



**Synectics plc**

**Annual Report and Accounts for the  
year ended 30 November 2012**

Stock Code: SNX

# Welcome to Synectics plc

**Synectics plc** is a leader in the design, integration, control and management of advanced surveillance technology, and networked security systems.

We achieve this by focusing on large integrated security systems and solutions that deliver added value to our customers through our ability to **innovate**, **integrate** and **protect** people, property and assets in key customer sectors:

- Oil & Gas
- Gaming
- Transport
- Banking
- Critical Infrastructure
- Public Space

We look to develop long-term strategic partnerships with our customers and specifically organisations that have security and surveillance needs of sufficient complexity and scale that they value the sophistication of Synectics' capabilities and expertise.

Innovating  
Integrating  
Protecting

## Strength through capability

### We innovate

We develop specialist application software, control systems, surveillance products and managed services that support the needs of our customers. We invest in our research and development expertise to understand our customers' unique requirements and deliver innovative and integrated solutions that satisfy their need to protect their critical infrastructures today and in the future.

### We integrate

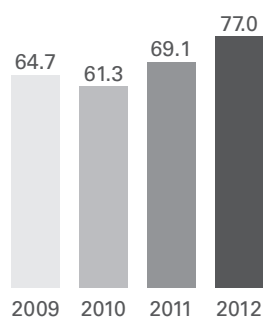
Within the security industry, integration and what it means to offer an 'integrated' solution has evolved, as available technologies and their applications have developed. We aim to be at the forefront of this innovation with our Synectics Technology Centre leading the way. We see integration as more than a technical systems engineering task – we offer business integration to our clients covering the full spectrum from consultancy, through systems design, installation, maintenance, support and complete outsourced managed services.

### We protect

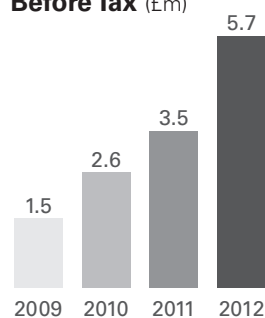
Our technical expertise and specialist knowledge of the niche markets we address provide our customers with the peace of mind and knowledge that we can offer them the protection their environment demands. The safeguarding of people, property and assets for critical infrastructure environments is our core business.

## Financial Highlights

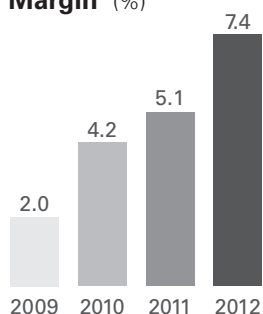
### Revenue (£m)



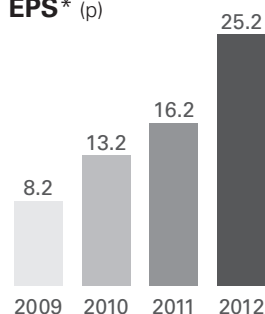
### Underlying Profit\* Before Tax (£m)



### Underlying Operating Margin† (%)



### Underlying Diluted EPS\* (p)



- Revenue up 12% to £77.0 million (2011: £69.1 million)
- Underlying profit\* before tax up 61% to £5.7 million (2011: £3.5 million)
- Underlying diluted EPS\* up 56% to 25.2p (2011: 16.2p)
- Recommended increased final dividend 5.0p per share (2011: 4.5p) making 7.5p for the year (2011: 7.0p)
- Underlying operating margin† 7.4% (2011: 5.1%)
- Net cash at 30 November 2012: £4.6 million (2011: £1.3 million)
- Year end order book £36.9 million (2011: £35.9 million)

## Operational Highlights

- Significant contract wins in all sectors
- Changed Group name to Synectics plc in July 2012
- New operational hub in Singapore
- Further increased investment in research & development

\* Underlying profit represents profit before tax, restructuring costs, amortisation of acquired intangibles, share-based payment charges, impairment of goodwill and adjustments to deferred and contingent consideration. Underlying earnings per ordinary share are based on profit after tax but before restructuring costs, amortisation of acquired intangibles, share-based payment charges, impairment of goodwill and adjustments to deferred and contingent consideration.

† Underlying operating margin represents underlying operating profit as a percentage of revenue, where underlying operating profit represents underlying profit before tax before charging finance income and interest costs.

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 For further information go to [www.synecticsplc.com](http://www.synecticsplc.com)



Use your phone's QR code app to go to our website

## Our Strategy

Synectics' strategy is to combine deep sector-specific market knowledge with proprietary technology, particularly software, to provide, maintain and manage sophisticated electronic surveillance systems that are increasingly adapted to the needs of the specialist customer sectors we target – oil & gas, gaming, transport, banking, critical infrastructure and public space.

### Strategic Objectives

- 1** To integrate our business units into one company.
- 2** To exploit global opportunities from five strategic geographic hubs – UK, US, Germany, UAE and Singapore.
- 3** To invest in technology and business management capability to create sustainable long term growth.

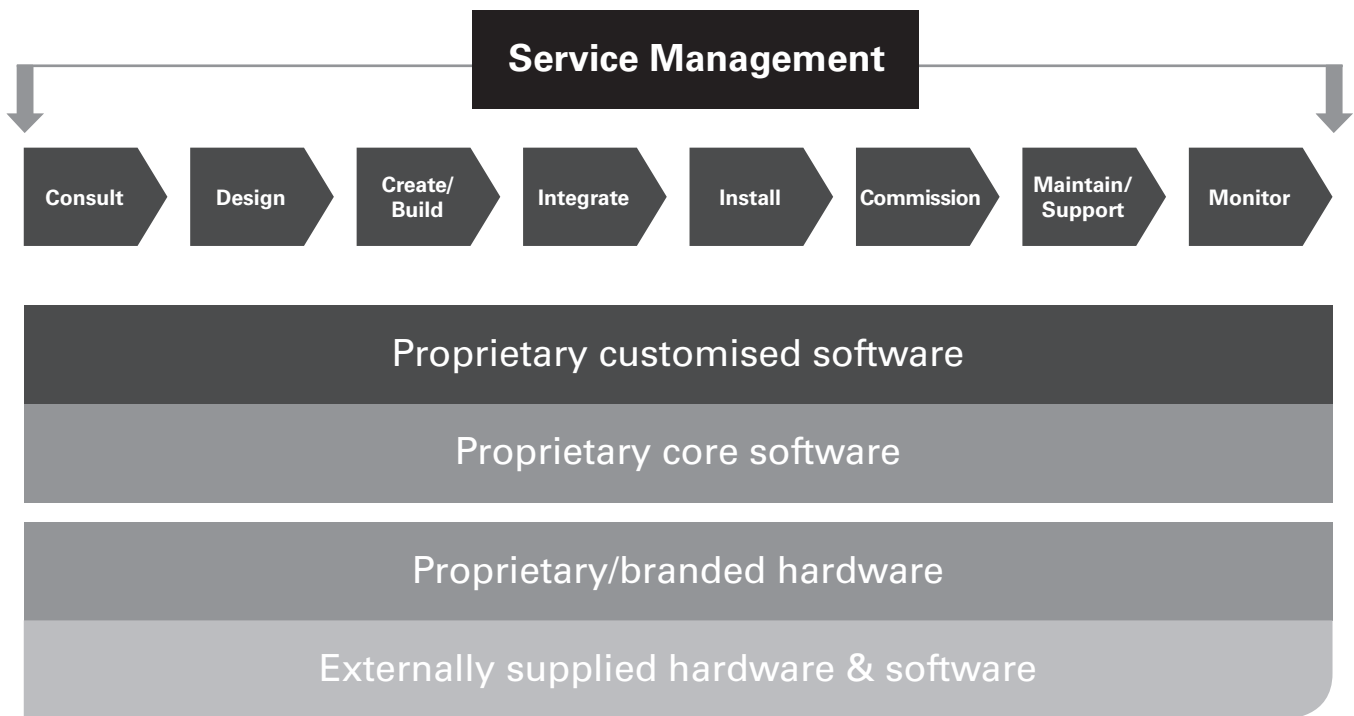
**Pictured:** Delivering complex and specialist surveillance solutions to serve requirements in hazardous areas



**Pictured:** Meeting the needs of transport security.



# Our Business Model



Synectics' business is to deliver end-to-end integrated electronic security systems and services to specialist high-end markets. From system consultation and design through installation and maintenance, to a fully managed or outsourced service solution.

Our open systems are based on core proprietary technology, in particular integration software. This technology is developed for our specific target customer sectors, and provides fundamental differentiation from mainstream suppliers in the wider electronic security market.

# Our Worldwide Operations

Synectics plc is a global business with regional operational hubs spread strategically throughout the world.

We continue to expand our sales and deliver strategic security solutions to meet the specialist needs of customers in our target sectors.



## Resorts World New York, USA

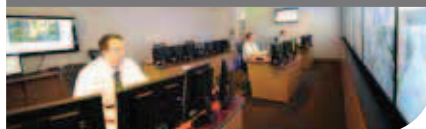
Synectics delivered a complete digital surveillance system for Resorts World's first North American casino venture and New York City's first legalised gambling "racino". Part of the project included installing a digital recording system as required by the New York State Lottery (NYSL) to protect not only the patrons but also the casino's significant cash assets and expensive materials.



**i** For further **Case Studies** go to [www.synecticsplc.com](http://www.synecticsplc.com)

## Unitary Authority Cheshire West & Chester Chester, UK

Synectics helped unitary authority Cheshire West & Chester streamline security operations by upgrading and integrating CCTV provision in three town centre locations, and consolidating control to one main management base in Chester. Over the five year term of service, the solution provided will result in an estimated saving of £70,000 in online charges alone.



## Abellio London, UK

Synectics was awarded a five year contract in 2012 by public transport company, Abellio, to support CCTV systems on over 600 buses across London and Surrey. Synectics' Genius telematics CCTV health checker and large network of support engineers in the Capital were key factors in Abellio's decision to select Synectics.



**Valemon Project**  
Norway

Synectics has provided a complete camera station supply to Honeywell, Norway. The camera station fully integrates with the Honeywell control system to provide security and safety surveillance for the Valemon Project, which is located in the Norwegian Sea. The solution included Synectics' COEX™ C3000 series including PTZ, fixed and thermal options with preset capabilities and wash systems.



**Achinsk**  
Russia

Synectics has successfully supplied COEX™ C3000 PTZ camera stations for the Achinsk Refinery project located in Eastern Siberia, Russia. The C3000 provides robust performance in extreme environments and has a unique pre-heat mode, which is vital in conditions where temperatures consistently dip below -36°C.

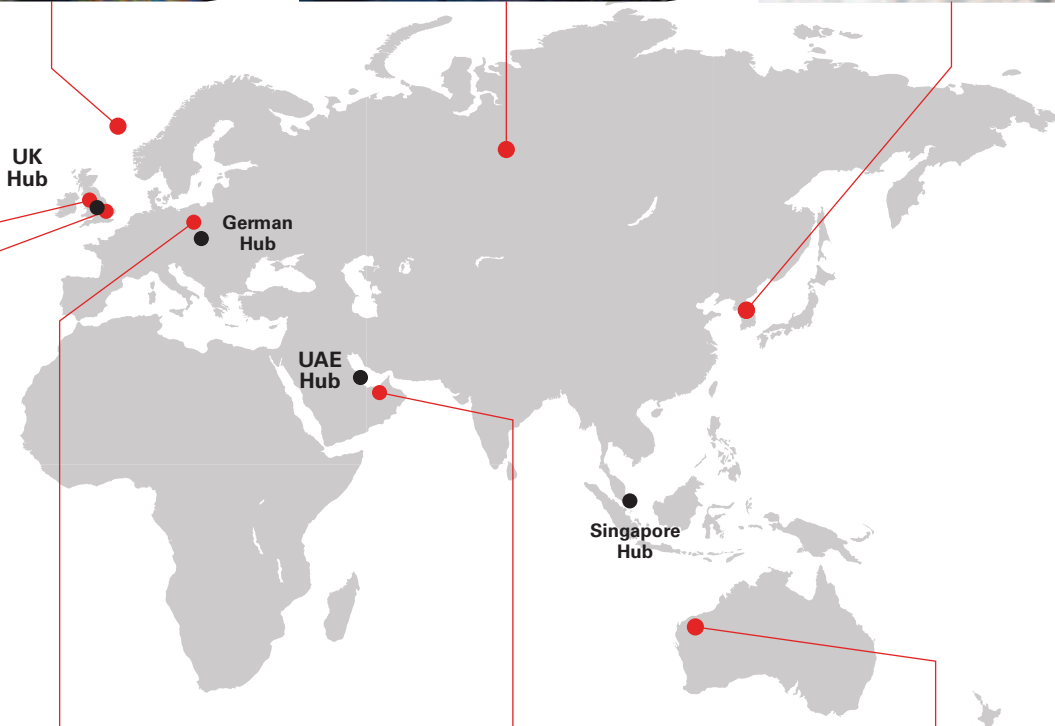
©Eni



**Excelerate LNG**  
US via Korea


Synectics will deliver a complete turnkey CCTV system for the Excelerate LNG Carrier. The system includes COEX™ camera stations, control and monitoring equipment and all the associated cabling. Synectics will commission the CCTV system once the shipyard (DSME) has completed the build of this vessel.

©Shell International Ltd


**Berliner Verkehrsbetriebe (BVG)**  
Berlin Public Transport Operator

Indanet delivered a mobile video surveillance solution for Berlin Metro. The project involved the delivery and installation of Indanets' video equipment for 844 train cars with one recorder per two cars and a minimum of three cameras for each car including a surveillance system.



**IRP Phase II**  
Abu Dhabi


Synectics was awarded the contract to supply a complete CCTV solution to the TAKREER Inter-Refineries Pipeline project. The pipeline will transfer product between Ruwais, UAN and the ADNOC Distribution depot at Mussafah.



**Western Advance – Gorgon**  
Australia

Synectics is providing a complete bespoke CCTV solution to ensure smooth and efficient monitoring and security for the entire Gorgon site. Located 130km off the North West coast of Australia, the Greater Gorgon Gas Field is the largest single natural gas resource in Australia with hydrocarbon reserves estimated at approximately 40 trillion cubic feet.

©Chevron Australia



# Chairman's Statement

**David Coghlan** Chairman



*"Synectics produced a strong performance in 2012. Virtually all areas of the Group recorded results at or ahead of prior year levels and also showed good progress towards the achievement of longer term objectives."*

**David Coghlan**  
Chairman

## Clearly Focused

**i** For information on our **Business Review** go to **pages 08 to 23**.

### Introduction

Synectics produced a strong performance in 2012. Virtually all areas of the Group recorded results at or ahead of prior year levels and also showed good progress towards the achievement of longer term objectives.

During the year we continued to see increased demand for our proprietary large scale surveillance systems, particularly for oil & gas applications in the Far East and Middle East and for critical infrastructure in the UK. Internally, the continuing process of operational efficiency improvements and cost control across the Group led to margins and profits increasing at well beyond the rate of revenue growth.

### Results

For the year to 30 November 2012, Synectics' consolidated revenue grew by 12% to £77.0 million (2011: £69.1 million). The Group made an underlying profit before tax\* of £5.7 million, an increase of 61% compared with the prior year. The underlying operating margin was 7.4% (2011: 5.1%). Underlying diluted earnings per share increased by 56% to 25.2p (2011: 16.2p).

\* Profit before tax, exceptional costs, amortisation of acquired intangibles, share-based payment charges, impairment of goodwill and adjustments to deferred and contingent consideration.

Further details on operating performance are set out in the divisional business review below.

Group profit before tax was £4.7 million (2011: £2.5 million), after exceptional and non-underlying items totalling £0.9 million (2011: £1.0 million), comprising mainly costs on disposal of the Group's defence activities, and a net gain of £0.3 million from adjustments to the deferred consideration estimate and carrying value of the Group's German subsidiary, Indanet AG.

Synectics generated positive net cash flow of £3.4 million during the year, bringing net cash at 30 November 2012, after deducting all borrowings, to £4.6 million (2011: £1.3 million).

### Dividend

In view of the higher profits for the year and our strong balance sheet, the Board has decided to recommend an increase in the final dividend from 4.5p to 5.0p, payable on 8 May 2013 to shareholders on the register on 15 March 2013. If approved by shareholders, this would bring the total dividend for the year to 7.5p (2011: 7.0p).

### Research & Development

Group expenditure on technology development in 2012 totalled £2.0 million (2011: £1.8 million). Of this, £0.6 million was capitalised, and the remaining £1.4 million expensed to the profit and loss account. £0.4 million of previously capitalised development was amortised during the year.

The Synectics Technology Centre operates as a consolidated development unit for the Group as a whole. The focus continues to be on developing products that are specifically directed to the needs of Synectics' core target customer sectors. We aim for the Group's development roadmap to operate in a well controlled environment that will enable us simultaneously both to deliver on time our planned new product introductions, and to support globally the bespoke, large scale and innovative projects that our customers are increasingly looking for. The inherent tension, and often conflict, between those two objectives requires skilled management. Extraordinary efforts from the Synectics Technology Centre team underpinned the Group's success in 2012.



## People

Synectics' employee base grew from 456 to 493 over the course of our last financial year. An important means of maintaining communication across our expanding Group is our annual formal employee survey process. The high response rate and quality of constructive written feedback received demonstrates a consistently high level of commitment and thoughtfulness.

Over many years Synectics has developed a culture founded on openness, integrity and on striving never to let a customer down. 2012 provided numerous examples of that culture in action, and of our people going well beyond what might normally be expected. It is ultimately this commitment that builds long term value for customers and the business. On behalf of the Board and shareholders, I once again record our sincere thanks.

## Strategy and Financial Objectives

In summary, Synectics' strategy is to combine deep sector-specific market knowledge with proprietary technology, particularly software, to provide, maintain and manage sophisticated high-end electronic surveillance systems that are increasingly adapted to the needs of the specialist customer sectors we target – oil & gas, gaming, transport, banking, critical infrastructure and public space.

There are, and likely will always be, portions of our revenues that fall outside those core target sectors; the Board encourages managers to be pragmatic, entrepreneurial business people, not strategic purists. Nevertheless, we are absolutely clear that our investments and the increasing majority of our total activities will lie in those areas.

In 2010 the Board set an objective for the Group to achieve a consolidated operating margin of 8-10%, within a reasonable time frame and given normal economic conditions. During 2012 Synectics raised its performance on this measure to 7.4%, up from 5.1% in the previous year. The actions taken by management towards achieving that goal have continued to improve the quality of Synectics' earnings, and the Board is pleased with the pace of progress.

## Corporate Governance

In the 'Governance' section of this Annual Report, I report on the conclusions of a review that the Board has been undertaking of Synectics' corporate governance, and address in some detail our position on specific governance issues affecting the Group that we judge to be of importance and potential interest to shareholders.

One of the positive changes resulting from the review is that we will from now on be submitting our annual remuneration report to shareholders for approval, beginning with our next Annual General Meeting.



**Pictured:** Protecting one of the world's largest natural gas projects – Gorgon Project

## Organisation

Four years ago, we initiated a process of consolidating Synectics' operations into fewer, larger units. The objective is to increase the scalability of the overall business. The latest stage in that process was implemented in December 2012, when all of Synectics' proprietary technology-led activities were brought together into a single division (Synectics Systems), and the services-led activities into another (Integration & Managed Services). As from 2013, our segmental reporting will follow that new divisional structure.

## Outlook

The Group's consolidated order book at 30 November 2012 stood at £36.9 million, compared with £35.9 million the previous year. Recent new contract awards and a substantial pipeline of expected orders underpin our confidence in the continuing momentum of the business. On this basis, the Board expects that Synectics will deliver another good result in the current financial year.

**David Coghlan**  
Chairman

27 February 2013

# Business Review

**John Shepherd** Chief Executive and **Nigel Poultney** Finance Director



*"It is pleasing to report that we have achieved a further significant improvement in underlying profit\* as well as generating £3.4 million of cash."*

**John Shepherd**  
Chief Executive

## Strategic Security Solutions

Synectics' business is to provide integrated electronic security systems and services to specialist high-end markets. Our systems are based on core proprietary technology, in particular integration software. This technology is developed for our specific target customer sectors, and provides fundamental differentiation from mainstream suppliers in the wider electronic security market.

The momentum we created in the first half has continued throughout the year enabling us to deliver a significantly improved performance compared with last year. It is pleasing to report that we have achieved a further significant improvement in underlying profit\* as well as generating £3.4 million of cash. This result is testament to the hard work and ingenuity of our very capable employees to whom I express my personal gratitude. In spite of the continuing global economic uncertainties, we have grown our sales of large integrated electronic security systems around the world, capitalising on our increasing brand recognition and investment in proprietary software and hardware technology. Our current order book and pipeline give us confidence of achieving a strong performance in 2013.

\* Underlying profit represents profit before tax, restructuring costs, amortisation of acquired intangibles, share-based payment charges, impairment of goodwill and adjustments to deferred and contingent consideration.

† Before research & development, non-underlying items and Group central costs.

### Integration & Managed Services

Synectics' Integration & Managed Services (IMS) division is one of the leading UK providers of design, integration, turnkey supply, monitoring and management of large-scale electronic security systems. Its main markets are in critical infrastructure, public space and multi-site systems. Its capabilities include a nationwide network of service engineers, UK government security-cleared personnel and facilities, and an in-house 24-hour monitoring centre and help desk. The IMS division supplies proprietary products and technology from other Synectics' divisions as well as from third parties.

Revenue	£30.0 million (2011: £32.6 million)
Gross Margin	24.6% (2011: 22.2%)
Operating Profit†	£1.9 million (2011: £1.5 million)
Operating Margin†	6.2% (2011: 4.5%)

In the year to 30 November 2012, the IMS division continued to concentrate on higher margin business opportunities in its areas of core competence: critical infrastructure, financial services and large-scale multi-site clients. While the tighter focus resulted in somewhat lower revenues, it enabled both increased gross margins and reduced overhead costs, producing an overall 27% increase in operating profits to £1.9 million, compared with £1.5 million in 2011. The achieved operating margin of 6.2% has brought the division's profitability into the range of our stated medium term goal of 6-8%.

Against a background of continued tight public sector spending in the UK, this was a creditable performance.

Important new business won in the period included a six year contract to provide service and maintenance at Magnox nuclear reactor sites across the UK and the security system for a new data centre for a large UK corporate customer.

Subsequent to the year end the IMS division won a contract to provide an integrated security solution for a major new custody suite complex for Avon and Somerset Police. In addition the division has also secured an innovative outsourcing contract from a UK local authority to take over the equipping, operation and maintenance of its wide area surveillance control room. This multi-year contract

## PROTECTING

### Helping Dorset police keep sailing fans safe

Synectics' IMS division designed, installed, maintained and decommissioned a large scale temporary CCTV solution, to help Dorset Police ensure that a huge influx of visitors experienced a summer of sport in Weymouth and Portland, safely and securely.

As a venue for key sailing events during summer 2012, Weymouth and Portland would experience unprecedented visitor numbers in areas beyond the scope of the existing local authority CCTV infrastructure. Dorset Police required a wholly temporary, networked CCTV solution to monitor a vast geographical area, that would feed into the force's existing Synectics' Synergy™ monitoring and control station.

The temporary nature of the project meant that the budget was highly restricted and infrastructure disruption for installation had to be kept to an absolute minimum. The coastal location also meant that the system to be installed had to have virtually no environmental impact but be tough enough to withstand harsh sea-air conditions.

