

Global Specialists in Integrated Security Systems



Synectics plc

Annual Report and Accounts for the year ended 30 November 2019

Synectics plc is a leader in the design, integration, and support of advanced security and surveillance systems

With over 30 years of field-proven experience, Synectics has acquired intimate knowledge of the unique customer requirements and priorities in commercial, public and industrial environments where security is fundamental to their operations.

Meeting the needs of highly demanding clients for Gaming, Transport & Infrastructure, High Security & Public Space and Oil & Gas applications, Synectics engineers sector-specific, tailored security solutions that its customers rely upon to safeguard their people, facilities and assets – across the world.

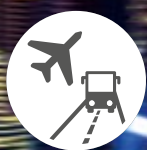
Great technology, a flexible attitude and deep sector expertise – from decades of experience – are what set Synectics apart.

The world's leading casinos, transport operators, public authorities and oil & gas plants select Synectics.



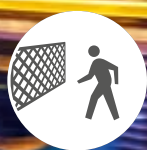
Gaming

Read more page 18



Transport & Infrastructure

Read more page 20



High Security & Public Space

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Oil & Gas

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Headlines

- Revenue £68.5 million (2018: £71.2 million)
- Underlying profit¹ £2.5 million (2018: £2.9 million)
- Profit before tax £1.6 million (2018: £2.1 million)
- Underlying diluted EPS¹ 13.9p (2018: 12.6p)
- Diluted EPS 9.6p (2018: 9.1p)
- Net cash at 30 November 2019 £3.6 million (2018: £8.1 million)
- Year-end order book £32.7 million (2018: £21.0 million)
- Recommended maintained final dividend 3.5p per share (2018: 3.5p)
- Good progress in Systems business continued (for a fourth consecutive year)
- Difficult conditions in UK market meant disappointing IMS results
- Increased investment in R&D and Business Development continues
- Landmark win for transportation project in Germany

Financial overview

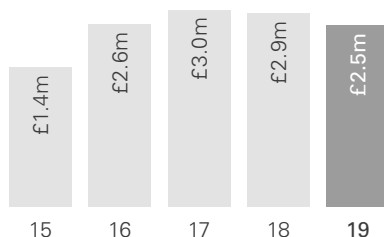
Revenue

-3.8%



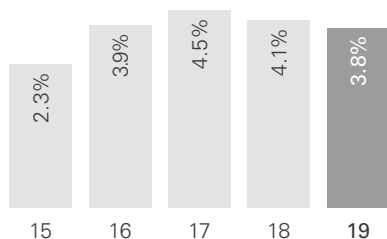
Underlying profit¹ before tax

-13.0%



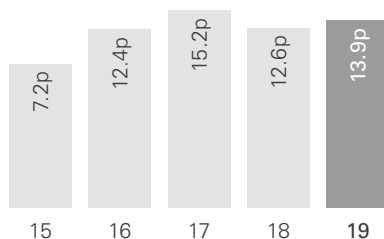
Underlying operating margin¹

-0.3%



Underlying diluted EPS¹

+10.3%



1. Underlying profit represents profit before tax and non-underlying items (which comprise provision for costs on settlement of a legal claim (see note 5), and amortisation of acquired intangibles). Underlying earnings per share are based on profit after tax but before non-underlying items.

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

Our business at a glance

Who we are

Synectics plc is an agile, innovative leader in the world of advanced surveillance technology systems.

We are experts in the specialist markets in which we operate, with decades of experience in areas of critical need. We have a deep and unique understanding of our customers' issues and challenges, and we draw on this to create solutions they can rely on completely – giving them peace of mind by securing the assets, people, and livelihoods they are responsible for protecting.

We have built an enduring reputation for our problem-solving expertise, technical excellence, and total commitment to delivering for our customers.

What we do

Synectics specialises in the creation of security and surveillance solutions that are precisely adapted for some of the world's most challenging environments.

We operate in a limited number of sectors where security and surveillance needs are particularly acute and where our advanced technologies and specialist expertise deliver the maximum value for customers and clearly differentiate our offering.

We protect and support major pieces of public infrastructure, from nuclear power stations in the UK, to transport networks in Germany, to offshore energy installations in Qatar, to the highest grossing casinos in Singapore and Las Vegas.

Why we stand out

Synectics delivers large-scale security and surveillance projects for world-class companies, frequently winning major contracts in direct competition with conglomerates many times our size. We succeed because we combine the scale and track record required to handle the most challenging programmes with the agility and "can do" attitude of an independent firm.

