

Global Specialists in Integrated Security Systems



Synectics plc

Annual Report and Accounts for the year ended 30 November 2014

We design, deliver and manage integrated security and surveillance systems for the world's most demanding security environments



Innovating



Integrating



Protecting

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 system integration and command and control software. This technology is adapted for the specific needs of our target customer sectors, and provides fundamental differentiation from mainstream suppliers in the wider electronic security market.

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

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Visit our investor website for up to the minute news and announcements: synecticsplc.com

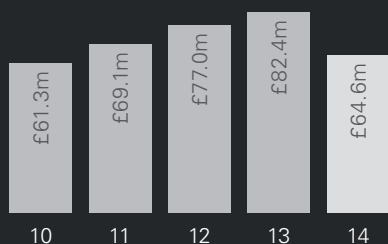
Headlines

- » Revenue £64.6 million (2013: £82.4 million)
- » Underlying loss* £2.4 million (2013: underlying profit* £7.1 million)
- » Loss before tax £3.7 million (2013: profit before tax £6.6 million)
- » Underlying diluted EPS* (14.0)p (2013: 32.6p)
- » Diluted basic EPS (20.6)p (2013: 29.4p)
- » Net debt at 30 November 2014 £6.1 million (2013: net cash £1.2 million)
- » Year-end order book £28.6 million (2013: £28.1 million)
- » Cost base restructured to generate savings of £2.2 million per annum
- » Launch of new Synergy 3 command and control software platform
- » Opening of Synectics' Operations Centre in North Lincolnshire

Financial overview

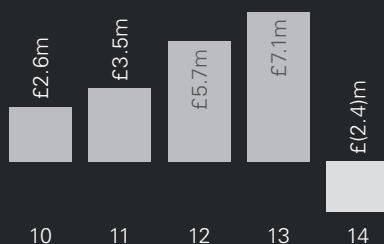
Revenue (£m)

-22%



Underlying (loss)/profit* before tax (£m)

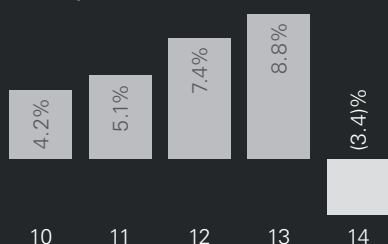
-133%



* Underlying (loss)/profit represents (loss)/profit before tax and non-underlying items (which comprise restructuring costs, acquisition costs, share-based payment charge, amortisation of acquired intangibles and reclassification of available-for-sale financial assets to profit or loss). Underlying earnings per ordinary share are based on (loss)/profit after tax but before non-underlying items.

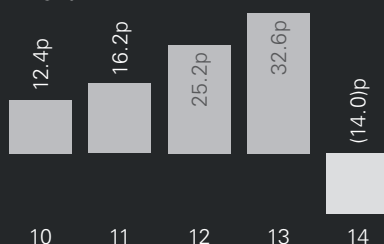
Underlying operating margin** (%)

-12.2%



Underlying diluted EPS* (p)

-143%



** Underlying operating margin represents underlying operating (loss)/profit as a percentage of revenue, where underlying operating (loss)/profit represents underlying (loss)/profit before tax before charging finance income and finance costs.

"Although the impact of the decline in the global oil & gas market last year was not foreseen, Synectics has fully addressed those issues within its control that contributed to the poor financial performance in 2014."

David Coghlan
Chairman



Overview

Over the five years to 30 November 2013 Synectics made consistent and creditable progress in line with the objectives set by the Board. Underlying profits grew at a compound 49% per year, market leadership goals were achieved in core areas and the challenging targets set for medium-term Group operating margins were achieved.

Against that background, it is a matter of deep regret to report to shareholders that results for 2014 were poor. Synectics recorded an underlying loss on its operations and incurred substantial further one-off costs for actions taken to restore profitability as rapidly as possible.

The main reasons for this sharp negative turnaround fall into three categories:

1) Severe disruption in the global oil & gas market

The oil & gas industry is the largest end-user sector for Synectics' specialised surveillance systems; in the 2013 financial year it represented 26% of total consolidated Group revenue. During 2014 a combination of increasing unrest in the Middle East and a substantial decline in oil & gas prices led to serial delays by end customers in the normal progress of projects. Earlier delays were expected to partially unwind in the second half of the financial year but in fact did not. In the end, Synectics' revenues in this sector in FY 2014 declined by £10 million, or 46%, compared with the previous year.

2) Management failings within part of Synectics' Integration & Managed Services ('IMS') division

Changes introduced in 2013 by new management within the UK security integration activities of IMS led to high staff turnover and less effective oversight of large, complex projects. Several of these projects suffered reduced margins and one recorded substantial losses. Radical action was taken quickly to correct matters but the impact on IMS' 2014 results of this lost margin, and the diversion of resources away from winning and delivering new business, was a reduction of around £8.2 million in revenues and £3.5 million in profits compared to 2013.

3) Increased costs and operational gearing from recent investments made to support further growth

Synectics undertook a major upgrade of its information technology systems in 2013 and 2014. In 2013, the Systems division also acquired a new factory and consolidated three existing operations into that new site, while, in recent years, the Group expanded its central capabilities in human resources, marketing, procurement and finance. These investments in systems, capacity and capability were designed to provide a scalable operating platform able to support growth in Synectics' annual revenues to the £100 million level and beyond. The impact from disruption and additional costs on results for 2014 is difficult to quantify but significant.

Steps were taken at the end of the year and during the first quarter of 2015 to reduce the Group's overhead base by an annualised total of £2.2 million.

Fuller details of these issues and other factors affecting the year's results are set out in the Business Review section below.

The actions taken to reduce the Group's cost base and to address the management issues within the UK security integration activities are having the desired impact. Synectics is now leaner and more unified. The Group is better adapted to produce acceptable returns from lower revenues, though still benefiting from the recent improvements in systems and facilities that support our continued expectations of future growth in a fundamentally attractive market.

Results

In the year to 30 November 2014, Synectics' consolidated revenue was £64.6 million (2013: £82.4 million). The Group made an underlying loss* before tax of £2.4 million (2013: profit £7.1 million). After charging £1.4 million (2013: £0.5 million) for exceptional and non-underlying costs, the consolidated loss before tax for the year was £3.7 million (2013: profit £6.6 million).

Net debt at 30 November 2014 was £6.1 million (2013: net cash £1.2 million). In addition to the loss for the year, the other major impact on cash flow was an increase in working capital in the Systems division due to delays by Oil & Gas customers in progressing projects on originally contracted schedules. The latter effect is expected to unwind across 2015. Synectics has total debt facilities of £12 million.

As previously announced the Directors are not recommending payment of a dividend for the year. Our intention is to resume payments as soon as prudently possible.

People

2014 was the most difficult year in the Group's recent history in terms of internal and external disruptions that placed unusual pressures on employees. In almost all cases our people responded with energy, common sense and exceptional commitment to the needs of our customers. Once again, I thank them sincerely.

Board changes

John Shepherd retired as Chief Executive and from the Board on 31 January 2015. As noted at the beginning of this report, many good things were accomplished by the Group during John's tenure and, on behalf of the Board and shareholders, I record here our gratitude for his contributions and wish him all the best for the future.

Paul Webb, who has been with Synectics since 2004, joined the Board in November 2014 and was appointed Chief Executive on 1 February 2015. Paul has been instrumental in the successful development of Synectics' Systems division over recent years. He has a deep knowledge of our technology and markets, and the Board is confident he will provide outstanding executive leadership to the Group in the next phase of its development.

Strategy and financial objectives

In last year's report I noted that Synectics had achieved the goals it publicly set itself in 2010, and that the Board intended during 2014 to define our objectives for the next medium-term period. In light of events we deferred that process, and have now asked the new Chief Executive to lead his own review in the coming months. We expect to report on the results of that review and to set out the Group's revised objectives in the second half of 2015.

Outlook

The Group's order book on 30 November 2014 was £28.6 million, up marginally from the position a year earlier. Encouragingly, new orders in the first two months of the current year have been strong.

Although we do not expect any significant positive change in the underlying oil & gas market during 2015, there are signs that a number of projects that were put on hold in 2014 are being unblocked. This should mean that Synectics' revenues from that sector in the current year, particularly in the second half, will be above the reduced level experienced in 2014. The Group's second largest customer sector, gaming, has a strong pipeline of business expected for the year, especially from the Far East, though again this is likely to be weighted towards the second half. Activity levels in other sectors of the electronic surveillance market remain solid.

The IMS division has secured significant orders in the early months of 2015, and is seeing a growing pipeline of expected new business. Reduced overhead costs in several areas of the Group are also contributing to the forecast improvement in results.

The issues affecting 2014 have been fully addressed and clear recovery plans are in place. Synectics is positioned for a much improved performance in 2015 and the Board remains confident of its longer-term prospects.



David Coghlan
Chairman

10 March 2015

* Underlying (loss)/profit represents (loss)/profit before tax and non-underlying items (which comprise restructuring costs, acquisition costs, share-based payment charge, amortisation of acquired intangibles and reclassification of available-for-sale financial assets to profit or loss). Underlying earnings per ordinary share is based on (loss)/profit after tax but before non-underlying items.

“Our vision is clear and our strategy remains unchanged. The immediate challenge is to refresh the execution of that strategy to ensure we focus on what is critically important.”

Paul Webb
Chief Executive



Overview

Our vision is clear and our strategy remains unchanged: to combine deep sector-specific market knowledge with proprietary technology. The immediate challenge is to refresh the execution of that strategy to ensure we focus on what is critically important.

I am delighted to lead Synectics through this next phase of our development, and bring to my new role an intimate knowledge of our business, coupled with a deep understanding of our customers and markets built over many years.

The immediate challenge is to refresh the execution of our strategy, and to ensure we focus on what is critically important for the development of our business.

We have many exceptional and talented people in our business, and it is essential to me that we support and develop everyone to be customer-focussed, to always do the right thing, and to live our values.

Paul Webb
Chief Executive

10 March 2015

» Our structure

Our business is split into two focussed divisions: Systems and Integration & Managed Services ('IMS').

Systems provides specialist electronic surveillance systems, based on its own proprietary technology, globally to end customers with large-scale and highly complex security requirements.

Integration & Managed Services focusses on delivering end-to-end, high integrity security and surveillance solutions, specialist mobile systems for transport operators, as well as service-led solutions for the management of facilities and security services.

» Who we sell to

We focus on specific market sectors

We utilise our deep sector-specific market knowledge to develop long-term strategic partnerships with customers with security and surveillance needs of sufficient complexity and scale that they value the sophistication of Synectics' capabilities and expertise.



Oil & Gas



Gaming



Infrastructure
& High Security



Transport



Public Space

» Why customers partner with us

We have proprietary technologies

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.

We have knowledgeable experts

Our customers value our talented people, commitment, insight and agility. Our highly knowledgeable experts maintain end-user contact in order to fully explore the ways in which our systems can help improve wider business processes.

We invest in our research & development expertise

We do this to ensure we understand our customers' unique requirements and deliver innovative solutions that protect our customers' critical infrastructures today and in the future. Synectics' products and systems are developed by our in-house research & development team who have the skills and knowledge to tailor solutions to particular project requirements. We make sure our customers have easy access to our people, who are well known for their dedication, knowledge and common sense approach.

We support our customers and deliver service excellence

Synectics is committed to providing exceptional customer service with a range of or pre and post-sales support as well as a full range of services provided in house during the project engineering phase.

» Our integrated offering

We meet customers' increasingly sophisticated needs

Our customers are increasingly looking for us to deliver integrated solutions uniquely tailored for their individual needs, whilst demanding reliability and a high level of control for systems in a range of demanding security environments.

We deliver end-to-end integrated electronic security systems

The scope of our services ranges from system consultation and design, through installation and maintenance, to a fully managed service solution. This can be delivered as an end-to-end solution or as a combination of services specifically selected in partnership with our customers to support their individual needs.



Consult



Design



Create



Integrate



Install



Commission



Maintain



Monitor

» Our revenue model

We have a largely contract-based revenue model

By continuing to innovate and keeping close to our customers we benefit from high contract renewal levels, helping to secure our income streams for the longer term.

We drive revenue by winning larger shares of bigger projects

We achieve this by identifying major opportunities at an early stage and working with our customers to develop solutions that protect their investments.

Sales channels

We generate new business by working in partnership with global integrators, technology partners and resellers, as well as working directly with end users.






We focus on sectors where security and surveillance needs are a fundamental part of our customers' operations

Overview

Deeper integration of all aspects of electronic security, surveillance and operational management systems is a key demand driver in our chosen market sectors.

Our response to this market need is to build on the core principle that inspired our name – synectics. We intelligently combine disparate technologies in creative ways to provide total solutions that are greater than the sum of their parts. Underpinned by decades of customer-driven system development including our proprietary command and control software platform, Synergy, and the deep vertical industry knowledge of our in-house research & development team, we excel at delivering complex projects that require tailored solutions with high reliability, scalability and flexibility.

 Find out more about our markets on our customer website: synecticsglobal.com

	 Oil & Gas	 Gaming
How we succeed	A proven track record and strong, long-lasting relationships within this sector make Synectics the perfect partner. Highly skilled people enable us to interact with highly knowledgeable customers throughout every stage of the project.	We provide customers in this tightly regulated market with enterprise-class surveillance systems. Our systems can be seamlessly integrated, are scalable and are designed for performance, reliability and flexibility.
Demand drivers	Although the market is experiencing global challenges, it continues to face complex demands to ensure the security of its sites: safety of on-site personnel, protection of offshore and onshore pipeline locations and monitoring of hazardous and explosive areas. The market demands solutions that comply with the ever-changing landscape of the rigorous compliance legislation in this sector.	Gaming environments are cash intensive and require some of the most complex surveillance solutions. Customers in this market are keen to take up the fully integrated security solutions Synectics can offer to mitigate the risk of player scams, fraudulent claims, staff collusion and other security infringements.
Growth opportunities	As the need for comprehensive, reliable, integrated, multi-site management systems continues to grow, the value of Synectics' reputation for delivering solutions for demanding environments continues to increase.	Effective gaming surveillance systems must deliver on performance and resiliency to ensure the highest level of protection. Our evolved Synergy command and control software platform is opening up opportunities for growth in this sector.



Transport

We have demonstrated success in delivering large-scale, integrated solutions for the most demanding of transport environments. Our solutions help operators improve passenger safety and comfort, deter crime and combat fraudulent claims.

Transportation environments face a variety of unique security challenges to ensure the efficient, safe and secure transport of passengers and cargo. The demand for intelligent and attractive public transportation solutions is high.

Synectics' capability to integrate legacy systems with latest generation technology using Synergy gives us the opportunity to deliver truly class-leading integrated solutions to the transport market.



Infrastructure & High Security

We deliver turnkey/end-to-end solutions in this market, based on intuitive command and control. Synectics' strength in design, integration, outsourced management and processes enables us to assume an ever-increasing responsibility for the protection of critical and high security sites, infrastructure and employees.

National infrastructure is an obvious target for disruption of essential services. Synectics is ideally positioned to mitigate this risk, through innovation, technology, integration, remote monitoring, alarm escalation and provision of resource and response services as and when needed.

As many organisations move to consolidate their offerings, Synectics is in an ideal position to offer end-to-end technology and resource solutions to manage costs and improve the identification of potential threats.



Public Space

A strong history and understanding of supporting this sector, coupled with flexibility and reliability, make Synectics the first choice for public surveillance applications.

Integration with third-party alarms from commercial properties can generate new revenue streams for customers.

Government authorities and associated agencies in the public space sector require specialist surveillance systems that enable them to work together to resolve incidents quickly, efficiently and effectively. Reduced budgets with no reduction in duty of care for the public means delivering more with less.

The consolidation of control rooms and a reduction in budgets for non-critical services are driving the need for innovative support from the private sector. Synectics can be this partner of choice.

We develop long-term strategic partnerships with our customers across the globe

“With increasing demand for Synectics’ solutions around the globe, it is imperative that we have the right structure in place to support our customers and partners in the regions in which they operate and important that we strengthen our foundations to ensure that we deliver exceptional service and support.”

Paul Webb
Chief Executive

We have concentrated our resources in five key geographic operational hubs, strategically positioned to maximise our ability to serve customers in the global sectors we target.

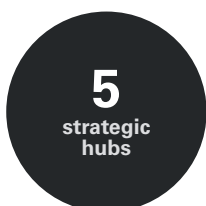
Our operations in the UK, Europe, the US, the Middle East and the Far East are already benefiting from the software-based surveillance opportunities that are unfolding. With our strong proprietary technology focus, we are well positioned to take advantage of these opportunities.

During 2014 Synectics consolidated its Asia and Pacific operations into a dedicated regional headquarters in Singapore providing focussed, local support for customers and partners across the Asia and Pacific markets.

Active in the region since 2004, Synectics had seen initial success in the Oil & Gas and Marine sectors and more recently we have also seen demand for our integrated security solutions develop in other sectors, with wins including big-name gaming properties in Singapore and the Philippines, and a Singapore infrastructure contract.

Investment in the Singapore hub followed the launch of Synectics’ new Operations Centre in the UK, another key milestone in our worldwide growth strategy.

The purpose-built facility includes a manufacturing space and dedicated factory acceptance testing (‘FAT’) area, designed to develop operation-ready systems for a wide range of large-scale projects. This expanded FAT space has been created to further enhance the customer experience, demonstrating Synectics’ ongoing commitment to delivering the highest quality systems and support.





Operations by geography

Our sales are measured by geographic destination of the end user.

North America

Our sales in this region remain strong as we continue to focus on securing system upgrades from our existing customers.

Revenue
13.2%
£8.5m

United Kingdom and Europe

Our performance in the UK remains strong as the market for integrated security solutions continues to grow. Activity levels in our focus sectors of the electronic surveillance market remain solid.

Revenue
69.1%
£44.6m

Middle East

During 2014 a combination of increasing unrest in the Middle East and a substantial decline in oil & gas prices led to serial delays by end customers in the normal progress of projects in this region. There are positive signs that projects are being unblocked in 2015.