IMS developed a solution in tandem with UK Broadband to meet the brief efficiently and cost-effectively. The system devised and implemented enabled Dorset Police to carry out its largest security operation to date and made monitoring of a vast and demanding geographical area manageable, on schedule and within budget.

*"The solution devised by Synectics' IMS division in collaboration with UK Broadband was the most viable and most cost-effective we looked at and was exactly what we asked for, despite the fact that it was a highly complicated and demanding brief. It's unusual for a networked solution of this scale to be required on a temporary basis, so for them to be able to select, specify, implement and manage the technology they did, in that context, was impressive."*

**Andrew Sims, CCTV Network Project Manager for Dorset Police**

**i** For further **Case Studies** go to [www.synecticsplc.com](http://www.synecticsplc.com)



incorporates expertise from across different businesses of the Synectics group in technology supply, systems integration and maintenance, and facilities management. This contract is the culmination of a number of years' work, and highlights the benefits in service quality and cost reduction Synectics can bring to local authorities. It follows on from the work done in 2011 for Chester West and Chester unitary authority, amalgamating three town centre control rooms into one and a 2012 Southampton control room consolidation project. The end goal of the strategy is to maximise efficiencies and lower costs significantly by combining the surveillance networks of neighbouring local authorities into a single larger scale outsourced control room as well as adding other innovative revenue generating monitoring services.

#### Market Trends

The UK market sectors have continued to be tough though there has been improvement in some areas notably banking, police, government high-security and utilities. We expect that the rate of spend will continue in the government high-security, infrastructure and utilities sectors and that spend in the financial services arena is set to increase modestly by the third quarter of 2013. Our resources are fully aligned with these expectations and we have again set our sights on some key large contract wins in 2013.

#### Public Space

We secured a number of major contract wins with new councils, as well as supplying solutions to our existing public space customers. Strong relationships with councils such as Cheshire West, Corby, Derby, Luton, Peterborough and Weymouth & Portland all contributed to a good public sector result. The greatest positive impact on our 2012 performance in this sector came from new contracts won where we were able to demonstrate long term cost savings for our customers. Councils such as Newcastle, Nuneaton and Southwark invested in new technology to reduce operating costs and improve efficiencies, whilst Southampton relocated their control room to save on real estate and transmission costs. We successfully consolidated the control rooms of two councils, Ashfield and Newark which will enable both councils to save significant amounts of money by using technology and services provided by the Group. This thought leadership approach was a key factor in the decision process which led to the local authority outsourcing contract.

#### Police

During 2012 we have continued to develop strong framework relationships with several UK police services and we won a major £2.7 million contract to deliver security and CCTV solutions to Avon and Somerset police.

#### Commercial

The commercial sector (banking, utilities, transport and large industrials) was more buoyant than in 2011 with significant contract wins to report. We secured a £4 million new-build project for a highly secure commercial complex for a large UK corporate customer. The project involves the installation and integration of CCTV, access control, intruder detection, perimeter/fence detection and interfaces

## Business Review continued

to turnstiles, barriers and X-ray machines. The whole integrated solution will be controlled and monitored by a Synectics command and control system.

We successfully completed a number of high profile projects for the Olympic Games including a project for Dorset Police which entailed designing, installing, maintaining and subsequently decommissioning a large scale temporary CCTV solution to help the force cope with last summer's influx of sailing sport fans. Refer to our highlight on page 09 for further details.

A further significant contract win was for Procter & Gamble to design and install a fully integrated security system in their new build HQ in Geneva, Switzerland.

### High Security

As announced at the time of the interim results, nuclear decommissioning specialist Magnox is one of our largest customers – a fact which was underpinned by the award of a new £7 million six year maintenance contract for their estate. This contract includes sites not previously maintained by the division and represents real growth in this sector. Further work on these new sites is expected to take place during 2013.

### Service and Support

During the year we made a significant investment in a new management information system that was launched with a major commercial bank. It is now being rolled out to all customers. The system is delivering major improvements to the quality of our service delivery.

### Managed Services

The post year end announcement of the contract to manage the outsourced security activities of a UK local authority represents a major step forward for our managed services team reducing their dependence on the fragile retail market.

### Future Trends and Outlook

The continuing advances in technology and customer migration towards all-digital solutions will facilitate the increasing levels of systems integration demanded by our customers. Off-the-shelf packages no longer deliver the levels of system integration and functionality they need. The added value that a team of experts can impart by designing a bespoke solution and managing the project from start to finish is something which is a particular strength of the IMS division. We expect continued good performance in 2013.

*"Our expertise to solve challenging and complex technical problems is valued by our customers."*

**John Shepherd**  
Chief Executive

**Pictured:** Synectics helped unitary authority Cheshire West & Chester streamline its security operations



## Synectics Network Systems

Synectics Network Systems (SNS) provides specialist video-based electronic surveillance systems and technology globally to end customers with large scale high security requirements, particularly for critical infrastructure protection and gaming. It is co-located in our Sheffield facility with the Synectics Technology Centre, which provides R&D, products and systems expertise to each of the other divisions.

Revenue	£17.8 million (2011: £16.2 million)
Gross Margin	50.5% (2011: 47.8%)
Operating Profit†	£4.8 million (2011: £3.8 million)
Operating Margin†	26.8% (2011: 23.2%)

SNS produced another excellent performance for the year, achieving record results in revenues, profits and margins.

The division benefited from continued strength in the US gaming market, particularly in the first half, and from solid growth within most of its core customer sectors in the UK and the Middle East.

SNS is beginning to open up substantial opportunities for further growth in the Far East. Following significant business and sales activity generated in the region last year, we have recently opened a new operating hub for Synectics in Singapore. We are close to finalising an important contract for this new Singapore subsidiary and expect to report on further developments shortly.

Continued focus on, and investments in, improved delivery systems, including enhanced workshop and engineering facilities has delivered further gains in operating efficiencies which contributed to the improvement in margins.

SNS has continued to win prestigious projects and deliver systems to protect critical high security assets around the world. Projects secured in 2012 demonstrate a good balance of upgrades and expansions for existing customers as well as the acquisition of new customers. SNS secured new projects as part of the 2012 Olympics preparation, a major new build banking infrastructure project, public space system consolidations, government work and national utilities infrastructure projects in the UK and mainland Europe.

### UK and Europe

The continuing uncertain economic conditions in 2012 produced a replica of the tough trading environment experienced in 2011. We have been able to grow in spite of these market conditions by focusing on the key sectors where our experience and proprietary technology are key differentiators. This was especially the case with the critical infrastructure protection market where, having started to build a presence in key geographies outside of the UK, we see continuing growth in this sector in the new financial year.

## INTEGRATING

### Maryland Live! Casino invests in integrated digital surveillance system

In 2012 a premier gaming integrator North American Video (NAV) delivered an all IP video surveillance system from Synectics (which included Synectics' iSynx people counting video analytics) for Maryland Live! Casino - one of the largest commercial casinos in the USA. Included in the project design was a range of third party software integrations to Synectics' Synergy™ security management software.

*"Maintaining Maryland Live! Casino's standard of using leading-edge technology across its operations drove our choice of systems" said Marco Valdez, Director of Surveillance for the casino. "We are looking to set the pace for the nation's gaming industry regarding surveillance so Synectics' ability to deliver custom integrations was critical."*

According to NAV's President and CEO Jason Oakley, all parties involved have expressed their delight with the end product and appreciation for all the work that was done to overcome the inevitable obstacles in a complex construction project of this nature. *"NAV looks forward to a continued long term relationship with Synectics, Maryland Live! and The Cordish Companies"* he says.

**i** For further **Case Studies** go to [www.synecticsplc.com](http://www.synecticsplc.com)



## Business Review continued

As with the IMS division, the public space sector continues to be hit hard by budget constraints, we have been working closely with our customer base to add value through unique technology to projects such as control room consolidations. This has enabled us to grow the number of projects in this niche.

In the banking sector we have managed to maintain a healthy level of growth by working closely with a number of key customers to develop specific solutions for this sector.

### Far East

We have been actively cultivating new high value security opportunities in the fast-growing Asia Pacific market. Through new regional reseller and distributor relationships, Synectics has made significant progress with major prospects in Singapore, Macau, the Philippines, and Vietnam.

Our strategy of finding key partners to work with in this region is proving successful. We will build on this momentum throughout 2013, using our newly established Singapore hub as the springboard to further penetrate the Asia Pacific marketplace.

### Middle East

Whilst we experienced some growth in the Middle East region, it was slower than expected outside of the oil & gas sector. In 2013 we will increase the capability of our UAE hub and use the transferable elements of our market strategy that have proved successful in the Far East marketplace to accelerate growth in this region.

### USA

In spite of the fact that the North American gaming market remained relatively flat, 2012 represented another very productive year for our US business with near record sales performance. The positive results can be attributed to sustained product demand from new and repeat end users such as traditional casino/racino customers, Native American and corporate clients, as well as some excellent new cruise ship projects, helped by both existing and new reseller partners.

After seven years of focused effort on the gaming vertical, Synectics has established top tier vertical brand recognition among new prospects, along with a loyal and expanding base of leading US and international casino customers like Penn Gaming, Pinnacle Entertainment, Genting and Ontario Lottery & Gaming. Over half of this year's revenue came from our established "repeat" customer base who replaced first generation Synectics systems, expanded current facilities, added IP HD camera technology, and/or opened new casinos in different states.

*"Our systems are highly user-friendly in a market where this is frequently not the case."*

**John Shepherd**  
Chief Executive

The balance between new and established Synectics' customers, along with the escalating industry-wide move to high definition IP camera systems bodes well for our continued success in 2013.

### Market Trends

The global demand for highly integrated electronic security systems continues to grow (global CAGR 2010-2014 12.45% – source IMS Research) and so we will be increasing our effort across all five of our geographic hubs in order to exploit this market need.

### Synectics Transport Systems

*Synectics Transport Systems (STS) provides specialist surveillance systems and products for integrated transport hubs, and rail, bus and haulage operators, primarily in the UK and continental Europe.*

Revenue	£14.7 million (2011: £13.5 million)
Gross Margin	31.1% (2011: 29.7%)
Operating Profit†	£0.2 million (2011: £0.3 million)
Operating Margin†	1.2% (2011: 2.1%)

After reporting a loss of £0.2 million in the first half of 2012, STS's results recovered to a profit of £0.4 million in the second half.

The first half loss was principally due to deteriorating sales in our UK Defence business. In light of the difficult outlook for UK defence spending, the Board concluded that we could not justify further support of those activities, and the business was sold to its management for a relatively nominal sum in September 2012. Included in the underlying operating results for STS in 2011/12 is a first half loss of £0.2 million.

Indanet, our German transportation systems business, lost £0.5 million in the first half, a result that was in line with our investment plan at the time of acquisition in 2011. The business broke even in the second half. Indanet is an important element in Synectics' strategy, both because of its leading position in surveillance control systems for integrated transport hubs and as an operating base for expansion of Synectics' systems into the German and other continental European markets. The technical and operational teams from the two companies are working well together, and we continue to be optimistic about the prospects for growth in this area.

As announced on 19 February 2013, Synectics has renegotiated the terms of the Indanet acquisition to enable us to take full control of the business at an earlier date than originally envisaged. The rate of progress of Indanet in the second half of 2011/12 was slower than originally anticipated, particularly in the speed of introducing Synectics' products into the German market. We have now acquired 100% of the shares of Indanet, for a total consideration of €3.6 million in cash, with no further earn out payments to be made.

This has resulted in a net credit of £4.3 million to the income statement. A new managing director has been appointed in place of one of the former shareholders, who has decided to leave the company. Among other benefits, the ownership of 100% of Indanet will enable us to simplify the operating structure, and to increase our investment in accelerating the sale of Synectics' branded systems into Germany and other markets.

Consequent on the slower rate of progress at Indanet the Board has assessed the carrying value of goodwill in the business and recognised an impairment of £4.0 million in these financial statements. The net impact of the two adjustments in respect of the gain on deferred and contingent consideration and the goodwill impairment is a gain of £0.3 million.

The UK transport business had a very good year, recording a significant growth in sales and operating profit.

The growth is mainly attributable to an increase in the number of installations of our mobile surveillance solutions on newly registered buses and coaches, an increase in export sales and growth in revenue from service contracts. The expansion of new installations was partially driven by the overall market recovery and demand for new vehicles in readiness for the London 2012 Olympics.

Synectics' on-vehicle surveillance system activities for local and export markets performed well in 2012. With a focus on operational improvements and efficiencies, margins increased towards target levels on sales that grew steadily in line with budget. Several long term contracts have been either won or renewed, including with Abellio and National Express. The Synectics T-Series surveillance and recording systems continued to gain market acceptance for their robustness, features and reliability, and further product releases are due in 2013.

We implemented a number of key initiatives in 2012 all aimed at improving our processes and ultimately our results. These included the introduction of an apprentice scheme, formal NVQ training and PDAs for use by all our service engineers (see case study on page 14).

The Board is anticipating improved results from this division in the current year.



## INTEGRATING

### Integrated multi-media solution deployed on Hong Kong Cityflyer routes

In 2012 Synectics' UK transport business was awarded a high profile contract by Alexander Dennis Limited for the supply of an integrated multi-media solution for use by Hong Kong Citybus on their Cityflyer routes. The customer's prior experience of working with Synectics' surveillance solutions in this emerging market was a key factor in their decision to award the contract.

The customer required a fully integrated one-box solution – comprising a powerful CCTV surveillance system, live passenger information and on-board media player that would operate reliably in their demanding transport environment.

The award of this contract demonstrates Synectics' ability to take a complex customer requirement and create a bespoke solution, working with each part of the supply chain to ensure that the end customer's requirements are fully met.

 For further **Case Studies** go to [www.synecticsplc.com](http://www.synecticsplc.com)

## Business Review continued

### Market Trends

#### Bus and Coach

A number of large overseas contracts for our mobile surveillance solutions in Hong Kong, New Zealand and Dubai were secured during 2012 and our customers continue to demand the latest technologies in order to maximise their investment in mobile surveillance solutions. In common with other sectors of the transport and wider surveillance markets, we anticipate greater interest from our bus and coach customers as they look to make the transition from analogue cameras to digital.

The UK market for new buses and coaches recovered in 2012, but we expect 2013 to be a more challenging year. However, we are confident we will continue to make significant headway towards our vision of being recognised as the market leader and partner of choice for innovative mobile technology solutions by continuing to deliver exceptional service and value for our customers and exploiting our growing export business.

Indanet has now completed its first full year as part of the Group and the integration of people, technologies and strategy continues. After major investments in organisation, technology and channels to market, we expect to generate growth of Synectics' systems solutions into the European market through Indanet in 2013 as well as securing significant new business in the core German transport market.

We successfully introduced our capabilities in public transport in September 2012 during the Innotrans Trade Show in Berlin where we demonstrated the innovative DataHub.Spider technology to the

market (see case study on page 17). Deutsche Bahn (the German national rail operator) has decided to use this technology for retrofit on many of their regional trains. Berlin metro operator BVG decided to improve the capability of their station video surveillance systems by installing more high definition digital cameras and upgraded control systems. Indanet developed special customized solutions for these requirements and successfully implemented this technology on 14 metro stations. Further roll out at up to 190 stations should follow in 2013–2015.

We have invested in marketing and European language versions of our Synectics Synergy™ management system and first trial installations have given excellent feedback from the market. We expect first major European project wins to be achieved in 2013.

### Synectics Industrial Systems

*Synectics Industrial Systems (SIS) designs, manufactures and supplies turnkey surveillance systems for extreme or hazardous environments. Applications include offshore and onshore oil & gas facilities, ships and industrial process control.*

Revenue	£15.9 million (2011: £7.9 million)
Gross Margin	35.5% (2011: 38.1%)
Operating Profit†	£3.2 million (2011: £1.3 million)
Operating Margin†	20.4% (2011: 15.8%)

SIS had an excellent year, achieving a doubling of revenue and an increase in operating profit of 158%. This performance resulted from continued success in expanding the scope and capability of



### INNOVATING

#### Synectics streamlines national CCTV support

Synectics' UK transport business introduced hand-held Personal Digital Assistants (PDAs) to its national network of service engineers during 2012. The PDAs provide engineers access to a complete vehicle CCTV and maintenance history and allow real-time video fault recording, setting a new industry benchmark for CCTV support in the bus and coach industry. Service engineers are also able to take a visual record of the fault or repair for real-time review of issues with the Synectics' engineering team back at base.

Customer support is a high priority for Synectics. Since 2003, we have invested in systems to track support and maintenance trends across all 20,000 of our mobile CCTV systems currently in operation. In addition to wireless fault reporting via 3G mobile data networks, the development of the Genius telematics system, with its in-built CCTV Health Checker, has enabled the automated reporting of faults from multiple vehicle systems.



the systems Synectics offers to its specialist oil, gas and marine customer base worldwide. The new COEX3000, 2000 and 1000 families of cameras have been well received by customers and further product developments are in the pipeline.

Important contracts won in the period included the TAKREER (Abu Dhabi Oil Refining Company) Inter Refinery Pipeline (IRP-II) and the Abu Dhabi National Oil Company's (ADNOC) Shah Gas projects, valued at more than £6 million in total. Such a growth rate inevitably placed strain on the operations of the business, including a move to additional premises. It is greatly to the credit of the team at SIS that they managed the rapid expansion in so capable and successful a manner.

To facilitate the next stage of growth, SIS has recently opened a sales office in Houston and expects to receive US certification for its EX-rated camera housings this year. Globally, the division's markets remain healthy and we confidently anticipate further good results in 2013.

In 2012 the business secured a number of large flagship oil & gas projects in the Middle East, Australia, the North Sea, a number of drilling rigs in the Gulf of Mexico and marine projects through the Korean shipyards.

The surveillance system for a prestigious project off the coast of Western Australia was successfully delivered during the year.

We have strengthened our team in the Middle East with senior business development resource now being permanently based in our UAE hub.

Our strategy remains unchanged – to provide the highest quality of Synectics' proprietary complete solutions, ranging from camera stations, sophisticated (yet highly user-friendly) IP Video Management Systems and full security management solutions as well as seamlessly integrating third party systems into our Synergy™ systems.

*"Very few organisations have the range and quality of products, combined with system integration capabilities and expertise to develop an industrial solution for a project of this scale. That's why we were keen to work with Synectics to provide the security CCTV system at Pearl GTL plant."*

**Mr Toni Partipilo**  
Sales & Proposals Manager, Page Europa

## PROTECTING

### Delivering state-of-the-art surveillance for the world's largest GTL plant

Synectics has developed a bespoke CCTV solution to protect the world's largest 'Gas to Liquids' (GTL) plant in Ras Laffan Industrial City, Qatar.

For Page Europa, the telecommunications project contractor with responsibility for security system specification, there were several core challenges that Synectics needed to address – scale, integration and resilience.

The sheer size and scale of the Pearl GTL Project presented a significant challenge. Page Europa needed a fully digital CCTV solution that would not only protect the plant area, consisting of office complexes and the vast perimeter fence, but also onshore process areas and the unmanned offshore platforms. High-end H.264 IP encoding capability was a key requirement to enable this level of functionality for such a large site.

While two separate CCTV systems were required, one to cover the plant and the other to monitor process areas, these systems needed to be integrated to allow full access to all cameras, at any time, from any of the CCTV Operator Stations. Additionally, all cameras needed to be fully integrated with the site Access Control System and Intruder Detection System.

The plant's location meant that technology had to withstand temperatures of -10°C to +50°C (83°C taking into account solar radiation) and varying light conditions. Ensuring maximum coverage of key process areas also meant that surveillance equipment needed to be able to operate in potentially hazardous industrial conditions. Because it was emergency, safety and production critical, the specified system could not drop below 99.99% availability or have any possible single points of failure.

**i** For further **Case Studies** go to [www.synecticsplc.com](http://www.synecticsplc.com)

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## Business Review continued

### Market Trends

#### *Oil & Gas*

The global market for oil & gas continues to show healthy signs of growth and offers SIS an opportunity to increase its global presence. A number of key relationships with partners in the oil & gas industry have been further developed during the period and we have secured a number of prestigious projects in new territories – US and Russia, further strengthening Synectics’ position as a world leader for CCTV solutions in the oil & gas market.

Going forward the focus will remain on oil & gas opportunities in the Middle East and Australia as well as developing a market presence in the US, Far East, North Sea, and Russia and the Former Soviet Union.

#### *Marine*

The Marine market continued to show signs of further growth throughout 2012 with a number of key contracts secured via Korean companies. Our expertise and knowledge of working with the dominant Korean shipyards will support our efforts to target key projects and opportunities in Europe and explore opportunities with the Japanese and Chinese shipyards.

### Research & Development

Group expenditure on technology development in 2012 totalled £2.0 million (2011: £1.8 million). Of this, £0.6 million was capitalised, and the remaining £1.4 million expensed to the profit and loss account. £0.4 million of previously capitalised development was amortised during the year.

During the course of the year the Synectics Technology Centre (STC) has strengthened its resources in the key areas of software development and product testing. The increased resource in software development has permitted us to deliver a number of strategic new products to market during the year, whilst retaining our ability to be agile to our customers’ needs for project specific requirements and third party device integrations.

Within the STC team, the Group has over 125 man years of specific security industry experience. This experience has played a key role in the system design and delivery of some of the most complex solutions we have ever created.

A number of new business systems have also been implemented during the course of the year, including a new inter-group product support tool to allow automatic generation of KPI reports which also facilitates identification of recurring support trends.

The STC has plans for further operational improvements during the course of 2013 including the formulation of a product management team, and the introduction of more advanced product development planning and product road mapping tools.

During the course of the year STC has launched a number of new products to market.



### PROTECTING

#### Breaking new ground with Magnox

Synectics plc has strengthened its partnership with nuclear management and operations contractor Magnox Ltd, with new project work including a ‘world first’ in decommissioning.

The contract involves the provision and maintenance of a wide range of complex and integrated security systems across Magnox Ltd sites. This additional work extends the contract from six to eight sites and requires the development of a bespoke range of security solutions for two locations currently on a ‘decommissioning fast track’, which will see them become the first of their type in the world to move into a ‘Care and Maintenance’ (C&M) phase. The way in which the C&M phase is managed is likely to form an industry blueprint for future locations.



**Pictured:** Synectics' HD IP cameras

### High Definition and megapixel Video

A full range of Synectics branded HD IP Cameras has been made available. To ensure the maximum possible quality in all scene conditions, all 3MP fixed and PTZ and cameras in both internal and external formats utilise Sony Exmoor CMOS sensor – widely recognised as the best available. An additional 5MP 360 degree fisheye camera is also included in the line-up to enable reduced camera counts in specific applications. The HD IP Camera line up delivers guaranteed full frame rate video at 1080p resolution, or reduced rate at 3MP, along with supporting multiple simultaneous video streams, synchronised audio alarm I/O and local storage capabilities. In keeping with the open architecture approach of our video and security management platforms the cameras also adhere to the widely specified ONVIF standard.

To further complement our High Definition line-up, a new generation SDI / HDCCTV storage server has been developed. This 4 or 8 channel unit is able to receive uncompressed HD video that is compatible with either SDI or HDCCTV standards over legacy coaxial cabling infrastructure (thus avoiding the need to rewire existing installations during an upgrade – a significant cost saving for our customers), and perform the compression and storage management centrally. This is ideal in situations where our customers have invested heavily in an analogue infrastructure, but want to gain the advantages of HD video without deploying an expensive IP network.