We create flexible, user-friendly products and services which are tailored around each customer's specific needs but founded upon proven, core systems and components which clients can trust, including our Synergy software.

We deliver sophisticated, value-adding solutions, which give our clients the capabilities to improve the way they operate and enhance the experience they provide to their own customers.

We have exceptionally smart and talented people, who combine outstanding technical expertise with the ability to communicate directly with clients at all levels to understand their needs and deliver solutions.

We care. Everything we do is driven by a deep understanding of our customers' needs and a passionate commitment to working with them to solve the challenges they face.

■ Our vision...

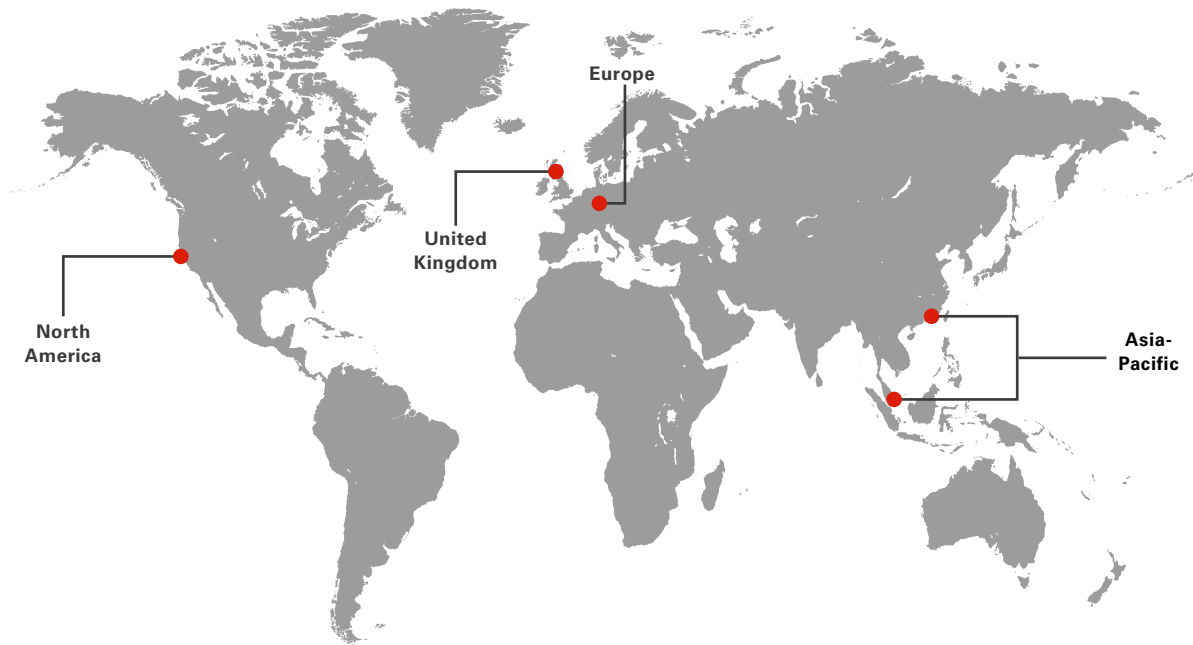
Synectics will lead the creation of security and surveillance solutions that are precisely adapted for some of the world's most challenging environments – and be the provider of choice "where it matters most".

■ Our purpose...

By building a deep understanding of our customers' needs, we create solutions they can rely on completely – helping to give peace of mind by securing the people, assets, and livelihoods they are responsible for protecting.

Where we work

We are committed to providing our customers with the support they need when and where they need it most. Our regional structure enables us to respond with agility and timeliness for a truly customer-centric approach.



Gaming

Where the surveillance and security solutions we deploy, and leading-edge cameras we provide, eliminate risk of downtime – guaranteeing high quality image detail, uninterrupted live view, and secure data retention in line with strict regulatory demands.



Transport & Infrastructure

Where our integrated and interoperable Synergy 3 platform and on-vehicle technologies give transport operators the power to connect, monitor and control systems vital to passenger safety, security and travel experience, at every stage of their journey.



High Security & Public Space

Where our sophisticated yet user-friendly solutions are used to protect critical infrastructure, often in large scale, and guide critical decision making in operationally difficult environments to protect assets, personnel, and the general public.