Revenue
5.2%
£3.3m

Asia and Pacific

Sales in Asia were in line with projections, due to repeat business following the delivery of a substantial contract in 2013 via our Singapore hub and revenue from a new client. Overall, the Asia and Pacific region and the market for gaming shows healthy signs of growth.

Revenue
12.5%
£8.1m

We continue to invest in sector-focussed research & development to meet the fast changing market needs of our customers

Overview

Synectics continues to invest in its proprietary technology base. During 2014, the Group spent a total of £2.5 million on technology development (2013: £2.3 million). Of this total, £1.4 million was capitalised and the remainder expensed to the Income Statement. £0.5 million of previously capitalised development costs were amortised in the year.

The Synectics Technology Centre operates within the Systems division 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 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.

In addition, we have development resource based in our German hub specifically focussed on transport sector application engineering. We also have a specialist electro-mechanical team and an environmental test facility located at our new UK Operations Centre.

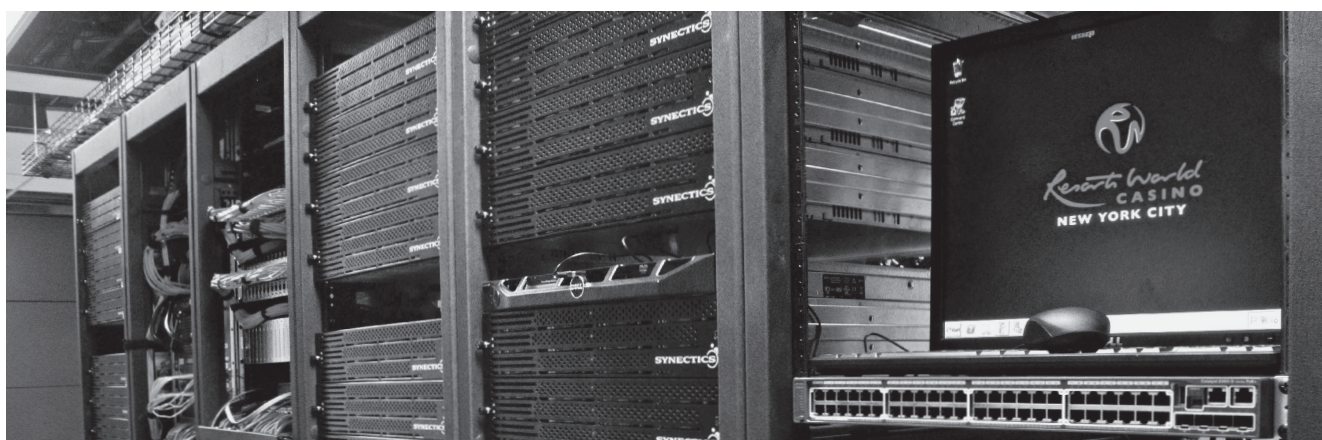
Synergy 3

By far the most notable development in 2014 was the delivery of the wide-scale roll-out of Synergy 3 – Synectics' highly evolved command and control software platform for security and surveillance applications.

Synergy 3 is the centrepiece of Synectics' technology offering, a powerful, flexible and scalable alarm, video and process management system designed for critical security environments including oil & gas, gaming, transportation and high security. The highly customisable software provides both divisions with a unique selling proposition and wraps all of Synectics' and original equipment manufacturers' hardware solutions into distinctive turnkey offerings.

Synergy 3 is an ideal bridge technology to bring our loyal, long-standing analogue customer base across to new IP-based applications. Its hybrid architecture is designed to record, control and present traditional encoded video along with a wide range of contemporary IP megapixel devices, all in a single, seamless operator environment. That benefit extends well beyond Synectics' existing users. Synergy 3 also integrates to legacy analogue encoders from major video manufacturers whose customers now have the option to transition from proprietary hardware platforms to Synergy's open standards and exceptional functionality. Budget-constrained security and surveillance managers can keep and use what they have now, but incrementally convert to IP with Synergy 3 while taking advantage of the most advanced alarm and video management software platform available.

Synergy 3 also represents an evolutionary quantum leap from its field-proven predecessor, SynergyPro. With highly customisable operator layouts, user-defined workflows to automate and manage alarm processes, enhanced monitor wall control, extensive multi-system database aggregation and analysis tools (Dataveillance), virtualised failover and data resiliency protection, and over ten years of customer-driven GUI enhancements, Synergy 3 offers the most versatile, scalable and reliable integrated security management system on the market today.



“Customer feedback combined with our expert knowledge, our experience and our analysis of future market trends were all channelled into evolving Synergy 3.”

Paul Webb
Chief Executive

Synergy|3

Synergy 3 delivers integrated, unified, layered security command and control; a comprehensive security management and surveillance platform.

It is the foundation of Synectics' end-to-end system solution and is designed for professional control rooms that require maximum flexibility, scalability and reliability.



Product developments

In 2014, Synectics also launched a new line of versatile storage servers and review clients for the Synergy platform that more efficiently and cost effectively support high definition, 360-degree, megapixel and 4K IP cameras from dozens of industry providers.

Synectics expanded and enhanced its own line of HD IP cameras which support backfilling for data resiliency and offer powerful Xarina sensors that yield superior picture quality.

We introduced a new breed of HD IP COEX™ C3000 camera stations with high definition image capture, and on-board compression technology which removes the need for separate encoder units. Specifically engineered for hazardous areas and extreme environments, including the high temperatures of the Middle East, the enhanced C3000 camera station can stream high quality 1080p video signals in temperatures up to +70°C and as low as -55°C.

We also launched the latest T-series DVR, the hybrid T1600, which will enable transport operators to transition their systems to IP technology. The new on-vehicle hybrid recorder utilises the e1600 encoder technology platform.



HD IP COEX™ C3000



T-series DVR T1600

Performance Review and Governance

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Governance

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“Our financial performance was poor; however, we have addressed this by taking the appropriate action and reducing our cost base accordingly.”

Nigel Poultney
 Finance Director



Keeping track of Group performance

Group results for the year

Financial performance in the year was poor.

Total revenue for the year fell by 22% from £82.4 million to £64.6 million resulting in an underlying operating loss of £2.2 million compared to a profit of £7.2 million in 2013.

The results were severely impacted by significant disruption in the global oil & gas markets owing to unrest in the Middle East and falling oil & gas prices; cost overruns leading to a significant loss on one large UK surveillance system integration project; and increased costs incurred to support future growth in business, as explained in the Chairman’s Statement on pages 2 and 3.

In addition £1.1 million of restructuring costs were incurred towards the end of the year as action was taken to reduce the Group’s cost base, and are included in £1.4 million of non-underlying items reflected in the Income Statement.

Overall cash outflow in the period was £8.2 million as a result of the trading losses, increased working capital levels arising primarily from increased stock and contract work-in-progress owing to the slowdown in activity in the Oil & Gas sector, and increased capital expenditure on Group infrastructure and product development projects. The Group finished the year with net debt of £6.1 million compared with net cash at 30 November 2013 of £1.2 million. The net movement of £7.3 million comprised a reduction of cash and cash equivalents of £8.2 million, offset by a £0.9 million reduction in term debt.

Other key performance indicators are discussed in more detail on the following pages.

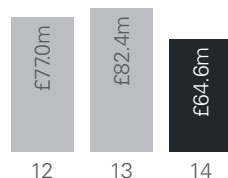
➔ Our key performance indicators continue on the following pages

Key performance indicators

Our performance is measured principally using the following financial indicators.

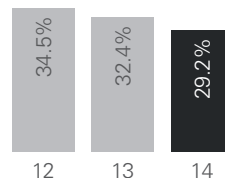
Revenue (£m)

-22%



Gross margin (%)

-3.2%



Underlying operating (loss)/profit (£m)

-130%



Operating (loss)/profit before non-underlying items* and goodwill impairment.

Key performance indicators

Measure	2014	2013	Fav/(adv)
Revenue (£ million)	64.6	82.4	(17.8)
Gross margin %	29.2%	32.4%	(3.2)%
Underlying operating (loss)/profit (£ million) Operating (loss)/profit before non-underlying items*	(2.2)	7.2	(9.4)
Underlying (loss)/profit before tax (£ million) (Loss)/profit before tax and non-underlying items*	(2.4)	7.1	(9.5)
(Loss)/profit before tax (£ million)	(3.7)	6.6	10.3
Underlying operating margin % Ratio of underlying operating (loss)/profit to revenue	(3.4)%	8.8%	(12.2)%
Diluted basic earnings per share (p)	(20.6)	29.4	(50.0)
Diluted underlying earnings per share (p) Based on underlying (loss)/profit before tax	(14.0)	32.6	(46.6)
Order book (£ million)	28.6	28.1	0.5
Recurring revenue (£ million) Contracted sales where a service is delivered over a future time period and revenues are recognised in the relevant future accounting period	15.7	15.6	0.1
Recurring revenue as % of total revenue	24.4%	18.9%	5.5%
Net (debt)/cash (£ million) Cash balances net of loans	(6.1)	1.2	(7.3)
Working capital % Working capital as % revenue	24.3%	18.0%	(6.3)%
Free cash flow (£ million) Cash flow from operations less capital expenditure, but before any payments in respect of non-underlying items	(5.2)	0.3	(5.5)
Cash conversion % Ratio of free cash flow to underlying operating profit	N/A	4.7%	N/A

* Non-underlying items comprise restructuring costs, acquisition costs, share-based payment charge, amortisation of acquired intangibles and reclassification of available-for-sale financial assets to profit or loss.

Underlying (loss)/profit before tax (£m)

-133%



(Loss)/profit before tax, non-underlying items*, goodwill impairment and adjustments to deferred and contingent consideration.

Underlying operating margin (%)

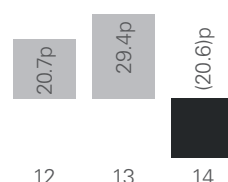
-12.2%



Ratio of underlying operating (loss)/profit to revenue.

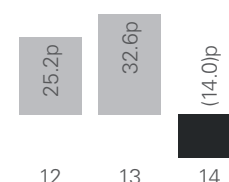
Diluted basic earnings per share (p)

-170%



Diluted underlying earnings per share (p)

-143%



Based on underlying (loss)/profit before tax.

Income Statement

Overall Group revenue for the year to 30 November 2014 amounted to £64.6 million compared with £82.4 million in the previous year, a decrease of £17.8 million (21.6%).

Revenue split between our two business segments was as follows:

Revenue	2014 £000	2013 £000	Inc/(dec) £000	Inc/(dec)
Systems	31,876	44,753	(12,877)	(28.8)%
Integration & Managed Services	33,746	38,368	(4,622)	(12.0)%
Intra-Group	(1,028)	(758)	(270)	
Total revenue	64,594	82,363	(17,769)	(21.6)%

Revenues in the Systems division fell sharply by £12.9 million to £31.9 million. This was principally accounted for by a £10 million fall in sales to the Oil & Gas sector, which was severely impacted by political uncertainty in the Middle East and falling oil prices, and a £3 million reduction in sales to the Gaming sector, where results had been particularly strong in 2013 owing to around £9 million of sales revenue from a contract in Singapore.

Revenues in the IMS division were also down in 2014, falling by 12% to £33.7 million. This reduction fell entirely within the UK integration activities, where poor performance on a large surveillance system integration and installation contract also had an impact on new business. However, this was partly offset by increased activity within the mobile systems business, on the back of winning the contract to supply surveillance systems for Go-Ahead Group buses during the year, and also the UK managed services business, where capital equipment sales were stronger in 2014.

Recurring revenue in the year was broadly flat at £15.7 million, representing approximately 24% of sales (2013: 19% on higher total sales).

The proportion of sales arising outside the UK (measured by the destination of the end user) contracted slightly during the year to 42% in 2014, compared with 45% in the previous year, which had been boosted by the substantial contract delivered through our Far East hub in Singapore.

Sales by geographic destination of end user	2014 £000	2013 £000	Inc/(dec) £000
UK	37,310	45,284	(7,974)
Rest of Europe	7,336	5,277	2,059
UK and Europe – total	44,646	50,561	(5,915)
North America	8,535	5,062	3,473
Middle East	3,344	5,739	(2,395)
Asia and Pacific	8,069	18,892	(10,823)
Rest of World	–	2,109	(2,109)
Total revenue	64,594	82,363	(17,769)

Consolidated gross margins for 2014 fell by 3.2% overall, with the reduction arising wholly in the IMS division, largely as a result of the substantial loss-making UK integration contract, which reduced average margins in that division by around 3%, although initial start-up costs on a large contract in the Mobile Systems activities also had an impact.

The full segmental analysis is as follows:

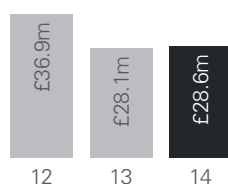
Gross margin %	2014	2013	Inc/(dec)
Systems	38.9%	38.5%	0.4%
Integration & Managed Services	19.3%	24.7%	(5.4)%
Total Group	29.2%	32.4%	(3.2)%

Underlying operating expenses in the year increased by 8.2% to £21.1 million largely as a result of increased investment in people and facilities as well as the full year impact of the Coex Asia acquisition.

Operating expenses	2014 £000	2013 £000	Inc/(dec) £000	Inc/(dec)
Underlying operating expenses	21,079	19,482	1,597	8.2%
Non-underlying items:				
Restructuring costs	1,120	562	558	
Acquisition costs	–	265	(265)	
Share-based payment charge	127	78	49	
Amortisation of acquired intangibles	118	123	(5)	
Reclassification of available-for-sale assets to profit or loss	–	(525)	525	
	1,365	503	862	
Total operating expenses	22,444	19,985	2,459	12.3%

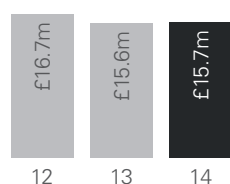
Order book (£m)

+2%



Recurring revenue (£m)

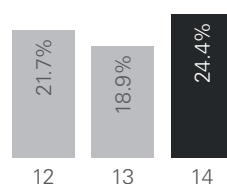
+1%



Contracted sales where a service is delivered over a future time period and revenues are recognised in the relevant future accounting period.

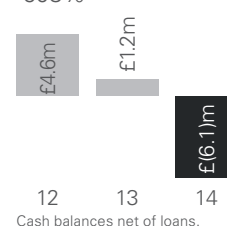
Recurring revenue as % of total revenue

+5.5%



Net (debt)/cash (£m)

-608%



Cash balances net of loans.

Income Statement continued

Non-underlying operating expenses amounted to £1.4 million (2013: £0.5 million) and included restructuring costs of £1.1 million arising from a re-alignment of the Group's operating cost base in the UK in response to the trading performance this year. This restructuring in conjunction with further cost reductions in the first quarter of this financial year will result in a reduction of approximately 10% of Synectics' UK-based workforce and yield annualised savings of around £2.2 million.

Net finance costs in 2014 increased by £98,000 to £191,000 as a result of operating with net debt for most of 2014 due to the Group's investment in working capital and the trading losses incurred during the year.

Finance income/(costs)	2014 £000	2013 £000	Inc/(dec) £000	Inc/(dec)
Finance income	246	245	1	0.4%
Finance costs	(437)	(338)	(99)	29.3%
Net finance costs	(191)	(93)	(98)	105.4%

Consolidated underlying loss before tax was £2.4 million in 2014 compared with a profit of £7.1 million in the year to 30 November 2013.

Profits from the Systems division reduced to £1.0 million on the back of a 29% contraction in revenue and increased investment in operational facilities, whilst a 12% reduction in sales, together with a £1.0 million negative impact from the unprofitable integration contract already highlighted, resulted in a £1.1 million loss in the IMS division.

Underlying (loss)/profit	2014 £000	2013 £000	Inc/(dec) £000	Inc/(dec)
Systems	1,031	7,009	(5,978)	(85.3)%
Integration & Managed Services	(1,139)	2,223	(3,362)	(151.2)%
Central costs	(2,084)	(2,015)	(69)	(3.4)%
Underlying operating (loss)/profit	(2,192)	7,217	(9,409)	(130.4)%
Interest	(191)	(93)	(98)	(105.4)%
Underlying (loss)/profit before tax	(2,383)	7,124	(9,507)	(133.5)%

Research & development costs are charged to the division benefiting from the service provided by the Synectics Technology Centre, principally the Systems division. In 2014 £2.5 million was spent on research & development with £1.2 million charged to the Income Statement after capitalisation of £1.4 million of development costs. This compares with total expenditure of £2.3 million in 2013 of which £1.0 million was capitalised.

Due to poorer performance in both divisions in 2014, the Group underlying operating margin was negative compared with a strongly profitable 8.8% in 2013.

Underlying operating margins	2014	2013	Inc/(dec)
Systems	3.2%	15.7%	(12.5)%
Integration & Managed Services	(3.4)%	5.8%	(9.2)%
Total Group	(3.4)%	8.8%	(12.2)%

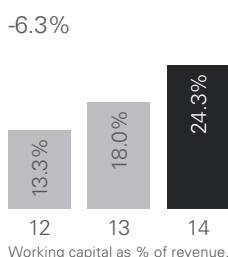
As a result of the loss incurred during the year, a tax credit of £0.4 million has been recognised in 2014 compared with a charge of £1.7 million on profits arising in 2013.

At 30 November 2014 the Group recognised a deferred tax asset of £0.6 million in relation to tax losses which are expected to be offset against future taxable profits. Further tax losses of £2.7 million (30 November 2013: £1.9 million) are capable of offset against the future taxable profits of certain Group companies, but have not yet been recognised in the financial statements.