## INNOVATING

### DataHub.Spider – Intelligent integration of vehicle applications

The demand for different comfort and safety applications as well as the need for improved operational efficiency on trains highlighted the need for a modern, powerful and standardised communication architecture that was suitable for deployment on public transport vehicles.

The innovative DataHub.Spider was developed as a comprehensive information gathering, processing and communication tool. It provides integrated multi system data management functionality based on intelligent rules and data analysis by linking the digital reporting data from many on-board train systems including CCTV and passenger counting. The DataHub.Spider is designed for modern IP communication and allows ease of connection to:

- third party applications
- older legacy systems with limited performance
- proprietary vehicle systems

The integration of different comfort applications and safety functions via a single data platform delivers significant advantages to transport operators. The data model is generic in design and will support future applications.



## Business Review continued

### e1600

Based on the future encoding platform first launched as part of our ePSN product in 2011, the e1600 H.264 video/audio encoder is the newest addition to Synectics' encoder family. The e1600 delivers D1 resolution at full frame rate (25fps PAL/30 fps NTSC) on every one of its 16 channels and offers more efficient encoding than any of our previous generation products. Multiple value added features are available on the e1600, including dual redundant network interfaces, open module slot for "direct-to-fibre" capability, and local storage in the form of SD slot, eSATA, or USB hard disk drives. Furthermore the platform is engineered to support Scalable Video Coding (SVC) technology via future firmware updates ensuring the product is capable of meeting current and future requirements.

### Synergy Pro™

The Flagship Video and Security Management software product from Synectics has undergone a number of improvements and enhancements over the year which help us to retain a market leading position. Over 20 new, non-video, third-party integrations have been added along with support for an ever increasing range of third party IP Cameras. Synergy Pro™ now contains Synectics' proprietary de-warping and image-stitching algorithms to allow support for 360 degree fisheye cameras and multi sensor panoramic cameras.

Synergy Pro™ has further been enhanced in all elements of system failover and redundancy. It is now able to fully embrace the edge storage capabilities of IP cameras and encoders, which can continue to store video even in the event of a catastrophic network failure. Once the network has been returned to service Synergy Pro™ "backfilling" takes place to migrate video from the cameras to our highly resilient storage servers. Our failover and redundancy features have been further enhanced via the generation of a proprietary failover and replication engine.

**Pictured:** Synergy Pro™ Security Management Software installation



## Key Performance Indicators

Measure	2012	2011	Inc/ (dec)	Inc/ (dec) %
<b>Revenue (£ million)</b>	<b>77.0</b>	69.1	<b>7.9</b>	12%
<b>Gross margin %</b>	<b>34.5%</b>	31.9%	<b>2.6%</b>	
<b>Underlying operating profit (£ million)</b>				
operating profit before non-underlying items* and goodwill impairment	<b>5.7</b>	3.5	<b>2.2</b>	61%
<b>Underlying profit before tax (£ million)</b>				
profit before tax, non-underlying items*, goodwill impairment and adjustments to deferred and contingent consideration	<b>5.7</b>	3.5	<b>2.2</b>	61%
<b>Operating margin %</b>				
ratio of underlying operating profit to revenue	<b>7.4%</b>	5.1%	<b>2.3%</b>	
<b>Basic earnings per share (p)</b>	<b>21.6</b>	10.2	<b>11.4</b>	111%
<b>Diluted underlying earnings per share (p)</b>				
based on underlying profit before tax	<b>25.2</b>	16.2	<b>9.0</b>	56%
<b>Order book (£ million)</b>	<b>36.9</b>	35.9	<b>1.0</b>	3%
<b>Recurring revenue (£ million)</b>				
contracted sales where a service is delivered over a future time period and revenues are recognised in the relevant future accounting period	<b>16.7</b>	15.4	<b>1.3</b>	9%
<b>Recurring revenue as % of sales</b>	<b>21.7%</b>	22.3%	<b>(0.6%)</b>	
<b>Working capital %</b>				
Working capital as % of revenue	<b>13%</b>	17%	<b>(4%)</b>	
<b>Net cash</b>				
Cash balances net of loans	<b>4.6</b>	1.3	<b>3.3</b>	270%
<b>Free cash flow (£ million)</b>				
cash flow from operations less capital expenditure, but before any payments in respect of non-underlying items	<b>6.5</b>	2.7	<b>3.8</b>	139%
<b>Cash conversion %</b>				
ratio of free cash flow to underlying operating profit	<b>114%</b>	77%	<b>37%</b>	

## Group Results for the Year

Financial performance in 2012 was very strong as profit after tax grew by 112% to £3.4 million and underlying profit before tax grew by 61% to £5.7 million. In addition most performance indicators for the year showed an improvement over the previous year as shown above and discussed in more detail below.

Cash generation was also strong in 2012 with free cash flow in the year increasing to £6.5 million (2011: £2.7 million) to give a net cash position at 30 November 2012 of £4.6 million compared with £1.3 million at the end of 2011.

During the first half of the year the Board took the decision to discontinue its defence activities, and subsequent to the year end the Board renegotiated the terms of the deferred and contingent consideration for Indanet which was acquired in July 2011. The net impact of these transactions, including a review of the carrying value of goodwill in Indanet, is to create a charge of £0.7 million which, together with amortisation of intangibles (£0.1 million) and share-based payment charges (£0.1 million), has been excluded from underlying profit before tax. These items are discussed in more detail below.

\* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, restructuring costs and share-based payment charges.

## Income Statement

Overall Group revenue for the year to 30 November 2012 amounted to £77.0 million compared with £69.1 million in the year to 30 November 2011, an increase of £7.9 million (11.5%).

Revenue split between our four business segments was as follows:

Revenue	2012 £'000	2011 £'000	Inc/ (dec) £'000	Inc/ (dec) %
Integration & Managed Services	<b>29,978</b>	32,622	(2,644)	(8.1%)
Network Systems	<b>17,823</b>	16,230	1,593	9.8%
Transport Systems	<b>14,714</b>	13,461	1,253	9.3%
Industrial Systems	<b>15,858</b>	7,943	7,915	99.6%
Intra-group sales	<b>(1,334)</b>	(1,173)	(161)	
<b>Total revenue</b>	<b>77,039</b>	69,083	7,956	11.5%

Strongest sales growth was seen in Industrial Systems where revenue almost doubled year on year to £15.9 million, boosted by the two substantial contracts we announced a year ago for the TAKREER (Abu Dhabi Oil Refining Company) Inter Refinery Pipeline (IRP-II) and the Abu Dhabi National Oil Company's (ADNOC) Shah Gas projects.

## Business Review continued

Network Systems' revenue overall grew by almost 10%, predominantly in the UK as US gaming sector sales reduced slightly against the record levels achieved in 2011.

Transport Systems' revenue grew by 9.3% which mainly came from the UK Transport business as the full year impact of Indanet's sales (acquired in July 2011) was offset by the cessation of defence activities from June 2012.

Revenue from the Integration & Managed Services division fell by 8.1% as a result of a focus on higher margin business which ultimately improved overall profitability in that division by £0.4 million.

Consolidated gross margins for 2012 moved ahead by 2.6% to 34.5% with the analysis by segment as follows:

<b>Gross margin %</b>	<b>2012</b>	2011	Inc/
	%	%	(dec)
			%
Integration & Managed Services	<b>24.6%</b>	22.2%	2.4%
Network Systems	<b>50.5%</b>	47.8%	2.7%
Transport Systems	<b>31.1%</b>	29.7%	1.4%
Industrial Systems	<b>35.5%</b>	38.1%	(2.6%)
<b>Total Group</b>	<b>34.5%</b>	31.9%	2.6%

A continued focus on margins continues to show benefits as gross margins improved in all divisions except for Industrial Systems, where 2012 margins have fallen back to a more typical level, but still well ahead of the 34.0% return achieved in 2010.

Operating expenses, which include certain non-underlying costs are summarised below:

	<b>2012</b>	2011	Inc/	Inc/
<b>Operating expenses</b>	<b>£'000</b>	£'000	(dec)	(dec)
			£'000	%
Underlying operating expenses	<b>20,877</b>	18,480	2,397	13.0%
Non-underlying items:				
Acquisition costs	–	352		
Restructuring costs	<b>973</b>	346		
Share-based payments charge	<b>119</b>	192		
Amortisation of acquired intangibles	<b>116</b>	48		
	<b>1,208</b>	938		
Impairment of Indanet goodwill	<b>3,993</b>	–		
<b>Total reported operating expenses</b>	<b>26,078</b>	19,418	6,660	34.3%



### INNOVATING

#### Women's Development Programme

We are investing in an initiative called "An Inspirational Journey" aimed at developing our female senior managers.

Using a proactive and collaborative model the "Journey" focuses on building confidence and self-belief, recognising capabilities and skills and developing contacts. The "Journey" aims to provide women with greater choice and control in their career, encouraging them to exceed their own expectations in pushing themselves forward.

"The Pearls" is one of the four vehicles and is targeted at those female managers who have been identified as having the potential to be a future leader. It is delivered through a series of offline and online support.

The development programme supports our ongoing commitment to improve organisational effectiveness by developing the Synectics' talent pipeline.

Underlying operating expenses grew by £2.4 million or 13.0% in absolute terms but this was broadly in line with the overall growth of the Group with operating expenses representing 27.1% of sales in 2012 compared with 26.8% in 2011. The full year impact of Indanet accounts for £1.5 million of the total increase. Disregarding Indanet, overheads as a percentage of sales has fallen from 26.9% to 25.8% reflecting operational gearing benefit in the Group as sales grow.

Non-underlying items amounted to £1.2 million with the largest element being restructuring costs of £1.0 million, arising from the sale of the Group's small defence activities to its management in the second half of the year for the nominal sum of £11,000. First half revenues of £0.7 million and operating losses of £0.2 million are included within the Transport division's results, whilst second half costs of disposal are reported within operating expenses. This amount includes £0.4 million in respect of the non-cash write-off of intangible assets associated with this activity.

Following the renegotiation of the deferred consideration for Indanet which resulted in a credit to the income statement of £4.3 million, as more fully described below, the Board have also reviewed the carrying value of goodwill arising from this acquisition, and believed that it was appropriate to reduce this amount by £4.0 million. This charge is included in operating expenses.

Finance income and costs in 2012 are distorted by the inclusion of a credit for £4.3 million arising from the renegotiation of the deferred and contingent consideration conditions of the Indanet acquisition concluded in July 2011.

If this credit is isolated then net underlying finance costs increased by £22,000 year on year, as follows:

<b>Finance income/(costs)</b>	<b>2012 £'000</b>	2011 £'000	Inc/ (dec) £'000	Inc/ (dec) %
Finance income	<b>244</b>	268	(24)	(9.0%)
Finance costs	<b>(297)</b>	(299)	2	(0.7%)
Net underlying finance costs	<b>(53)</b>	(31)	(22)	71.0%
Adjustment to deferred and contingent consideration	<b>4,252</b>	(110)	4,362	
<b>Net total – as reported</b>	<b>4,199</b>	(141)	4,340	

Since the year end the Board has renegotiated the terms for the acquisition of Indanet in July 2011 so that the vendors sold their remaining 49% holding in Indanet's issued share capital for €1.64 million (£1.4 million) in January and February 2013. Under the terms of the original agreement the vendors were guaranteed a payment of €1 million on 31 December 2013 and a further amount of up to €7 million, payable in 2014 and 2015 dependent on cumulative profits to May 2015. As a consequence of this renegotiation the outstanding consideration has been restated to £1.4 million at 30 November 2012 with a corresponding credit of £4.3 million reflected in the consolidated income statement.

Underlying profit before tax (being profit before non-underlying items, impairment of goodwill and any adjustment in respect of the finance cost of deferred and contingent consideration) was £5.7 million in 2012 compared with £3.5 million in the year to 30 November 2011.

	<b>2012 £'000</b>	2011 £'000	Inc/ (dec) £'000	Inc/ (dec) %
<b>Underlying profit</b>				
Integration & Managed Services	<b>1,852</b>	1,460	392	26.8%
Network Systems	<b>4,780</b>	3,762	1,018	27.0%
Transport Systems	<b>175</b>	280	(105)	(37.5%)
Industrial Systems	<b>3,242</b>	1,258	1,984	157.7%
Research & Development costs	<b>(1,432)</b>	(1,025)	(407)	39.7%
Central costs	<b>(2,906)</b>	(2,194)	(712)	32.5%
Underlying operating profit	<b>5,711</b>	3,541	2,170	61.3%
Interest	<b>(53)</b>	(31)	(22)	71.0%
<b>Underlying profit before tax</b>	<b>5,658</b>	3,510	2,148	61.2%

Underlying profit from all divisions with the exception of Transport Systems increased significantly as a result of improved volumes and gross margins.

The Transport Systems division's overall performance is distorted by the results of Indanet which reported a loss of £0.5 million, in line with expectations, and the first half loss of £0.2 million from the discontinued defence activities. The underlying UK transport activities reported profits almost doubling to £0.8 million.

The Group increased its investment in research & development during the year to £2.0 million (2011: £1.8 million).

## Business Review continued

The research & development cost charged to the income statement in the period also increased, to £1.4 million compared with £1.0 million in the previous year, as the amount of cost capitalised slightly decreased to £0.6 million reflecting proportionately more time being spent on specific customer projects in the year.

Research & Development expenditure	2012 £'000	2011 £'000	Inc/ (dec) £'000	Inc/ (dec) %
Total costs	1,994	1,772	222	12.5%
Amounts capitalised	(562)	(747)	185	(24.8%)
<b>Net cost</b>	<b>1,432</b>	<b>1,025</b>	<b>407</b>	<b>39.7%</b>

The Group's underlying operating margin (being the ratio of underlying operating profit, as defined above, to revenue) continued to improve to 7.4% in 2012 compared with 5.1% in the year to 30 November 2011, and well on course to our target of 8% – 10%.

Segmental operating margins are set out in the table below, and show progress towards our target returns in all segments except for Transport Systems where Indanet and the defence activities were loss-making, as noted above. The underlying UK transport business operating margin improved strongly to around 9%.

Underlying operating margins	2012 %	2011 %	Inc/ (dec) %
Integration & Managed Services	6.2%	4.5%	1.7%
Network Systems	26.8%	23.2%	3.6%
Transport Systems	1.2%	2.1%	(0.9%)
Industrial Systems	20.4%	15.8%	4.6%
<b>Total Group</b>	<b>7.4%</b>	<b>5.1%</b>	<b>2.3%</b>

The tax charge for 2012 was £1.3 million compared with £0.9 million in 2011. The underlying tax rate (being the percentage ratio of the tax charge for the period, after adding back the tax effect of non-underlying items, to the underlying profit before tax) was broadly similar to the previous year at 27.5% (2011: 27%).

Basic earnings per share for 2012 were 21.6p compared with 10.2p in the year ended 30 November 2011.

However, the Directors believe that a better measure of performance is the diluted underlying earnings per share which are calculated on the underlying profit as defined above. This earnings per share measure improved by 56% to 25.2p against 2011 (16.2p per share).

Earnings per share	2012 p	2011 p	Inc/ (dec) p	Inc/ (dec) %
Basic EPS	21.6	10.2	11.4	111.4%
Diluted underlying EPS	25.2	16.2	9.0	55.8%

### Statement of financial position

Non-current assets at 30 November 2012 were £22.3 million compared with £26.8 million at 30 November 2011.

Total capital expenditure in the year was at the same level as 2011 (£1.4 million) and comprised property, plant and equipment (£0.5 million), development costs (£0.6 million) and software (£0.3 million). This compares with depreciation and amortisation charges of £1.1 million (2011: £1.3 million).

Disposals of £0.4 million related to goodwill and development costs written off in the defence activities which were sold to the management during the year. The balance sheet value of goodwill also fell by a further £4.0 million as a result of the Indanet impairment adjustment noted above.

Working capital levels fell in absolute terms by £1.3 million to £10.2 million at 30 November 2012, although the November 2011 working capital levels were higher than expected owing to a large customer payment delayed until after the year end. Working capital expressed as a percentage of annual revenues fell from 17% in 2011 to 13% in 2012.

Provisions at 30 November 2012 amounted to £1.5 million (2011: £6.1 million) after reducing the value of deferred and contingent consideration for Indanet by £4.3 million to £1.4 million, which was paid after the year end as a negotiated final settlement of outstanding consideration.

### Cash

The Group ended the year with net cash balances of £4.6 million at 30 November 2012 (30 November 2011: £1.3 million) after deducting term loans arising in connection with the acquisition of Indanet of £1.9 million.

The net cash inflow of £3.4 million in the year is summarised in the table below.

Major items include capital expenditure of £1.4 million described above (which was marginally higher than depreciation and amortisation of £1.1 million), tax payments of £1.7 million and dividend payments of £1.1 million.



Free cash flow, that is cash flow generated from operations less capital expenditure (but excluding any cash flows in respect of non-underlying items) was £6.5 million (year ended 30 November 2011: £2.7 million) and represents a cash conversion rate of 114% (2011: 77%), being the ratio of free cash flow to underlying operating profit.

	2012	2011	Inc/ (dec)
	£'000	£'000	£'000
<b>Cash flows</b>			
<b>Underlying operating profit</b>	<b>5,711</b>	3,541	2,170
Depreciation and amortisation charges	<b>1,014</b>	1,258	(244)
Change in working capital	<b>1,191</b>	(703)	1,894
<b>Cash from operations before non-underlying payments</b>	<b>7,916</b>	4,096	3,820
Non-underlying items	<b>(570)</b>	(666)	96
<b>Cash generated from operations</b>	<b>7,346</b>	3,430	3,916
Interest (paid)/received	<b>(53)</b>	(22)	(31)
Tax paid	<b>(1,745)</b>	(485)	(1,260)
Capital expenditure	<b>(1,417)</b>	(1,372)	(45)
Acquisitions	–	(2,556)	2,556
New borrowings	<b>81</b>	1,843	(1,762)
Issue of shares and share scheme interest realised in year	<b>249</b>	–	249
Dividends paid	<b>(1,140)</b>	(1,110)	(30)
Effect of exchange rate changes	<b>72</b>	21	51
<b>Net cash flow</b>	<b>3,393</b>	(251)	3,644
Cash at the beginning of the period	<b>3,098</b>	3,349	(251)
<b>Cash at the end of the period</b>	<b>6,491</b>	3,098	3,393
<b>Free cash flow</b>	<b>6,499</b>	2,724	3,775
<b>Cash conversion</b>	<b>114%</b>	77%	37%

## Summary

2012 saw a further significant improvement in profitability and cash generation as we continue to move towards the achievement of our strategic goals. Our five operational hubs in the UK, USA, Germany, UAE and Singapore give us access to most of the fastest growing global electronic security markets, a position we intend to exploit in 2013. We continue to demonstrate our ability to win increasingly large-scale, complex contracts which are indicative of the increasing scope of capability we can now offer our customers. Throughout the year ahead we will continue to offer our customers the best product and service solutions through innovation to reinforce our position as a leader in this field.



**John Shepherd**  
Chief Executive



**Nigel Poultney**  
Finance Director

# Governance – Chairman’s Introduction

Since early in 2012 the Board of Synectics has been engaged in a root-and-branch review of the Company’s approach to corporate governance and, in particular, how we should update our reporting to shareholders on such matters. We have looked critically at the way we do things, at our own past reporting and at the evolution of regulation and best practice for publicly quoted companies generally. The revised format and content of this year’s annual report reflect the Board’s current conclusions from that continuing review.

We support wholeheartedly the letter and spirit of the principles embodied in the UK Corporate Governance Code (‘the Code’). Although as an AIM company Synectics is not bound by the Code, our intent is to comply with it wherever we sensibly can within the constraints of the Company’s size and resources.

Detailed reporting on our governance is contained in the following sections of this report. In this introduction, I would like to address personally the governance issues specifically relevant to Synectics that we judge to be of most importance and direct interest to shareholders.

## Values and Leadership

Synectics’ strategy is founded on selling, maintaining or operating security systems that are critical to large or important elements of our customers’ activities. Our customers tend to be large government and private sector organisations, where security system failures can have high cost and a high profile, well beyond the scope of what may be for them a relatively modest-sized procurement.

The Board has long recognised that both the success the Company has had thus far, and the biggest risk to our future success, are rooted in the Company’s reputation. In the long term, our reputation is in turn dependent on the values that underpin it: integrity, openness and striving never to let a customer down. These values have been lived and instilled in Synectics’ culture by its senior management since its foundation over twenty years ago. The Board sees it as a vitally important part of its role to oversee the guardianship of these values, and to ensure that we collectively and personally reinforce them in all our decisions and interactions.

## Composition, Independence and Effectiveness of the Board

The Board of Synectics comprises, in addition to the Chairman, three independent non-executive Directors and two executive Directors. Membership of each of the Audit Committee and the Remuneration Committee is made up solely of the three independent non-executive Directors. That structure has been in place for nearly three years, and complies fully with the Code provisions for listed companies of any size.

For each of the past four years the Board has completed an extensive self-evaluation process consisting of detailed questionnaires, one-on-one reviews of collective and individual performance between each Director and the Chairman, Group discussion of significant issues arising, and resultant agreement on a set of improvement objectives

and actions for the following year. As examples, positive results emerging from this process have included (i) actions to improve our approach for setting and monitoring milestones within each business unit towards achieving its agreed objectives, (ii) a new method of integrating and monitoring the management of large ‘asset clients’ spanning several business units, (iii) closer involvement of the NEDs in professional development and succession planning for the second tier of senior management, and (iv) access for non-executives to regular updates, both internal and independent, on technology developments that continue to evolve rapidly in our industry.

As part of the annual self-evaluation process, the Board specifically re-assesses the independence of each of the non-executive Directors. Our non-executive Directors, Peter Rae, Steve Coggins and Dennis Bate, have served on the Board for 15 years, 8 years and 7 years respectively. Each brings different and complementary high level experience relevant to the current business and future development of Synectics. Issues of strategy, performance monitoring, risk management and remuneration policies are debated around the board table with a degree of robustness, candour and independence that is, in my opinion, precisely what the Code is trying to encourage.

Synectics is a multi-faceted business that operates in a technically and strategically complex global environment, with a fluid competitive structure characterised both by multinationals orders of magnitude bigger than us, and by a continuing stream of well-funded new technology start-ups. Against that background, and given Synectics’ current size, I view the relatively long tenure of our non-executives as a positive advantage. Their deep knowledge of the electronic security marketplace and our business enables the Board to evaluate emerging opportunities and risks decisively, in detail and, where necessary, quickly.

Over the past four years, one of the most important activities of the Board has been to oversee the very substantial strengthening of senior management, firstly by bringing in a new Chief Executive and then by facilitating the hiring or promotion of a new senior team that we believe capable of leading Synectics past the £100 million revenue threshold and beyond. The non-executive Directors have taken on an increased workload as part of that process, in particular through personal mentoring for individual senior managers.

For these reasons, I believe, as do my non-executive and executive colleagues, that the current Board is operating effectively on behalf of all shareholders and that its structure is within the letter and spirit of the Code. That said, the Board does acknowledge the benefits that fresh perspectives can bring and, as Synectics continues to grow, we intend to keep under close review the right time to make an additional non-executive appointment.