Oil & Gas

Where our COEX camera stations ensure clear, accurate and unfailing image quality in hazardous environments, and our integrated solutions deliver local, remote and multi-site monitoring and control of vital security and safety systems.



Continued progress in the Group's global surveillance systems business was masked by a difficult year for its UK integration businesses, delivering a result that fell short of original expectations."

David Coghlan
Chairman



Overview

As announced on 30 October 2019, Synectics' results for the year under review fell short of the Company's original expectations. This position, however, masked a widening divergence between continued satisfactory growth in the Group's global surveillance systems products business, and a decline in its UK-focused Integration and Managed Services activities.

The reasons behind these very different outcomes are set out in more detail in the divisional performance review on pages 32 to 35, but the primary factors were a continued contraction in the UK passenger bus market, and a frustrating slowdown in contract awards in the UK security integration sector. In contrast, the Group's leadership position in global casino surveillance systems continued to produce strong sales and profit contribution, and excellent progress was made in the high end infrastructure sector that is a key target market for Synectics' evolving products.

As described previously, Synectics has been implementing a programme of substantially increased expenditure on the development of Synergy, its core software command and control product. This programme continued to gather pace on plan during the year. Spending on R&D has increased over the past two years from £2.6 million in 2016/17 to £3.8 million in 2018/19, with the vast majority expensed direct to the Income Statement as incurred. This investment is critical for future growth. It was therefore particularly pleasing to see the fruits of those efforts in the award by Deutsche Bahn in July 2019 of a multi-million euro revenue contract for the supply, implementation and support of an innovative integrated surveillance and workflow system for the S-Bahn network in Berlin.

2018/19 was thus a mixed year for the Group. We have, however, entered the current financial year with a firm order book up by over 50% compared with the same stage last year, the prospect of reduced uncertainty in the UK economy, and expanding opportunities in our target markets.

Results

For the year to 30 November 2019, Synectics' consolidated revenue was £68.5 million (2018: £71.2 million). Underlying profit before tax was £2.5 million (2018: £2.9 million).

This was the first year for which Synectics applied the new IFRS 15 accounting standard on revenue recognition.

The net impact of applying the new standard was relatively immaterial, resulting in a 1.9% increase in reported revenues and a benefit of £0.2 million to post-tax profits.

After charging £0.9 million for non-underlying costs arising from an employment related legal claim in the US which has been subsequently settled since the year end, as described in notes 5 and 20, profit before tax was £1.6 million (2018: £2.1 million). Underlying diluted earnings per share were 13.9p (2018: 12.6p) and diluted earnings per share were 9.6p (2018: 9.1p).

The improved EPS numbers are a result of significant movements in taxation charges. A tax credit has been recognised in 2019 as the Group benefited from the utilisation of previously unrecognised losses combined with the recognition of current year losses. This compares with a particularly high tax charge in 2018.

The impact on these results of foreign exchange movements during the year was not material. Net cash at 30 November 2019 was £3.6 million (2018: £8.1 million). Whereas last year we commented that the cash position was somewhat flattered by favourable working capital flows around the year end, the opposite was true as at 30 November 2019, with working capital levels this time higher than normal at the year end point due to significant trading late in the year.

The consolidated firm order book at 30 November 2019 was £32.7 million (2018: £21.0 million). The primary sources of this increase were the large, multi-year contract for Deutsche Bahn (referred to above) and a 100% success rate with recurring contract renewals in our managed services sector, with smaller percentage improvements in most other areas.

Dividend

The Board is recommending payment of a final dividend of 3.5p per share (2018: 3.5p), payable on 7 May 2020 to shareholders registered on 3 April 2020. If approved by shareholders, this will bring the total dividend payable for the year to 4.8p (2018: 4.7p).

Business review

Synectics' business is to provide integrated electronic surveillance systems and services to specialist high end markets. Our systems are based on core proprietary technology, in particular systems 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.

During 2019, the Board determined that Synectics would change the way it manages the business and structures its segmental reporting, both internally and externally. The changes are twofold:

First, the Systems division has been reorganised to operate as a single business unit on a regional basis. This represents the culmination of a transition over several years towards a more efficient, and more scalable, single Systems business unit, rather than the historical sector-based, multi-business structure.

Second, Synectics' UK on-vehicle surveillance activities, previously reported within the Systems division, will be included from now on in the Integration & Managed Services division. This change follows naturally from both the underlying, integration-oriented characteristics of the on-vehicle activities, and the new management structure of our Systems business.