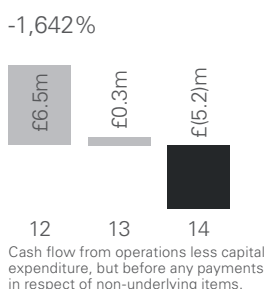
Diluted basic earnings per share for 2014 was (20.6)p compared with 29.4p in the year ended 30 November 2013. However, the Directors believe that a better measure of performance is the diluted underlying earnings per share which is calculated on the underlying profit/loss before tax as defined above. Diluted underlying earnings per share was (14.0)p compared with 32.6p in 2013.

Earnings per share	2014 p	2013 p	Inc/(dec) p	Inc/(dec)
Diluted basic earnings per share	(20.6)	29.4	(50.0)	(170)%
Diluted underlying earnings per share	(14.0)	32.6	(46.6)	(143)%

Working capital (%)



Free cash flow (£m)



Statement of Financial Position

The net assets of the Group amounted to £36.4 million at 30 November 2014 (2013: £39.5 million) and can be summarised as follows:

	2014 £000	2013 £000
Property, plant and equipment	3,952	2,641
Intangibles	23,357	22,672
Retirement benefit asset	540	–
Non-current assets	27,849	25,313
(Overdraft)/cash balances	(2,417)	5,774
Loans and borrowings	(3,659)	(4,575)
Net (debt)/cash	(6,076)	1,199
Other net current assets	15,682	14,861
Tax assets/(liabilities)	159	(1,587)
Provisions	(1,169)	(244)
Net assets	36,445	39,542

Non-current assets at 30 November 2014 were £27.8 million compared with £25.3 million at 30 November 2013, and include a retirement benefit asset of £0.5 million arising from the surplus on the Group's closed defined benefit scheme (see note 30 on page 69).

Total capital expenditure in the year increased to £3.6 million compared to £2.9 million in 2013, reflecting continued investment for the future development of the business. Major items were £1.2 million on development of the Scunthorpe property purchased in 2013 to consolidate two existing operations into one site, £0.3 million on a major upgrade of information technology systems and £1.4 million on technology development projects, including £0.8 million on Synergy 3, Synectics' command and control software platform which was released during the year.

This capital expenditure of £3.6 million (2013: £2.9 million) compares with depreciation and amortisation charges of £1.5 million in the year (2013: £1.2 million).

Working capital levels rose by £0.8 million to £15.7 million at 30 November 2014, despite lower activity levels during the year. In particular the slowdown in activity in the Oil & Gas sector has resulted in the business carrying higher than normal levels of stock and contract work-in-progress. This includes an amount of £2.5 million in respect of a single large contract which will unwind during 2015.

As a consequence, working capital expressed as a percentage of annual revenues increased from 18% in 2013 to 24% at 30 November 2014.

Tax liabilities reduced significantly during the year as a result of tax payments of £1.4 million, mainly in respect of 2013 profits and the losses incurred during 2014. The net tax balance at 30 November 2014 was £0.2 million and reflected a net current tax asset of £0.3 million (2013: liability £1.1 million) and a deferred tax liability of £0.1 million (2013: £0.5 million). The deferred tax balance recognises a deferred tax asset of £0.6 million in relation to the 2014 losses.

Provisions at 30 November 2014 amounted to £1.2 million (2013: £0.2 million) and included £1.1 million in respect of restructuring costs which will mainly be settled in the first half of 2015.

Cash

The Group ended the year with net debt of £6.1 million at 30 November 2014 (2013: net cash £1.2 million) including term loans of £3.7 million drawn to finance the acquisition of Indanet in 2012 and to purchase the property in Scunthorpe in 2013 which are repayable in 2017 and 2018 respectively.

The movement in net debt during the year is reflected in the Statement of Financial Position as follows:

	£000
Decrease in cash balances	(4,425)
Increase in bank overdrafts	(3,766)
Net cash outflow	(8,191)
Loan repayments during the year	804
Effect of exchange rate changes	112
Increase in net debt	(7,275)

The net cash outflow of £8.2 million in the year is summarised in the table below. Major non-operating cash flow items include tax payments of £1.4 million, capital expenditure of £3.6 million as described above, scheduled loan repayments of £0.8 million and payment of the 2013 final dividend of £0.9 million.

	2014 £000	2013 £000
Underlying operating (loss)/profit	(2,192)	7,217
Depreciation and amortisation charges	1,435	1,048
Increase in working capital	(833)	(5,029)
Cash (used in)/from operations before non-underlying payments	(1,590)	3,236
Restructuring costs and acquisition expense payments	(183)	(493)
Cash (used in)/generated from operations	(1,773)	2,743
Interest paid (net)	(191)	(93)
Taxation paid	(1,426)	(731)
Capital expenditure	(3,622)	(2,898)
Acquisitions	–	(1,858)
(Loan repayments)/new borrowings	(804)	2,952
Issue of shares and share scheme interests realised in the year	408	382
Dividends paid	(928)	(1,336)
Effect of exchange rate changes	145	122
Net cash flow	(8,191)	(717)



Nigel Poultney
Finance Director

10 March 2015



Synectics' Systems division provides specialist electronic surveillance systems based on its own proprietary technology globally to end customers with large-scale highly complex security requirements, particularly for oil & gas operations, gaming, infrastructure protection, high security and public spaces.

Revenue	£31.9 million (2013: £44.8 million)
Gross margin	38.9% (2013: 38.5%)
Operating profit*	£1.0 million (2013: £7.0 million)
Operating margin*	3.2% (2013: 15.7%)

During 2014 the Systems division completed its major reorganisation, aimed at creating a much more unified, efficient and scalable business. The final step in that consolidation process was the physical relocation of the division's two UK operations centres in Sheffield and Brigg into a single 54,000 sq ft freehold facility in North Lincolnshire. The move was completed towards the end of the first half of the financial year.

Systems now operates under a single functional management structure, with headquarters, sales/marketing and technical development in Sheffield, operations in North Lincolnshire and sales/local operations/support hubs in the US, Germany, Singapore and the UAE. Although the costs of disruption in the final relocation stage were greater than initially envisaged, achieving this organisational objective is a significant milestone in the Group's development.

Oil & Gas

Most of the reduction in revenues for the division compared with 2013 arose in the Oil & Gas sector from customer-imposed delays both in progress on existing contracts and in the award of expected new contracts. These delays ultimately resulted in revenues for the year being reduced by £10 million compared with the previous year, with an obviously damaging impact on profitability.

We completed the development of our new HD camera stations, for hazardous areas and marine markets, as well as achieving the North American certification for our range of core products. Synergy 3, our latest generation of advanced command and control solutions, has also been implemented for the first time on a major oil & gas project.

Despite the challenging market conditions, Synectics secured a number of prestigious oil & gas projects including Shah Deniz, Jazan, Martin Linge, Curtis Island LNG and Ichthys.

Whilst market conditions remain difficult as a result of falling oil prices and continued political uncertainties, we expect solid performance during 2015.

We will remain focussed on our core markets, Asia and Pacific and the Middle East, as well as increasing our expansion into the US. We will continue to identify opportunities within the marine market and develop our presence with major ship owners as well as expanding from our historical strengths within the Korean shipyards.

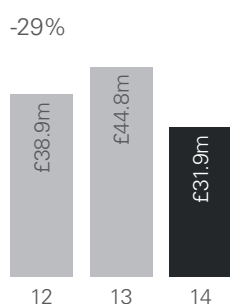
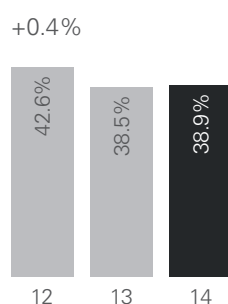
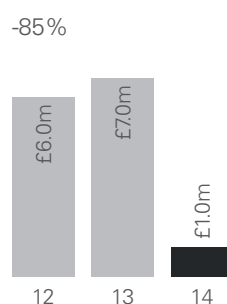
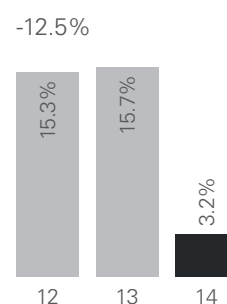
Gaming

Revenues from surveillance systems for the Gaming sector were also lower in 2014 than in 2013. In that case the reduction was expected, being due to an exceptionally strong performance in the prior year from delivery to a Far East client of the largest and most complex surveillance system ever supplied by Synectics. Initial follow-on sales from that system were delivered in 2014 and substantial further sales are expected in 2015.

Successful delivery of that major system established an important reference site for Synectics and has generated additional business from new customers in the region that will be delivered during 2015 and beyond.

We secured our first major Philippine casino client and we are well positioned to develop other business in the region with a number of pilot projects already underway.

North America's strong 2014 sales were largely made to repeat customers including Penn Gaming, Seneca and OLG, which replaced

Revenue (£m)**Gross margin (%)****Operating profit (£m)*****Operating margin (%)***

* Before non-underlying items and Group central costs.

legacy systems in existing casinos or installed Synectics products in their new properties. The entire industry is rapidly transitioning from analogue to HD IP cameras, which creates ongoing and recurring revenue opportunities with our casino clients. We have a proven formula of specifically focussing our service attention and sales resources on core customers and a few new and specially targeted opportunities.

Our success in Asia in this past year can be attributed to taking very good care of a few highly respected customers, delivering major projects on time and on budget, and building a competent Singapore-based support team with engineers also stationed in Manila and Macau. In addition, the market has enthusiastically embraced our new Synergy 3 command and control software platform, which has already been successfully installed in three major casino resorts. Surveillance and regulatory requirements vary widely across geographic regions and our integrated security management software and agile development team have proven to be flexible, scalable and reliable enough to meet every demand to date. Based on the exceptional capabilities of Synergy 3, Synectics is seen as a thought and technology leader in a part of the world where appearance, reputation and experience matter.

Contract highlight**Ohio Penn National Gaming casinos**

We secured two new Ohio Penn National Gaming casinos, the latest additions to the firm's extensive portfolio. Hollywood Gaming at Mahoning Valley and Hollywood Gaming at Dayton Raceway will offer almost 2,000 video lottery terminals ('VLTs'), bars, dining, concession stands and entertainment, spread over state-of-the-art facilities spanning 133,000 sq ft. Penn National Gaming, one of Synectics' long-standing corporate customers, is capitalising on advances in IP-based solutions for protecting its newest Hollywood premieres. At both locations, footage from close to 1,000 HD IP cameras, together with third-party transactional and alarm data, will be integrated within Synectics' Synergy command and control platform to create a unified security and situational awareness solution.

Infrastructure, High Security and Public Space

Synectics has a long track record of delivering solutions for infrastructure protection and high security environments where protecting people and assets are critical. In the first quarter of 2015 we have been selected to supply a significant security and safety solution, using Synergy 3 to monitor and manage over 5,000 devices, for a high profile project at a major transport hub in the Far East. As well as the first Synergy 3 deployment in the region, it provides entry to the market and provides the platform from which we can develop further opportunities.

Although the UK public space market remains challenging we have won key contracts with The British Museum and South Yorkshire Police to supply command and control systems. Both projects are being delivered working alongside our Integration & Managed Services division.

Transport

Indanet, our European transport operation, experienced good revenue growth during the year, in particular winning further repeat business from large existing customers BVG and Deutsche Bahn as well as new business with Skoda Transportation a.s.

Another key milestone for the Group was the award of an important contract to upgrade and service a regional control room for a German train station operator. The control room will be the first to be equipped with the full German language version of the latest evolution of Synergy 3. Indanet will provide hardware and software to modernise the control room, having installed the initial facilities six years ago.



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, transport, 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 Synectics' Systems division as well as from third parties.

Revenue	£33.7 million (2013: £38.4 million)
Gross margin	19.3% (2013: 24.7%)
Operating (loss)/profit*	£(1.1) million (2013: profit £2.2 million)
Operating margin*	(3.4)% (2013: 5.8%)

Within the IMS division, mobile systems and managed services performed acceptably during the year though, in the case of mobile systems, margins were adversely affected by start-up costs on a large new long-term contract. The largest area of activity within the IMS division, integrated systems, performed poorly.

Integrated systems

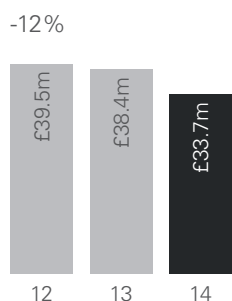
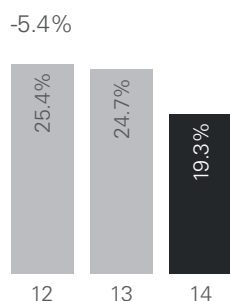
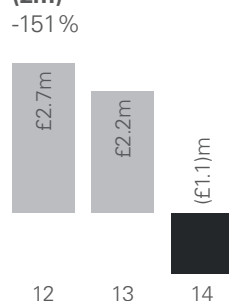
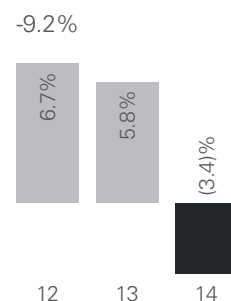
2014 was a challenging year both financially and operationally. The most serious impact was from problems on a large surveillance system integration sub-contract, which is a small part of a major new construction project within the UK. Some of the issues arose from delays and inefficiencies caused by adverse weather, limited site access and the actions of other contractors. However, inadequate internal project management contributed materially to the losses on the contract. Although no other material projects in the year were loss making, several recorded margins below planned levels. There were also knock-on impacts on new business from the diversion of management resources to rectify this situation.

Firm action was taken by Group management to address the issues, including changes of senior management personnel and structure within the division. As part of these changes management has accelerated the closer integration of the managed services and integrated systems areas within the IMS division, providing operational benefits to both areas as well as reduced costs.

There has been a significant positive impact from the changes, although the knock-on effects of the disruption on winning new business extended through the second half.

Major wins for the division during the year included the installation of an electronic security solution in a custody suite for South Yorkshire Police as well as an upgrade of The British Museum security systems, both based on Synectics' proprietary system software – Synergy.

Our strategy remains unchanged. We will continue to focus on key market verticals that have unique compliance drivers that will benefit from our unique capabilities.

Revenue (£m)**Gross margin (%)****Operating (loss)/profit (£m)*****Operating margin (%)***

* Before non-underlying items and Group central costs.

Managed services

Our managed services team had a positive year. During 2014 we successfully mobilised Facilities Management ('FM') service contracts with a major UK building merchants and a national wholesale distributor. We also retained some significant contracts through a contract renewal and re-tender process which meant a 100% retention rate was achieved in our key customer base.

By combining our integrated systems and managed services market propositions we have developed a complete end-to-end security model from which our respective customers can benefit.

We will continue to explore opportunities where customers are looking to maximise their return on investment from their security and FM services and further develop our unique proposition.

Mobile systems

Having secured a long-term contract in 2013 margins were affected by start-up costs. This is now performing well.

Despite a first half dip in the UK bus and coach market our mobile systems activities had a strong second half – growing sales and securing a strong base and pipeline for 2015. We also successfully secured an upgrade contract with a regional tram operator and expanded our share of the UK bus and coach market with other regional operators.

We will continue to develop our market-leading position in the UK bus and coach business by sustaining existing relationships, targeting new contract opportunities, and unlocking opportunities to move up the value chain through product and service innovation.

Contract highlight**Wrightbus International**

We won a significant contract to equip 51 Wrightbus International double-deck buses with on-board CCTV and recording systems, following a major order from Hong Kong operator New World First Bus Services Limited ('NWFB'). Each state-of-the-art on-board system includes Synectics' new T1600 digital recorder. Around 1,000 vehicles in Hong Kong now carry Synectics equipment, pushing the boundaries of on-board technology. For example, the collaboration with NWFB included the integration of complete multimedia systems on their high-specification Cityflyer vehicles servicing the prestigious airport shuttle route.

The Board of Directors

Board composition

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 Remuneration Committee is made up solely of the three Independent Non-Executive Directors. That structure has been in place for nearly four years and follows the Code provisions for listed companies of any size.



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 electronics 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. Following retirement from Bovis, Dennis has held a number of non-executive roles and currently provides a wide range of consultancy services. 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.



Paul Webb
Chief Executive

joined the Group in 2004. Since then Paul has overseen the rapid growth of the Group's industrial systems activities and, more latterly, led the consolidation of all of Synectics' proprietary technology systems activities into a single operation. He has a degree in Physics from Imperial College London.



Peter Rae
Senior Independent Director

is an Independent Non-Executive Director and 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.



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 in 1991, having previously worked for Dairy Crest and the RTZ group.

"Much of the Group's success has been underpinned by a strong corporate culture that comes down to a combination of integrity, openness, commitment and striving never to let a customer down."

David Coghlan
Chairman



Introduction to governance

Since 2012 Synectics has been including in its Annual Reports a specific section collating the Board's reports on the various elements of corporate governance. The formal reports on these matters are contained in the following sections.

The purpose of this introduction is to provide a broader narrative account of Synectics' governance in one or two specific areas.

In previous introductions I have provided a progress report on our continuing review of governance in general as well as an explanation of the rationale behind the Board's approach to some important issues:

- » values and leadership;
- » the composition, independence and effectiveness of the Board;
- » the Group's share-based long-term remuneration plans;
- » diversity; and
- » risk management.

Those comments remain an up-to-date reflection of core aspects of Synectics' governance and, although I will not repeat them here, anyone wanting a fuller picture will find the detail in the Group's 2012 and 2013 Annual Reports, available on our corporate website.

The issue I would like to address this year is Synectics' culture, and how the Board is approaching its responsibilities in that regard.

The recently published annual report of the Financial Reporting Council ('FRC') sets out 'good corporate culture' as the FRC's number one governance issue for consideration by companies and investors in 2015. The Council's chairman refers to 'the need for boards to think hard about assessing whether the culture practised within the company is in line with what they espouse. Boards should consider what assurance they have around culture... *How can culture be maintained under pressure and through change?*' (my emphasis). Some of Synectics' experiences during our last financial year have brought home how critical and how insightful that last question is.

Synectics' roots go back over 25 years. In addition to the vision and talent of its founders, much of the Group's continued success has been underpinned by a strong corporate culture. Articulated in different ways over the years, that culture comes down to a combination of integrity, openness, commitment and striving never to let a customer down.