## Remuneration – Share-Based Long Term Incentive Plan

The third area of governance I would like to comment on is remuneration. The details of our policies and payments are set out in the report of the Remuneration Committee below. One significant aspect is that 2012 saw the end of the vesting period of the majority of share awards issued under the Company's Long Term Incentive Plan ('LTIP').

Synectics' LTIP has been the cornerstone of the Board's intent of being able to offer meaningful long term capital rewards to managers if the Company delivers superior gains to shareholders. Major shareholders were consulted, and their views taken into account, when the LTIP was put in place in 2005 and again when it was modified in 2009 and 2012. The provisions of the LTIP differ from current best practice in two respects.

First, the small size of Synectics' issued share capital meant that the Board felt it would be necessary to enable meaningful rewards to a sufficiently wide group of senior managers that the cap on the total proportion of the Company's share capital the subject of all share schemes over a rolling 10-year period needed to be greater than the ABI guideline of 10%. This issue was part of the major shareholder consultation at the time. The maximum under the LTIP was set at and remains 13.5%. If Synectics' issued share capital were to grow materially in future, the Board intends to reduce the maximum accordingly down to 10% or lower.

Second, the LTIP rules for measuring Synectics' performance for the purposes of vesting of LTIP awards are based on outperformance of the benchmark FTSE AIM All Share Total Return Index ('the AIM All Share Index') over the relevant three-year period. As we understand it, current best practice would suggest that (i) performance would better be judged in relation to the upper quartile of companies in the index, rather than to outperforming the index itself by an absolute percentage, and (ii) an additional performance measure ought to be added, such as absolute growth in earnings per share, to ensure vesting would not be skewed by some anomaly in Synectics' share price or the benchmark index.

The Remuneration Committee decided not to include amendment of the LTIP performance criteria in the 2012 modifications of the plan. In the spirit of comply or explain, I should report briefly the reasons for that decision. These were (i) our Board does not believe that companies representing the upper quartile of performance of the AIM All Share Index are necessarily an appropriate benchmark for Synectics, principally because in that particular index the upper quartile in any period is often distorted by a long tail of tiny companies, many in the mining industry, that are not relevant comparators; (ii) although we have no objection to an additional

earnings per share measure, the issue of potential anomalies is addressed differently in our LTIP, which grants the Board a wide overriding discretion to extend the required vesting period if it thinks fit; and (iii) the Board did not want to create a potentially demotivating disparity with different performance criteria applying to existing and new entrants in a mature plan.

In July 2012 the majority of the shares issued under the LTIP reached the end of their three-year vesting period. Over that period the total shareholder return on Synectics' shares was 139%, compared with a return on the AIM All Share Index of 36%. The Remuneration Committee looked at Synectics' underlying results, and at whether the particular period showed any timing anomalies, concluding that the measured outperformance fairly reflected the performance of the business, and therefore that the LTIP shares vested in full. It is worth noting that actual performance did in fact place Synectics well into the top quartile of the index, so the shares would have vested in full under that criterion as well. Since vesting, most of the shares have, as intended, been retained by the relevant senior managers rather than sold, and the degree of outperformance of the Company's shareholder return against the index has widened further.

As a final important point on remuneration, the Board has decided that in line with evolving best practice approval of the Remuneration Committee Report will be put to shareholders for a vote at our Annual General Meeting this year.

The Board's review of governance is continuing, and we expect to make further changes to our governance reporting format and content next year.



**David Coghlan**  
Chairman  
27 February 2013

# Directors and Senior Management

## Non-Executive Directors



**David Coghlan**  
**Chairman**

has degrees in Law and in Finance from the University of New South Wales in Sydney and an MBA from Wharton in Philadelphia. He was formerly a partner at strategy consultants Bain & Company. He is currently a director of AIM-quoted SCISYS plc and chairman and/or a director of several other companies, mainly in the electronic technology field.



**Dennis Bate CBE**  
**Independent Non-Executive Director**

has 53 years of experience in the construction industry, of which 38 years were spent with Bovis, most latterly as board director responsible for Bovis' operations in the UK and Eastern Europe, and then Bovis' Lend Lease operations. He was awarded the CBE for his services within the industry.



**Steve Coggins**  
**Independent Non-Executive Director**

has held various senior roles in both sales and marketing and general management in the information technology arena including Senior Vice-President at both Amdahl (now part of Fujitsu) and at Silicon Graphics. Earlier he spent time at IBM and also in engineering computing in the aircraft industry.



**Peter Rae**  
**Senior Independent Non-Executive Director**

is a graduate of Cambridge University, and formerly Chief Executive of S.W. Wood plc (now Wyndeham Press plc). He has current interests in a wide range of engineering and other businesses.

## Executive Directors



**John Shepherd**  
**Chief Executive**

has a degree in Electronic Engineering from the University College of North Wales and he is a fellow of the RSA. He is a former Managing Director of Smiths Detection Division, former CEO of First Technology plc and former non-executive Chairman of FTSA Holdings Ltd.



**Nigel Poultney**  
**Finance Director**

has a degree in Business Studies from Aston University, and qualified as a Chartered Accountant with Deloitte, Haskins and Sells in 1981. He joined Synectics plc (formerly Quadnetics Group plc) in 1991, having previously worked for Dairy Crest and the RTZ group.

## Executive Management Team



### **Paul Moonan**

#### **Managing Director, Integration & Managed Services and Transport Systems**

has an MBA from Sheffield Business School and a degree in Business Studies from Bradford University. He joined Synectics plc (formerly Quadnetics Group plc) as Divisional Managing Director in June 2009. Prior to this he had been a Director at Romec, Chubb, Securicor and more recently at G4S where he held the position of Group Managing Director, Security Services.



### **Paul Webb**

#### **Managing Director, Synectic Systems**

has a degree in Physics from Imperial College, London, and has worked in the CCTV industry since 1988, in engineering, sales and marketing, business development and general management roles. Previously Paul was Managing Director of Bewator Limited. Following a number of years living and working in Asia, Paul joined Synectics plc (formerly Quadnetics Group plc) in 2004 prior to the acquisition of Coex Limited.

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# Corporate Governance Report

## The Board of Directors

The Board currently consists of two Executive and four Non-Executive Directors. The roles and biographical details of the Directors are set out on page 26.

Details of the terms of appointment of both the Executive and Non-Executive Directors are set out in the Remuneration Report, which refers to executive service contracts and non-executive terms of appointment.

As set out in the Company's Articles of Association, all Directors are subject to re-election every three years.

## Non-Executive Directors

The Board includes Non-Executive Directors, who bring strong judgement and considerable knowledge and experience to the Board's deliberations. Their service is non-pensionable and they do not participate in the Company's share schemes. DJ Coghlan (Chairman) holds shares in one of the Company's share schemes, originally issued in 2005 in respect of executive work done in his then role as part time executive Deputy Chairman.

D Bate, SW Coggins and PM Rae have been identified as independent Non-Executive Directors, as explained in the Chairman's Introduction on page 24. The Board considers them to be independent of Group management and free from any business or other relationships that would materially interfere with the exercise of their independent judgement.

PM Rae fulfils the role of Senior Independent Non-Executive Director.

## Chairman and Chief Executive

The roles of the Chairman and Chief Executive are held by different people and are distinct in their purpose.

The Chairman is responsible for leading the Board and ensuring that it acts effectively. He also ensures that there is effective communication with shareholders sufficient to understand their issues and concerns. The Chief Executive has overall responsibility for managing the Group and for implementing the strategies and policies agreed by the Board.

## Performance evaluation

The Group has a formal performance evaluation system for all members of staff including the Executive Directors.

The Board also reviews its own performance annually, as described in the Chairman's Introduction on page 24. In addition, all Directors have open and direct access to the Chairman and to the Senior Independent Non-Executive Director in order to raise any issues of concern.

## Board process

The Board meets formally at least seven times a year, and relevant information is distributed to Directors in advance of these meetings. The Directors have access via the Company Secretary to all information concerning the Group and, if required, external advice at the expense of the Company.

The location of Board meetings is rotated around the operating sites of the Group. This gives the Non-Executive Directors an opportunity to meet the management and staff at each location and to understand better the specific opportunities and risks facing each operation.

Set out below are details of attendance at Board and Board Committee meetings during the period.

Name	Number of Board Meetings – 7	Number of Audit Committee Meetings – 3	Number of Remuneration Committee Meetings – 6
David Coghlan	7	–	–
Dennis Bate	6	3	6
Steve Coggins	6	3	6
Peter Rae	7	3	6
John Shepherd	7	–	–
Nigel Poultney	7	–	–

The Board has adopted a schedule of matters specifically reserved to itself for decision, which includes major investment decisions, and changes in the composition of the Group. The Board approves the Group's strategy and annual budget, and considers detailed financial and operational reports on the progress of the Group. In relation to non-reserved matters the Board is assisted by the Audit Committee and the Remuneration Committee, with delegated authority and their own terms of reference. Details of these committees, including their membership, are set out in the following sections.

The Board attaches a high priority to communication with shareholders. The Group's annual and half yearly reports are sent to all shareholders. The Group liaises regularly with major shareholders and there is an opportunity for individual shareholders to question the Chairman and other members of the Board at the Annual General Meeting. The Company's website ([www.synecticsplc.com](http://www.synecticsplc.com)) provides financial and business information about the Group, including copies of its most recent annual and interim reports.

# Remuneration Committee Report

## Introduction

This report contains details of the policy for the remuneration of the Directors.

## Remuneration Committee

The Group's Remuneration Committee comprises:

- PM Rae, Chairman of the committee, Senior Independent Non-Executive Director
- D Bate, Independent Non-Executive Director
- SW Coggins, Independent Non-Executive Director

The Committee members have no personal or financial interests, other than as shareholders, in the matters to be decided.

The Remuneration Committee has formal written terms of reference and met six times during the course of the last financial year. Neither the Executive Directors nor the Chairman attend other than by invitation of the Remuneration Committee and are not present at any discussion of their own remuneration.

The Remuneration Committee is responsible for setting the level of remuneration for the Executive Directors and the Chairman. It is also responsible for setting the remuneration of the Managing Directors of the principal subsidiaries and making awards to other employees under the Group's share option and employee share schemes.

## Remuneration policy for Executive Directors

Executive Directors are employed by the Group and are required to devote substantially the whole of their time to its affairs. The policy of the Board is to attract, retain and motivate high calibre individuals as Executive Directors and to ensure that their remuneration packages (consisting of basic salary, performance-related bonuses, pension arrangements and other benefits including interests in share schemes) reflect their responsibilities, performance and experience.

The principal elements of the Executive Directors' remuneration packages are as follows:

- Basic salary – the Group aims to pay competitive market salaries and to recognise individual development and progression through the annual salary and personal review processes. Salaries are reviewed annually.
- Annual performance-related bonuses – in line with the scheme covering other senior members of staff, performance-related bonuses for the Executive Directors are based on the achievement of specific financial targets for the Group and agreed personal objectives.
- Pension arrangements – the Group makes contributions into money purchase schemes on behalf of the Executive Directors.
- Other benefits – these principally comprise car benefits, life assurance and membership of the Group's healthcare scheme.
- Long-term incentive arrangements – the Group operates various share plans in which the Executive Directors participate. Details of the share plans are given in note 24 to the financial statements. Directors' interests in the shares of the Group are detailed in the shareholdings disclosure below.

## Remuneration policy for Non-Executive Directors

Non-Executive Directors are independent of the Group's management and are not required to devote the whole of their time to its affairs.

After considering recommendations from the Chairman, the Board determines the remuneration of the Non-Executive Directors, excluding the Chairman. No Director takes part in the determination of his own remuneration.

Non-Executive Directors receive fees which are reviewed annually in light of their responsibilities, experience and contribution to the Group's affairs, as well as market rates.



Details of the Directors' emoluments are given below and form part of the audited financial statements.

#### a) Remuneration

	Salary and fees £'000	Bonuses* £'000	Benefits £'000	<b>2012 Total (excl. pension) £'000</b>	2011 Total (excl. pension) £'000	<b>2012 Pension £'000</b>	2011 Pension £'000
<b>Executive Directors</b>							
J Shepherd	240	180	30	<b>450</b>	329	<b>29</b>	29
NC Poultney	140	83	27	<b>250</b>	196	<b>43</b>	43
<b>Non-Executive Directors</b>							
DJ Coghlan	75	–	13	<b>88</b>	89	–	–
PM Rae	25	–	–	<b>25</b>	25	–	–
SW Coggins	25	–	–	<b>25</b>	25	–	–
D Bate	25	–	–	<b>25</b>	25	–	–
<b>Total</b>	<b>530</b>	<b>263</b>	<b>70</b>	<b>863</b>	<b>689</b>	<b>72</b>	<b>72</b>

\* Bonuses were paid or accrued in the year ended 30 November 2012 for specific achievement of agreed personal and corporate objectives.

Pension contributions shown above reflect pension payments into money purchase arrangements. There were no other pension payments or accrued pension benefits arising under money purchase schemes in respect of Directors.

#### b) Share schemes

The Directors' interests in the Company's share schemes are presented below. No new options were granted to, or exercised by, any Director between 1 December 2012 and 27 February 2013.

#### Executive Shared Ownership Plan

The following Directors held an interest in the Company's shares at 30 November 2012 through participation in the Quadnetics Group Executive Shared Ownership Plan (the 'ExSOP'), which was established on 7 July 2009, having superseded an earlier scheme established in 2005, as set out below and in note 24.

Under the provisions of the ExSOP, shares (the 'ExSOP shares') are jointly owned by nominated senior employees and by an employees' share trust on terms, similar to a share option scheme, whereby the value of appreciation in the Company's share price over a minimum three-year period accrues to the relevant employee, provided the Company meets certain performance thresholds linked to the FTSE AIM All Share Total Return Index. No rights under this scheme were exercised by Directors during the year.

<b>Date awarded</b>	7 July 2009 <sup>†</sup>		7 March 2011	
	Number of shares	Issue price (p)	Number of shares	Issue price (p)
J Shepherd	370,338	147.5	15,000	173.0
NC Poultney	200,000	147.5	10,000	173.0
DJ Coghlan	93,243	147.5	–	–

<sup>†</sup> Share awards issued on this date were rolled over from share awards held under a previous version of the ExSOP

# Remuneration Committee Report continued

## Employees' Share Acquisition Plan

The Executive Directors also participate in the Quadnetics Employees' Share Acquisition Plan (the 'ESAP') which was adopted on 23 April 2010. Deductions from salary are used to buy Partnership Shares in Synectics plc at the end of each six month accumulation period. The Trustee will use any dividend income paid on these shares to buy further shares to be held in the scheme as Dividend Shares.

Partnership Shares can be withdrawn from the Scheme by the employee at any time, but withdrawals before the fifth anniversary after purchase are subject to income tax; withdrawals after the fifth anniversary of their purchase date can be made in full and are tax free. Dividend Shares are required to be held in Trust for a period of three years following the purchase date. Employees who leave the Group are required to withdraw all of their shares in the Scheme and are subject to the same rules.

The following Directors held an interest in the Company's shares under the ESAP at 30 November 2012 which were acquired by the Scheme Trustee as follows:

<b>Partnership shares</b>		J Shepherd	NC Poultney
14 October 2010	147.5p	338	338
7 April 2011	177.5p	422	422
2 November 2011	185.5p	405	405
20 April 2012	200.0p	375	375
9 October 2012	272.5p	275	275
		1,815	1,815
<b>Dividend shares</b>			
25 July 2011	200.0p	7	7
2 November 2011	205.0p	9	9
17 May 2012	289.0p	19	19
9 October 2012	272.5p	14	14
		49	49

## Performance Share Plan

The following Directors held an interest in the Company's shares at 30 November 2012 through participation in the Synectics' Performance Share Plan ('PSP'), which was established on 9 October 2012, as set out below and in note 24.

Under the provisions of the PSP, selected employees are entitled to exercise an option to receive a certain number of Synectics plc shares at any time after a three year vesting period, at no cost to themselves. The number of shares that are awarded at the end of the three year period is dependent on the achievement of certain performance criteria which are identical to those criteria that apply under the ExSOP.

No rights under this scheme were exercised by Directors during the year.

Date awarded	9 October 2012	
	Number of shares	Issue price (p)
J Shepherd	15,000	272.5
NC Poultney	10,000	272.5

The mid market price of the Company's shares at the beginning and end of the financial year were as follows:

	Ordinary shares of 20p each
At 1 December 2011	202.0p
At 30 November 2012	284.5p

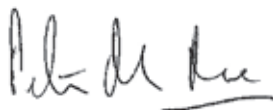
The maximum and minimum share prices during the year were as follows:

	Ordinary shares of 20p each
Maximum	304.0p
Minimum	202.0p

#### c) Service contracts

There are no Directors' service contracts with notice periods in excess of one year. The service contracts of the Directors who are eligible for re-election at the Annual General Meeting are as follows:

	Notice period
PM Rae	1 month
NC Poultney	12 months



**PM Rae**

Chairman of the Remuneration Committee  
27 February 2013

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# Audit Committee Report

The Audit Committee comprises:

- SW Coggins, Chairman of the committee, Independent Non-Executive Director
- D Bate, Independent Non-Executive Director
- PM Rae, Senior Independent Non-Executive Director

The main function of the committee is to assist the Board in fulfilling its oversight responsibilities with specific regard to:

- monitoring the integrity of the half-year and annual financial statements and any formal announcements relating to financial performance, focusing particularly on financial reporting judgements contained in them;
- reviewing the adequacy of systems of internal control and risk management processes;
- considering compliance with relevant laws and regulations;
- reviewing the performance of external auditors and overseeing the appointment of the external auditors for non-audit work; and
- making recommendations to the Board on the appointment, re-appointment or removal of external auditors and the amount of their remuneration.

The Audit Committee has formal written terms of reference and met twice during the course of the last financial year. Executive Directors and the Chairman do not attend other than by invitation of the Audit Committee.

During the period the Audit Committee:

- reviewed the scope and results of the external audit and ensured that an appropriate relationship between the Group and its external auditors was maintained;
- considered with the auditors the results of their limited scope review of the half year financial statements and report;
- reviewed the current procedures for internal control within the Group; and
- assessed the potential costs and benefits of establishing a formal internal audit function within the Group.

The conclusions of the Committee's review and assessment of internal controls is set out in the following section.

The Audit Committee is satisfied that the current provision of non-audit services by the Group's auditors does not impair their independence or objectivity. That conclusion is based on the relatively low amounts of fees from non-audit services in comparison to audit services (see note 6), and on specific discussions with the auditors.

A handwritten signature in black ink, appearing to read "SW Coggins". The signature is fluid and cursive, with a long, sweeping tail.

**SW Coggins**

Chairman of the Audit Committee

27 February 2013

# Risks and Internal Controls

## Principal risks and uncertainties

The Group seeks to understand and manage the various risks that arise from its operations. The Group is subject to a variety of risks which may have an adverse impact on the business, results of operations, cash flow, turnover, profitability, assets, liquidity and capital reserves.

The principal risks facing the Group, and the strategies put in place to mitigate them, are described below.

### Reputational risk

The nature of the Company's business and its customer base mean that Synectics is particularly dependent for future business on its reputation in the market place, particularly for the quality and reliability of its products and services, and the overall integrity of its people. The Group addresses this risk by the Board and all levels of management consistently stressing that those attributes are embedded in the culture of the Group, and by regularly seeking feedback from customers and employees.

### Price and margin pressure

The electronic security industry in general is competitive with continued pressure on sales and margins. The Group's strategy to counteract this is to continue to focus on customer sectors where electronic security systems have a critical cost of failure, or an extreme environmental requirement, rather than the mass volume markets. In addition we will maintain a core of increasingly software-based proprietary technology giving higher margin opportunities, and focus on developing recurring revenues.

### Technological risk

As the industry becomes increasingly technical and transitions to digital technology, there is a risk that products become obsolete or irrelevant. Synectics has countered this risk through its investment in research & development resources, and a continued focus on customer-led development to ensure that the most appropriate product development paths are followed.

### People skills and dependency

As with most businesses, particularly those operating in a technical field, we are dependent on our employees with key managerial, engineering and technical skills. The Group aims to offer appropriate remuneration packages and incentive arrangements, as well as maintaining certain key-man insurance policies, in order to mitigate this risk.

### Impact of fluctuating currency exchange rates

The Group faces currency risk which it manages principally through forward exchange contracts. As the Group expands its sales and other activities outside the UK, these policies will be developed to manage the impact of currency variations.

### Contractual liabilities

Where the Group's product or service offering fails to meet agreed standards or timescales there is a risk that the Group will be exposed to claims for contractual liabilities as a result of this failure. The Group maintains rigorous quality standards in all its operations and carefully assesses the terms on which it agrees to enter into contractual relationships.

## Internal controls

The Board of Directors, advised by the Audit Committee, has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Responsibility for implementing sound and effective systems of internal control has been delegated by the Board to senior management. The purpose of the system of internal control is to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. In particular there are clear procedures for capital investment appraisal and approval, contract risk appraisal and financial reporting within a comprehensive financial planning and accounting framework.

The Board has reviewed the need for an internal audit function and concluded that such a function is not currently appropriate given the size of the Group. However, the Directors have implemented a system of internal control checks which are carried out by head office finance staff to give additional assurance on controls and supplement the work undertaken by external auditors.

# Statutory Directors' Report

For the year ended 30 November 2012

The Directors' Report comprises the information set out on pages 36 to 39.

## Principal activities

The principal activity of the Group during the year was the provision of advanced surveillance technology, networked security systems and related security management and support services. The principal activity of the Company was to act as a holding company for its trading subsidiaries.

## Review of business and future developments

The consolidated income statement for the year is set out on page 41.

A review of the Group's activities during the year and its prospects for the future are contained in the Chairman's Statement on pages 06 and 07 and the Business Review on pages 08 through to 23 and is incorporated into this report by reference.

## Group results and dividend

The consolidated profit after tax for the year was £3,367,000 (2011: £1,588,000).

The Directors recommend the payment of a final dividend of 5.0p per share (2011: 4.5p per share), totalling £858,000 on 8 May 2013 to shareholders registered on 15 March 2013. Together with the interim dividend of 2.5p per share, this brings the total dividend for the year to 7.5p per share (2011: 7.0p per share) amounting to £1,297,000 (2011: £1,230,000).

## Change of name

On 16 July 2012 the Company changed its name from Quadnetics Group plc to Synectics plc to simplify the brand structure within the Group and to take advantage of the brand with the greatest global customer recognition.

## Research & development expenditure

The Group has continued to invest in research & development of both software and hardware products for CCTV applications during the year incurring total costs of £1,994,000 (2011: £1,772,000), of which £1,432,000 (2011: £1,025,000) has been written off to the income statement.

## Going concern

After making appropriate enquiries the Directors have reasonable expectations that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements. Further information is set out on page 47.

## Share capital

Share capital increased by 1,744 shares in the year as a result of share options being exercised under the Protec EMI Share Option Scheme (see note 24).

## Directors

The Directors of the Company who served during the year ended 30 November 2012 were DJ Coghlan, D Bate, SW Coggins, NC Poultney, PM Rae and J Shepherd.

In accordance with the Articles of Association of the Company, NC Poultney and PM Rae retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election at the Annual General Meeting.

