has amended certain accounting and valuation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of 2006 were restated to reflect these adjustments.

b) Non Statutory Accounts

These unaudited interim statements do not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985. The financial statements for the year ended 31 May 2006 were prepared in accordance with UK GAAP and have been delivered to the Registrar of Companies and on which the auditors issued an unqualified report. The comparative figures for the year ended 31 May 2006 have been restated as highlighted in the "Basis of Preparation" note above and are an abridged version of the full financial statements (as restated for IFRS) for that period. No financial statements will be filed for the six months ended 30 November 2006.

c) Transition to IFRS

Application of IFRS 1

The company's financial statements for the year ended 31 May 2007 will be the first annual financial statements that are reported under IFRS.

These interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") as adopted by the European Union and the company has applied IFRS 1 in preparing these interim financial statements.

System C Healthcare plc's transition date for the adoption of IFRS is 1 June 2005 and the company has prepared its opening IFRS balance sheet at that date.

In preparing these interim financial statements in accordance with IFRS 1, the company has applied the mandatory exemptions and elected to take advantage of the exemption in IFRS 1 regarding IFRS 2 "Share based payments" for such items granted on or before 7 November 2002.

d) Main impacts of International Financial Reporting Standards

Outlined below are those International Financial Reporting Standards which will have an impact upon the financial statements of System C Healthcare plc. The numerical impact of the adoption of IFRS on the income statement and shareholders' equity is given in notes (r) and (s) and a brief summary of the changes is given below:

IAS 38 – 'Intangible Assets'

Under UK GAAP, development costs were expensed to the profit and loss account as incurred.

IAS 38 requires software to be disclosed as intangible assets rather than as fixed assets as required by UK GAAP. This has resulted in the reclassification of the net book value of capitalised software previously included within tangible fixed assets to intangible assets of £67,848, £91,706 and £123,606 as at 31 May 2006, 30 November 2005 and 1 June 2005 respectively. The effect of this change for the six months ended 30 November 2006 is a reclassification of £52,570.

IAS 38 requires development costs to be capitalised once certain criteria have been met. The company has recognised development costs as intangible assets once it is probable that the product will generate future economic benefits, it is technically feasible and the costs can be measured reliably. All other development costs are expensed to the income statement as incurred. This change has resulted in the recognition of development costs in the balance sheet (after amortisation) of £145,692, £93,484, £75,708 and £50,957 as at 30 November 2006, 31 May 2006, 30 November 2005 and 1 June 2005. The results for the period have been increased by £52,206, £42,529 and £24,751 for the six months ended 30 November 2006, the year ended 31 May 2006 and the six months ended 30 November 2005 by the reversal of development costs previously expensed to the income statement under UK GAAP.

IAS 12 – 'Income Taxes'

This standard requires entities to provide for deferred taxation based on temporary differences between the carrying amount of assets and liabilities and their tax base. Accordingly the company has made adjustments to the provision for deferred taxation in respect of share based payments and capitalised development costs. This has resulted in a reduction in the deferred tax asset of £25,936 and £14,873 as at 31 May 2006 and 30 November 2005 and an increase in the deferred tax asset as at 1 June 2005 of £100,289. The impact of adopting IFRS has also meant a reduction in the deferred tax asset of £27,007 compared to UK GAAP as at 30 November 2006. An element of the deferred tax effect relating to share based payments has been recognised in retained earnings as shown in the statement of changes in shareholders' equity with the balance recognised in the income statement.

IAS 32 – 'Financial instruments: Disclosure and Presentation'

IAS 32 requires preference shares to be classified as either equity instruments or non-equity instruments in accordance with the underlying nature of the instrument and disclosed as part of shareholders' funds or as borrowings. Under UK GAAP such preference shares were treated as non-equity instruments and disclosed as part of shareholders' funds. This change has resulted in a reclassification of the company's £1 redeemable preference shares and the company's £1 convertible participating preference shares as at 1 June 2005 from shareholders' funds of £3,406,999 to non-current borrowings. This reclassification is not relevant to subsequent reporting periods as these shares were redeemed/converted as part of the company's admission to AIM on 28 June 2005.