The Board has long recognised its role in reinforcing Synectics' culture both by the example of our actions and in our contacts with managers and other employees throughout the Group. Nevertheless, the Group has undergone a very substantial amount of change in the past few years, particularly with regard to senior management; with hindsight, it is now clear that through those changes the core culture became diluted in a small number of important areas.

This example goes to the heart of the FRC's question of how boards can gain assurance that a company's culture is being properly maintained through a period of change. To address this risk, Synectics' Board and Chief Executive have bolstered the Group's processes by a number of actions, including:

- » The maintenance of our culture throughout the organisation is now an explicit personal objective for the CEO.
- » The Board has input into, and reviews the results of, an annual, independently administered and anonymous employee survey.
- » From now on corporate culture will form part of the risk review agenda item at each Board meeting.
- » The Chairman and Non-Executive Directors have been given the task of explicitly promoting and testing Synectics' culture in contacts with staff at all levels.
- » Monthly employee recognition awards will be linked more closely to achievements that demonstrate the Group's culture in action.

Through these steps and others we expect a tangible improvement in the level of the Board's assurance that Synectics' corporate culture is being properly maintained.

As a final point, I would like to provide an update on the composition of the Board. We believe that the right time has arrived to appoint an additional Independent Non-Executive Director. The Board has established a nominations sub-committee consisting of the Chairman and the Non-Executive Directors to oversee the recruitment process, which is now underway. We expect to make an appointment as soon as the right candidate is found.

The Board continues to support wholeheartedly the letter and spirit of the UK Corporate Governance Code, and it remains our intent to follow Code provisions wherever we sensibly can within the constraints of the Group's size and resources.



David Coghlan
Chairman

10 March 2015

The corporate governance disclosures include the Chairman's Introduction, the Corporate Governance Statement, the Remuneration Committee Report and the Audit Committee Report.

The Board

The Board comprises a Non-Executive Chairman, three Non-Executive Directors and two Executive Directors. The Group believes the size and composition of the Board give it sufficient independence, balance and broad experience to provide effective oversight of Synectics' strategy, performance, resources and standards of conduct. The strong representation of Non-Executive Directors on the Board demonstrates its independence, provides a greater depth of experience and facilitates challenge.

The roles of the Chairman and the Group Chief Executive are undertaken by separate individuals. The Chairman, David Coghlan, is responsible for leadership of the Board and ensuring that there is effective communication with shareholders. The day-to-day leadership and management of the business are undertaken by the Group Chief Executive, John Shepherd until his retirement on 31 January 2015 and thereafter Paul Webb, assisted by senior management.

Peter Rae fulfils the role of the Senior Independent Director of the Group. He was appointed based on his ability to perform the role and his deep knowledge and experience of the Group. He supports and deputises for the Chairman on matters relating to Directors and engagement with shareholders.

The Company Secretary, in conjunction with the Chairman, ensures that accurate, timely and clear information is provided to the Board in order for informed decisions and discussions to take place. The Company Secretary is responsible for advising the Board on governance matters and regulatory requirements. The appointment and removal of the Company Secretary is a matter reserved for the Board. All Directors have direct access to the Company Secretary and to independent professional advice at the Group's expense as required.

The Group purchases and maintains Directors' and officers' liability insurance in respect of the Group, the Company and its Directors throughout each financial year.

Role of the Board

Great importance is placed on a well-informed and decisive Board. Board meetings are held regularly throughout the year. In 2013, seven scheduled Board meetings and two additional Board meetings were held. In addition, as it does each year, the Board convened and participated in a separate full day's discussion of the Group's strategy and three-year plan.

The Board has adopted a schedule of matters reserved for its consideration and those delegated to Board Committees. The Board's responsibilities include setting the Group's overall business and commercial strategy; setting and monitoring business objectives to achieve the strategy; setting and monitoring annual budgets and financial and capital plans; and considering Group policies and any major investments or organisational changes.

Agenda items scheduled for every Board meeting include strategy, operations, human resources, finance and governance. The agenda is reviewed and agreed by the Chairman to ensure that the Board addresses the right issues at the right times and that sufficient time is allowed for appropriate consideration and debate.

Following Board Committee meetings, the Board receive copies of the Committees' minutes at the next Board meeting and can raise any queries or concerns with the Committee chairmen.

Board meetings

Board meetings are scheduled in different Group offices to give the Board the opportunity to meet local management and employees, and to develop greater business knowledge and depth of awareness of business-specific opportunities and threats. All Directors receive papers sufficiently in advance of meetings to enable due consideration.

During 2014, matters dealt with by the Board included:

- » review and monitoring of Group strategy and progress against business objectives;
- » operational and financial performance of the Group;
- » Group budgets and three-year plan;
- » approval of financial statements and dividend policy;
- » risk management oversight and monitoring of Group risk registers;
- » review of internal controls and approval of internal audit plan;
- » Board and senior management succession planning;
- » approval of large contracts and bids;
- » approval of large capital expenditure projects;
- » Committee reports and recommendations;
- » remuneration of Executive Directors and senior management;
- » review of corporate governance reporting; and
- » Board and Committee evaluation and progress of actions from 2013 evaluation.

Details of attendance at Board and Board Committee meetings during the 2014 financial year was as follows:

	Total number of meetings		
	Board	Audit Committee	Remuneration Committee
DJ Coghlan Chairman	9	–	–
D Bate	9	4	3
SW Coggins Chairman of Audit Committee	9	4	3
PM Rae Chairman of Remuneration Committee	8	4	3
J Shepherd	9	–	–
NC Poultney	9	–	–
PA Webb (appointed 6 November 2014)	1*	–	–

* Number of meetings eligible to attend after appointment as an Executive Director: one.

Directors' conflicts of interest

A Conflicts Register is maintained by the Company Secretary to monitor and manage any potential conflicts of interest. Training on the Companies Act 2006 has been given to all Directors on the provisions and Directors are reminded of their duties at each Board meeting. Any conflicts are declared at the first Board meeting at which the Director becomes aware of a potential conflict and then recorded in the Conflicts Register. The Board considers all conflicts in line with the provisions set out in the Articles and non-conflicted Directors can authorise conflicts with or without limits and conditions. The Directors are required to review their interests recorded in the Conflicts Register on an annual basis.

Board Committees

The Group has two standing Board Committees: a Remuneration Committee and an Audit Committee. The roles and activities of those committees are included in the respective Committee reports on pages 29 to 33.

The functions of a nominations committee are undertaken by the Group Board as a whole. Where necessary and appropriate, a nominations sub-committee is appointed temporarily to fulfil specific tasks. Given the size of the Group, and the size and composition of its Board, the Directors believe it is both practical and beneficial for matters of Board composition and recruitment, Board performance evaluation, Executive and Non-Executive succession planning, and training and development to be undertaken by the Board as a whole. All such matters are regularly scheduled on the Board's agenda and are discussed thoroughly and robustly, incorporating the detailed perspectives and experience of all Directors directly.

Board appointments

All Non-Executive Directors are provided with a letter of appointment on acceptance of the appointment, which includes the terms and conditions of their role. The letters of appointment are updated as appropriate from time to time and are available on request from the Company Secretary.

Diversity

The Group recognises the benefits of having a diverse Board, senior management team and workforce in general and seeks to recruit and develop the best-qualified candidates to support and achieve the Group's long-term strategic and business objectives. The Group monitors and encourages diversity across the whole workforce in terms of gender, skills, culture, disability and ethnicity and believes such diversity contributes to the success of the Group.

Board performance and effectiveness

Induction

The Group's policy is for all new Directors to undertake a formal and comprehensive induction to the Group upon joining the Board. The induction process is undertaken by the Company Secretarial department. On acceptance of appointment all Directors are provided with an induction pack, which includes: their appointment letter and terms; latest accounts and constitutional documents; protocol for conflicts of interest, price-sensitive information, Directors' duties and data protection; Group Model Code and Group policies; Board meeting procedures and matters reserved; Board minutes for the previous twelve months; and meeting dates and contact details. Substantive induction to the Group's businesses is provided through meetings with senior management and site visits to the Group's operations.

Performance evaluation

The Board undertakes a self-assessment process annually. This includes evaluation of the performance and effectiveness of the Board, of its Committees and of each Director. The process is led by the Chairman and involves detailed questionnaires and one-to-one reviews of the collective and individual performance of Directors. The results of the Board and Committee evaluations are debated and challenged, robustly and openly, in a Board meeting and actions for improvement are agreed. Progress against these actions is then monitored and reported on throughout the following year. The performance of the Chairman is reviewed in the Chairman's absence by the Board, led by the Senior Independent Director. Directors' individual performance and development objectives are set to support individual and business needs, as well as the action plan for the Board and Committees.

Independence

As part of the appraisal of each Director, the independence of all Non-Executive Board members is reviewed and evaluated annually. Peter Rae, Steve Coggins and Dennis Bate have served on the Board for 17, ten and nine years respectively. Each brings different and complementary high-level experience relevant to the current business and future development of the Group. During 2014, and at all times previously, each has addressed all issues facing the Board with a high level of candour, robustness and insight. Their in-depth knowledge of the Group and the electronic surveillance industry, gained from their tenure, combined with their different and complementary skills and knowledge developed from other directorships, provide valuable independent perspectives and contribute to the success of the Group and to the performance and effectiveness of the Board. For these reasons, each of the three Non-Executive Directors is considered by the Board to be independent. It is the Board's intention to appoint an additional Non-Executive Director during 2015.

Shareholder engagement

The Board welcomes dialogue with shareholders and actively engages with shareholders through face-to-face meetings and written queries, and at the Company's Annual General Meeting. Individual meetings are conducted with those substantial shareholders who so request following the announcement of final and half-year results. The Group's brokers are requested to collate all responses from such investor meetings and to pass these to the Board. In addition, the Chairman apprises all Board members of any other significant shareholder feedback or discussions. As part of the continued review of the Group's governance reporting, the Annual Report and Accounts includes expanded narrative governance disclosures that take into account the views of shareholders expressed through the engagement process.

By Order of the Board



David Coghlan
Chairman

10 March 2015

This report provides information about the Remuneration Committee, the remuneration policies approved and applied by the Board, and the actual remuneration of Directors for the year ended 30 November 2014. This report does not constitute a directors' remuneration report in compliance with the requirements of the Code, as the Group is exempt from such requirements.

Unaudited information **Remuneration Committee**

The Group's Remuneration Committee comprises:

- » Peter Rae, Chairman of the Committee, Senior Independent Director;
- » Dennis Bate, Independent Non-Executive Director; and
- » Steve Coggins, Independent Non-Executive Director.

The Committee members are Independent Non-Executive Directors and have no personal or financial interests, other than as shareholders, in the matters considered by the Committee.

The Remuneration Committee operates within the remit delegated by the Board, which is set out in formal terms of reference. The remuneration of Non-Executive Directors is a matter for the Chairman and the Executive members of the Board. No Director or manager is involved in any decision regarding their own remuneration. A copy of the terms of reference can be obtained from the Company Secretary or from the Group's website at www.synecticsplc.com/Investor_Information/Corporate_Governance/Board_Committees.

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 principal duties of the Remuneration Committee are to:

- » recommend to the Board for approval overall Group remuneration policies, and the specific remuneration each year for all Directors and senior management, including bonuses, incentive payments and share options and awards;
- » ensure Executive Directors and senior executive management are provided with appropriate incentives to encourage enhanced performance in a fair and reasonable manner;
- » approve the design of, and determine targets for, any performance-related pay schemes;
- » review the design of all share incentive plans for approval by the Board and, where appropriate, shareholders;
- » determine whether awards will be made under any share incentive plans, including the size of the award and the performance targets to be used;

- » determine the policy for pension arrangements for Executive Directors and senior executive management;
- » ensure that contractual terms on termination and any payments made are fair, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- » consider applicable legislation, regulation, best practice guidance and recommendations, and developments on remuneration policy and remuneration reporting;
- » review remuneration trends at individual subsidiaries and the Group as a whole, and oversee any major changes in employee benefit structures across the Group;
- » select and appoint any remuneration consultants to advise the Committee, if required; and
- » review the Committee's performance, constitution and terms of reference to ensure it operates effectively and to recommend any changes to the Board for approval.

The Committee Chairman reports formally to the Board on the Committee's proceedings after each meeting; ensures that an annual report of the Group's remuneration policy and practices is published in the Group's Annual Report and Accounts; and (from 2012) ensures each year that the Remuneration Committee Report, which contains the Directors' remuneration, is put to shareholders for approval at the Annual General Meeting.

The Committee is authorised by the Board to seek any information it requires from any employee of the Group in order to perform its duties and to obtain external professional advice at the Group's expense.

During the past financial year the Remuneration Committee met three times and considered the 2013 bonus awards and salary increases for the Executive Directors and senior executive management. The Committee approved the discretionary executive bonus scheme to take effect in the financial year 2014 for Executive Directors. For the 2014 financial year, the upper limits on bonuses were set at 75% of base salary for the Chief Executive and 60% for the Finance Director. An upper limit of 60% was set for Paul Webb, appointed to the Board on 6 November 2014, for the same period. An award of options under the Performance Share Plan on 5 March 2014, for senior managers other than the Executive Directors, was considered and approved. The Committee also approved exercises of options over shares, and sales of shares, in respect of the Group's various incentive plans during the year.

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 provide competitive packages reflective of the industry in which it operates 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, and encourage and reward superior performance. The policy is also aimed at ensuring employees are rewarded fairly for their individual contributions to its performance and encourage appropriate behaviours in line with the Group’s attitude to risk.

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. Pension payments are only made on the basis of basic salary.

- » 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 on page 35.

Executive Directors are not entitled automatically to compensation payments for loss of office, other than payment in lieu of their contractual notice period if legally required.

Executive Directors do not hold directorships in other companies and accordingly no remuneration is due to the Group.

Remuneration policy for Non-Executive Directors

Non-Executive Directors are independent of the Group and are expected to spend an average of approximately two days a month on the Group’s business. They are not restricted from undertaking additional directorships, subject to avoiding any conflicts of interest.

After considering recommendations from the Chairman, the Board determines the remuneration of the Non-Executive Directors excluding the Chairman. The remuneration of the Chairman is determined by the Remuneration Committee. 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. Non-Executive Directors do not receive any performance-related pay or rewards, and the Group does not deduct for, or contribute to, a pension.

Audited information

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	2014 Total (excl pension) £000	2013 Total (excl pension) £000	2014 Pension £000	2013 Pension £000
Executive Directors							
J Shepherd**	250	–	40	290	315	30	30
NC Poultney	170	–	30	200	207	32	43
PA Webb (appointed 6 November 2014)	16	–	2	18	–	2	–
Non-Executive Directors							
DJ Coghlan	75	–	11	86	86	–	–
PM Rae	30	–	–	30	30	–	–
SW Coggins	30	–	–	30	30	–	–
D Bate	30	–	–	30	30	–	–
Total	601	–	83	684	698	64	73

* Bonuses are paid or accrued based on the achievement of agreed personal objectives and corporate performance metrics. No such bonuses were paid or accrued in the year ended 30 November 2014.

**As compensation for loss of office on 31 January 2015, Mr Shepherd will receive £318,212 (which includes an amount relating to non-cash benefits).

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 2014 and 10 March 2015.

Performance Share Plan

The following Executive Directors held an interest in the Company's shares at 30 November 2014 through awards made under the Synectics' Performance Share Plan (the 'PSP'), which was established on 9 October 2012, as set out below and in note 24.

Under the rules of the PSP, selected employees are awarded an interest over a certain number of Company shares which only vest after a three-year period, at nil cost to the employees. The number of shares that vest at the end of the three-year period is dependent on the Company meeting certain performance thresholds linked to the FTSE AIM All Share Total Return Index. The performance conditions are identical to those that applied under the Executive Shared Ownership Plan (below).

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

Date awarded	9 October 2012		31 October 2013	
	Number of shares	Issue price (p)	Number of shares	Issue price (p)
J Shepherd*	15,000	272.5	5,000	510.0
NC Poultney	10,000	272.5	5,000	510.0
PA Webb	10,000	272.5	5,000	510.0

* The unvested nil-cost options in relation to Mr Shepherd will be treated in accordance with the standard leaver provisions of the PSP plan rules.

Executive Shared Ownership Plan

The following Directors held an interest in the Company's shares at 30 November 2014 through participation in the Quadnetics 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. The last awards under the ExSOP were made in March 2011.

Under the provisions of 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.

Date awarded	7 July 2009*		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
PA Webb	100,000	147.5	100,000	173.0
DJ Coghlan	93,243	147.5	–	–

* Share awards issued on this date were rolled over from share awards held under a previous version of the ExSOP.

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 of the ESAP 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 not subject to income tax. 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 Executive Directors had the following interests over Company shares held in the ESAP at 30 November 2014:

	Purchase price (p)	J Shepherd Number of shares	NC Poultney Number of shares	PA Webb Number of shares
Partnership shares				
14 October 2010	147.5	338	338	338
7 April 2011	177.5	422	422	422
2 November 2011	185.5	405	405	405
20 April 2012	200.0	375	375	375
9 October 2012	272.5	275	275	275
3 April 2013	282.5	265	265	266
14 October 2013	393.0	191	191	190
4 April 2014	404.0	186	186	186
2 October 2014	350.0	257	257	214
		2,714	2,714	2,671
Dividend shares				
25 July 2011	200.0	7	7	7
2 November 2011	205.0	9	9	9
17 May 2012	289.0	19	19	19
9 October 2012	272.5	14	14	14
8 May 2013	445.0	21	21	21
4 October 2013	488.0	13	13	13
7 May 2014	430.0	30	30	30
		113	113	113
		2,827	2,827	2,784

Employees' Share Acquisition Plan continued

The mid-market prices 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 2013	610.0p
At 30 November 2014	155.0p

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

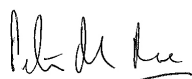
	Ordinary shares of 20p each
Maximum	610.0p
Minimum	147.5p

c) Service contracts

There are no Directors' service contracts with notice periods in excess of one year. The notice periods under the service agreements for Executive Directors and letters of appointment for Non-Executive Directors are as follows:

	Notice period
DJ Coghlan	12 months
D Bate	3 months
SW Coggins	6 months
PM Rae	1 month
PA Webb	12 months
J Shepherd	12 months
NC Poultney	12 months

By Order of the Board



Peter Rae
Chairman of the Remuneration Committee

10 March 2015

The Audit Committee comprises:

- » Steve Coggins, Chairman of the Committee, Independent Non-Executive Director;
- » Dennis Bate, Independent Non-Executive Director; and
- » Peter Rae, Senior Independent Director.