## Substantial shareholdings

As at 22 February 2013, the Company was aware of the following interests, other than Directors, in excess of 3% of the issued ordinary share capital of the Company:

	Number of shares	% of total voting rights	Nature of interest
HSBC Global Custody Nominee Limited	2,980,000	16.96	Direct
Quadnetics Employees Benefit Trust	1,814,212	10.32	Direct
Standard Life Investments	1,552,831	8.84	Direct
Investec Wealth & Investment	1,002,349	5.70	Indirect
Schroder Investment Management	650,000	3.70	Indirect
Ignis Investment Services	592,121	3.37	Direct

## Directors' interests in the Company

The Directors' interests in the Company's ordinary share capital at 30 November 2012 which were all beneficial, are shown in the table below:

	2012 Number of shares	2011 Number of shares
DJ Coghlan	2,001,303	2,001,303
PM Rae	218,302	218,302
D Bate	146,000	146,000
J Shepherd	58,972	40,000
SW Coggins	13,080	11,000
NC Poultney	13,000	13,000
	<b>2,450,657</b>	2,429,605

The interests of the Directors in the Company's share schemes, which are not included above, are shown in the Remuneration Committee Report on pages 30 to 33.

## Employees

Employment policies throughout the Group have been established to comply with relevant legislation and codes of practice relating to employment, health and safety and equal opportunities. The Group's policy is to consult and discuss current developments within the Group with employees and to take account of their views in making decisions likely to affect their interests.

The Group makes every effort to recruit and continue the employment, training and promotion of those persons who are or become disabled.

## Policy on the payment of suppliers

The Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ending 30 November 2013.

At 30 November 2012 the Group had 52 days purchases outstanding in trade payables (2011: 55 days).

## Charitable donations

During the year the Group made charitable donations of £1,510 (2011: £500).

## Political donations

No political donations were made during the year.

# Statutory Directors' Report continued

For the year ended 30 November 2012

## Key Performance Indicators

The Directors measure the Group's performance principally using the following financial indicators (as reflected in this Annual Report):

- Sales
- Gross margin %
- Underlying operating profit and underlying profit before tax
- Operating margin %, being the ratio of underlying operating profit to revenue
- Earnings per share
- Underlying earnings per share (based on underlying profit after tax)
- Order book
- Recurring revenue (being contracted sales where a service is delivered over a future time period, and revenues are recognised in the relevant future accounting periods)
- Free cash flow
- Cash conversion %

## Financial instruments

Financial risks include market risk (principally foreign currency risk), credit risk, liquidity risk and interest risk. The Group seeks to minimise the effect of these risks by developing and consistently applying Board approved policies and procedures. Such policies and procedures are regularly reviewed for their appropriateness and effectiveness to deal with the changing nature of financial risks. The Group's principal financial instruments comprise cash held in current accounts, trade receivables, amounts recoverable under contracts, other receivables, trade payables, bank loans and other payables that arise directly from its operations.

## Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

## Authorities to allot shares, disapplication of statutory pre-emption rights and to buy the Company's own shares

The following resolutions will be proposed at the Annual General Meeting as special business:

1. An Ordinary Resolution to authorise the Directors to allot ordinary shares of up to £1,159,718 in nominal value (which represents approximately 33% of the current issued ordinary share capital of the Company). In accordance with guidelines issued by the Association of British Insurers, this figure comprises one third of the issued ordinary share capital.
2. A Special Resolution to renew the existing disapplication of the pre-emption provisions of section 561(1) of the Companies Act 2006 so as to give the Directors power to allot shares for cash, firstly in relation to rights issues, and secondly in relation to the issue of ordinary shares for cash up to a maximum aggregate nominal value of £175,714 (which represents approximately 5% of the issued ordinary share capital of the Company).
3. A Special Resolution to enable the Company to purchase its own shares up to a maximum of 1,757,148 ordinary shares, representing approximately 10% of the current issued ordinary share capital of the Company. The Directors have no present intention to exercise such powers and would only do so if satisfied that it would be in the interests of shareholders to do so.
4. An Ordinary Resolution to approve the Directors' Remuneration Report contained in the Annual Report for the year ended 30 November 2012. This Resolution is advisory and no entitlement of any person to remuneration is conditional upon this resolution being passed.
5. A Special Resolution to amend the Articles of Association of the Company. In order to reflect technological changes, the Company would like the ability to authenticate the share certificates by mechanical, electronic, laser or other means approved by the Directors.



## Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board



**NC Poultney**

Secretary

Synectics plc

Registered number: 1740011

27 February 2013

# Independent Auditor's Report

To the Members of Synectics plc

We have audited the financial statements of Synectics plc for the year ended 30 November 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Parent Company Balance Sheet, and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 39, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 November 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

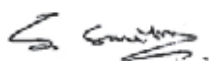
## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Stuart Smith (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
27 February 2013

# Consolidated Income Statement

For the year ended 30 November 2012

	Note	2012 £'000	2011 £'000
<b>Revenue</b>	2	<b>77,039</b>	69,083
Cost of sales		<b>(50,451)</b>	(47,062)
<b>Gross profit</b>		<b>26,588</b>	22,021
Operating expenses	3	<b>(26,078)</b>	(19,418)
<b>Profit from operations</b>			
Excluding non-underlying items and impairment of goodwill	7	<b>5,711</b>	3,541
Non-underlying items	4	<b>(1,208)</b>	(938)
Impairment of Indanet goodwill	5	<b>(3,993)</b>	–
<b>Total profit from operations</b>		<b>510</b>	2,603
Finance income	10	<b>244</b>	268
Finance costs	11	<b>3,955</b>	(409)
<b>Profit before tax</b>			
Excluding non-underlying items, impairment of goodwill and adjustment to deferred and contingent consideration		<b>5,658</b>	3,510
Non-underlying items	4	<b>(1,208)</b>	(938)
Impairment of Indanet goodwill	5	<b>(3,993)</b>	–
Adjustment to Indanet deferred and contingent consideration	5	<b>4,252</b>	(110)
<b>Total profit before tax</b>		<b>4,709</b>	2,462
Income tax expense	12	<b>(1,342)</b>	(874)
<b>Profit for the year attributable to equity holders of the parent</b>		<b>3,367</b>	1,588
<b>Basic earnings per ordinary share</b>	14	<b>21.6p</b>	10.2p
<b>Diluted earnings per ordinary share</b>	14	<b>20.7p</b>	10.0p
<b>Underlying basic earnings per ordinary share</b>	14	<b>26.3p</b>	16.4p
<b>Underlying diluted earnings per ordinary share</b>	14	<b>25.2p</b>	16.2p

## Consolidated Statement of Comprehensive Income

For the year ended 30 November 2012

	<b>2012</b>	2011
	<b>£'000</b>	£'000
Profit for the year	<b>3,367</b>	1,588
Exchange differences on translation of foreign operations	<b>96</b>	(21)
Actuarial gains	<b>34</b>	114
Effect of not recognising the pension scheme surplus	<b>(34)</b>	(114)
<b>Total comprehensive income for the year attributable to equity holders of the parent</b>	<b>3,463</b>	1,567

# Consolidated Statement of Financial Position

30 November 2012

	Note	2012 £'000	2011 £'000
<b>Non-current assets</b>			
Property, plant and equipment	15	1,680	1,618
Intangible assets	16	20,669	25,189
		<b>22,349</b>	26,807
<b>Current assets</b>			
Inventories	17	7,202	7,459
Trade and other receivables	18	26,504	26,501
Cash and cash equivalents	19	6,491	3,098
		<b>40,197</b>	37,058
<b>Total assets</b>		<b>62,546</b>	63,865
<b>Current liabilities</b>			
Trade and other payables	20	(23,462)	(22,507)
Tax liabilities		(282)	(861)
Current provisions	22	(1,433)	(44)
		<b>(25,177)</b>	(23,412)
<b>Non-current liabilities</b>			
Loans and borrowings	21	(1,850)	(1,843)
Non-current provisions	22	(48)	(6,028)
Deferred tax liabilities	12	(331)	(133)
		<b>(2,229)</b>	(8,004)
<b>Total liabilities</b>		<b>(27,406)</b>	(31,416)
<b>Net assets</b>		<b>35,140</b>	32,449
<b>Equity attributable to equity holders of Parent Company</b>			
Called up share capital	23	3,514	3,514
Share premium account		15,721	15,719
Merger reserve		9,565	9,565
Other reserves		(3,239)	(3,486)
Currency translation reserve		192	96
Retained earnings		9,387	7,041
<b>Total equity</b>		<b>35,140</b>	32,449

The financial statements on pages 41 to 77 were approved and authorised for issue by the Board of Directors on 27 February 2013 and were signed on its behalf by:



**John Shepherd**  
Chief Executive



**Nigel Poultney**  
Finance Director

Company Number: 1740011

## Consolidated Statement of Changes in Equity

For the year ended 30 November 2012

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Currency translation reserve £'000	Retained earnings £'000	Total £'000
At 1 December 2010	3,514	15,719	9,565	(3,486)	117	6,371	31,800
Profit after tax for the year	–	–	–	–	–	1,588	1,588
Dividends paid (note 13)	–	–	–	–	–	(1,110)	(1,110)
Credit in relation to share-based payments	–	–	–	–	–	192	192
Currency translation adjustment	–	–	–	–	(21)	–	(21)
At 30 November 2011	3,514	15,719	9,565	(3,486)	96	7,041	32,449
Profit after tax for the year	–	–	–	–	–	3,367	3,367
Dividends paid (note 13)	–	–	–	–	–	(1,140)	(1,140)
Credit in relation to share-based payments	–	–	–	–	–	119	119
Currency translation adjustment	–	–	–	–	96	–	96
Issue of ordinary shares	–	2	–	–	–	–	2
Share scheme interests realised in the year	–	–	–	247	–	–	247
<b>At 30 November 2012</b>	<b>3,514</b>	<b>15,721</b>	<b>9,565</b>	<b>(3,239)</b>	<b>192</b>	<b>9,387</b>	<b>35,140</b>

# Consolidated Cash Flow Statement

For the year ended 30 November 2012

	Note	2012 £'000	2011 £'000
<b>Cash flows from operating activities</b>			
Profit for the year		3,367	1,588
Income tax expense		1,342	874
Finance income		(244)	(268)
Finance costs		(3,955)	409
Depreciation and amortisation charge		1,109	1,268
Loss/(profit) on disposal of non-current assets		21	(10)
Impairment of goodwill		3,993	–
Asset write-offs		403	–
Share-based payment charges		119	192
<b>Operating cash flows before movement in working capital</b>		<b>6,155</b>	<b>4,053</b>
Decrease/(increase) in inventories		257	(871)
Increase in receivables		(3)	(3,175)
Increase in payables and provisions		937	3,422
<b>Cash generated from operations</b>		<b>7,346</b>	<b>3,429</b>
Interest received		7	11
Tax paid		(1,745)	(485)
<b>Net cash from operating activities</b>		<b>5,608</b>	<b>2,955</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(530)	(566)
Sale of property, plant and equipment		11	10
Acquisition of subsidiaries		–	(2,555)
Capitalised development costs		(562)	(747)
Purchased software		(336)	(69)
<b>Net cash used in investing activities</b>		<b>(1,417)</b>	<b>(3,927)</b>
<b>Cash flows from financing activities</b>			
New borrowings		81	1,843
Share scheme interests realised in the year		247	–
Issue of shares		2	–
Interest paid		(60)	(33)
Dividends paid		(1,140)	(1,110)
<b>Net cash used in financing activities</b>		<b>(870)</b>	<b>700</b>
Effect of exchange rate changes on cash and cash equivalents		72	21
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,393</b>	<b>(251)</b>
Cash and cash equivalents at the beginning of the year		3,098	3,349
<b>Cash and cash equivalents at the end of the year</b>	19	<b>6,491</b>	3,098

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 1 Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the periods presented unless otherwise stated.

#### a) Basis of preparation

These financial statements have been prepared in accordance with IFRSs as adopted by the EU ('adopted IFRS'), and with those parts of the Companies Act 2006 applicable to companies reporting under adopted IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP; these are presented on pages 78 to 84.

The consolidated financial statements of the Company as at and for the year ended 30 November 2012 comprise the Company and its subsidiaries, and the Group's interest in jointly controlled entities.

These financial statements have been prepared using the historical cost convention except where the measurement of balances at fair value is required as set out below. The following policies are those that the Group considers to be its principal accounting policies in respect of its consolidated results.

#### Standards and Interpretations effective in the current period

The following standards and interpretations have been adopted in the financial statements as they are mandatory for the year ended 30 November 2012:

<b>Endorsed</b>		<b>Effective for periods beginning on or after:</b>
IFRIC 14	Prepayments of a minimum Funding Requirement	1 January 2011
IFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets	1 July 2011

The adoption of the standards and interpretations above has not had a material impact on the Group's financial statements.

In addition to the above, amendments to a number of standards, under the annual improvements project to IFRS, which are mandatory for the year ending 30 November 2012, have been adopted in 2012. None of these amendments have had a material impact on the Group's financial statements.

The following standards and interpretations are available for early adoption but have not been applied by the Group in these financial statements:

<b>Endorsed</b>		<b>Effective for periods beginning on or after:</b>
Amendment to IAS 12	Deferred Taxes: Recovery of underlying assets	1 January 2012
Amendment to IAS 1	Presentation of other items of comprehensive income	1 July 2012
IFRS 13	Fair Value Measurement	1 January 2013
Amendments to IAS 19	Defined Benefit Plans	1 January 2013
Amendments to IFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IAS 27	Separate Financial Statements	1 January 2014
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014



## 1 Principal accounting policies (continued)

The Directors anticipate that all of the above Standards, Interpretations and Amendments will be adopted in the Group's financial statements for the year commencing 1 December 2012 and/or 1 December 2013 and/or 1 December 2014 as appropriate.

Except for the amendment to IAS 19 none of these Standards, Interpretations or Amendments is expected to impact profit, earnings per share and net assets in future periods.

The amendment to IAS 19 makes significant changes to the recognition and measurement of the deferred pension expense and termination benefits and disclosures of all employee benefits. It is anticipated that the amendment will impact the pension cost recognised in the income statement. The amendment is expected to be effective for the period starting 1 December 2013.

The following standard is not yet effective and has not been adopted early by the Group:

IFRS 9 Financial Instruments

This standard is not expected to have a material impact on the financial statements of the Group.

### Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financing arrangements. The Group holds cash balances and is not reliant on debt within its capital structure. There is limited exposure to credit, liquidity and foreign currency risk, as detailed in note 31.

Further information on the Group's business activities, together with the factors likely to affect its future development, performance and position, and on the financial position of the Group, its cash flows and liquidity position, are described in the Business Review on pages 08 to 23.

### b) Basis of consolidation

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefit from their activities. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full on consolidation.

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control. Joint control exists when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control.

The Group's interest in jointly controlled entities are accounted for using the equity method. Under this method the Group's share of the profits less losses of jointly controlled entities is included in the consolidated income statement and its interest in their net assets is included in investments in jointly controlled entities in the consolidated statement of financial position. Where the share of losses exceeds the interests in the entity, the carrying amount is reduced to nil and recognition of further losses is discontinued. Interest in the entity is the carrying amount of the investment together with any long-term interest that, in substance, forms part of the net investment in the entity.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 1 Principal accounting policies (continued)

#### c) Business combinations and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"; which are recognised and measured at fair value less costs to sell. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

Adjustments are made to fair values to bring the accounting policies of acquired businesses into alignment with those of the Group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition income statement.

Goodwill is subsequently carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill would not be reversed in a subsequent period.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### d) Revenue

Revenue, which excludes value added tax, is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

##### Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, which primarily takes place on delivery of the goods.

##### Installation contract income

Revenue and profits attributable to contracts are included in the income statement as the contracts proceed in proportions relevant to their state of completion, less amounts recognised in previous years.

##### Contract balances

Contract balances are stated at cost, net of amounts transferred to cost of sales in respect of work recorded as revenue, after deducting foreseeable losses and payments on account not matched with revenue. Provision is made for any losses as soon as they are foreseen. Amounts recoverable on contracts, which are included in receivables, are stated at the net sales value of the work done less payments on account. Excess payments on account are included in current liabilities.

The Group sells certain products bundled with maintenance or other services to be delivered over a predetermined period of time. Where the commercial substance is that the individual components operate independently of each other such that each component represents a separable good or service that can be provided to customers, either on a stand-alone basis or as an optional extra or, alternatively, where one or more of the components may be capable of being provided by another supplier, these are considered as identifiable and separate components to which general revenue recognition criteria can be applied separately. Once the separate components have been identified, the amount received or receivable from the customer is allocated based on the individual component's fair value.

##### Maintenance contracts

Income receivable from maintenance contracts is recognised in revenue on a straight-line basis over the contract term. Income from maintenance contracts which relates to periods subsequent to the year end is included in current liabilities as deferred income.

## 1 Principal accounting policies (continued)

### e) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets acquired under finance leases, including hire purchase agreements where applicable, are capitalised and depreciated in accordance with the Group's depreciation policy or over the term of the lease if shorter. The capital element of future lease payments is included in the statement of financial position as obligations under finance leases. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the income statement on a straight-line basis over the lease term.

### f) Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in British pounds ('£'), which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in British pounds using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rates prevailing at the balance sheet date.

### g) Retirement benefit costs

Group employees are members of various pension schemes, all of which operate on a money purchase basis. Contributions to these schemes are charged to the income statement as an expense when employees have rendered service entitling them to the contributions.

The Group also operates a retirement benefit scheme, which has deferred defined benefit members. The expected return on the scheme's assets and the expected increase in the present value of the scheme's liabilities during the period are included in the income statement as other finance income and charges as appropriate. Actuarial gains and losses are recognised in the Consolidated Statement of Comprehensive Income. Pension scheme liabilities and, to the extent that they are recoverable, pension scheme assets are recognised in the statement of financial position and represent the difference between the market value of the scheme's assets and the present value of the scheme's liabilities, net of deferred taxation.

Pension scheme liabilities are determined on an actuarial basis using the projected unit credit method and are discounted at a rate using the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 1 Principal accounting policies (continued)

#### h) Share-based payments

In accordance with IFRS 2, equity-settled share-based payments are measured at fair value at the date of grant. The fair value is recognised as an employee expense on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. The fair value of the options granted is calculated using an option pricing model which is based on the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

For cash-settled share-based payment transactions, the fair value of the amount payable to the employee is recognised in the income statement with a corresponding movement in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the income statement.

Transactions of the Company-sponsored Executive Shared Ownership Plan are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular the scheme's purchases of shares in the Company are debited directly to equity, within "Other reserves".

#### i) Taxation

The income tax expense is the sum of current tax and deferred tax.

##### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

##### Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 1 Principal accounting policies (continued)

### Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

### j) Dividends

Dividends proposed by the Directors and unpaid at the end of the year are not recognised in the financial statements until they have been approved by shareholders at a General Meeting of the Company. Interim dividends are recognised when they are paid.

### k) Property, plant and equipment

All property, plant and equipment assets are stated at cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of fixed assets, other than freehold land which is not depreciated, less their estimated residual values, on a straight-line basis over the estimated useful life, commencing on the first day of the month after being brought into use. The principal annual rates used for this purpose are:

- Freehold buildings – 2%
- Short leasehold improvements – over the term of the lease
- Plant, equipment and motor vehicles – 10% to 33%

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains or losses on disposal are included in the income statement.

### l) Research and development costs

Research costs are written off to the income statement as incurred.

Development costs are capitalised and held as "Intangible assets" in the statement of financial position when the costs relate to a clearly defined project; the costs are separately identifiable; the outcome of such a project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability; the aggregate of the deferred costs plus all future expected costs in bringing the product to market is exceeded by the future expected sales revenue; and adequate resources are expected to exist to enable the project to be completed. Amortisation is charged to match revenue generated, over the useful life of the product, from the commencement of commercial sales.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Development expenditure that does not meet these criteria is written off to the income statement as incurred.

### m) Other intangible assets

Other intangible assets, such as purchased computer software, are shown at historical cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis from the date they are available for use over the estimated useful lives of the intangible asset. The useful life of purchased software is three to five years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

### Impairment of tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, other than goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 1 Principal accounting policies (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income.

#### n) Inventories

Inventories are valued at the lower of cost and net realisable value on a first in first out basis. In the case of finished goods, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, an appropriate allowance is made for obsolete, slow-moving and defective inventories.

#### o) Provisions

Provisions are recognised in the statement of financial position when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

#### Deferred consideration relating to business combinations

Deferred consideration relating to business combinations is initially measured at fair value at the date of acquisition and at subsequent reporting dates measured in accordance with the appropriate accounting standard.

#### Restructuring

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will be carried out.

#### Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

#### p) Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. The Group does not apply hedge accounting.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits and bank current accounts, net of bank overdrafts, with an original maturity of three months or less at acquisition.

#### Trade and other receivables

Trade receivables are initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost less any impairment loss.

#### Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost.

## 1 Principal accounting policies (continued)

### q) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

### r) Judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management make various judgements that can significantly affect the amounts recognised in the financial statements. The critical judgements are considered to be the following:

#### Revenue recognition

Following detailed quantification of the Group's assets, liabilities and revenue deriving from contracts, the Directors are satisfied that revenue is recognised when, and to the extent that, the Group obtains the right to consideration, which is derived on a contract-by-contract basis from an assessment of the fair value of the goods or services provided as at the reporting date as a proportion of the total fair value of each contract. Where products and maintenance are bundled in a contract some judgement may be required to identify the separate components which are recognised in accordance with general revenue recognition criteria.

#### Capitalisation of development costs

It is Group policy to capitalise and amortise development expenditure for the production of new or substantially improved products and processes if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Such expenditure is amortised over the period which the Directors expect to obtain economic benefits. This policy includes judgements regarding the initial recognition of the asset based upon market research and expected future net revenues. It also includes estimations regarding the period of amortisation.

### s) Significant estimates

In the application of the Group's accounting policies the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. To date there has been no material impact on the carrying value of assets or liabilities from such estimates.

#### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. The value in use calculation includes estimates about future financial performance and long-term growth rates and requires management to select a suitable discount rate in order to calculate the present value of those cash flows. The key assumptions used in the impairment review are disclosed in note 16 to the financial statements.

#### Deferred tax

The Group has recognised deferred tax assets in respect of unutilised losses and other temporary differences arising in certain of the Group's businesses. This requires management to make decisions on the recoverability of such deferred tax assets based on future forecasts of taxable profits. If these forecast profits do not materialise, or there are changes in the tax rates or to the period over which the losses or temporary differences might be recognised, the value of the deferred tax asset will need to be revised in a future period.

The Group has losses for which no value has been recognised for deferred tax purposes in these financial statements, as future economic benefit of these temporary differences is not probable. If appropriate profits are earned in the future, the temporary difference may result in a benefit to the Group in the form of a reduced tax charge in a future period.

#### Provisions

Provisions are recognised in the statement of financial position when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. Provisions for restructuring are recognised when the Group has an approved restructuring plan that has either commenced or been announced publicly. Future operating costs are not provided for.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 2 Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Chief Executive Officer as he is primarily responsible for the allocation of resources to the segments and the assessment of the performance of each of the segments. Segment information is presented in respect of the Group's strategic operating segments. The operating segment reporting format reflects the differing economic characteristics and nature of the services provided by the Group and is the basis on which strategic operating decisions are made by the CODM.

The CODM uses underlying operating profit, as reviewed at monthly Operational Review meetings, as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Underlying operating profit is a consistent measure within the Group.