IFRS 2 – ‘Share Based Payments’

Under IFRS, share options has been measured at fair value at the grant date and charged to the income statement over the vesting period of the option. The charge has been calculated with reference to the Black-Scholes option pricing model.

The vesting period under IFRS includes any service period, together with the performance period, if any. The total impact of this change has resulted in additional charges for share based payments in the income statement of £74,667 for the year ended 31 May 2006 and £37,334 for the six months ended 30 November 2005. The effect for the six month period ended 30 November 2006 is a net increase in the charge for share based payments of £28,629 compared to UK GAAP. The additional charges for share based payments has no impact on retained earnings as the reduction in the result shown in the income statement for each period is off-set by a corresponding entry to retained earnings in accordance with IFRS 2.

e) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided to third parties in the normal course of business during the period, net of value added tax and discounts and results from the principal activity of the company. Each element of revenue (described below) is recognised only when:

- Delivery of goods or provision of services has occurred;
- There are no significant vendor obligations remaining; and
- Collection of the amount due from the customer is reasonably assured.

Revenue from the sale of software licences is recognised in the income statement as the system modules are installed. Typically the sale will match the project implementation timescale in accordance with specified contract milestones.

Revenue from the related implementation is recognised in the income statement proportionally over the implementation period as those services are provided.

Revenue from maintenance, support and other services is recognised over the contracted term of supply.

Hardware revenue is recognised in line with, and approximates to, the depreciation charge on such assets, as capitalised within tangible fixed assets and disclosed as contract assets.

Revenue from healthcare services is recognised as the service is delivered and approved by the client.

Revenue which has been recognised by the company but has not been invoiced as at the period end, is included within prepayments and accrued income.

Invoices raised in advance of the provision of goods/services to customers are recorded in the balance sheet as deferred income and included within trade debtors. Such amounts are recognised in the income statement as those goods/services are provided to the customer.

f) Interest receivable on contracts

An element of the amounts invoiced to certain customers in respect of contracts to supply Electronic Patient Records (EPR) systems and other ancillary items is disclosed within interest receivable. Such amounts are based on the company's net investment in the contracts taking into account payments received from the customer to date.

g) Earnings/(loss) per share

The calculation of earnings/(loss) per ordinary share is based on the profit after taxation for the period of £223,320 (six months ended 30 November 2005 £648,881) and the weighted average number of ordinary shares in issue during the period of 89,416,685 (six months ended 30 November 2005 84,549,607).

The calculation of diluted earnings per ordinary share is based on the weighted average number of ordinary shares in issue as adjusted to assume conversion of all dilutive potential ordinary shares, 89,819,929 (six months ended 30 November 2005, 86,639,209).

h) Employee benefits

(a) Pension obligations

The company operates a stakeholder pension scheme and the assets of the scheme are held separately from those of the company in an independently administered fund. In addition to this the company contributes to the personal pension plans of certain employees.

The pension cost charge for the period is reflected in the income statement and represents contributions payable to the defined contribution pension scheme plus amounts payable by the company to the personal pension plans of certain employees.

Any shortfall or excess in the contributions payable by the company in relation to the pension cost charge for the year are included in accruals or prepayments as appropriate.

(b) Share options

Where share options are granted to employees as part of their remuneration, the fair value as at date of grant is calculated using an appropriate option pricing model and the corresponding expense is recognised over the vesting period.

Proceeds received on the exercise of share options are credited to share capital (nominal value) and share premium (if applicable) net of any directly attributable transaction costs.

In accordance with IAS 37 'Provisions, contingent liabilities and contingent assets' the employer's National Insurance charge arising on future potential gains by employees on the exercise of unapproved share options is charged to the profit and loss account over the period from the date of grant to the date the options unconditionally vest with the employee.