People

Synectics has recently announced several changes to its Board. First, David Bedford joined as Finance Director in January 2020. David qualified as a Chartered Accountant with Deloitte, and has spent the past 15 years in increasingly senior finance and commercial management roles within IMI plc. David will be based in Sheffield, as part of the process of consolidating all head office functions there at the Group's principal base. He takes over from Amanda Larnder, who has done an exemplary job as Interim Finance Director since April last year, and to whom sincere thanks are also owed for skilfully managing the difficult transition of the central finance function from Studley, Warwickshire to Sheffield.

Second, also in January 2020, Alison Vincent was appointed as an Independent Non-Executive Director. Alison is a highly qualified technology leader in technical fields very relevant to Synectics, and brings wide experience from senior international roles at Cisco and HSBC. She will add breadth and specific expertise to the Board's assessment of Synectics' evolving strategy.

Finally, I would like to add a special word of thanks and appreciation to Peter Rae, who has retired from the Board this month. Peter was Chairman of Synectics from 1999 to 2005, and has served as a Non-Executive Director 'NED' since. Although longevity of NED service is sometimes criticised, no doubt on occasion rightly so, anyone who knows Peter will understand that the experience, intelligence, originality of thought and, above all, robust independence he brings to business deliberations are not attributes to be easily replicated nor willingly given up. For Synectics, as a relatively small quoted company in a complex strategic environment, his incisive questioning has been invaluable.

Sincere thanks are also due once again to Synectics' employees at all levels for another year of outstanding commitment and effort. For the fourth year running, the Company's independently-assessed metric of overall customer satisfaction has risen. The Board believes that such a trend, down solely to our people's collective efforts, is critical to the long-term success and sustainability of the business.

Strategy

Synectics' primary strategy remains to develop and capitalise on market-leading positions within a few relevant sectors of the

global surveillance and security market where customers value high-performance, sector-specific capability. We achieve cost competitiveness and scalability in these quasi-bespoke markets by maintaining a standard modular core technology engine, with user interfaces, functionality and workflows tailored as required for specific sectors or customers.

As the volume of digital data generated by video-centric surveillance systems continues to grow exponentially, the complexity of extracting actionable intelligence from that data is opening up growing scope for innovation. Rapidly evolving technology platforms, a new generation of customers brought up on intuitive graphical interfaces, emerging self-learning software systems, and increasingly sophisticated cyber threats are all adding to the potential for solving the problems of high end surveillance customers in new and effective ways.

Throughout its 30-year history, Synectics has consistently demonstrated the combination of deep technical capability and the practical, expertise-based sales approach needed to benefit from such evolving markets. Synectics' heritage and instincts are entrepreneurial, while its long list of high profile reference sites and reputation for reliability provide reassurance.

The Board has confidence that the opportunities Synectics has created are real and deliverable, and that the Group's increased investment levels will generate good returns for shareholders.

Outlook

As noted above, Synectics has entered the current financial year with a firm order book up over 50% compared to the same point last year. This gives confidence that the investment and hard work put into building the business are paying dividends. However, much of the uplift involves multi-year contracts, so the immediate impact on monthly revenues will be less than the scale of the order book increase might imply.

There are some signs that the sustained period of decline in the UK bus market is beginning to reverse, and also that a measure of optimism is returning regarding the closure of contracts for delayed government security projects in the UK. These factors should lead to a recovery in profitability of the IMS division in the second half of this financial year.

We are closely monitoring the developing situation with the coronavirus epidemic. At present, this is not expected to have any material direct effect on Synectics' businesses. If it worsens, it is possible that a decline in levels of business in Asian casinos and gaming resorts could result in reductions or delays in new orders later in the year for Synectics' surveillance systems in the Asian gaming sector. That potential qualification apart, the Systems division is expected to continue its recent growth trajectory, and to deliver another strong result this year, even after expensing a further increase in technology development investment.

For the Group as a whole, the Board is currently expecting a solid improvement in results in 2019/20, though somewhat weighted to the second half.



David Coghlan
Chairman

25 February 2020

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The investments we have been making in our future are vital both for our own success and that of our customers; and we must also in parallel continue to drive up standards of delivery and service."

Paul Webb
Chief Executive



Our industry is changing at great speed. Technologies which were being described comparatively recently as "near future" are now a reality. Customer needs are being met in exciting new ways, with aspirations transitioning swiftly into plans and then into live capabilities. From a technical perspective, there are many breakthroughs and innovations happening in parallel, often combining and multiplying in effect.