The Directors believe that the Group's activities can be represented in the segments shown below and that the best measure of performance of those segments is underlying operating profit before research & development and Group central costs (segment result). There has been no aggregation of the operating segments in arriving at these reportable segments.

	2012 £'000	2011 £'000
<b>Revenue</b>		
Integration & Managed Services	29,978	32,622
Network Systems	17,823	16,230
Transport Systems	14,714	13,461
Industrial Systems	15,858	7,943
Total segmental revenue	78,373	70,256
Reconciliation to consolidated revenue:		
Intra-group sales	(1,334)	(1,173)
	<b>77,039</b>	69,083

	2012 £'000	2011 £'000
<b>Underlying operating profit</b>		
Integration & Managed Services	1,852	1,460
Network Systems	4,780	3,762
Transport Systems	175	280
Industrial Systems	3,242	1,258
Total segmental underlying operating profit	10,049	6,760
Reconciliation to consolidated underlying operating profit:		
Research & development costs	(1,432)	(1,025)
Central costs	(2,906)	(2,194)
	<b>5,711</b>	3,541

	Underlying operating profit* £'000	Share-based payments charge £'000	Restructuring costs £'000	Amortisation of acquired intangibles £'000	Impairment of Indanet goodwill £'000	Total £'000
<b>Underlying operating profit 2012</b>						
Integration & Managed Services	1,852	(13)	–	–	–	1,839
Network Systems	4,780	(17)	–	–	–	4,763
Transport Systems	175	(21)	–	–	–	154
Industrial Systems	3,242	(13)	–	–	–	3,229
Total segmental underlying operating profit	10,049	(64)	–	–	–	9,985
Reconciliation to consolidated underlying operating profit:						
Research & development costs	(1,432)	(11)	–	–	–	(1,443)
Central costs	(2,906)	(44)	(973)	(116)	(3,993)	(8,032)
	<b>5,711</b>	(119)	(973)	(116)	(3,993)	510



## 2 Segmental analysis (continued)

<b>Underlying operating profit 2011</b>	Underlying operating profit* £'000	Share-based payments charge £'000	Acquisition & restructuring costs £'000	Amortisation of acquired intangibles £'000	Total £'000
Integration & Managed Services	1,460	(24)	–	–	1,436
Network Systems	3,762	(28)	–	–	3,734
Transport Systems	280	(33)	(161)	–	86
Industrial Systems	1,258	(16)	–	–	1,242
Total segmental underlying operating profit	6,760	(101)	(161)	–	6,498
Reconciliation to consolidated underlying operating profit:					
Research & development costs	(1,025)	(14)	–	–	(1,039)
Central costs	(2,194)	(77)	(537)	(48)	(2,856)
	3,541	(192)	(698)	(48)	2,603

\* Underlying operating profit represents operating profit before non-underlying items (amortisation of acquired intangibles, acquisition expenses, restructuring costs, and share-based payment charges) and impairment of goodwill.

### Net assets

Net assets attributed to each business segment represent the net external operating assets of the respective businesses excluding goodwill, bank balances and debt which are shown as unallocated amounts.

	Assets £'000	Liabilities £'000	2012 Net Assets £'000
Integration & Managed Services	13,448	(9,636)	<b>3,812</b>
Network Systems	6,891	(4,905)	<b>1,986</b>
Transport Systems	4,978	(3,937)	<b>1,041</b>
Industrial Systems	11,557	(5,477)	<b>6,080</b>
Total segmental net assets	36,874	(23,955)	<b>12,919</b>
Reconciliation to consolidated net assets:			
Unallocated	25,672	(3,451)	<b>22,221</b>
	62,546	(27,406)	<b>35,140</b>

	Assets £'000	Liabilities £'000	2011 Net Assets £'000
Integration & Managed Services	13,622	(10,585)	3,037
Network Systems	6,796	(4,837)	1,959
Transport Systems	8,142	(5,288)	2,854
Industrial Systems	7,859	(2,987)	4,872
Total segmental net assets	36,419	(23,697)	12,722
Reconciliation to consolidated net assets:			
Unallocated	27,446	(7,719)	19,727
	63,865	(31,416)	32,449

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 2 Segmental analysis (continued)

By geographical segment Geographical location of customers:	Revenue	Total	Capital	Revenue	Assets	Capital
	2012	assets	additions	2011	2011	additions
	£'000	2012	2012	£'000	£'000	2011
		£'000	£'000			£'000
United Kingdom & Europe	57,825	58,604	435	54,291	60,524	519
North America	11,724	2,310	95	8,715	3,139	47
Middle East	3,381	234	–	1,574	202	–
Asia and Pacific	4,011	1,398	–	4,380	–	–
Rest of World	98	–	–	123	–	–
	<b>77,039</b>	<b>62,546</b>	<b>530</b>	69,083	63,865	566

### 3 Net operating expenses

	2012	2011
	£'000	£'000
Distribution costs	315	260
Administrative expenses (before non-underlying costs)	20,562	18,220
Non-underlying costs (note 4)	1,208	938
Impairment of Indanet goodwill (note 5)	3,993	–
Total administrative expenses	25,763	19,158
	<b>26,078</b>	19,418

### 4 Non-underlying items

	2012	2011
	£'000	£'000
Restructuring costs	973	346
Acquisition costs	–	352
Share-based payment charges	119	192
Amortisation of intangible assets acquired as a result of business combinations	116	48
	<b>1,208</b>	938

The restructuring costs incurred during the year ended 30 November 2012 arise from the re-organisation and subsequent disposal of our UK defence activities, and include £0.4 million in respect of accelerated amortisation to fully write off goodwill and capitalised development costs relating to this activity.

In 2011 restructuring costs related to re-organisation of the Transport division, and acquisition costs related to the acquisition of Persides Technology Limited in December 2010 and Indanet AG in July 2011.

## 5 Indanet

In July 2011 Synectic Systems GmbH agreed to acquire 100% of the issued share capital of Indanet AG ('Indanet'), a leading German provider of integrated surveillance and security management systems to the transport industry, for a maximum total consideration of €10 million. Under the original terms of the acquisition, consideration of €2 million in cash was paid on completion for an initial tranche of shares equivalent to 51% of Indanet's issued share capital, and further consideration of between €1 million and €8 million for the remaining 49% of Indanet would be payable in three tranches between 2013 and 2015, dependent on Indanet's profits for the period from completion to 31 May 2015.

Subsequent to the year end, it was agreed to vary the original acquisition terms so that the entire outstanding share capital in Indanet was purchased for a total consideration of €1.64 million in cash. Therefore at the date of signature of these financial statements Synectic Systems GmbH owns 100% of the shares of Indanet which it has acquired for a total consideration of €3.64 million, with no further earn out payments to be made.

The acquisition was accounted for during 2011 as a 100% acquisition as the agreement to acquire the remaining 49% of shares was irrevocable. Therefore, no further acquisition entries are required in respect of this transaction.

The following accounting adjustments have been made:

	<b>£'000</b>
Credit adjustment to Indanet deferred and contingent consideration	<b>4,252</b>
Impairment of Indanet goodwill (note 16)	<b>(3,993)</b>
Net credit in relation to Indanet adjustments	<b>259</b>

As a result of renegotiating the Indanet acquisition agreement, no further deferred or contingent consideration payments are required to be made other than the €1.64 million (sterling equivalent £1.41 million) noted above. This has resulted in a net credit to the profit and loss account of £4,252,000 to restate this liability in the balance sheet as follows:

	<b>2012</b>	2011
	<b>£'000</b>	£'000
IAS 39 charge on deferred and contingent consideration (note 11)	<b>266</b>	110
Adjustment to Indanet deferred and contingent consideration (note 11)	<b>(4,518)</b>	–
Net adjustment to Indanet deferred and contingent consideration	<b>(4,252)</b>	110

## 6 Fees payable to the Company's auditors and its associates

	<b>2012</b>	2011
	<b>£'000</b>	£'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	<b>40</b>	35
Fees payable to the Company's auditors and its associates for other services:		
– the audit of the Company's subsidiaries pursuant to legislation	<b>105</b>	103
– other services	<b>26</b>	101
– tax services	<b>49</b>	82
	<b>220</b>	321

Amounts paid to the Company's auditor and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed separately as the information is required instead to be disclosed on a consolidated basis.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 7 Profit from operations

	2012 £'000	2011 £'000
Profit from operations is stated after charging:		
Amortisation of intangible assets	673	766
Depreciation of property, plant & equipment	436	502
Research & development expenditure	1,432	1,025
Cost of inventories recognised as an expense	31,617	29,948
Impairment of goodwill	3,993	–
Rental payments under operating leases:		
– plant, machinery and vehicles	1,125	1,114
– other	675	603

### 8 Directors' and key management personnel remuneration

The Directors consider that the key management personnel of the business comprises of its Board of Directors, whose remuneration is shown on pages 31 and 32 of the Remuneration Committee Report, and members of the Executive Management Team. Details of the remuneration for key management personnel are set out in note 27.

### 9 Employee information

The average number of persons (including executive Directors) employed by the Group during the year was:

	2012 Number	2011 Number
<b>Class of business</b> (see note 2)		
Integration & Managed Services	210	208
Network Systems	64	58
Transport Systems	58	58
Industrial Systems	75	60
Research & Development	25	21
Central	11	11
Indanet	31	12
	<b>474</b>	428
	<b>2012</b>	2011
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs (for the above persons)</b>		
Wages and salaries	17,959	15,741
Social security costs	2,010	1,686
Pension costs	472	456
Share-based payment charges	119	192
	<b>20,560</b>	18,075

### 10 Finance income

	2012 £'000	2011 £'000
Bank interest receivable	7	11
Expected return on pension scheme assets	237	257
	<b>244</b>	268

## 11 Finance costs

	2012 £'000	2011 £'000
Interest payable on bank overdrafts	7	28
Interest payable on bank loans	53	8
Other interest payable	–	6
Interest on pension scheme liabilities	237	257
	<b>297</b>	299
IAS 39 charge on deferred and contingent consideration (note 5)	266	110
Adjustment to Indanet deferred and contingent consideration (note 5)	(4,518)	–
	<b>(3,955)</b>	409

## 12 Taxation

	2012 £'000	2011 £'000
<b>Tax charge</b>		
<b>Current taxation:</b>		
UK tax	852	84
Overseas tax	541	955
Adjustments in respect of prior periods	(227)	(230)
Total current tax	<b>1,166</b>	809
<b>Deferred taxation:</b>		
Origination and reversal of temporary differences	35	48
Adjustments in respect of prior periods	141	17
Total deferred tax	<b>176</b>	65
	<b>1,342</b>	874

### Reconciliation of tax charge for the year

The corporation tax assessed for the year differs from the standard rate of corporation tax in the UK of 24.67% (2011: 26.67%). The differences are explained below:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	4,709	2,462
Tax on profit on ordinary activities before tax at standard rate of 24.67% (2011: 26.67%)	1,162	657
Effects of:		
Expenses not deductible for tax purposes and temporary differences	38	182
Net effect of different rates of tax in overseas businesses	94	252
Tax losses not recognised	208	–
Income not taxable	(64)	–
Rate change on deferred tax balance	(10)	(4)
Adjustment in respect of prior periods	(86)	(213)
<b>Total tax charge for the year</b>	<b>1,342</b>	874

### Factors that may affect future tax charges

Legislation reducing the main rate of UK corporation tax to 23% from 1 April 2013 was substantively enacted during the period. Accordingly, current tax has been provided for at a rate of 24.67% and deferred tax has been provided for at 23%.

In the 2012 Budget, issued on 21 March 2012, the Government announced the main rate of corporation tax would reduce to 22% by 1 April 2014. This rate reduction has not yet been substantively enacted, and so its effect has not been reflected in these financial statements.

If the deferred tax balances within the UK were to reverse after 2014, the effect of the reduction in the rate from 23% to 22% would be to reduce the net deferred tax liability by £6,000.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 12 Taxation (continued)

	2012 £'000	2011 £'000
<b>Deferred tax liability</b>		
At start of year	(133)	176
Charge to income statement	(176)	(65)
Arising on business combinations	-	(249)
Currency translation adjustment	(22)	5
At end of year	<b>(331)</b>	(133)

The deferred taxation balances comprise:

	2012 £'000	2011 £'000
Fixed asset temporary differences	(184)	(192)
Other temporary differences	(147)	(8)
Tax losses	-	67
	<b>(331)</b>	(133)

The Group has tax losses available to be carried forward for offset against the future taxable profits of certain Group companies amounting to approximately £0.6 million (2011: £1.0 million). No deferred tax asset (2011: £0.1 million) in respect of these losses has been recognised at the year end as the Group does not currently anticipate being able to offset these against future profits in order to realise any economic benefit in the foreseeable future.

In addition to the above, the Group has capital losses of approximately £19 million (2011: £19 million) available for offset against future taxable gains. No deferred tax asset in respect of these losses, which would amount to £4.4 million, has been recognised in these financial statements as there is insufficient certainty that the asset will be recovered against future capital gains.

### 13 Dividends

The following dividends were paid by the Company during the year:

	2012		2011	
	Pence per share	£'000	Pence per share	£'000
Final dividend paid in respect of prior year but not recognised as liabilities in that year	4.5	791	4.5	791
Interim dividend paid in respect of current year	2.5	439	2.5	439
	<b>7.0</b>	<b>1,230</b>	7.0	1,230
Total dividend paid, net of Treasury share dividends		<b>1,140</b>		1,110
Proposed final dividend for the year ended 30 November	<b>5.0</b>	<b>858</b>	4.5	791

The proposed final dividend for the year ended 30 November 2012 has not been approved by shareholders and as such has not been included as a liability as at 30 November 2012. Subject to approval, this is expected to be paid on 8 May 2013 to shareholders on the register at 15 March 2013. This will give a total dividend for the year of 7.5p (2011: 7.0p).

## 14 Earnings per ordinary share

	<b>2012</b>	2011
	<b>Pence</b>	Pence
	<b>per share</b>	per share
Basic earnings per ordinary share	<b>21.6</b>	10.2
Diluted earnings per ordinary share	<b>20.7</b>	10.0
Underlying basic earnings per ordinary share	<b>26.3</b>	16.4
Underlying diluted earnings per ordinary share	<b>25.2</b>	16.2

Earnings per ordinary share have been calculated by dividing the profit attributable to equity holders of the parent after taxation for each financial year by the weighted average number of ordinary shares in issue and ranking for dividend during the year.

	<b>2012</b>	2011
	<b>Pence</b>	Pence
	<b>per share</b>	per share
Basic earnings per share		
– Underlying	<b>26.3</b>	16.4
– Basic	<b>21.6</b>	10.2
Diluted earnings per share		
– Underlying	<b>25.2</b>	16.2
– Basic	<b>20.7</b>	10.0

The calculations of basic and underlying earnings per share are based upon:

	<b>2012</b>	2011
	<b>£'000</b>	£'000
Earnings for basic and diluted earnings per share	<b>3,367</b>	1,588
Non-underlying items	<b>1,208</b>	938
Impact of non-underlying items on tax charge for the year	<b>(216)</b>	(82)
Impairment of Indanet goodwill	<b>3,993</b>	–
Net adjustment to Indanet deferred and contingent consideration	<b>(4,252)</b>	110
Earnings for underlying basic and underlying diluted earnings per share	<b>4,100</b>	2,554

	<b>2012</b>	2011
	<b>'000</b>	'000
Weighted average number of ordinary shares – basic calculation	<b>15,613</b>	15,529
Dilutive potential ordinary shares arising from share options	<b>630</b>	274
Weighted average number of ordinary shares – diluted calculation	<b>16,243</b>	15,803

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 15 Property, plant and equipment

	Freehold land and buildings £'000	Short leasehold improvements £'000	Plant, equipment and motor vehicles £'000	Total £'000
<b>Cost:</b>				
At 1 December 2010	311	1,031	3,350	4,692
Additions	–	190	376	566
Disposals	–	–	(52)	(52)
Acquisitions through business combinations	–	–	205	205
Currency translation adjustment	–	–	(45)	(45)
At 30 November 2011	311	1,221	3,834	5,366
Additions	–	85	445	530
Disposals	–	–	(985)	(985)
Transfer between categories	–	78	(188)	(110)
Currency translation adjustment	–	–	25	25
At 30 November 2012	311	1,384	3,131	4,826
<b>Depreciation:</b>				
At 1 December 2010	33	450	2,706	3,189
Charge for the year	6	116	380	502
Disposals	–	–	(52)	(52)
Acquisitions through business combinations	–	–	132	132
Currency translation adjustment	–	–	(23)	(23)
At 30 November 2011	39	566	3,143	3,748
Charge for the year	6	92	338	436
Disposals	–	–	(966)	(966)
Transfer between categories	–	71	(121)	(50)
Currency translation adjustment	–	–	(22)	(22)
At 30 November 2012	45	729	2,372	3,146
<b>Net book value:</b>				
<b>At 30 November 2012</b>	<b>266</b>	<b>655</b>	<b>759</b>	<b>1,680</b>
At 30 November 2011	272	655	691	1,618



## 16 Intangible assets

	Goodwill £'000	Acquired intangibles £'000	Capitalised development costs £'000	Purchased software £'000	Total £'000
Cost:					
At 1 December 2010	15,791	–	2,618	927	19,336
Additions	–	–	747	69	816
Acquisitions through business combinations	7,278	754	–	–	8,032
Currency translation adjustment	(177)	(17)	–	25	(169)
At 30 November 2011	22,892	737	3,365	1,021	28,015
Additions	–	–	562	336	898
Transfer between categories	–	–	–	110	110
Disposals	(192)	–	(303)	(224)	(719)
Currency translation adjustment	(358)	(38)	–	1	(395)
At 30 November 2012	22,342	699	3,624	1,244	27,909
Amortisation:					
At 1 December 2010	–	–	1,342	702	2,044
Charge for the year	–	48	619	99	766
Currency translation adjustment	–	–	–	16	16
At 30 November 2011	–	48	1,961	817	2,826
Charge for the year	–	119	443	111	673
Exceptional impairment charge (note 5)	3,993	–	–	–	3,993
Transfer between categories	–	–	–	50	50
Disposals	–	–	(81)	(221)	(302)
At 30 November 2012	3,993	167	2,323	757	7,240
<b>Net book value:</b>					
<b>At 30 November 2012</b>	<b>18,349</b>	<b>532</b>	<b>1,301</b>	<b>487</b>	<b>20,669</b>
At 30 November 2011	22,892	689	1,404	204	25,189

### Annual test for impairment of goodwill

During the year, the Group assessed the recoverable amount of goodwill by comparing it to the value in use of the cash-generating units to which it relates. The carrying amount of goodwill was allocated to the cash-generating units ('CGUs') as follows:

	2012 £'000	2011 £'000
Integration & Managed Services	4,580	4,580
Network Systems	2,403	5,704
Transport Systems	4,609	8,408
Industrial Systems	4,200	4,200
Indanet	2,557	–
	<b>18,349</b>	22,892

The successful integration of Indanet is an important element of Synectics' strategy both because of Indanet's leading position in surveillance control systems for integrated transport hubs and as an operating base for expansion of Synectics' systems into the German and other European markets. In light of this, and the on-going focus by the Directors on Indanet's performance, Indanet has therefore been identified as a separate CGU in 2012.

The recoverable amount of the cash-generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets and business plans approved by the Directors covering a three year period. Cash flows beyond that period have been extrapolated using a steady 2.25% per annum growth rate for UK CGUs, which the Directors consider to be specific to the business and does not exceed the UK long term average growth rate, and is therefore considered appropriate to apply to each of the CGUs.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 16 Intangible assets (continued)

The key assumptions used in the cash flow projections are as follows:

- No material changes in working capital
- Terminal value applied after 10 years assuming an eight times multiple
- Pre-tax discount rates:

	<b>2012</b>	2011
	%	%
Integration & Managed Services	<b>9.5</b>	10.4
Network Systems	<b>8.9</b>	9.9
Transport Systems	<b>8.6</b>	9.5
Industrial Systems	<b>8.2</b>	9.1
Indanet	<b>10.8</b>	–

The discount rates used have been based upon divisional specific risks such as the nature of the market served, cost profiles and the barriers to entry into each market segment, as well as other macro-economic factors.

#### Indanet

As a result of Indanet's rate of progress falling behind the plans set out at the time of its acquisition, the recoverable value of the CGU declined, resulting in an impairment of £3,993,000 to the goodwill value.

#### Other CGUs

The Directors believe that, based on sensitivity analysis performed, even in the current economic conditions any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the CGUs' carrying amounts to exceed the recoverable amounts.

### 17 Inventories

	<b>2012</b>	2011
	£'000	£'000
Raw materials and consumables	<b>4,427</b>	4,006
Work in progress	<b>227</b>	1,385
Finished goods for resale	<b>2,372</b>	2,041
	<b>7,026</b>	7,432
Contract balances	<b>176</b>	27
	<b>7,202</b>	7,459
	<b>2012</b>	2011
	£'000	£'000
Contract balances comprise:		
Net costs incurred	<b>176</b>	27

## 18 Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	17,181	16,489
Allowance for doubtful debts	(1,041)	(679)
	<b>16,140</b>	15,810
Amounts recoverable on contracts	8,855	9,158
Other receivables	670	780
Prepayments and accrued income	839	753
	<b>26,504</b>	26,501

Trade receivables are non-interest bearing and generally have a 30 to 90 day term. At 30 November 2012 the Group had 66 days sales outstanding in trade receivables (2011: 58 days). Trade receivables includes £356,174 (2011: £250,661) due from related parties (note 27).

Due to their short maturities, the fair value of trade and other receivables approximates to their book value.

### Movement in allowance for doubtful debts

	2012 £'000	2011 £'000
At 1 December	679	767
Provided	385	88
Amounts written off	(23)	(176)
<b>At 30 November</b>	<b>1,041</b>	679

As at 30 November 2012, trade receivables of £5,963,000 (2011: £5,913,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2012 £'000	2011 £'000
Up to three months past due	4,208	5,054
Three to six months past due	1,324	591
Over six months past due	431	268
	<b>5,963</b>	5,913

## 19 Cash and cash equivalents

	2012 £'000	2011 £'000
<b>Cash at bank and in hand</b>	<b>6,491</b>	3,098

The fair value of cash and cash equivalents approximates to their book values.  
Cash at bank earns interest based on the daily bank base rate.

## 20 Trade and other payables

	2012 £'000	2011 £'000
Trade payables	9,476	8,608
Other taxation and social security	731	1,125
Other payables	125	229
Accruals and deferred income	13,130	12,545
	<b>23,462</b>	22,507

Due to their short maturities, the fair value of trade and other payables approximates to their book value.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 21 Loans and borrowings

	2012 £'000	2011 £'000
Bank term loan facility	1,623	1,715
Other loans	227	128
<b>Total loans</b>	<b>1,850</b>	<b>1,843</b>

The loans are both non-current liabilities. The fair value of financial liabilities is not substantially different from the carrying value. The terms and debt repayment details are as follows:

	Value drawn €'000	Date repayable	Interest rate	Security
Euro €10 million term loan facility	2,000	31 January 2016	EURIBOR +2.25%	Share pledge over Indanet AG shares
Other €500,000 loan	250	31 May 2015	4%	None

The loans are both related to the acquisition of Indanet. The bank term loan facility can be drawn in three further tranches as follows:

Maximum amount	Availability
€1,000,000	1 – 31 December 2013
€2,000,000	1 June 2014 – 30 November 2014
€5,000,000	1 June 2015 – 30 November 2015

It is anticipated that the €10 million loan facility will be renegotiated to reflect the reduced borrowing requirement and revised timing for the acquisition of the entire outstanding share capital of Indanet (see note 5).