All of the Committee members are Independent Non-Executive Directors and have no personal or financial interests, other than as shareholders, in the matters considered by the Committee.

The Audit Committee has formal terms of reference which set out its duties delegated by the Board. A copy of the terms of reference can be obtained from the Company Secretary or from the Group's website at www.synecticsplc.com/Investor_Information/Corporate_Governance/Board_Committees.

During the last financial year the Committee met four times. Neither the Executive Directors nor the Chairman attend meetings other than by invitation of the Committee members. The Committee invites the auditor to attend meetings.

The Committee is authorised by the Board to obtain external professional advice at the Group's expense in order to perform its duties.

The main function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. Its principal duties are to:

- » make recommendations to the Board on the appointment, re-appointment or removal of the external auditor and the amount of their remuneration;
- » discuss and agree the scope of the audit and review the auditor's management letter and the Group's response;
- » review and agree the scope and work of the Group's internal audit activities;
- » review half-year and annual financial statements and formal announcements relating to financial performance;
- » review the adequacy and effectiveness of the Group's internal financial controls, and internal control and risk management systems;
- » consider compliance with relevant laws and regulations;
- » consider findings of internal investigations and management's response; and
- » review the Committee's terms of reference and recommend any proposed changes to the Board for approval.

During the financial year the Audit Committee approved the 2013 Annual Report and Accounts and the 2014 half-year results, recommended appointment of the auditor, and agreed the scope of the 2014 audit with the auditor. The Committee continued to review the enhanced risk and internal control reporting implemented during the previous year with presentations from the Group Financial Controller and the Finance Director. In addition the Board reviews a summary of the key risks and agreed mitigating actions taken from risk reviews prepared for each business.

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. Details of the system of internal control, the principal risks facing the Group, and the strategies put in place to mitigate them, are set out in the Risks and Risk Management section on pages 38 and 39.

Audit independence

The Audit Committee and the Board place great emphasis on the objectivity of the external auditor in its reporting to shareholders.

The audit partner and senior manager are present at Audit Committee meetings as required to ensure full communication of matters relating to the audit. The overall performance of the auditor is reviewed annually by the Audit Committee, taking into account the views of management, and feedback is provided when necessary to senior members of the audit firm unrelated to the audit. The Audit Committee also has discussions with the auditor, without management being present, on the adequacy of controls and on any judgemental areas. The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are approved by the Audit Committee.

Assignments of non-audit work have been and are subject to controls by management that have been agreed by the Audit Committee so that audit independence is not compromised.

Other than audit, the Board is required to give prior approval of work carried out by the auditor and its associates in excess of £50,000. Part of this review is to determine that other potential providers of the services have been adequately considered. These controls provide the Audit Committee with confidence in the independence of the auditor in its reporting on the audit of the Group.

Non-audit services

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

By Order of the Board



Steve Coggins
Chairman of the Audit Committee

10 March 2015

The following matters are reported by the Directors in accordance with the Companies Act 2006 requirements in force at the date of these Annual Report and Accounts.

Principal activities

The principal activities of Synectics plc (the 'Company') and its subsidiary companies (the 'Group') are set out within the Strategic Report, which comprises the Chairman's Statement, the Strategic Review, the Performance Review and the Risks and Risk Management section, on pages 2 to 21 and pages 38 and 39.

Review of business and future developments

The Consolidated Income Statement for the year ended 30 November 2014 is set out on page 42.

A review of the Group's business activities during the year and its prospects for the future can be found in the Chairman's Statement, the Strategic Review and the Performance Review on pages 2 to 21. These reports together with the Chairman's Introduction, the Corporate Governance Statement, the Remuneration Committee Report and the Audit Committee Report are incorporated into this report by reference and should be read as part of this report.

Key performance indicators

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

- » revenue;
- » gross margin %;
- » underlying operating profit and underlying profit before tax;
- » operating margin %, being the ratio of underlying operating profit to revenue;
- » diluted basic earnings per share;
- » diluted 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 period);
- » recurring revenue as a % of total revenue;
- » net cash balance;
- » working capital %;
- » free cash flow; and
- » cash conversion %.

Principal risks and uncertainties

Details of the principal risks and uncertainties considered by the Board to affect the Group, and the related risk mitigation actions, are given on pages 38 and 39.

Group results and dividends

The consolidated loss after tax for the year was £3,358,000 (2013: profit after tax of £4,917,000).

As a result of the loss reported for the year, and consistent with the decision to not pay an interim dividend (2013: 3.0p), the Directors do not propose to pay a final dividend for the year (2013: 5.5p).

Financial instruments

Details of financial instruments to which the Group is a party are shown in note 31 to the financial statements.

Research & development expenditure

The Group has continued to invest in research & development of both software and hardware products for surveillance applications during the year incurring total costs of £2.5 million (2013: £2.3 million), of which £1.2 million (2013: £1.3 million) has been written off to the Income Statement.

Share capital

The Company's issued ordinary share capital comprises a single class of ordinary shares of 20p each, with 17,794,439 shares in issue and listed on AIM of the London Stock Exchange as at 30 November 2014. No shares were held in treasury and 1,427,464 shares were held by the Company's employee share trusts. Details of movements in the issued share capital can be found in note 23 to the financial statements. No securities were issued in connection with a rights issue during the year.

Each share carries the right to one vote at general meetings of the Company. All issued shares are fully paid up and carry no additional obligations or special rights. There are no restrictions on transfers of shares in the Company, or on the exercise of voting rights attached to them, other than those which may from time to time be applicable under existing laws and regulations.

Employee share plans

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the plans. The Company uses an employee benefit trust to acquire partnership shares (at the end of each accumulation period) and dividend shares in the market, when permitted. A total of 11,348 shares in the Company were purchased by the employee benefit trust during the 2014 financial year.

Directors' interests

Interests of the Directors and their connected persons in the issued share capital of the Company as at 30 November 2014 were as follows:

	2014 Number of shares held	2014 Interests in share schemes	2014 Total interests in shares	2013 Total interests in shares
DJ Coghlan	1,501,303	93,243	1,594,546	1,594,546
PM Rae	218,302	–	218,302	218,302
D Bate	146,000	–	146,000	146,000
J Shepherd	66,272	408,165	474,437	473,964
SW Coggins	13,080	–	13,080	13,080
NC Poultney	13,000	227,827	240,827	240,354
PA Webb (appointed 6 November 2014)	–	217,784	217,784	–
	1,957,957	947,019	2,904,976	2,686,246

Significant shareholdings

As at the close of the market on 25 February 2015, the Company was aware of the following holdings, excluding Directors' holdings, of 3% or more of the Company's total issued share capital:

	Number of shares	% of total voting rights	Nature of interest
Whitehall Associated SA	5,002,500	28.11%	Direct
Standard Life Investments Limited	1,546,697	8.69%	Direct
Quadnetics Employees Benefit Trust	1,427,464	8.02%	Direct
Charles Stanley (Rock Nominees)	1,094,957	6.15%	Direct
Investec Wealth & Investment Limited	938,757	5.28%	Indirect
Chase Nominees Limited	672,366	3.78%	Indirect
Lion Nominees Limited	588,462	3.31%	Indirect

Board of Directors

With the exception of Paul Webb, who was appointed to the Board on 6 November 2014, all Directors were in office throughout the financial year ended 30 November 2014. Subsequent to the year end, on 31 January 2015, John Shepherd retired from the Board. Details and biographies of the Directors are shown on pages 22 and 23.

The powers of the Company's Directors and rules that apply to changes in the Directors are set out in the Company's Articles of Association (the 'Articles'). Any changes to the Articles would require the consent of the Company's shareholders.

In accordance with the Articles, one-third of the Directors are required to retire by rotation at each Annual General Meeting and, being eligible, offer themselves for re-election. The Directors proposed for re-election at the 2015 Annual General Meeting are Dennis Bate and Paul Webb.

Directors' indemnity

As permitted by the Articles, each of the Directors has the benefit of an indemnity which is a qualifying third-party indemnity as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the financial year and is currently in force. No indemnity is provided for the Group's auditor.

Conflicts of interest

The Articles permit the Board to consider and, if it sees fit, authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Group ('Situational Conflicts'). The Board operates an effective formal system for Directors to declare Situational Conflicts and for them to be authorised by the non-conflicted Directors if thought appropriate and subject to limits or conditions.

Related party transactions

Internal controls are in place to ensure that any related party transactions involving Directors or their connected persons are carried out on an arm's length basis and are properly recorded. Details of any related party transactions are given in note 27 to the financial statements.

Essential contracts or arrangements

The Group has a number of contractual agreements with suppliers in support of its business activities. Whilst the loss of certain of these arrangements may cause temporary disruption, there are none, for which mitigation plans have not been put in place, which are individually considered to be essential to the Group's business.

Change of control provisions

There are no significant agreements which contain provisions entitling other parties to exercise termination or other rights in the event of a change of control of the Group; and no provisions in the Directors' service agreements or employees' contracts that provide for compensation for loss of office or employment occurring because of a takeover.

Employment policies

The Group employed an average of 546 people in 2014 (2013: 512).

The Group has established employment policies that comply with current legislation and codes of practice, including in the areas of health and safety and equal opportunities. The Group consults employees on developments and changes to take account of their views when making decisions that may impact their interests.

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

Employee engagement

The Group engages with its employees regularly through various media: email alerts, focus groups, monthly bulletins, team briefings, an annual senior management conference and an annual staff survey. Details of the performance of the Group are shared with all employees at the appropriate time using the methods above.

The Group operates a HMRC-approved share incentive plan to encourage employees to take a greater interest in the Group's performance through share ownership. Details are set out in the Remuneration Committee Report on pages 29 to 32.

Policy on payment of suppliers

The Group's policy during the year was to pay suppliers in accordance with agreed terms. At 30 November 2014 the Group had 61 days' purchases outstanding in trade payables (2013: 63 days').

Charitable donations and activity

The Group made a donation of £2,800 (2013: £2,700) to charitable causes during the year.

Political donations

The Group made no political donations during the year and its policy is not to make such donations.

Going concern

The financial statements have been prepared on a going concern basis. The Directors have reviewed the Group's objectives, policies and processes for managing its capital, financial risk management, financial instruments, exposure to credit and liquidity risk, and financial forecasts. As a result of this review the Directors have a reasonable expectation that the Group has 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 details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

Annual General Meeting

The notice convening the Annual General Meeting is included with this Annual Report and Accounts on pages 82 to 84 and includes full details of the resolutions proposed.

Auditor

A resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Post-balance sheet events

There are no post-balance sheet events to report.

Disclosure of information to auditor

Having made the required enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the Company's auditor is unaware and each Director has taken all steps that ought to have been taken to make himself aware of any relevant audit information and to ensure that the Company's auditor is aware of that information.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report, the Strategic Report, the Directors' 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 International Financial Reporting Standards ('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 Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibilities statement

The Directors confirm that to the best of their knowledge:

- » the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- » the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- » the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Strategic Report approval

The Strategic Report, set out on pages 2 to 21, and pages 38 and 39, consists of the Chairman's Statement, the Strategic Review, the Performance Review and the Risks and Risk Management section.

By Order of the Board



Nigel Poultney
Company Secretary

10 March 2015

Understanding and managing key risks to the Group

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 here.

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 Directors believe the internal control environment is generally adequate and appropriate given the size and complexity of the Group. However, during the year it became clear that internal controls within part of the Group's Integration & Managed Services division did not identify project management issues on a large, complex project on a timely basis. As a result, corrective action to address the issue was not taken sufficiently quickly to avoid significant cost overruns being incurred. When management became aware of the extent of the issue, radical action was taken quickly to correct matters. The Directors believe that measures have now been put in place to ensure that this cannot happen again.

In order to give additional assurance on controls, and to supplement the work undertaken by the external auditor, the Group uses the experience of its central accounting team to undertake a programme of internal audit approved by the Group's Audit Committee.

Project delivery risk and contractual liabilities

Geopolitical risk impacting project awards and timescales

Declining global energy prices impacting project awards and timescales

Reputational risk

Price and margin pressure

Technological risk

People skills and dependency

Exchange rate risk

Risk — Factors that may impact the business

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 cost overruns and claims for contractual liabilities as a result of this failure.

Political instability has the potential to impact whether new projects go ahead, existing project timescales and the trading partners the Group chooses to work with. The Group's trading performance, particularly within the Oil & Gas sector, is potentially exposed to delays in the scheduling of large-scale projects as a result of the changing geopolitical landscape in the Middle East. These delays could also detrimentally impact the Group's working capital position.

Declining returns for companies investing in large energy-related infrastructure ventures may lead to projects being delayed or cancelled altogether. This could reduce demand for the Group's specialist products designed predominantly for the Oil & Gas sector, and hence negatively impact performance. These delays could also detrimentally impact the Group's working capital position.

The nature of the Group's business and its customer base mean that Synectics is particularly dependent for future business on its reputation in the marketplace, particularly for the quality and reliability of its products and services, and the overall integrity of its people.

The electronic security industry in general is competitive with continued pressure on sales and margins.

As the industry becomes increasingly technical and transitions to digital technology, there is a risk that products become obsolete or irrelevant.

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 operates internationally, giving rise to exposure from changes in foreign exchange rates.

Mitigation — What we are doing to minimise the risk

Project and service delivery are closely monitored and reviewed across Synectics. The Group maintains rigorous quality standards in all its operations and carefully assesses the terms on which it agrees to enter into contractual relationships at appropriate levels of responsibility.

The Group attempts to mitigate this risk through winning business globally in regions where project timescales are not impacted by local political issues and ensuring detailed knowledge of projects on which it is bidding.

The Group seeks to mitigate this risk through increased penetration of markets which demand similarly resilient product qualities to the Oil & Gas sector. Recent contract wins in the Marine sector have demonstrated the cross-sector demand for products suitable for hazardous or extreme environments.

The Group addresses this risk by the Board and all levels of management consistently emphasising that those attributes are embedded in the culture of the Group, and by regularly seeking feedback from customers and employees.


We will 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.

Synectics seeks to counter 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.

The Group aims to offer appropriate remuneration packages and incentive arrangements, and maintains certain key-man insurance policies, in order to mitigate this risk.

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

 Read more about how the Group manages risk in the **Corporate Governance Statement** from page 26

 The **Audit Committee** advises the Board of Directors on matters of risk management. They have their own report, which can be read on page 33

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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 2014, 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 37), 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.

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 2014 and of the Group's loss 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; and
- » the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

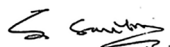
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

10 March 2015

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Consolidated Income Statement

For the year ended 30 November 2014

	Note	2014 £000	2013 £000
Revenue	2	64,594	82,363
Cost of sales		(45,707)	(55,664)
Gross profit		18,887	26,699
Operating expenses	3	(22,444)	(19,985)
(Loss)/profit from operations			
– Excluding non-underlying items	7	(2,192)	7,217
– Non-underlying items	4	(1,365)	(503)
Total (loss)/profit from operations		(3,557)	6,714
Finance income	10	246	245
Finance costs	11	(437)	(338)
(Loss)/profit before tax			
– Excluding non-underlying items		(2,383)	7,124
– Non-underlying items	4	(1,365)	(503)
Total (loss)/profit before tax		(3,748)	6,621
Income tax credit/(expense)	12	390	(1,704)
(Loss)/profit for the year attributable to equity holders of the Parent		(3,358)	4,917
Basic earnings per ordinary share	14	(20.6)p	30.9p
Diluted earnings per ordinary share	14	(20.6)p	29.4p
Underlying basic earnings per ordinary share	14	(14.0)p	34.2p
Underlying diluted earnings per ordinary share	14	(14.0)p	32.6p

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Consolidated Statement of Comprehensive Income

For the year ended 30 November 2014

	2014 £000	2013* £000
(Loss)/profit for the year	(3,358)	4,917
Items that will not be reclassified subsequently to profit or loss:		
Re-measurement gain/(loss) on defined benefit pension scheme, net of tax	277	(201)
Effect of recognising the pension scheme surplus, net of tax	153	–
Effect of not recognising the pension scheme surplus, net of tax	–	201
	430	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	224	(65)
Available-for-sale financial assets:		
– Gains arising during the period, net of tax	–	403
– Less: reclassification adjustments for gains included in profit, net of tax	–	(403)
	224	(65)
Total comprehensive (loss)/income for the year attributable to equity holders of the Parent	(2,704)	4,852

* Re-presented for the adoption of IAS19R 'Employee Benefits' (see note 1).