The charge is based on the difference between the option exercise price and the closing market value of the shares at the balance sheet date and is calculated using the latest enacted National Insurance contribution rates in the UK taking into account the number of share options outstanding at the balance sheet date which are expected to be exercised.

i) Property, plant and equipment

All property, plant and equipment (PPE) is shown at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life, as follows:

- | | |
|--------------------------|---|
| ▪ Leasehold improvements | Over the term of Lease |
| ▪ Fixtures and fittings | 15 per cent straight - line |
| ▪ Plant and equipment | 25 per cent straight - line |
| ▪ Computer equipment | 25 per cent straight - line |
| ▪ Contract assets | 25 per cent straight - line (included in cost of sales) |

Assets utilised in arrangements similar to Private Finance Initiatives and similar contracts are included as fixed assets as the company primarily bears the risks and rewards of any variation in profit/losses arising from such assets.

j) Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives which typically do not exceed four years.

Costs associated with maintaining computer software are recognised as an expense in the income statement as incurred.

(b) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably.

Other development expenditures are recognised as an expense as incurred.

Where, development costs are initially recognised as an expense (as IAS 38 criteria are not met), but subsequently the IAS 38 criteria are deemed to have been satisfied, are not recognised as an asset in a subsequent period.

k) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Any bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

m) Financial instruments

The company's financial instruments comprise borrowings, cash and cash equivalents and other items, such as trade receivables, trade payables etc that arise directly from its operations. The main purpose of these financial instruments is to provide working capital and raise finance for the company's operations.

The company does not enter into derivative transactions (such as interest rate swaps and forward contracts) and it is, and has been throughout the period under review, the company's policy that no trading in financial instruments shall be undertaken.

n) Provisions

Provisions for liabilities are recognised when the company has a present legal or constructive obligation as a result of past events, and it is considered more likely than not that an outflow of resources will be required to settle that obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and discounted where the effect is material.

o) Leases

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

p) Dividend distributions

Interim dividends are recognised in the financial statements in the period in which they are paid.

Final dividends to the company's shareholders are recognised as a liability in the financial statements in the period that the dividends are formally approved by the company's members.

q) Own shares held in trust

System C Healthcare plc's own shares owned by the employee share trust are presented as a reduction of equity.

r) Reconciliation of Income Statement – UK GAAP to IFRS

	Six months to 30 Nov 2006 (unaudited) £	Six months to 30 Nov 2005 (unaudited) £	Year ended 31 May 2006 (unaudited) £
PROFIT FOR THE PERIOD PER UK GAAP	200,814	667,896	1,127,815
Share based payments	(28,629)	(37,334)	(74,667)
Net capitalisation of development costs	52,206	24,751	42,529
Deferred taxation	(1,071)	(6,432)	(11,271)
PROFIT FOR THE PERIOD UNDER IFRS	<u>223,320</u>	<u>648,881</u>	<u>1,084,406</u>