### 22 Provisions

	Deferred and contingent consideration £'000	Restructuring £'000	Property £'000	Total £'000
At 1 December 2010	–	95	42	137
Utilised in year	–	(58)	(16)	(74)
Charge to income statement	–	–	28	28
Acquisition made during year	6,012	–	–	6,012
IAS 39 charge on deferred and contingent consideration	110	–	–	110
Currency translation adjustment	(141)	–	–	(141)
At 30 November 2011	5,981	37	54	6,072
Utilised in year	–	(37)	(10)	(47)
Charge to income statement	–	–	29	29
IAS 39 charge on deferred and contingent consideration	266	–	–	266
Adjustment to Indanet deferred and contingent consideration (note 5)	(4,518)	–	–	(4,518)
Currency translation adjustment	(321)	–	–	(321)
<b>At 30 November 2012</b>	<b>1,408</b>	<b>–</b>	<b>73</b>	<b>1,481</b>

Provisions have been analysed between current and non-current as follows:

	2012 £'000	2011 £'000
Current	1,433	44
Non-current	48	6,028
	<b>1,481</b>	<b>6,072</b>

The deferred and contingent consideration balance at 30 November 2012 was paid in full subsequent to the financial year end (see note 5).

The Group has a number of properties where the Directors believe that dilapidation costs may be incurred or where the property is sublet and the Directors believe that they may not be able to fully recover future rental costs, and therefore appropriate cost provisions have been made. It is anticipated that the property cost provision carried forward at 30 November 2012 will be utilised within six years.

## 23 Called up share capital and reserves

The number of authorised, allotted, called up and fully paid shares is as follows:

	Number	2012 £'000	Number	2011 £'000
<b>Ordinary shares of 20p each</b>				
Authorised	<b>25,000,000</b>	<b>5,000</b>	25,000,000	5,000
Allotted, called up and fully paid	<b>17,571,488</b>	<b>3,514</b>	17,569,744	3,514

Share capital increased by 1,744 shares in the year as a result of share options being exercised under the Protec EMI Share Option Scheme (see note 24).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group. The 1,834,212 shares held under the Group Executive Shared Ownership Plan ('ExSOP') at 30 November 2012 are treated as Treasury shares and are therefore excluded from the basic earnings per share calculation.

The merger reserve has been created in accordance with sections 612 and 613 of the Companies Act 2006 whereby the premium on ordinary shares in the Company issued to acquire shares has been credited to the merger reserve rather than the share premium account.

The cost of own shares held within the ExSOP of £3,962,214 (2011: £4,209,207) has been deducted from other reserves. The nominal value of these shares is £366,842 (2011: £408,162). Other reserves also includes a capital redemption reserve of £8,000 (2011: £8,000).

## 24 Options over shares of Synectics plc (formerly Quadnetics Group plc)

The Group operated six share schemes in the year: the Quadnetics Group EMI Share Option Scheme, the Protec plc EMI Share Option Scheme, the Protec plc AESOP Scheme, the Quadnetics Employees' Share Acquisition Plan ('ESAP'), the Quadnetics Executive Shared Ownership Plan ('ExSOP') and the Synectics Performance Share Plan ('PSP').

### Quadnetics Group EMI Share Option Scheme

The Quadnetics Group EMI Share Option Scheme was adopted on 27 December 2001. It is administered by the Board but is now closed as the size of the Group exceeds the limits imposed by HM Revenue & Customs.

Options outstanding at 30 November 2012 are exercisable as follows, subject to the holder still being employed by the Group at the time of exercise:

Date granted	Exercise dates	Option price	Number of options
11 April 2003	11 April 2005 – 10 April 2013	135.0p	10,000
5 March 2004	5 March 2006 – 4 March 2014	300.0p	100,833
30 September 2004	30 September 2006 – 29 September 2014	280.0p	10,715
<b>Outstanding options at 30 November 2012</b>			<b>121,548</b>

Options outstanding at 30 November 2011 were 121,548.

### Protec plc EMI Share Option Scheme

The Protec plc EMI Share Option Scheme was adopted on 9 May 2001. It is administered by the Board but the Scheme was closed to new members on 31 December 2005 following the acquisition of Protec plc by Synectics plc (formerly Quadnetics Group plc). The holders of Protec EMI options at the time of the acquisition were able to elect to convert these options into options of the same value over ordinary shares in Synectics plc in a ratio of 1 Synectics share for every 43 Protec shares. As a result, former Protec EMI option holders held options over a further 581 ordinary shares at 30 November 2012, which were exercisable as follows, subject to the holder still being employed by the Group at the time of exercise:

Date granted	Exercise dates	Option price	Number of options outstanding at 30 November 2012
18 November 2003	18 November 2006 – 17 November 2013	516.0p	<b>581</b>

Options outstanding at 30 November 2011 were 2,325. Options over 1,744 shares were exercised in the year.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 24 Options over shares of Synectics plc (formerly Quadnetics Group plc) (continued)

#### Protec plc AESOP Scheme

The Protec plc AESOP Scheme was adopted on 9 May 2001 but was closed to new members and contributions ceased on 31 December 2005 following the acquisition of Protec plc by Synectics plc (formerly Quadnetics Group plc). The holders of shares in the Scheme at the time of the acquisition were able to elect to convert these shares into ordinary shares of the same value in Synectics plc in a ratio of 1 Synectics share for every 43 Protec shares.

During the year the remaining 2,204 shares in the Scheme were withdrawn by employees as the fifth anniversary of the grant date had been reached enabling the shares to be withdrawn penalty free and tax free.

On 16 November 2012 the Protec plc AESOP Scheme was formally wound up.

#### Quadnetics Employees' Share Acquisition Plan

The Quadnetics Employees' Share Acquisition Plan (the 'ESAP') was adopted on 23 April 2010. Deductions from salary are used to buy Partnership Shares in Synectics plc (formerly Quadnetics Group plc) at the end of each six month accumulation period. The Trustee will use any dividend income paid on these shares to buy further shares to be held in the scheme as Dividend Shares.

Partnership Shares can be withdrawn from the Scheme by the employee at any time, but withdrawals before the fifth anniversary after purchase are subject to income tax; withdrawals after the fifth anniversary of their purchase date can be made in full and are tax free. Dividend Shares are required to be held in Trust for a period of three years following the purchase date. Employees who leave the Group are required to withdraw all of their shares in the Scheme and are subject to the same rules.

The Scheme holds 30,798 ordinary shares at 30 November 2012, which were acquired by the Scheme Trustee as follows:

Effective date of purchase	Type of shares	Third or Fifth anniversary of the purchase date	Purchase/base price	2012 Number of shares	2011 Number of shares
14 October 2010	Partnership	15 October 2015	147.5p	4,745	5,448
7 April 2011	Partnership	8 April 2016	177.5p	6,495	7,339
25 July 2011	Dividend	26 July 2014	200.0p	95	109
2 November 2011	Partnership	3 November 2016	185.5p	6,072	6,979
2 November 2011	Dividend	3 November 2014	205.0p	141	159
20 April 2012	Partnership	21 April 2017	200.0p	6,999	–
17 May 2012	Dividend	18 May 2015	289.0p	276	–
9 October 2012	Partnership	10 October 2017	272.5p	5,759	–
9 October 2012	Dividend	10 October 2015	272.5p	216	–
<b>Shares held at end of year</b>				<b>30,798</b>	20,034

At 30 November 2012 the shares held by the ESAP Scheme had a market value of £87,620 (2011: £40,469).

Movements during the year were as follows:

	Number of shares
Shares held at 1 December 2011	20,034
Shares acquired during the year	13,660
Withdrawals from the scheme during the year	(2,896)
<b>Shares held at 30 November 2012</b>	<b>30,798</b>

## 24 Options over shares of Synectics plc (formerly Quadnetics Group plc) (continued)

### Quadnetics Executive Shared Ownership Plan

The Quadnetics Executive Shared Ownership Plan (the 'ExSOP') was formed in July 2009. Under the provisions of the ExSOP, shares (the 'ExSOP shares') are jointly owned by nominated senior employees and by an employees' share trust, on terms, similar to a share option scheme, whereby the value of appreciation in the Company's share price over a minimum three year period accrues to the relevant employee, provided the Company meets certain performance thresholds. In summary, none of the awarded ExSOP shares will vest unless the total return (dividends plus share price appreciation) on the Company's shares is better than the performance of the FTSE AIM All Share Total Return Index over the three year period from award. The shares will vest fully if the Company's performance beats the index by more than five percentage points over that period, with pro-rata vesting for out performance up to five percent.

In March 2011, 293,000 shares available in the Trust as a result of employees leaving the Group were transferred to the corporate Trustee of the Plan at £1.73 each as joint owner together with certain employees, being the mid-market price of the Company's ordinary shares immediately prior to the transfer.

### ExSOP shares outstanding at 30 November 2012 are exercisable as follows:

Date awarded	Exercise dates	Relevant share price at date of award	2012 Number of shares	2011 Number of shares
7 July 2009	8 July 2012 onwards	147.5p	1,218,809	1,378,959
18 September 2009	19 September 2012 onwards	159.0p	–	200,000
7 March 2011	8 March 2014 onwards	173.0p	213,000	293,000
Balance of shares in respect of leavers			402,403	168,851
			<b>1,834,212</b>	2,040,810

Movements during the year were as follows:

	Number of shares
Shares held at 1 December 2011	2,040,810
Vested shares sold or transferred in year	(206,598)
<b>Shares held at 30 November 2012</b>	<b>1,834,212</b>

Dividends have been waived in respect of the 402,203 shares not specifically allocated to employees.

### Synectics Performance Share Plan

The Synectics Performance Share Plan ('PSP') was formed on 9 October 2012.

Under the PSP, selected employees are entitled to exercise an option to receive a certain number of Synectics plc shares at any time after a three year vesting period, at no cost to themselves. The number of shares that are awarded at the end of the three year period is dependent on the achievement of certain performance criteria.

The performance criteria are identical to those that apply under the existing ExSOP. Provided that the total return on Synectics plc shares has out-performed the AIM All Share Total Return Index (the 'Index') by five percentage points or more in the three years following the award, beneficiaries will be entitled to receive the full number of shares awarded. If Synectics plc's share performance matches the Index, then 25% of the awarded shares will vest and between these points vesting will be pro-rata. If the total return on Synectics plc shares underperforms the Index, then no entitlement will vest. The limit on the number of shares over which interests may be awarded also remains unchanged.

It is intended that if the performance criteria are met in full or part, the appropriate number of shares will be transferred to the employees from unallocated Synectics plc shares already held within the employee benefit trust established for the existing ExSOP.

### PSP shares outstanding at 30 November 2012 are exercisable as follows:

Date awarded	Exercise dates	Relevant share price at date of award	2012 Number of shares
9 October 2012	9 October 2015 onwards	272.5p	142,250

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 25 Share-based payment charges

The fair value of services received in return for share options granted or awards made under the Group's share schemes are measured by reference to the fair value of the share options granted or share scheme shares awarded.

For the equity settled share scheme awards, the estimate of the fair value of the services received for accounting purposes is measured based on an adjusted Black-Scholes model using the following assumptions:

	July 2009 awards	September 2009 awards	March 2011 awards
<b>Quadnetics Executive Shared Ownership Plan</b>			
Number of jointly owned shares awarded	1,840,810	200,000	293,000
Share price on date of award	£1.510	£1.605	£1.780
Amount paid by employee for each ExSOP award	0.2p	0.2p	0.2p
Carrying cost	1.75% of the initial market value	1.25% of the initial market value	1.75% of the initial market value
Volatility	35%	35%	35%
Expected dividend yield	0%	0%	4%
Risk free interest rate	2.4%	2.0%	1.9%
Anticipated exercise date	8 July 2012	19 September 2012	8 March 2014
Expected life of ExSOP	3 years	3 years	3 years

	October 2012 awards
<b>Synectics Performance Share Plan</b>	
Number of share options awarded	142,250
Exercise price	Nil
Share price on date of award	£2.725
Expected volatility	20%
Expected dividend yield	3.5%
Risk free interest rate	2.1%
Vesting period	3 years
Expected life of option	4 years

The expected volatility is wholly based on the historic volatility.

Share options and share scheme awards are granted under a service condition and also, for grants to employees under the ExSOP and PSP, a performance measure based around the Company's share price relative to the FTSE AIM All Share Total Return Index.

The total charge recognised for the year arising from share-based payments is as follows:

	2012 £'000	2011 £'000
Equity-settled share-based payments	119	192
<b>Total carrying value of liabilities</b>	–	–

### 26 Contingent liabilities

Certain subsidiary companies have agreed to guarantee a number of bank bonds, issued by Barclays Bank PLC and Lloyds TSB Bank plc, amounting to a total of £1.6 million at 30 November 2012 (2011: £1.3 million).



## 27 Related party transactions

- 1) Sales in the year of £1,442,690 (2011: £1,005,630) were made to Coex Services Asia Pte Ltd, in which the Group has an investment (original cost: £8,000 now fully written down), but does not exercise any influence. Purchases of £207,115 (2011: £13,821) were made from Coex Services Asia Pte Ltd. The balance owed by Coex Services Asia Pte Ltd at 30 November 2012 was £326,149 (2011: £245,742).
- 2) During the year Indanet AG made sales of €166,222 (period from the date of acquisition to 30 November 2011: €76,200) to, and purchases of €220,475 (period from the date of acquisition to 30 November 2011: €99,955) from companies in which the vendors of Indanet AG held an interest. The balance owed to Indanet AG at 30 November 2012 was €37,000 (2011: €5,748).

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The principal subsidiaries and divisions within the Group are listed on page 85.

All transactions with related parties were at arm's length.

- 3) Transactions with key management personnel

	<b>2012</b>	2011
	<b>£'000</b>	£'000
Salary and fees	<b>850</b>	959
Benefits	<b>89</b>	118
Bonus	<b>423</b>	219
Total short-term remuneration	<b>1,362</b>	1,296
Post employment benefits	<b>95</b>	101
Termination benefits	<b>–</b>	72
Share-based payments	<b>67</b>	136
	<b>1,524</b>	1,605

## 28 Capital commitments

At the year end capital commitments not provided for in these financial statements amounted to £nil (2011: £nil).

## 29 Operating lease commitments

The Group had total outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<b>2012</b>	2011
	<b>£'000</b>	£'000
Within one year	<b>1,634</b>	1,759
Within two to five years	<b>3,079</b>	4,064
In excess of five years	<b>837</b>	1,420
	<b>5,550</b>	7,243

The Group's lease commitments primarily relate to land and buildings and vehicles.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 30 Pension commitments

The Group operates a defined benefit pension scheme and a number of defined contribution schemes.

#### a) Defined benefit scheme

The Company operates the Quadrant Group plc Retirement Benefit Scheme. This scheme includes both a defined benefits section in respect of past employees of the Group and a defined contributions section in respect of one current employee. The accrual of benefits in the defined benefit sections ceased in 1996 and the liabilities relate only to members with preserved benefits or pensions in payment. A full actuarial valuation was carried out by a qualified independent actuary, independent of the scheme's sponsoring employer, as at 1 July 2010. These results have been updated on an approximate basis to 30 November 2012. The major assumptions used by the actuary are shown below.

The Company has paid contributions of £62,264 in the year.

The disclosures below relate to the defined benefits section, with the contributions to the defined contributions section being disclosed in section b).

It is the policy of the Company to recognise all actuarial gains and losses in the year in which they occur outside the income statement in the Consolidated Statement of Comprehensive Income.

#### Reconciliation of opening and closing balances of the present value of the defined benefit obligations

	2012 £'000	2011 £'000
Defined benefit obligations at start of year	5,159	4,885
Interest cost	237	257
Actuarial losses	620	236
Benefits paid	(387)	(219)
<b>Defined benefit obligations at end of year</b>	<b>5,629</b>	<b>5,159</b>

#### Reconciliation of opening and closing balances of the fair value of plan assets

	2012 £'000	2011 £'000
Fair value of plan assets at start of year	5,450	5,029
Expected return on assets	237	257
Actuarial gains	641	350
Contributions by the Company	62	33
Benefits paid	(394)	(219)
<b>Fair value of plan assets at end of year</b>	<b>5,996</b>	<b>5,450</b>

#### Total expense recognised in income statement

	2012 £'000	2011 £'000
Expected return on plan assets	(237)	(257)
Interest cost	237	257
<b>Total expense recognised in income statement</b>	<b>-</b>	<b>-</b>

### 30 Pension commitments (continued)

#### Gains/(losses) recognised in consolidated statement of comprehensive income

	2012 £'000	2011 £'000
Difference between expected and actual return on plan assets	641	350
Experience gains and losses arising on the defined benefit obligations	(27)	–
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligations	(580)	(236)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable)	34	114
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable	(34)	(114)
<b>Total amount recognised in the consolidated statement of comprehensive income</b>	<b>–</b>	<b>–</b>

The cumulative amount of actuarial gains and losses recognised in the consolidated statement of comprehensive income since the adoption of IAS 19 is £nil.

#### Assets

	2012 Fair value of plan assets £'000	2011 Fair value of plan assets £'000	2010 Fair value of plan assets £'000
Equity	118	19	17
Bonds	5,874	5,431	5,011
Cash	4	–	1
Total assets	5,996	5,450	5,029

As at 30 November 2012, the fair value of the assets shown above include holdings of £32,000 in Synectics plc shares which constitute employer-related investments. There are no further amounts in assets which represent the Company's own financial instruments or any property occupied by, or other assets used by, the Company.

#### Actual return on plan assets

The actual return on the plan assets over the year ending 30 November 2012 was £878,000.

#### Principal actuarial assumptions

	2012 % per annum	2011 % per annum	2010 % per annum
Inflation	3.00	3.20	3.60
Inflation (CPI)	2.50	2.70	–
Rate of discount	4.00	4.90	5.50
Allowance for pension in payment increases	2.50	2.50	2.50
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	–	–	3.60
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.50	2.70	–
Allowance for commutation of pension for cash at retirement	–	–	–

The mortality assumptions adopted at 30 November 2012 imply the following life expectancies at age 65:

	Years
Male currently age 45	24.5
Female currently age 45	26.9
Male currently age 65	22.6
Female currently age 65	25.1

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 30 Pension commitments (continued)

#### Present value of defined benefit obligations, fair value of assets and surplus

	<b>2012</b>	2011	2010
	<b>£'000</b>	£'000	£'000
Fair value of plan assets	<b>5,996</b>	5,450	5,029
Present value of defined benefit obligations	<b>5,629</b>	5,165	4,885
Surplus in plan	<b>367</b>	285	144
Unrecognised surplus	<b>(367)</b>	(285)	(144)
Asset to be recognised	–	–	–

The Company estimates that additional contributions of £62,000 will be paid to the plan during the year ending 30 November 2013.

#### History of experience gains and losses

	<b>30 Nov 2012</b>	30 Nov 2011	30 Nov 2010	31 May 2009	31 May 2008
	<b>£'000</b>	£'000	£'000	£'000	£'000
Fair value of plan assets	<b>5,996</b>	5,450	5,029	4,339	4,669
Present value of defined benefit obligations	<b>5,629</b>	5,165	4,885	4,322	4,377
<b>Surplus in plan</b>	<b>367</b>	285	144	17	292
Experience adjustment on plan assets	<b>641</b>	350	597	(352)	(326)
Experience adjustment on defined benefit obligations	<b>(27)</b>	–	124	–	(48)

#### Expected long-term rates of return

The long-term expected rate of return on cash is determined by reference to the rate of return of gilts at the balance sheet dates. The long-term expected return on bonds is determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for out-performance.

The expected long-term rates of return applicable for each period are as follows:

	Period commencing 1 December 2011 % per annum	Period commencing 1 December 2010 % per annum
Equity	6.80	8.00
Bonds	4.48	5.20
Cash	2.70	3.90
Overall for scheme	4.49	5.21

#### b) Defined contribution schemes

Contributions made by the Company to the defined contribution section of the Quadrant Group plc Retirement Benefit Scheme amount to £49,000 in the year (2011: £43,000).

There are also a number of other defined contribution pension schemes operated by various companies within the Group. The Group's total expense for these other schemes in the year was £423,000 (2011: £413,000).

## 31 Financial instruments

### Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of cash held in interest bearing current accounts (note 19), loans and borrowings on fixed terms (note 21) and equity attributable to equity holders of the parent, comprising issued share capital (note 23), reserves and retained earnings. The Group is not subject to any externally imposed capital requirements. The Group's dividend policy depends on both the earnings profile and investment opportunities together with wider macro-economic factors.

### Foreign currency risk

The Group operates internationally giving rise to exposure from changes in foreign exchange rates, with the US dollar and the euro being the main foreign currencies in which the Group operates. The Group's policy is to manage transaction exposure in respect of the Group's UK subsidiaries through the use of forward exchange contracts, which are entered into in respect of forecast foreign currency transactions when the amount and timing of such forecast transactions becomes reasonably certain. At 30 November 2012 the Group had the following commitments in respect of forward exchange contracts:

	2012 \$'000	2012 Average rate \$:£	2012 €'000	2012 Average rate €:£	2011 \$'000	2011 Average rate \$:£	2011 €'000	2011 Average rate €:£
Forward sales	–	–	–	–	1,745	1.58	–	–
Forward purchases	–	–	–	–	–	–	–	–

The fair value of these forward exchange contracts is not considered to be material. Hedge accounting has not been applied.

At 30 November 2012, the Group entities based in the UK had the following forecast foreign currency transactions during the next two years which have not been hedged, principally due to either natural hedges being available of receipts against payments or to significant uncertainty over the timing of the transactions:

	2012 \$'000	2011 \$'000
Receipts	2,231	1,493

The Group is exposed to fluctuations in exchange rates on the translation of profits earned by its US subsidiary. These profits are translated at average exchange rates for the year which is an approximation to rates at the date of transaction. The Group's US subsidiary accounts for approximately 2% (2011: 1%) of the Group's net assets. Translation exposure in respect of these assets is not hedged.

The Group is also exposed to fluctuations in exchange rates on the translation of profits earned by its German subsidiary. These profits are translated at average exchange rates for the period which is an approximation to rates at the date of transaction. The Group's German subsidiary accounts for approximately 0% (2011: 1%) of the Group's net assets. Translation exposure in respect of these assets is not hedged.

At 30 November 2012 the Group held cash balances of \$746,000 (2011: \$2,216,000), €82,000 (2011: €61,000) and SGD 2,730,000 (2011: SGD nil).

It is estimated that a 10% fall in the US dollar exchange rate would have increased the Group's profit before tax by an estimated £158,000 (2011: £156,000) and equity by £40,000 (2011: £16,000). A 10% fall in the year end euro exchange rate would not have a material impact on either profits or equity.

## Notes to the Consolidated Financial Statements

For the year ended 30 November 2012

### 31 Financial instruments (continued)

The table below shows the extent to which the Group had monetary assets and liabilities in currencies other than the local currency of the Company in which they are recorded. Foreign exchange differences on the retranslation of these assets and liabilities are recognised in the Group income statement.