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Consolidated Statement of Financial Position

As at 30 November 2014

	Note	2014 £000	2013 £000
Non-current assets			
Property, plant and equipment	15	3,952	2,641
Intangible assets	16	23,357	22,672
Retirement benefit asset	30	540	–
		27,849	25,313
Current assets			
Inventories	17	12,624	9,735
Trade and other receivables	18	25,627	27,695
Tax assets		373	–
Cash and cash equivalents	19	1,349	5,774
		39,973	43,204
Total assets		67,822	68,517
Current liabilities			
Loans and borrowings	21	(4,553)	(815)
Trade and other payables	20	(22,569)	(22,569)
Tax liabilities		(72)	(1,118)
Current provisions	22	(1,147)	(147)
		(28,341)	(24,649)
Non-current liabilities			
Loans and borrowings	21	(2,872)	(3,760)
Non-current provisions	22	(22)	(97)
Deferred tax liabilities	12	(142)	(469)
		(3,036)	(4,326)
Total liabilities		(31,377)	(28,975)
Net assets		36,445	39,542
Equity attributable to equity holders of the Parent Company			
Called up share capital	23	3,559	3,539
Share premium account		16,043	15,765
Merger reserve		9,971	9,971
Other reserves		(2,656)	(2,797)
Currency translation reserve		351	127
Retained earnings		9,177	12,937
Total equity		36,445	39,542

The financial statements on pages 42 to 73 were approved and authorised for issue by the Board of Directors on 10 March 2015 and were signed on its behalf by:



Paul Webb
Chief Executive



Nigel Poultney
Finance Director

Company number: 1740011

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Consolidated Statement of Changes in Equity

For the year ended 30 November 2014

	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 2012	3,514	15,721	9,565	(3,239)	192	9,387	35,140
Profit for the year	-	-	-	-	-	4,917	4,917
Other comprehensive loss							
Currency translation adjustment	-	-	-	-	(65)	-	(65)
Total other comprehensive loss	-	-	-	-	(65)	-	(65)
Total comprehensive (loss)/income for the year	-	-	-	-	(65)	4,917	4,852
Dividends paid (note 13)	-	-	-	-	-	(1,336)	(1,336)
Credit in relation to share-based payments (note 25)	-	-	-	-	-	78	78
Issue of ordinary shares	5	44	-	-	-	-	49
Share scheme interests realised in the year	-	-	-	442	-	(109)	333
Acquisition of Coex Services Asia Pte Limited	20	-	406	-	-	-	426
At 30 November 2013	3,539	15,765	9,971	(2,797)	127	12,937	39,542
Loss for the year	-	-	-	-	-	(3,358)	(3,358)
Other comprehensive income							
Currency translation adjustment	-	-	-	-	224	-	224
Re-measurement gain on defined benefit pension scheme, net of tax	-	-	-	-	-	430	430
Total other comprehensive income	-	-	-	-	224	430	654
Total comprehensive income/(loss) for the year	-	-	-	-	224	(2,928)	(2,704)
Dividends paid (note 13)	-	-	-	-	-	(928)	(928)
Credit in relation to share-based payments (note 25)	-	-	-	-	-	127	127
Issue of ordinary shares	20	278	-	-	-	-	298
Share scheme interests realised in the year	-	-	-	141	-	(31)	110
At 30 November 2014	3,559	16,043	9,971	(2,656)	351	9,177	36,445

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Consolidated Cash Flow Statement

For the year ended 30 November 2014

	Note	2014 £000	2013 £000
Cash flows from operating activities			
(Loss)/profit for the year		(3,358)	4,917
Income tax (credit)/expense	12	(390)	1,704
Finance income	10	(246)	(245)
Finance costs	11	437	338
Depreciation and amortisation charge		1,515	1,187
Loss/(profit) on disposal of non-current assets		38	(16)
Other non-underlying items		–	(191)
Share-based payment charge		127	78
Operating cash flows before movement in working capital		(1,877)	7,772
Increase in inventories		(2,889)	(2,533)
Decrease/(increase) in receivables		2,068	(586)
Increase/(decrease) in payables and provisions		925	(1,910)
Cash (used in)/generated from operations		(1,773)	2,743
Interest received		1	12
Tax paid		(1,426)	(731)
Net cash (used in)/from operating activities		(3,198)	2,024
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(2,021)	(1,570)
Sale of property, plant and equipment		–	15
Acquisition of subsidiaries, net of cash acquired	5	–	(1,858)
Capitalised development costs	16	(1,361)	(1,008)
Purchased software	16	(240)	(335)
Net cash used in investing activities		(3,622)	(4,756)
Cash flows from financing activities			
(Repayment of)/proceeds from borrowings		(804)	2,952
Share scheme interests realised in the year		110	333
Issue of shares		298	49
Interest paid		(192)	(105)
Dividends paid		(928)	(1,336)
Net cash (used in)/from financing activities		(1,516)	1,893
Effect of exchange rate changes on cash and cash equivalents		145	122
Net decrease in cash and cash equivalents		(8,191)	(717)
Cash and cash equivalents at the beginning of the year		5,774	6,491
Cash and cash equivalents at the end of the year	19	(2,417)	5,774

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Notes to the Consolidated Financial Statements

For the year ended 30 November 2014

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 IFRS 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 74 to 79.

The consolidated financial statements of the Company as at and for the year ended 30 November 2014 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 2014:

Endorsed		Effective for periods beginning on or after:
Amendment to IAS 19	Defined benefit plans	1 January 2013
Amendments to IFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2013

With effect from 1 December 2013 the Group has adopted IAS 19 (Revised) Employee Benefits which introduces a number of changes to accounting for defined benefit plans. The key change is the removal of expected returns on plan assets from the income statement and its replacement with a requirement to recognise interest on the net defined benefit asset/liability, calculated using the discount rate used to measure the defined benefit obligation.

As this is the first year that the Group has recognised the retirement benefit asset, the adoption of IAS19R does not impact the prior year financial statements, other than the re-presentation of prior year disclosures in line with the revised standard.

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 2014 have been adopted in 2014. 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:

Endorsed		Effective for periods beginning on or after:
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
IAS 28	Investments in Associates and Joint Ventures	1 January 2014
Amendments to IAS 32	Offsetting financial assets and financial liabilities	1 January 2014
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets	1 January 2014
Amendments to IAS 19	Defined benefit plans	1 February 2015

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 2014 and/or 1 December 2015 as appropriate.

None of these standards, interpretations or amendments is expected to have a material impact on profit, earnings per share or net assets in future periods.

The following standards are not yet effective and have not been adopted early by the Group:

IFRS 15 Revenue from contracts with customers

IFRS 9 Financial Instruments

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 30 November 2014

1 Principal accounting policies continued

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position, and information on the financial position of the Group, its cash flows and liquidity position, are described in the reports which together make up the Strategic Report on pages 2 to 21 and on pages 38 and 39.

As detailed in note 21, the Group has secured banking facilities in place which are used to meet the day-to-day working capital requirements. There are various covenants attached to these facilities. The Directors have considered the financial position of the Group at 30 November 2014 and the projected cash flows and financial performance of the Group for at least twelve months from the date of approval of these financial statements.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group would be able to operate within the terms of its current facilities.

As a consequence, the Directors believe that the Group is well-placed to manage its business risks successfully and have adequate resources to continue in operation as a going concern for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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.

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. Acquisition-related costs are recognised in profit or loss as incurred.

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.

1 Principal accounting policies continued

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.

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 Sterling (£), 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 Sterling 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.

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 30 November 2014

1 Principal accounting policies continued

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.

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.

1 Principal accounting policies continued

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.

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 & 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, which is usually over a period of three to five years.

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 the assets 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.

1 Principal accounting policies continued**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.

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, with the corresponding gain or loss being recognised in profit or loss.

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 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.

Loans and borrowings

Loans and borrowings comprise bank term loans and bank overdrafts.

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.

Defined benefit plans

Accounting for pensions requires the Group to use actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit asset or obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The Group has recognised an asset in respect of the scheme surplus at the balance sheet date. Future economic benefits are available to the Group in the form of reduction in future contributions or a cash refund. Further details regarding the defined benefit plan are given in note 30.

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.

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 30 November 2014

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 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 and operating decisions are made by the CODM.

The management of the Group's operations, excluding Central functions, is organised within two strategic operating segments, Systems and Integration & Managed Services. These, together with Central functions, comprise the Group's three reportable segments. No operating segments have been aggregated to form these reportable segments.

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.

	2014 £000	2013 £000
Revenue		
Systems	31,876	44,753
Integration & Managed Services	33,746	38,368
Total segmental revenue	65,622	83,121
Reconciliation to consolidated revenue:		
Intra-Group sales	(1,028)	(758)
	64,594	82,363

No single customer contributed 10% or more to the Group's revenues in 2014. In 2013, included in revenues arising from the Systems segment, is approximately £8.5 million which arose from sales to the Group's largest customer in the year.

	2014 £000	2013 £000
Underlying operating (loss)/profit		
Systems	1,031	7,009
Integration & Managed Services	(1,139)	2,223
Total segmental underlying operating (loss)/profit	(108)	9,232
Reconciliation to consolidated underlying operating (loss)/profit:		
Central costs	(2,084)	(2,015)
	(2,192)	7,217

	Underlying operating (loss)/profit* £000	Restructuring costs £000	Share-based payment charge £000	Amortisation of acquired intangibles £000	Total (loss)/ profit from operations £000
Underlying operating (loss)/profit 2014					
Systems	1,031	(74)	(50)	–	907
Integration & Managed Services	(1,139)	(278)	(37)	–	(1,454)
Total segmental underlying operating loss	(108)	(352)	(87)	–	(547)
Reconciliation to consolidated underlying operating loss:					
Central costs	(2,084)	(768)	(40)	(118)	(3,010)
	(2,192)	(1,120)	(127)	(118)	(3,557)

2 Segmental analysis continued

	Underlying operating profit* £000	Restructuring costs £000	Acquisition costs £000	Share-based payment charge £000	Amortisation of acquired intangibles £000	Gain on financial asset £000	Total profit from operations £000
Underlying operating profit 2013							
Systems	7,009	(562)	(63)	(39)	–	525	6,870
Integration & Managed Services	2,223	–	–	(11)	–	–	2,212
Total segmental underlying operating profit	9,232	(562)	(63)	(50)	–	525	9,082
Reconciliation to consolidated underlying operating profit:							
Central costs	(2,015)	–	(202)	(28)	(123)	–	(2,368)
	7,217	(562)	(265)	(78)	(123)	525	6,714

* Underlying operating (loss)/profit represents operating (loss)/profit before non-underlying items (restructuring costs, acquisition costs, share-based payment charge, amortisation of acquired intangibles and reclassification of available-for-sale financial assets to profit or loss).

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, together with central assets and liabilities.

	Assets £000	Liabilities £000	2014 Net assets £000
Systems	28,899	(10,635)	18,264
Integration & Managed Services	16,454	(11,478)	4,976
Total segmental net assets	45,353	(22,113)	23,240
Reconciliation to consolidated net assets:			
Goodwill	19,491	–	19,491
Cash and borrowings	1,349	(7,425)	(6,076)
Unallocated	1,629	(1,839)	(210)
	67,822	(31,377)	36,445

	Assets £000	Liabilities £000	2013 Net assets £000
Systems	24,863	(10,030)	14,833
Integration & Managed Services	18,143	(13,298)	4,845
Total segmental net assets	43,006	(23,328)	19,678
Reconciliation to consolidated net assets:			
Goodwill	19,567	–	19,567
Unallocated	5,944	(5,647)	297
	68,517	(28,975)	39,542

By geographical segment Geographical location of contract	Revenue 2014 £000	Total assets 2014 £000	Capital additions 2014 £000	Revenue 2013 £000	Total assets 2013 £000	Capital additions 2013 £000
United Kingdom and Europe	44,646	60,847	1,835	50,561	60,681	1,407
North America	8,535	3,118	95	5,062	2,313	154
Middle East	3,344	22	–	5,739	–	–
Asia and Pacific	8,069	3,835	91	18,892	5,523	9
Rest of World	–	–	–	2,109	–	–
	64,594	67,822	2,021	82,363	68,517	1,570

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 30 November 2014

3 Net operating expenses

	2014 £000	2013 £000
Distribution costs	294	384
Administrative expenses (before non-underlying costs)	20,785	19,098
Non-underlying costs (note 4)	1,365	503
Total administrative expenses	22,150	19,601
	22,444	19,985

4 Non-underlying items

	Note	2014 £000	2013 £000
Restructuring costs	a	1,120	562
Acquisition costs	b	–	265
Share-based payment charge		127	78
Amortisation of acquired intangible assets		118	123
Reclassification of available-for-sale assets to profit or loss	c	–	(525)
		1,365	503

a. The restructuring costs incurred during the year ended 30 November 2014 relate predominantly to severance costs arising from a review of the Group's cost base.

In 2013 restructuring costs arose from the internal reorganisation of the Group's businesses into two divisions.

b. Acquisition costs incurred during 2013 related to the acquisition of the remaining 49% outstanding share capital of Indanet and the remaining 80% of Coex Services Asia Pte Limited ('CSA') (note 5).

c. The profit arising on the reclassification of available-for-sale assets to profit or loss in 2013 relates to the equity investments in the unlisted shares of CSA and O&G Vision Pte Limited ('O&G') which were designated as available-for-sale assets immediately prior to the acquisition of the remaining issued share capital of CSA. £525,000 was reclassified to profit as part of the acquisition accounting (note 5).

5 Acquisitions (prior year)

a) Indanet

In July 2011 Synectic Systems GmbH acquired 100% of the issued share capital of Indanet AG ('Indanet'). In February 2013, the entire outstanding share capital in Indanet was purchased for a total consideration of €1.64 million in cash. Total consideration paid for the entire share capital of Indanet amounted to €3.64 million and no further deferred or contingent consideration payments are required to be made. €1.7 million was drawn on the Group's bank term loan facility in 2013 to fund this final payment.

b) Coex Services Asia Pte Limited

On 21 June 2013 the Group acquired the remaining 80% of the issued share capital of CSA, a private Singaporean company supplying surveillance systems in the Far East, primarily to the oil & gas sector, for a maximum total consideration of up to £2.1 million.

Initial consideration of £1.8 million had been paid, comprising £1.3 million in cash, £0.4 million in ordinary shares in Synectics plc and the transfer of the Group's 20% interest in O&G valued at £0.1 million. Further consideration of up to £0.3 million in cash is dependent on the profit performance of CSA in the two years following acquisition.

The acquisition is expected to accelerate the Group's expansion into the Asia and Far East markets and should provide enhanced opportunities for the sale of Synectics' integrated surveillance control systems into this region.

Immediately prior to the date of acquisition, the Group held a 20% shareholding in CSA and O&G which was classified as available-for-sale financial assets held at fair value of £525,000. In the 2013 results, the movements in the fair value of the financial assets were recorded directly in equity as an unrealised gain and were reclassified to the Income Statement, together with the associated deferred tax liability, as part of the acquisition accounting.

5 Acquisitions (prior year) continued

The fair value recognised in 2013, which is not materially different to the book value, in respect of the identifiable assets acquired and liabilities assumed is as set out in the table below:

	£000
Property, plant and equipment	8
Financial assets	1,476
Financial liabilities	(426)
Net identifiable assets	1,058
Goodwill	1,267
Total consideration	2,325
Satisfied by:	
Cash	1,320
Equity instruments (101,403 ordinary shares of Parent Company)	426
Equity instruments (20% shareholding in O&G)	70
Contingent consideration arrangement	54
Total consideration transferred	1,870
Value of existing 20% shareholding	455
	2,325
Net cash outflow arising on acquisition	
Cash consideration	1,320
Less: cash balances acquired	(870)
	450

No changes have arisen from the provisional fair values disclosed in the prior year.

The fair value of the financial assets includes trade receivables with a fair value of £456,000.

The goodwill of £1.27 million arising from the acquisition can be attributed to the benefit of expansion into the Asia and Far East markets and the synergy benefits to the Group of the acquisition.

The contingent consideration arrangement of up to S\$500,000 is dependent on CSA's profits for the period from completion to 21 June 2015. S\$100,000 has been provided for such consideration in the fair value assessment above.

In connection with the acquisition of the remaining 80% of the equity interest in CSA, Synectics plc issued 101,403 ordinary shares based on the market value at the effective date of acquisition on 1 June 2013 of £4.20. The fair value of these shares is the published price of the shares at this date.

Acquisition-related costs (included in non-underlying operating expenses) amounted to £63,000.

CSA contributed £1.1 million revenue and £169,000 to the Group's operating profit for the period between the date of acquisition and 30 November 2013.

If the acquisition of CSA had been completed on the first day of the 2013 financial year, Group revenues for 2013 would have been £84.3 million and Group profit from operations would have been £7.0 million.

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For the year ended 30 November 2014

6 Auditor's remuneration

	2014 £000	2013 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	41	41
Fees payable to the Company's auditor for other services to the Group:		
– the audit of the Company's subsidiaries pursuant to legislation	112	100
– tax compliance services	40	51
– other tax advisory services	20	26
	213	218

Amounts paid to the Company's auditor and its 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.

7 (Loss)/profit from operations

	2014 £000	2013 £000
(Loss)/profit from operations is stated after charging:		
Amortisation of intangible assets	807	538
Depreciation of property, plant and equipment	708	649
Research & development expenditure	1,172	1,251
Rental payments under operating leases:		
– plant, machinery and vehicles	920	1,131
– other	424	377

8 Directors' and key management personnel's remuneration

The Directors consider that the key management personnel of the business comprises its Board of Directors, whose remuneration is shown in the Remuneration Committee Report on page 30, 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:

	2014 Number	2013 Number
Reportable segment (see note 2)		
Systems	249	228
Integration & Managed Services	279	270
Central	18	14
	546	512

	2014 £000	2013 £000
Staff costs (for the above persons)		
Wages and salaries	18,821	19,529
Social security costs	2,152	2,176
Pension costs	466	488
Share-based payment charge	127	78
	21,566	22,271

10 Finance income

	2014 £000	2013 £000
Bank interest receivable	4	12
Interest income on pension scheme assets	242	233
	246	245

11 Finance costs

	2014 £000	2013 £000
Interest payable on bank overdrafts	100	27
Interest payable on bank loans	95	78
Interest on pension scheme liabilities	242	233
	437	338

12 Taxation

Tax charge	2014 £000	2013 £000
Current taxation		
UK tax	(246)	987
Overseas tax	391	512
Adjustments in respect of prior periods	(130)	93
Total current tax	15	1,592
Deferred taxation		
Origination and reversal of temporary differences	223	215
Adjustments in respect of prior periods	12	(103)
Estimated recoverable deferred tax asset	(640)	–
Total deferred tax	(405)	112
Total tax (credit)/charge for the year	(390)	1,704

Reconciliation of tax (credit)/charge for the year

The corporation tax assessed for the year differs from the standard rate of corporation tax in the UK of 21.67% (2013: 23.33%). The differences are explained below:

	2014 £000	2013 £000
(Loss)/profit on ordinary activities before tax	(3,748)	6,621
Tax on (loss)/profit on ordinary activities before tax at standard rate of 21.67% (2013: 23.33%)	(812)	1,545
Effects of:		
Expenses not deductible for tax purposes	264	42
Net effect of different rates of tax in overseas businesses	(47)	(237)
Tax losses not recognised	323	467
Income not taxable	–	(45)
Rate change on deferred tax balance	–	(58)
Adjustment in respect of prior periods	(118)	(10)
Total tax (credit)/charge for the year	(390)	1,704

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Notes to the Consolidated Financial Statements continued

For the year ended 30 November 2014

12 Taxation continued

Factors that may affect future tax charges

Legislation reducing the main rate of UK corporation tax to 20% from 1 April 2015 was substantively enacted during the previous period. Accordingly deferred tax has been provided for at 20% (2013: 20%) as it is expected that the majority of the deferred tax balance will be settled after 1 April 2015.