s) Reconciliation of Balance Sheet – UK GAAP to IFRS

	At 30 November 2006			At 30 November 2005			At 31 May 2006			At 1 June 2005		
	GAAP	Effect of IFRS	IFRS	GAAP	Effect of IFRS	IFRS	GAAP	Effect of IFRS	IFRS	GAAP	Effect of IFRS	IFRS
	(unaudited) £	(unaudited) £	(unaudited) £	(unaudited) £	(unaudited) £	(unaudited) £	(unaudited) £	(unaudited) £	(unaudited) £	(unaudited) £	(unaudited) £	(unaudited) £
ASSETS												
Non-current assets												
Property, plant and equipment	874,847	(52,570)	822,277	1,563,697	(91,706)	1,471,991	1,089,277	(67,848)	1,021,429	2,017,883	(123,606)	1,894,277
Intangible assets	0	198,262	198,262	0	167,414	167,414	0	161,332	161,332	0	174,563	174,563
Deferred income tax assets	1,216,705	(27,007)	1,189,698	1,079,477	(14,873)	1,064,604	1,231,099	(25,936)	1,205,163	812,005	100,289	912,294
	2,091,552	118,685	2,210,237	2,643,174	60,835	2,704,009	2,320,376	67,548	2,387,924	2,829,888	151,246	2,981,134
Current assets												
Trade and other receivables	6,961,082	0	6,961,082	7,278,540	0	7,278,540	7,455,366	0	7,455,366	7,506,816	0	7,506,816
Cash and cash equivalents	9,578,854	0	9,578,854	9,450,289	0	9,450,289	9,547,985	0	9,547,985	1,223,242	0	1,223,242
	16,539,936	0	16,539,936	16,728,829	0	16,728,829	17,003,351	0	17,003,351	8,730,058	0	8,730,058
LIABILITIES												
Current liabilities												
Trade and other payables	2,241,947	0	2,241,947	1,949,480	0	1,949,480	2,516,434	0	2,516,434	3,376,913	0	3,376,913
Current income tax liabilities	42,784	0	42,784	189,086	0	189,086	0	0	0	4,796	0	4,796
Borrowings	826,805	0	826,805	1,386,978	0	1,386,978	992,366	0	992,366	933,163	0	933,163
	3,111,536	0	3,111,536	3,525,544	0	3,525,544	3,508,800	0	3,508,800	4,314,872	0	4,314,872
TOTAL ASSETS LESS CURRENT LIABILITIES	15,519,952	118,685	15,638,637	15,846,459	60,835	15,907,294	15,814,927	67,548	15,882,475	7,245,074	151,246	7,396,320
Non-current liabilities												
Borrowings	197,704	0	197,704	1,024,511	0	1,024,511	528,122	0	528,122	1,520,488	3,406,999	4,927,487
Provisions	86,472	0	86,472	97,683	0	97,683	81,407	0	81,407	233,895	0	233,895
	284,176	0	284,176	1,122,194	0	1,122,194	609,529	0	609,529	1,754,383	3,406,999	5,161,382
NET ASSETS	15,235,776	118,685	15,354,461	14,724,265	60,835	14,785,100	15,205,398	67,548	15,272,946	5,490,691	(3,255,753)	2,234,938
SHAREHOLDERS' EQUITY												
Share capital	894,380	0	894,380	884,594	0	884,594	892,765	0	892,765	3,821,683	(3,406,999)	414,684
Share premium account	9,751,562	0	9,751,562	9,624,055	0	9,624,055	9,731,885	0	9,731,885	0	0	0
Capital redemption reserve	3,127,023	0	3,127,023	3,127,023	0	3,127,023	3,127,023	0	3,127,023	134	0	134
Own shares held in trust	(1,235,381)	0	(1,235,381)	(1,235,381)	0	(1,235,381)	(1,235,381)	0	(1,235,381)	0	0	0
Special reserve	0	0	0	0	0	0	0	0	0	1,308,496	0	1,308,496
Retained earnings	2,698,192	118,685	2,816,877	2,323,974	60,835	2,384,809	2,689,106	67,548	2,756,654	360,378	151,246	511,624
TOTAL EQUITY	15,235,776	118,685	15,354,461	14,724,265	60,835	14,785,100	15,205,398	67,548	15,272,946	5,490,691	(3,255,753)	2,234,938

Independent review report to System C Healthcare plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 November 2006 which comprises the income statement, the balance sheet at 30 November 2006, the statement of changes in shareholders' equity and the cash flow statement for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules for Companies. Additionally the interim report must be presented and prepared in a form consistent with that which will be adopted in the AIM company's annual accounts having regard to the accounting standards applicable to such annual accounts.

As disclosed in Note 7, the next annual financial statements of the company will be prepared in accordance with the accounting standards adopted for use in the European Union. This interim report has been prepared in accordance with the International Accounting Standard 34, 'Interim financial reporting'.

The accounting policies are consistent with those that the directors intend to use in the preparation of the next annual financial statements. As explained in Note 7, there is, however a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with accounting standards adopted for use in the European Union. The IFRS standards and IFRIC Interpretations that will be applicable and adopted for use in the European Union at 31 May 2007 are not known with certainty at the time of preparing this interim financial information.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the AIM Rules for Companies and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 November 2006.

PricewaterhouseCoopers LLP

Chartered Accountants

Gatwick

24 January 2007

Notes:

- (a) The maintenance and integrity of the System C Healthcare plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.