	Functional currency of Group operation			
	2012		2011	
	Sterling £'000	USD £'000	Sterling £'000	USD £'000
GPB	-	-	-	51
US dollars	433	-	1,248	-
Euros	67	-	(4)	-
Canadian dollars	5	14	5	24
Saudi Arabian riyals	40	-	-	-
UAE dirhams	-	-	160	-
Total	545	14	1,409	75

#### Credit risk

Credit risk refers to the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations, resulting in financial loss to the Group, and arises principally from the Group's receivables from customers and interest bearing current accounts. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit using information supplied by independent rating agencies where available. The Group also uses other publicly available information and its own trading records to rate major customers. The credit risk on current accounts is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated Statement of Financial Position.

#### Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient cash to meet its financial obligations as they fall due. The Group ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium term capital and funding obligations, and to meet any unforeseen obligations and opportunities.

At the year end, the Group had net funds of:

	2012 £'000	2011 £'000
Current accounts	6,491	3,098
Loans and borrowings (note 21)	(1,850)	(1,843)
	4,641	1,255

The level of the Group's bank overdraft facilities is reviewed annually and at 30 November 2012 the Group had undrawn overdraft facilities of up to £4 million, on which interest would be payable at the rate of bank base rate + 2%.

Financial liabilities of the Group principally comprise trade creditors falling due for payment within twelve months of the balance sheet date (2011: twelve months) and bank loans which fall due for payment within two to five years of the balance sheet date.

Due to the significant amount of cash held in current accounts, taken together with the undrawn bank overdraft facility, the Group's exposure to liquidity risk at 30 November 2012 and 30 November 2011 was negligible.

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## 31 Financial instruments (continued)

### Interest risk

Interest bearing assets comprise cash held in current accounts, earning interest at bank base rate. During the year these bank deposits bore interest at base rate of 0.5% (2011: 0.5%). The Group benchmarks the rates being obtained in order to maximise its returns, within the credit risk framework referred to above.

The Group's short term financial liabilities are all non-interest bearing. The interest rates for bank loans are set out in note 21.

The Group's funds did not carry any significant interest rate risk at 30 November 2012 or 30 November 2011.

A 0.5% fall in interest rates would not have a material impact on the results of the Group.

## Company Balance Sheet

30 November 2012

	Note	2012 £'000	2011 £'000
<b>Fixed assets</b>			
Plant, equipment and motor vehicles	5	136	59
Investments in subsidiary undertakings	6	19,211	19,140
		<b>19,347</b>	19,199
<b>Current assets</b>			
Debtors	7	25,366	24,945
<b>Creditors:</b> amounts falling due within one year	8	(6,469)	(5,298)
<b>Net current assets</b>		<b>18,897</b>	19,647
<b>Total assets less current liabilities</b>		<b>38,244</b>	38,846
<b>Creditors:</b> amounts falling due after more than one year	8	(4,459)	(6,064)
<b>Loans and borrowings</b>	9	(1,623)	(1,717)
<b>Provisions for liabilities and charges</b>	10	(51)	(29)
<b>Non-current liabilities</b>		<b>(6,133)</b>	(7,810)
<b>Net assets</b>		<b>32,111</b>	31,036
<b>Capital and reserves</b>			
Called up share capital	11	3,514	3,514
Share premium account	12	15,721	15,719
Merger reserve	12	9,565	9,565
Other reserves	12	(1,849)	(2,096)
Profit and loss account	12	5,160	4,334
<b>Equity shareholders' funds</b>		<b>32,111</b>	31,036

The financial statements on pages 78 to 84 were approved and authorised for issue by the Board of Directors on 27 February 2013 and were signed on its behalf by:



**John Shepherd**  
Chief Executive



**Nigel Pountney**  
Finance Director

Company Number: 1740011



# Notes to the Company Financial Statements

For the year ended 30 November 2012

The principal activity of the Company was to act as a holding company for its trading subsidiaries.

## 1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom ('UK GAAP'). A summary of the more important Company accounting policies, which have been consistently applied is set out below.

### a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

### b) Turnover

Turnover, which excludes value added tax and trade discounts, represents the value of goods and services supplied during the year.

### c) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets purchased at the date of acquisition, and is capitalised as a fixed asset and amortised on a straight-line basis over its estimated useful life of up to 20 years.

### d) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned, commencing on the first day of the month after being brought into use. The principal annual rates used for this purpose are 10% – 33%.

### e) Leased assets

Rentals payable under operating leases are written off to the profit and loss account on a straight-line basis over the term of the lease.

### f) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax balances are not discounted.

### g) Pension costs

Company employees are members of two pension schemes, both of which operate on a money purchase basis. Contributions to these schemes are charged to the profit and loss account as incurred.

The Company also operates a retirement benefit scheme, which has deferred defined benefit members. The expected return on the scheme's assets and the expected increase in the present value of the scheme's liabilities during the period are included in the profit and loss account as other finance income or charges as appropriate. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Pension scheme liabilities and, to the extent that they are recoverable, pension scheme assets are recognised in the balance sheet and represent the difference between the market value of the scheme's assets and the present value of the scheme's liabilities, net of deferred taxation.

Pension scheme liabilities are determined on an actuarial basis using the projected unit method and are discounted at a rate using the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

## Notes to the Company Financial Statements

For the year ended 30 November 2012

### 1 Principal accounting policies (continued)

#### h) Foreign currency

Transactions denominated in foreign currency are translated into sterling at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are retranslated into sterling at rates of exchange ruling at the end of the financial period or, if appropriate, at the forward contract rate. Exchange differences arising on these transactions are taken to the profit and loss account in the period in which they arise.

#### i) Dividends

Dividends proposed by the Directors and unpaid at the end of the year are not recognised in the financial statements until they have been approved by shareholders at a General Meeting of the Company. Interim dividends are recognised when they are paid.

#### j) Employee share schemes

Transactions of the Company-sponsored ExSOP are treated as being those of the Company and are therefore reflected in the Parent Company financial statements. In particular the scheme's purchase of shares in the Company are debited directly to equity.

### 2 Directors' remuneration

Directors' remuneration is shown on pages 31 and 32 of the Remuneration Committee Report.

### 3 Employee information

The average number of persons (including executive Directors) employed by the Company during the year was:

Class of business	2012 Number	2011 Number
Central	11	11
<b>Staff costs (for the above persons)</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
Wages and salaries	1,239	886
Social security costs	193	167
Pension costs	187	180
Share-based payment charges	46	77
	<b>1,665</b>	<b>1,310</b>

### 4 Dividends

The following dividends were paid by the Company during the year:

	2012		2011	
	Pence per share	£'000	Pence per share	£'000
Final dividend paid in respect of prior year but not recognised as liabilities in that year	4.5	791	4.5	791
Interim dividend paid in respect of current year	2.5	439	2.5	439
	<b>7.0</b>	<b>1,230</b>	<b>7.0</b>	<b>1,230</b>
Proposed final dividend for the year ended 30 November	<b>5.0</b>	<b>858</b>	4.5	791

The proposed final dividend for the year ended 30 November 2012 has not been approved by shareholders and as such has not been included as a liability as at 30 November 2012. Subject to approval, this is expected to be paid on 8 May 2013 to shareholders on the register at 15 March 2013. This will give a total dividend for the period of 7.5p (2011: 7.0p).

## 5 Plant, equipment and motor vehicles

£'000

Cost:	
At 1 December 2011	223
Additions	119
Disposals	(37)
At 30 November 2012	305
Depreciation:	
At 1 December 2011	164
Charge for the year	43
Disposals	(38)
At 30 November 2012	169
<b>Net book value:</b>	
<b>At 30 November 2012</b>	<b>136</b>
At 30 November 2011	59

## 6 Investments in subsidiary undertakings

£'000

Cost at 1 December 2011	27,322
Additions:	
– Share-based payments capital contribution	71
At 30 November 2012	27,393
Provision for impairment as at 1 December 2011 and 30 November 2012	(8,182)
<b>Net book value:</b>	
<b>At 30 November 2012</b>	<b>19,211</b>
At 30 November 2011	19,140

At 30 November 2012 the Company held the following direct shareholdings in its subsidiaries which had been active during the year:

<b>Subsidiary and activity</b>	<b>Class of share</b>	<b>Country of Incorporation</b>	<b>Percentage held at 30 Nov 2012</b>
Synectic Systems Group Limited <i>Design and manufacture of video systems control products, integrated digital CCTV systems and CCTV equipment and systems for extreme or hazardous environments</i>	Ordinary shares	UK	100%
Quadrant Security Group Limited <i>Design, installation and maintenance of CCTV security systems and integrated security systems</i>	Ordinary shares	UK	100%
SSS Management Services Limited <i>Security management and support services</i>	Ordinary shares	UK	100%
Synectic Systems, Inc. <i>Design and supply of video systems control products and integrated digital CCTV systems</i>	Common stock	USA	100%
Synectic Systems GmbH <i>German holding company</i>	Ordinary shares	Germany	100%

Details of the principal subsidiaries are shown on page 85.

## Notes to the Company Financial Statements

For the year ended 30 November 2012

### 7 Debtors

	2012 £'000	2011 £'000
Trade debtors	–	3
Deferred taxation	18	24
Other debtors	21	216
Amounts due from subsidiaries	25,169	24,405
Corporation tax receivable	104	253
Prepayments and accrued income	54	44
	<b>25,366</b>	<b>24,945</b>

	2012 £'000	2011 £'000
<b>Deferred taxation</b>		
At 1 December 2011	24	34
Charge to profit and loss account	(6)	(10)
<b>At 30 November 2012</b>	<b>18</b>	<b>24</b>

The deferred taxation balances comprise:

	2012 £'000	2011 £'000
Fixed asset timing differences	16	22
Other timing differences	2	2
	<b>18</b>	<b>24</b>

### 8 Creditors

	2012 £'000	2011 £'000
<b>Amounts falling due within one year</b>		
Bank overdrafts	5,748	4,679
Trade creditors	92	187
Amounts owed to subsidiaries	10	18
Other taxation and social security	12	50
Other creditors	7	5
Accruals and deferred income	600	359
	<b>6,469</b>	<b>5,298</b>
<b>Amounts falling due after more than one year</b>		
Amounts owed to subsidiaries	4,459	6,064
	<b>10,928</b>	<b>11,362</b>

The bank overdrafts are part of a Group offset arrangement and the overall bank balances were positive at 30 November 2012.

## 9 Loans and borrowings

	2012 £'000	2011 £'000
<b>Euro €10 million term loan facility</b>	<b>1,623</b>	1,717

The loan is a non-current liability, the terms and debt repayment details are as follows:

	Value drawn €'000	Date repayable	Interest rate	Security
Euro €10 million term loan facility	2,000	31 January 2016	EURIBOR + 2.25%	Share pledge over Indanet AG shares

The loan is related to the acquisition of Indanet AG and can be drawn in three further tranches as follows:

Maximum amount	Availability
€1,000,000	1 – 31 December 2013
€2,000,000	1 June 2014 – 30 November 2014
€5,000,000	1 June 2015 – 30 November 2015

It is anticipated that the €10 million loan facility will be renegotiated to reflect the reduced borrowing requirement and revised timing for the acquisition of the entire outstanding share capital of Indanet (see note 5 of the Group financial statements).

## 10 Provisions

	Property £'000
At 1 December 2011	29
Utilised in year	(5)
Charge to profit and loss account	27
<b>At 30 November 2012</b>	<b>51</b>

The Company has a property which it currently sublets, where the Directors believe that they may not be able to fully recover future rental costs, and therefore appropriate cost provisions have been made. The provision carried forward at 30 November 2012 will be utilised over the remainder of the lease period which runs to 6 November 2014.

## 11 Called up share capital

The number of authorised, allotted, called up and fully paid shares is as follows:

	Number	2012 £'000	Number	2011 £'000
<b>Ordinary shares of 20p each</b>				
Authorised	<b>25,000,000</b>	<b>5,000</b>	25,000,000	5,000
Allotted, called up and fully paid	<b>17,571,488</b>	<b>3,514</b>	17,569,744	3,514

Share capital increased by 1,744 shares in the year as a result of share options being exercised under the Protec EMI Share Option Scheme (see note 24 of the Group financial statements).

For details of options over shares of Synectics plc and the ExSOP, see note 24 of the Group financial statements.

## Notes to the Company Financial Statements

For the year ended 30 November 2012

### 12 Profit and loss account

The movements on equity shareholders' funds during the year were as follows:

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 December 2011	3,514	15,719	9,565	(2,096)	4,334	31,036
Profit after tax for the year	–	–	–	–	1,937	1,937
Dividends paid (note 4)	–	–	–	–	(1,230)	(1,230)
Credit in relation to share-based payments	–	–	–	–	119	119
Issue of ordinary shares	–	2	–	–	–	2
Share scheme interests realised in the year	–	–	–	247	–	247
<b>At 30 November 2012</b>	<b>3,514</b>	<b>15,721</b>	<b>9,565</b>	<b>(1,849)</b>	<b>5,160</b>	<b>32,111</b>

Cumulative goodwill written off directly to the profit and loss account at 30 November 2012 was £593,000 (2011: £593,000).

The consolidated result attributable to the shareholders of Synectics plc for the year includes a profit of £1,937,000 (2011: £751,000) which has been dealt with in the financial statements of the Company. Synectics plc has taken advantage of the legal dispensation under section 408 of the Companies Act 2006 allowing it not to publish a separate profit and loss account.

### 13 Contingent liabilities

The Company has agreed, in some instances jointly with subsidiary companies, to guarantee borrowings, annual operating lease rentals and performance bonds amounting to £1.6 million at 30 November 2012 (2011: £1.3 million).

### 14 Capital commitments

At 30 November 2012 capital commitments not provided for in these financial statements amounted to £nil (2011: £nil).

### 15 Operating lease commitments

The Company is committed to making operating lease payments during the next year as follows:

	Land and buildings £'000	Other £'000	2012 Total £'000	Land and buildings £'000	Other £'000	2011 Total £'000
Operating leases which expire:						
Within one year	–	–	–	–	3	3
Within two to five years	27	32	59	38	5	43
	<b>27</b>	<b>32</b>	<b>59</b>	<b>38</b>	<b>8</b>	<b>46</b>

### 16 Pension commitments

Employees of the Company are members of the defined contribution section of a defined benefit pension scheme (the Quadrant Group plc Retirement Benefit Scheme) and two defined contribution schemes operated by the Group. For further details of the Quadrant Group plc Retirement Benefit Scheme, see note 30 of the Group financial statements.

#### Defined contribution schemes

Contributions made by the Company to the defined contribution section of the Quadrant Group plc Retirement Benefit Scheme amount to £49,000 in the year (2011: £43,000).

In addition, the Company's total expense for other defined contribution pension schemes during the year was £138,000 (2011: £138,000).

## Principal Subsidiaries

The principal subsidiaries and divisions within the Group during the year were as follows:

### Quadrant Security Group Limited

*Design, installation, maintenance and management of advanced integrated CCTV and security systems*

[www.qsg.co.uk](http://www.qsg.co.uk)

3 Attenborough Lane  
Chilwell  
Nottingham NG9 5JN  
Tel: +44 (0) 115 925 2521

Axis 6, Rhodes Way  
Radlett Road  
Watford  
Hertfordshire WD24 4YW  
Tel: +44 (0) 1923 211550

9 Hadrian Court  
Team Valley Industrial Estate  
Gateshead  
Tyne and Wear NE11 0XW  
Tel: +44 (0) 191 487 2342

### SSS Management Services Limited

*Total security outsourcing support and management services to retail and multi-site customers*

[www.sss-support.co.uk](http://www.sss-support.co.uk)

Shannon House  
245 Coldharbour Lane  
Aylesford  
Kent ME20 7NS  
Tel: +44 (0) 1622 798200

### Synectic Systems Group Limited

*Design and development of advanced surveillance technology, operating through the three divisions shown below:*

[www.synx.com](http://www.synx.com)

Synectics House  
3-4 Broadfield Close  
Sheffield S8 0XN  
Tel: +44 (0) 114 255 2509

### Synectics Network Systems

*Developers of integrated software solutions and products for complex security and surveillance networks*

[www.synx.com](http://www.synx.com)

Synectics House  
3-4 Broadfield Close  
Sheffield S8 0XN  
Tel: +44 (0) 114 255 2509

### Synectics Industrial Systems

*Specialist manufacturer of CCTV equipment and systems for extreme or hazardous environments*

[www.synx.com](http://www.synx.com)

The Flarepath  
Elsham Wold  
Brigg  
North Lincolnshire DN20 0SP  
Tel: +44 (0) 1652 688908

### Synectics Mobile Systems

*Development and supply of CCTV systems for bus manufacturers and operators*

[www.synx.com](http://www.synx.com)

Unit 4  
Wyrefields  
Poulton-le-Fylde  
Lancashire FY6 8JX  
Tel: +44 (0) 1253 891222

### Synectic Systems, Inc.

*Developers of integrated software solutions and products for complex security and surveillance networks*

[www.synx.com](http://www.synx.com)

4180 Via Real, Suite A  
Carpinteria  
California 93013  
USA  
Tel: 00 1 805 745 1920

### Indanet AG

*Provider of integrated surveillance and security management systems to the European transport industry*

[www.indanet.de](http://www.indanet.de)

Machtlfinger Straße 13  
81379 München  
Tel: +49 89 748862-0

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## Advisers

### Secretary and Registered Office

NC Poultney  
Synectics plc  
Haydon House  
5 Alcester Road  
Studley  
Warwickshire  
B80 7AN  
Tel: +44 (0)1527 850080  
e-mail: [secretary@synecticsplc.com](mailto:secretary@synecticsplc.com)

### Bankers

Lloyds TSB Bank plc  
125 Colmore Row  
Birmingham  
B3 3SF

### Stockbrokers

Westhouse Securities Limited  
One Angel Court  
London  
EC2R 7HJ

### Auditors

KPMG Audit Plc  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

### Registrars and Transfer Office

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### Corporate Communications

Buchanan Communications Limited  
107 Cheapside  
London  
EC2V 6DN



# Notice of Meeting

Notice is hereby given that an Annual General Meeting of Synectics plc (formerly Quadnetics Group plc) will be held at Westhouse Securities Limited, One Angel Court, London, EC2R 7HJ on 1 May 2013 at 11.00 a.m. for the following purposes:

## Ordinary Business

To consider and, if thought fit, to pass the following Resolutions as Ordinary Resolutions:

1. To receive and adopt the Report of the Directors and Audited Accounts for the year ended 30 November 2012.
2. To declare a final dividend for the year ended 30 November 2012 of 5.0p per ordinary share to be paid on 8 May 2013 to members whose names appear on the register of members at the close of business on 15 March 2013.
3. To re-elect as a Director N C Poultney who, being eligible, submits himself for re-election.
4. To re-elect as a Director P M Rae who, being eligible, submits himself for re-election.
5. To reappoint KPMG Audit Plc as Auditors to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to set their remuneration.

## Special Business

To consider and, if thought fit, to pass the following Resolutions. Resolutions 6 and 9 will be proposed as Ordinary Resolutions and Resolutions 7, 8 and 10 as Special Resolutions:

6. That, in substitution for the existing general authorities granted at the last Annual General Meeting of the Company, in accordance with section 551 of the Companies Act 2006 ('the Act'), the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £1,159,718 (being approximately 33% of the present issued share capital of the Company) provided that this authority (unless previously revoked or renewed) shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require such shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares and grant rights to subscribe or convert securities into shares in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
7. That,
  - (1) Conditionally upon the passing of Resolution 6 and in substitution for all existing powers, in accordance with section 570 of the Act, the Directors be and are hereby given power to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by Resolution 6 and be empowered pursuant to section 573 of the Act to sell

ordinary shares (as defined in section 560 of the Act) held by the Company as treasury shares (as defined in section 724 of the Act) for cash as if section 561(1) of the Act did not apply to any such allotment or sale provided that this power shall be limited to allotment of equity securities and the sale of treasury shares:

- a) in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer in favour of the existing holders of ordinary shares in the capital of the Company and other persons entitled to participate therein in proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the numbers of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal problems under the laws of any territory or the requirements of any recognised regulatory body or stock exchange; and
- b) (otherwise than pursuant to sub-paragraph (a) of this proviso) up to an aggregate nominal amount of £175,174, being approximately 5% of the Company's present issued share capital

and the power hereby granted shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution save that the said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

8. That, the Company be and is hereby generally and unconditionally authorised pursuant to section 701 of the Act to make one or more market purchases (as defined in section 693(4) of the Act) of its ordinary shares of 20p each on such terms and in such manner as the Directors shall determine, provided that:
  - (1) The maximum number of ordinary shares hereby authorised to be acquired is 1,757,148 (representing 10% of the present issued ordinary share capital of the Company);
  - (2) The minimum price which may be paid for such shares is 20p per share (exclusive of all expenses);
  - (3) The maximum price which may be paid for such shares is, in respect of a share contracted to be purchased on any day, an amount (exclusive of expenses) equal to 5% above the average middle market quotations for an ordinary share of the Company as derived from the AIM Appendix to the Daily Official List of the London Stock Exchange on the five dealing days immediately preceding the day on which the share is contracted to be purchased;

## Notice of Meeting

(4) The power hereby granted shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or, if earlier, on 31 December 2014 provided that the Company may make a contract to purchase its ordinary shares under the authority hereby granted prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its ordinary shares in pursuance of such contract.

9. To approve the Directors' remuneration report for the year ended 30 November 2012.

10. That, with effect from the passing of this resolution the Articles of Association of the Company are amended by deleting Article 15.1 and replacing it with the following:

'Every share certificate shall be issued under the Seal of the Company or an official seal kept by the Company under section

50 of the Companies Act 2006 or otherwise executed by the Company in accordance with the Companies Act 2006. Any signature, the Seal (or any official seal) or representation of the Seal (or of any official seal) may be made, produced or affixed to a certificate by any mechanical, electronic, laser or other method or system approved by the Directors. No certificate shall be issued representing shares of more than one class.'

By Order of the Board

**NC Poultney**  
Secretary  
27 February 2013

Registered office  
  
Haydon House  
5 Alcester Road, Studley  
Warwickshire B80 7AN

### Notes:

- Further to Regulation 41 of the Uncertificated Securities Regulations 2001 only those shareholders registered in the register of members of the Company as at 6 p.m. on 29 April 2013 shall be entitled to attend or vote at this meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after this time will be disregarded in determining the rights of any person to attend or vote at the meeting.
- Any member entitled to attend and vote at the Annual General Meeting may (unless they have, pursuant to article 89 of the Company's Articles of Association, nominated someone else to enjoy such a right, in which case only the person so nominated may exercise the right) appoint a proxy (who need not be a member) to attend or vote instead of him. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. A member submitting a proxy is not precluded from attending the meeting and voting if they wish to do so. To be effective, proxy forms and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must be received at the office of the Registrars of the Company, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4BR, not less than 48 hours before the time appointed for the holding of the meeting, or any adjournment thereof.
- Copies of the Directors' service agreements will be available for inspection at the Registered Office of the Company during normal working business hours on each business day and will be available for inspection on the day of the Annual General Meeting for 15 minutes prior to and during the continuance of the meeting.
- In the case of joint holdings, the vote of the senior holder shall be accepted to the exclusion of the other joint holders, whether in person or by proxy. For this purpose, seniority shall be deemed by the order of the names of the holders as entered in the Company's Register of Members in respect of relevant joint holdings.

[www.synecticsplc.com](http://www.synecticsplc.com)

**Synectics plc**

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