Deferred tax (liability)/asset	Property, plant and equipment £000	Other temporary differences £000	Retirement benefit asset £000	Losses £000	Total £000
At 1 December 2012	(184)	(147)	–	–	(331)
Income Statement	(159)	47	–	–	(112)
Currency translation adjustment	2	(28)	–	–	(26)
At 30 November 2013	(341)	(128)	–	–	(469)
Income Statement	(54)	(181)	–	640	405
Statement of Comprehensive Income	–	–	(110)	–	(110)
Currency translation adjustment	(5)	37	–	–	32
At 30 November 2014	(400)	(272)	(110)	640	(142)

Deferred tax assets of £0.6 million have been recognised in relation to legal entities which suffered a tax loss in the current period. The assets are recognised based upon future taxable profit forecasts for the entities concerned.

The Group has further tax losses available to be carried forward for offset against the future taxable profits of certain Group companies amounting to approximately £2.7 million (2013: £1.9 million). No deferred tax asset (2013: £nil) 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 (2013: £19 million) available for offset against future taxable gains. No deferred tax asset in respect of these losses, which would amount to £3.8 million, has been recognised in these financial statements as there is insufficient certainty that the asset will be recovered against future capital gains.

A deferred tax liability of £110,000 has been recognised in relation to the Group's defined benefit asset during the year (note 30).

13 Dividends

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

	2014		2013	
	Pence per share	£000	Pence per share	£000
Final dividend paid in respect of prior year but not recognised as liabilities in that year	5.5	950	5.0	858
Interim dividend paid in respect of current year	–	–	3.0	519
	5.5	950	8.0	1,377
Total dividend paid, net of treasury share dividends		928		1,336
Proposed final dividend for the year ended 30 November	–	–	5.5	947

There is no proposed final dividend for the year ended 30 November 2014.

14 Earnings per ordinary share

	2014 Pence per share	2013 Pence per share
Basic earnings per ordinary share	(20.6)	30.9
Diluted earnings per ordinary share	(20.6)	29.4
Underlying basic earnings per ordinary share	(14.0)	34.2
Underlying diluted earnings per ordinary share	(14.0)	32.6

Earnings per ordinary share have been calculated by dividing the (loss)/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.

14 Earnings per ordinary share continued

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

	2014 £000	2013 £000
Earnings for basic and diluted earnings per share	(3,358)	4,917
Non-underlying items	1,365	503
Impact of non-underlying items on tax (credit)/charge for the year	(295)	30
Earnings for underlying basic and underlying diluted earnings per share	(2,288)	5,450

	2014 000	2013 000
Weighted average number of ordinary shares – basic calculation	16,320	15,929
Dilutive potential ordinary shares arising from share options ¹	–	789
Weighted average number of ordinary shares – diluted calculation	16,320	16,718

¹ Under IFRS no allowance is made for the dilutive impact of share options which reduce a loss. The basic and diluted EPS measures are therefore the same for the year ended 30 November 2014.

15 Property, plant and equipment

	Freehold land and buildings £000	Short leasehold improvements £000	Plant, equipment and motor vehicles £000	Total £000
Cost				
At 1 December 2012	311	1,384	3,131	4,826
Additions	766	157	647	1,570
Disposals	–	–	(107)	(107)
Transfer between categories and from intangibles	–	(142)	181	39
Currency translation adjustment	–	–	(2)	(2)
At 30 November 2013	1,077	1,399	3,850	6,326
Additions	1,074	110	837	2,021
Disposals	–	(12)	(410)	(422)
Currency translation adjustment	–	1	19	20
At 30 November 2014	2,151	1,498	4,296	7,945
Depreciation				
At 1 December 2012	45	729	2,372	3,146
Charge for the year	6	88	555	649
Disposals	–	–	(107)	(107)
Transfer between categories	–	(52)	52	–
Currency translation adjustment	–	–	(3)	(3)
At 30 November 2013	51	765	2,869	3,685
Charge for the year	29	101	578	708
Disposals	–	(10)	(374)	(384)
Currency translation adjustment	–	(1)	(15)	(16)
At 30 November 2014	80	855	3,058	3,993
Net book value				
At 30 November 2014	2,071	643	1,238	3,952
At 30 November 2013	1,026	634	981	2,641

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Notes to the Consolidated Financial Statements continued

For the year ended 30 November 2014

16 Intangible assets

	Goodwill £000	Acquired intangibles £000	Capitalised development costs £000	Purchased software £000	Total £000
Cost					
At 1 December 2012	22,342	699	3,624	1,244	27,909
Additions	1,182	–	1,008	335	2,525
Transfer between categories	–	–	–	(39)	(39)
Currency translation adjustment	36	17	–	–	53
At 30 November 2013	23,560	716	4,632	1,540	30,448
Additions	–	–	1,361	240	1,601
Disposals	–	–	–	(9)	(9)
Currency translation adjustment	(117)	(31)	(11)	–	(159)
At 30 November 2014	23,443	685	5,982	1,771	31,881
Amortisation and impairment					
At 1 December 2012	3,993	167	2,323	757	7,240
Charge for the year	–	123	269	146	538
Currency translation adjustment	–	(2)	–	–	(2)
At 30 November 2013	3,993	288	2,592	903	7,776
Charge for the year	–	118	472	217	807
Currency translation adjustment	(41)	(16)	7	–	(50)
Disposals	–	–	–	(9)	(9)
At 30 November 2014	3,952	390	3,071	1,111	8,524
Net book value					
At 30 November 2014	19,491	295	2,911	660	23,357
At 30 November 2013	19,567	428	2,040	637	22,672

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. Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ('CGUs') that are expected to benefit from that business combination. The carrying amount of goodwill was allocated to the CGUs as follows:

	2014 £000	2013 £000
Systems	10,302	10,378
Integration & Managed Services	4,580	4,580
Transport Systems	4,609	4,609
	19,491	19,567

The recoverable amount of the CGUs 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, 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.

16 Intangible assets continued

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

- » working capital unwind in 2015;
- » terminal value applied after ten years assuming a seven (2013: ten) times multiple; and
- » pre-tax discount rates.

	2014 %	2013 %
Systems	9.9	8.9
Integration & Managed Services	9.5	9.2
Transport Systems	9.1	8.4

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.

Notwithstanding the current year's results, 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

	2014 £000	2013 £000
Raw materials and consumables	5,782	2,585
Work in progress	1,110	1,341
Finished goods for resale	4,441	5,066
	11,333	8,992
Contract balances	1,291	743
	12,624	9,735

	2014 £000	2013 £000
Contract balances comprise:		
Net costs incurred	1,291	743

18 Trade and other receivables

	2014 £000	2013 £000
Trade receivables	15,493	13,103
Allowance for doubtful debts	(273)	(502)
	15,220	12,601
Amounts recoverable on contracts	7,599	12,544
Other receivables	2,051	1,636
Prepayments	757	914
	25,627	27,695

Trade receivables are non-interest bearing and generally have 30 to 90-day terms. At 30 November 2014 the Group had 61 days' sales outstanding in trade receivables (2013: 70 days').

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

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Notes to the Consolidated Financial Statements continued

For the year ended 30 November 2014

18 Trade and other receivables continued

Movement in allowance for doubtful debts

	2014 £000	2013 £000
At 1 December	502	1,041
Provided	146	39
Amounts utilised	(375)	(578)
At 30 November	273	502

As at 30 November 2014, trade receivables of £5,430,000 (2013: £4,541,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2014 £000	2013 £000
Up to three months past due	4,405	2,661
Three to six months past due	484	1,343
Over six months past due	541	537
	5,430	4,541

19 Cash and cash equivalents

	2014 £000	2013 £000
Cash at bank and in hand	1,349	5,774

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following:

	2014 £000	2013 £000
Cash at bank and in hand	1,349	5,774
Bank overdraft	(3,766)	–
	(2,417)	5,774

The fair value of cash and cash equivalents approximates to their book value.

Cash at bank earns interest at the daily bank base rate.

20 Trade and other payables

	2014 £000	2013 £000
Trade payables	9,208	8,410
Other taxation and social security	1,207	816
Other payables	223	529
Accruals and deferred income	11,931	12,814
	22,569	22,569

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

21 Loans and borrowings

	2014			2013		
	Current £000	Non- current £000	Total £000	Current £000	Non- current £000	Total £000
Bank term loan facilities	787	2,872	3,659	815	3,760	4,575
Bank overdraft	3,766	–	3,766	–	–	–
Total	4,553	2,872	7,425	815	3,760	4,575

21 Loans and borrowings continued

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

	Value drawn 000	Maturity	Interest rate	Security
€3.7 million term loan facility	€2,900	30 September 2017	EURIBOR +2.75%	Group assets
£1.5 million term loan facility	£1,350	26 November 2018	LIBOR +2.5%	Group assets
£8.0 million overdraft	£3,766	On demand	Base +2.75%	Group assets

During the year €0.8 million of the Euro and £150,000 of the Sterling bank loans respectively were repaid.

22 Provisions

	Restructuring £000	Deferred and contingent consideration £000	Property £000	Total £000
At 1 December 2012	–	1,408	73	1,481
Utilised in year	–	(1,408)	(14)	(1,422)
Charge to Income Statement	126	–	10	136
Acquisition during year	–	49	–	49
At 30 November 2013	126	49	69	244
Utilised in year	(183)	–	(16)	(199)
Charge to Income Statement	1,120	–	4	1,124
At 30 November 2014	1,063	49	57	1,169

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

	2014 £000	2013 £000
Current	1,147	147
Non-current	22	97
	1,169	244

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 2014 will be utilised within four years. The restructuring provision relates to severance costs incurred in the year and is expected to be utilised in the year ending 30 November 2015.

23 Called up share capital and reserves

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

	2014		2013	
	Number	£000	Number	£000
Ordinary shares of 20p each				
Allotted, called up and fully paid	17,794,439	3,559	17,694,891	3,539

Share capital increased by 99,548 shares in the year as a result of share options being exercised under the Quadnetics Group EMI Share Option Scheme (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 1,427,464 shares held under the Group Executive Shared Ownership Plan ('ExSOP') at 30 November 2014 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 £3,379,214 (2013: £3,520,214) has been deducted from other reserves. The nominal value of these shares is £285,493 (2013: £298,513). Other reserves also includes a capital redemption reserve of £8,000 (2013: £8,000).

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For the year ended 30 November 2014

24 Options over shares of Synectics plc

The Group operated four share schemes in the year: the Quadnetics Group EMI Share Option Scheme, the Quadnetics Employees' Share Acquisition Plan, the Quadnetics Executive Shared Ownership Plan and the Synectics Performance Share Plan.

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 2013 were 99,548, all of which were exercised in the year ended 30 November 2014.

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 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 not subject to income tax. 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 38,823 ordinary shares at 30 November 2014, 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	2014 Number of shares	2013 Number of shares
14 October 2010	Partnership	15 October 2015	147.5p	3,461	4,245
7 April 2011	Partnership	8 April 2016	177.5p	4,657	5,872
25 July 2011	Dividend	26 July 2014	200.0p	70	86
2 November 2011	Partnership	3 November 2016	185.5p	4,307	5,472
2 November 2011	Dividend	3 November 2014	205.0p	95	118
20 April 2012	Partnership	21 April 2017	200.0p	4,275	5,979
17 May 2012	Dividend	18 May 2015	289.0p	198	249
9 October 2012	Partnership	10 October 2017	272.5p	3,509	5,033
9 October 2012	Dividend	10 October 2015	272.5p	150	193
3 April 2013	Partnership	4 April 2018	282.5p	3,754	5,756
8 May 2013	Dividend	9 May 2016	445.0p	231	304
4 October 2013	Dividend	5 October 2016	488.0p	149	199
14 October 2013	Partnership	15 October 2018	393.0p	3,806	5,548
4 April 2014	Partnership	5 April 2019	404.0p	3,949	–
7 May 2014	Dividend	8 May 2017	430.0p	357	–
2 October 2014	Partnership	3 October 2019	350.0p	5,855	–
Shares held at end of year				38,823	39,054

At 30 November 2014 the shares held by the ESAP Scheme had a market value of £60,176 (2013: £238,229).

Movements during the year were as follows:

	Number of shares
Shares held at 1 December 2013	39,054
Shares acquired during the year	11,348
Withdrawals from the scheme during the year	(11,579)
Shares held at 30 November 2014	38,823

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.

24 Options over shares of Synectics plc continued

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 5% over that period. If the Company's share performance matches the Index, then 25% of the awarded shares will vest and between these points vesting will be pro-rata.

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 2014 are exercisable as follows:

Date awarded	Exercise dates	Relevant share price at date of award	2014 Number of shares	2013 Number of shares
7 July 2009	8 July 2012 onwards	147.5p	798,081	801,081
7 March 2011	8 March 2014 onwards	173.0p	142,400	200,000
Balance of shares in respect of leavers			486,983	486,983
			1,427,464	1,488,064

Movements during the year were as follows:

	Number of shares
Shares held at 1 December 2013	1,488,064
Vested shares sold or transferred in year	(60,600)
Shares held at 30 November 2014	1,427,464

Dividends have been waived in respect of the 486,983 shares not specifically allocated to employees.

Synectics Performance Share Plan

The Synectics Performance Share Plan (the '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 FTSE AIM All Share Total Return Index (the 'Index') by 5% 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 2014 are exercisable as follows:

Date awarded	Exercise dates	Relevant share price at date of award	2014 Number of shares	2013 Number of shares
9 October 2012	9 October 2015 onwards	272.5p	88,250	97,250
31 October 2013	31 October 2016 onwards	510.0p	65,500	78,500
5 March 2014	5 March 2017 onwards	437.5p	22,500	–
			176,250	175,750

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25 Share-based payment charge

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:

Quadnetics ExSOP	March 2011 awards
Number of jointly owned shares awarded	293,000
Share price on date of award	£1.780
Amount paid by employee for each ExSOP award	0.2p
Carrying cost	1.75% of the initial market value
Volatility	35%
Expected dividend yield	4%
Risk-free interest rate	1.9%
Anticipated exercise date	8 March 2014
Expected life of ExSOP	3 years

Synectics PSP	October 2012 awards	October 2013 awards	March 2014 awards
Number of share options awarded	142,250	78,500	25,500
Exercise price	Nil	Nil	Nil
Share price on date of award	£2.725	£5.10	£4.375
Expected volatility	20%	25%	30%
Expected dividend yield	3.5%	2.2%	2.3%
Risk-free interest rate	2.1%	3.0%	3.1%
Vesting period	3 years	3 years	3 years
Expected life of option	4 years	5 years	5 years

The expected volatility is based wholly 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:

	2014 £000	2013 £000
Equity-settled share-based payments	127	78
Total carrying value of liabilities	-	-

26 Contingent liabilities

Certain subsidiary companies have agreed to guarantee a number of bank bonds, issued by Barclays Bank PLC and Lloyds Bank plc, amounting to a total of £1.2 million at 30 November 2014 (2013: £1.1 million).

27 Related party transactions

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 80.

During the year Synectic Systems Group Limited made purchases of £80,251 (2013: £1,043,241) from a company in which a director of both Synectic Systems Group Limited and Synectics plc has an indirect interest. The balance prepaid by Synectic Systems Group Limited at 30 November 2014 was £7,251 (2013: £50,160).

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

27 Related party transactions continued

Transactions with key management personnel:

	2014 £000	2013 £000
Salary and fees	784	746
Benefits	100	90
Bonus	–	106
Loss of office	318	–
Total short-term remuneration	1,202	942
Post employment benefits	85	94
Share-based payments	30	33
	1,317	1,069

As compensation for loss of office on 31 January 2015, Mr Shepherd will receive £318,212 (which includes an amount relating to non-cash benefits).

28 Capital commitments

At the year end capital commitments not provided for in these financial statements amounted to £105,730 (2013: £209,000).

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:

	2014 £000	2013 £000
Within one year	1,622	2,088
Within two to five years	2,696	3,415
In excess of five years	1,208	1,491
	5,526	6,994

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

30 Pension commitments

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

a) Defined benefit scheme

The Group operates the Quadrant Group plc Retirement Benefit Scheme. This scheme includes both a defined benefit section in respect of past employees of the Group and a defined contributions section in respect of past employees and one current employee. The accrual of benefits in the defined benefit section 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 30 June 2013. These results have been updated on an approximate basis to 30 November 2014. The major assumptions used by the actuary are shown below.

The Group has paid contributions of £5,000 (2013: £72,128) in the year.

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 30 November 2014

30 Pension commitments continued

The disclosures below relate to the defined benefit section, with the contributions to the defined contributions section being disclosed in section b) on page 72.

Net defined benefit asset

	2014 £000	2013 £000
Fair value of scheme assets	6,409	5,753
Present value of scheme liabilities	(5,869)	(5,565)
Net defined benefit asset	540	188
Effect of not recognising the scheme surplus	–	(188)
Net defined benefit asset recognised in the balance sheet	540	–
Associated deferred tax liability	(110)	–

Future economic benefits are available to the Group in the form of reduction in future contributions or a cash refund. Any surplus ultimately repaid by the Trustees would be subject to a tax charge deducted at source. Consequently, an asset of £540,000 has been recognised at the balance sheet date along with the associated deferred tax liability of £110,000, with the net of these being the £430,000 increase in the Consolidated Statement of Comprehensive Income.

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

	2014 £000	2013 Re-presented* £000
Defined benefit obligations at start of year	5,565	5,629
Interest cost	242	233
Re-measurements:		
– (gains)/losses due to scheme experience	(1)	190
– gains due to changes in demographic assumptions	(190)	–
– losses/(gains) due to financial assumptions	489	(205)
Benefits paid	(236)	(282)
Defined benefit obligations at end of year	5,869	5,565

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

	2014 £000	2013 Re-presented* £000
Fair value of plan assets at start of year	5,753	5,996
Interest income	242	233
Return on plan assets, excluding amounts recognised in interest income	645	(266)
Contributions by the Company	5	72
Benefits paid	(236)	(282)
Fair value of plan assets at end of year	6,409	5,753

Gains/(losses) recognised in the Consolidated Statement of Comprehensive Income

	2014 £000	2013 Re-presented* £000
Return on plan assets, excluding amounts recognised in interest income	645	(266)
Re-measurements	(298)	15
Total actuarial gains/(losses)	347	(251)
Effect of not recognising the scheme surplus	–	251
Effect of recognising the scheme surplus	193	–
Total amount recognised in the Consolidated Statement of Comprehensive Income	540	–

The cumulative amount of actuarial gains and losses recognised in the Consolidated Statement of Comprehensive Income since the adoption of IAS 19 is £540,000 (2013: £nil).

* Re-presented for the adoption of IAS19R 'Employee Benefits' (see note 1).

30 Pension commitments continued

Assets

	2014 Fair value of plan assets £000	2013 Fair value of plan assets £000	2012 Fair value of plan assets £000
Equity	151	146	118
Bonds	6,255	5,611	5,874
Cash	3	(4)	4
Total assets	6,409	5,753	5,996

As at 30 November 2014, the fair value of the assets shown above include holdings of £37,000 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 ended 30 November 2014 was £888,000.

Principal actuarial assumptions

	2014 % per annum	2013 % per annum	2012 % per annum
Inflation	3.20	3.70	3.00
Inflation (CPI)	2.30	2.80	2.50
Rate of discount	3.60	4.30	4.00
Allowance for revaluation of deferred pensions of CPI or 5% pa if less	2.30	2.80	2.50
Allowance for commutation of pension for cash at retirement	–	–	–

The mortality assumptions adopted at 30 November 2014 imply the following life expectancies at age 65:

	2014 Years	2013 Years
Male currently age 45	24.0	24.6
Female currently age 45	26.4	27.0
Male currently age 65	22.2	22.7
Female currently age 65	24.5	25.2

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

The sensitivities shown are approximate and each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined obligation at the period ending 30 November 2014 is 13 years.

	Change in assumption	Change in liability
Discount rate	Decrease of 0.25%	Increase by 3.1%
Rate of inflation	Increase 0.25% pa	Increase by 0.1%
Rate of mortality	Increase in life expectancy of one year	Increase by 3.4%

The Company estimates that no additional contributions will be paid to the plan during the year ending 30 November 2015.

History of experience gains and losses

	30 Nov 2014 £000	30 Nov 2013 £000	30 Nov 2012 £000	30 Nov 2011 £000	31 May 2010 £000
Fair value of plan assets	6,409	5,753	5,996	5,450	5,029
Present value of defined benefit obligations	5,869	5,565	5,629	5,165	4,885
Surplus in plan	540	188	367	285	144
Experience adjustment on plan assets	–	(266)	641	350	597
Experience adjustment on defined benefit obligations	1	(203)	(27)	–	124

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 30 November 2014

30 Pension commitments continued

b) Defined contribution schemes

Contributions made by the Company to the defined contribution section of the Quadrant Group plc Retirement Benefit Scheme amount to £39,000 in the year (2013: £50,000).

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 £427,000 (2013: £438,000).

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), bank overdrafts (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, the Euro and the Singapore Dollar 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. The Group had no commitments in respect of forward exchange contracts at either 30 November 2014 or 30 November 2013.

At 30 November 2014, 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:

	2014 \$000	2013 \$000
Receipts	1,403	770

The Group is exposed to fluctuations in exchange rates on the translation of profits earned by its overseas subsidiaries. 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 overseas subsidiaries account for approximately 0.6% (2013: 8.5%) of the Group's net assets as follows:

	2014 %	2013 %
United States	1.9	2.0
Germany	(4.1)	1.5
Singapore	2.8	5.0
Total	0.6	8.5

Translation exposure in respect of these assets is not hedged.

At 30 November 2014 the Group held foreign currency cash balances of \$2,941,000 (2013: \$1,539,000) and S\$907,000 (2013: S\$1,431,000), and was overdrawn by €1,333,000 (2013: €162,000 cash).

The following table details the Group's sensitivity to a 10% fall in the relevant foreign currencies:

	USD impact		Euro impact		SGD impact	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Profit or loss	112	33	(348)	(130)	61	205
Other equity	152	99	(239)	(172)	130	161
Total	264	132	(587)	(302)	191	366

31 Financial instruments continued

The table below shows the extent to which the Group had significant 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 Consolidated Income Statement.

	2014		2013	
	Sterling £000	SGD £000	Sterling £000	SGD £000
Sterling	–	75	–	568
US Dollars	(323)	771	543	783
Euros	(2,185)	–	56	–
Saudi Arabian Riyals	–	–	44	–
Total	(2,508)	846	643	1,351

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 (debt)/funds of:

	2014 £000	2013 £000
Current accounts	1,349	5,774
Loans and borrowings (note 21)	(7,425)	(4,575)
	(6,076)	1,199

The level of the Group's bank overdraft facilities is reviewed annually and at 30 November 2014 the Group had undrawn overdraft facilities of up to £4.2 million, on which interest would be payable at the rate of bank base rate +2.75%.

Financial liabilities of the Group principally comprise trade creditors falling due for payment within twelve months of the balance sheet date (2013: twelve months), bank overdraft repayable on demand and bank loans which fall due for final repayment within four years of the balance sheet date.

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% (2013: 0.5%). The Group benchmarks the rates being obtained in order to maximise its returns, within the credit risk framework referred to above.

The interest rates for bank loans and overdrafts are set out in note 21 and in this note respectively.

The Group's funding position did not carry any significant interest rate risk at 30 November 2014 or 30 November 2013.

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

Financial Statements
Company Balance Sheet
As at 30 November 2014

	Note	2014 £000	2013 £000
Fixed assets			
Plant, equipment and motor vehicles	5	527	191
Investments in subsidiary undertakings	6	19,348	19,261
		19,875	19,452
Current assets			
Debtors	7	29,347	29,622
Creditors: amounts falling due within one year	8	(5,875)	(5,671)
Net current assets		23,472	23,951
Total assets less current liabilities			
		43,347	43,403
Creditors: amounts falling due after more than one year	8	(5,691)	(6,669)
Loans and borrowings	9	(2,871)	(3,760)
Provisions for liabilities and charges	10	(767)	(47)
Non-current liabilities		(9,329)	(10,476)
Net assets		34,018	32,927
Capital and reserves			
Called up share capital	11	3,559	3,539
Share premium account	12	16,043	15,765
Merger reserve	12	9,971	9,971
Other reserves	12	(1,406)	(1,516)
Profit and loss account	12	5,851	5,168
Equity shareholders' funds		34,018	32,927

The financial statements on pages 74 to 79 were approved and authorised for issue by the Board of Directors on 10 March 2015 and were signed on its behalf by:



Paul Webb
Director



Nigel Poultney
Director

Company number: 1740011

Financial Statements

Notes to the Company Financial Statements

For the year ended 30 November 2014

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 participates in a retirement benefit scheme, the Quadrant Group plc 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.

The contributions to this scheme have been accounted for on a defined contribution basis as the Company is unable to identify its share of the underlying assets and liabilities. Refer to the Group financial statements for further details in relation to the scheme.

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.

Financial Statements

Notes to the Company Financial Statements continued

For the year ended 30 November 2014

1 Principal accounting policies continued

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 in the Remuneration Committee Report on page 30.

3 Directors

	2014 Number	2013 Number
Number of Executive Directors	3	2

Directors' emoluments	2014 £000	2013 £000
Salaries and benefits	508	522
Pension benefits under defined contribution plan	64	73
Compensation for loss of office	318	–
	890	595

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Committee Report on pages 29 to 32.

4 Dividends

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

	2014		2013	
	Pence per share	£000	Pence per share	£000
Final dividend paid in respect of prior year but not recognised as liabilities in that year	5.5	950	5.0	858
Interim dividend paid in respect of current year	–	–	3.0	519
	5.5	950	8.0	1,377
Total dividend paid, net of treasury share dividends		928		1,336
Proposed final dividend for the year ended 30 November	–	–	5.5	947

There is no proposed final dividend for the year ended 30 November 2014.

5 Plant, equipment and motor vehicles

	£000
Cost	
At 1 December 2013	345
Additions	395
At 30 November 2014	740
Depreciation	
At 1 December 2013	154
Charge for the year	59
At 30 November 2014	213
Net book value	
At 30 November 2014	527
At 30 November 2013	191

6 Investments in subsidiary undertakings

	£000
Cost	
At 1 December 2013	27,443
Share-based payments capital contribution	87
At 30 November 2014	27,530
Provision for impairment as at 1 December 2013 and 30 November 2014	(8,182)
Net book value	
At 30 November 2014	19,348
At 30 November 2013	19,261

At 30 November 2014 the Company held the following direct shareholdings in its subsidiaries which had been active during the year:

Subsidiary and activity	Class of share	Country of incorporation	% held at 30 Nov 2014
Synectic Systems Group Limited – Design and manufacture of video systems control products, integrated digital CCTV systems and CCTV equipment and systems for extreme or hazardous environments	Ordinary shares	UK	100%
Quadrant Security Group Limited – Design, installation and maintenance of CCTV security systems and integrated security systems	Ordinary shares	UK	100%
SSS Management Services Limited – Security management and support services	Ordinary shares	UK	100%
Synectic Systems, Inc. – Design and supply of video systems control products and integrated digital CCTV systems	Common stock	USA	100%
Synectic Systems GmbH – German holding company	Ordinary shares	Germany	100%

Details of the principal subsidiaries are shown on page 80.

7 Debtors

	2014 £000	2013 £000
Trade debtors	–	5
Deferred taxation	26	15
Other debtors	80	83
Amounts due from subsidiaries	28,896	29,385
Corporation tax receivable	317	101
Prepayments and accrued income	28	33
	29,347	29,622

	2014 £000	2013 £000
Deferred taxation		
At 1 December 2013	15	18
Credit/(charge) to profit and loss	11	(3)
At 30 November 2014	26	15

The deferred taxation balances comprise:

	2014 £000	2013 £000
Fixed asset timing differences	16	5
Other timing differences	10	10
	26	15

Financial Statements

Notes to the Company Financial Statements continued

For the year ended 30 November 2014

8 Creditors

	2014 £000	2013 £000
Amounts falling due within one year		
Bank overdrafts	4,524	4,025
Loans and borrowings (note 9)	787	815
Trade creditors	320	310
Amounts owed to subsidiaries	2	1
Other taxation and social security	67	61
Other creditors	13	50
Accruals and deferred income	162	409
	5,875	5,671
Amounts falling due after more than one year		
Amounts owed to subsidiaries	5,691	6,669
	11,566	12,340

The bank overdrafts are part of a Group offset arrangement.

9 Loans and borrowings

	2014 £000	2013 £000
Current (note 8)	787	815
Non-current	2,871	3,760
Total	3,658	4,575

Loans and borrowings comprise the Company's bank term loan and overdraft facilities. The terms and debt repayment details are as follows:

	Value drawn 000	Maturity	Interest rate	Security
€3.7 million term loan facility	€2,900	30 September 2017	EURIBOR +2.75%	Group assets
£1.5 million term loan facility	£1,350	26 November 2018	LIBOR +2.5%	Group assets
£8.0 million overdraft	£4,524	On demand	Base + 2.75%	Group assets

During the year €0.8 million of the Euro and £150,000 of the Sterling bank loans respectively were repaid.

10 Provisions for liabilities and charges

	Restructuring £000	Property £000	Total £000
At 1 December 2013	–	47	47
Utilised in year	(36)	(16)	(52)
Charge to profit and loss account	768	4	772
At 30 November 2014	732	35	767

The above property provision is a dilapidation provision in relation to a property that the Company had previously leased. The lease terminated in the year. The restructuring provision relates to severance costs incurred in the year. Both provisions will be utilised in the year ending 30 November 2015.

11 Called up share capital

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

	2014		2013	
	Number	£000	Number	£000
Ordinary shares of 20p each				
Allotted, called up and fully paid	17,794,439	3,559	17,694,891	3,539

Share capital increased by 99,548 shares in the year as a result of share options being exercised under the Quadnetics Group EMI Share Option Scheme (see note 24 of the Group financial statements).

12 Reserves

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 2013	3,539	15,765	9,971	(1,516)	5,168	32,927
Profit after tax for the year	–	–	–	–	1,484	1,484
Dividends paid (note 4)	–	–	–	–	(928)	(928)
Credit in relation to share-based payments	–	–	–	–	127	127
Issue of ordinary shares	20	278	–	–	–	298
Share scheme interests realised in the year	–	–	–	110	–	110
At 30 November 2014	3,559	16,043	9,971	(1,406)	5,851	34,018

Cumulative goodwill written off directly to the profit and loss account at 30 November 2014 was £593,000 (2013: £593,000).

The consolidated result attributable to the shareholders of Synectics plc for the year includes a profit of £1,484,000 (2013: £1,266,000) 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 £1.2 million at 30 November 2014 (2013: £1.1 million).

14 Capital commitments

At 30 November 2014 capital commitments not provided for in these financial statements amounted to £nil (2013: £209,000).

15 Operating lease commitments

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

	2014			2013		
	Land and buildings £000	Other £000	Total £000	Land and buildings £000	Other £000	Total £000
Operating leases which expire:						
Within one year	–	6	6	2	5	7
Within two to five years	26	65	91	–	66	66
In excess of five years	–	–	–	25	–	25
	26	71	97	27	71	98

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 amounted to £39,000 in the year (2013: £50,000).

In addition, the Company's total expense for other defined contribution pension schemes during the year was £81,000 (2013: £171,000).

Other Information

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

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

SSS Management Services Limited

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

sss-support.co.uk

Shannon House
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 following divisions:

synecticsglobal.com

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

Moat Road
Normanby Enterprise Park
North Lincolnshire DN15 9BL
Tel: +44 (0) 1652 688908

Synectics Mobile Systems

Development and supply of CCTV systems for bus manufacturers and operators

synecticsmobile.com

2 Wyder Court
Bluebell Way
Millennium City Park
Preston PR2 5BW
Tel: +44 (0) 1253 891222

Synectic Systems, Inc.

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

synecticsglobal.com

4180 Via Real, Suite A
Carpinteria
California 93013
USA
Tel: +1 888 755 6255

Indanet GmbH

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

indanet.de

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

Synectic Systems (Asia) Pte Limited

Provision of specialist video-based electronic systems and technology, for use in high security applications

synecticsglobal.com

10 Ubi Crescent
#06-80 Ubi Techpark (Lobby E)
Singapore 408564
Tel: +65 6749 6166

Other Information Advisers

Secretary and registered office

NC Poultney Synectics plc

Studley Point
88 Birmingham Road
Studley
Warwickshire B80 7AS
Tel: +44 (0) 1527 850080

Email: legalandsecretarial@synecticsplc.com

Bankers

Lloyds Bank plc

125 Colmore Row
Birmingham B3 3SF

Stockbrokers

Westhouse Securities Limited

Heron Tower
110 Bishopsgate
London EC2N 4AY

Auditor

KPMG LLP

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Registrars and transfer office

Capita Asset Services

The Registry
34 Beckenham Road
Beckenham BR3 4TU

Corporate communications

Buchanan Communications Limited

107 Cheapside
London EC2V 6DN

Other Information

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Synectics plc will be held at Westhouse Securities Limited, Heron Tower, 110 Bishopsgate, London EC2N 4AY on 19 May 2015 at 11.00am 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 Reports of the Directors and audited accounts for the year ended 30 November 2014.
2. To re-elect as a Director D Bate who, being eligible, submits himself for re-election.
3. To re-elect as a Director PA Webb who, being eligible, submits himself for re-election.
4. To reappoint KPMG LLP as auditor of the Company to hold office from the conclusion of the Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Directors to set its remuneration.

Special business

To consider and, if thought fit, to pass the following Resolutions. Resolutions 5 and 8 will be proposed as Ordinary Resolutions and Resolutions 6 and 7 as Special Resolutions:

5. 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 £1,174,432 (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.
6. That,
 - (1) conditionally upon the passing of Resolution 5 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 5 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 or practical 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 £177,944, 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.

7. 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 1,779,443 (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; and
 - (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 2016 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.
8. To approve the Remuneration Committee's Report containing the Directors' remuneration for the year ended 30 November 2014.

By Order of the Board



NC Poultney
Secretary

10 March 2015

Registered office
Studley Point
88 Birmingham Road, Studley
Warwickshire B80 7AS

Other Information

Notice of Annual General Meeting continued

Notes

1. Further to Regulation 41 of the Uncertificated Securities Regulations 2001 only those shareholders registered in the Register of Members of the Company as at 6.00pm on 17 May 2015 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.
2. 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 Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU, not less than 48 hours before the time appointed for the holding of the meeting, or any adjournment thereof.
3. 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.
4. 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.



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Synectics plc

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