The big picture is that the whole scope and purpose of what we do is being transformed. "Surveillance" is essentially a present and retrospective concept; indeed, the tools which have been available were most frequently used to investigate incidents after they had happened. More and more, our work is genuinely proactive.

The scope of Synectics' activities is expanding on many fronts. Some of our programmes go way beyond "security" to deliver operational safety, for example providing detailed incident management capabilities which give our clients' personnel guidance in real time on how to respond to a specific incident or set of circumstances.

Synectics has been at the forefront of understanding and anticipating these changes, working with clients to help them turn potential opportunities into practical, live solutions which improve their operations and their own customers' experience and safety. We are leveraging our underlying technologies and capabilities, such as our Synergy platform, to co-create new solutions with our clients.

As one customer put it recently, "we want to see how we can both benefit from the evolving technology; we are looking into a space which isn't quite taking shape yet but we have some rough ideas around it – what role can we play?".

This kind of entrepreneurial, innovative approach is in Synectics' DNA. It equips us exceptionally well to succeed in an environment in which the traditional boundaries of what is possible and who does what are rapidly being redrawn.

Partnering with customers

Our latest annual customer survey told us that 80% of our customers view us as their preferred long-term partner. This is a wonderful compliment to the expertise and dedication of our teams, and it carries with it a great responsibility to repay the trust our clients place in us. These are often leading global or national organisations in their own right and we are committed to working closely with them, understanding their thinking and needs, and sharing our plans as they evolve, so that we can move ahead together.

In parallel, we are continuing to drive forward with initiatives to improve our clients' day-to-day experience. Since we first launched our Customer Excellence programme in 2016, I am delighted that we have improved our net promoter score every year. This metric is based on a willingness to recommend, with the bar set extremely high, and is generally held to be the most reliable measure of the strength of a relationship. We must continue to improve, but these are pleasing results.

Aligning our organisation

We continue to believe that the key both to delivering what our customers really need and to unlocking growth is to create a truly customer-centric organisation. Over the past two years, we have been systematically re-engineering our Company from the inside to ensure we can respond with agility and purpose to the changes in the world at large.

We have restructured our Systems businesses and implemented a regional organisational model. This better reflects the scope of the operations we now have around the world and will make it easier for our customers to access the expertise and services they need from us. It is also allowing us to identify and respond to opportunities more quickly, and to deploy our resources where they can be most impactful.

We will continue to focus on industry verticals where we have deep specialist expertise – complex, challenging environments where security, surveillance and control, are especially critical. Our new structure will allow us to apply this sector expertise more consistently and more widely around the world.

We are committed to increasing the proportion of our cost base which is allocated to people and activities which directly impact the core value-creating activities in our business: creating and designing solutions; articulating these effectively to customers; and deploying and delivering our products & services to meet market needs. Actions we have taken over the past year have included strengthening our relationship development teams around the world and building a much stronger product management capability to support the creation and delivery of our innovation pipeline, of which more in moment.

We will continue to invest in our people at all levels. The notion that “our people are our greatest asset” has become something of a business cliché, but for us it remains profoundly true. Customers tell us time and again that they value the world-class specialist expertise of our people and their dedication and unwavering commitment. We will continue to combine outstanding technology and product reliability with a human touch. We are always there for our clients. This is integral to who we are as a company, and to why we are successful.

Leading in technology

We describe elsewhere in this report the investments we are making in building a new generation of capabilities and products to meet the customer needs which are emerging.

This includes the expansion of our core Synergy platform to include, among other features, a significant new Workforce Management module, further development of our Cloud-based evidence management solution, and enhanced Cyber Security features.

We are also investing significantly in integrating artificial intelligence and advanced data analytics capabilities, which will be central to delivering the proactive tools and services our customers are seeking as the world of surveillance morphs into operational security.



80% of our customers view us as their preferred long-term partner, and it is our responsibility to repay the trust our clients place in us.”

Paul Webb
Chief Executive

Creating the future of a business while delivering the present inevitably places pressures on a company, and 2019 was not an easy year. However, the investments we have been making in our future are vital both for our own success and that of our customers; and we must also in parallel continue to drive up standards of delivery and service.

We have built an excellent platform for growth. I am confident that we are equipping Synectics to be a strong and successful player in the new world that we ourselves are helping to create.

Paul Webb
Chief Executive

25 February 2020

Our business model

Synectics embraces two complementary business models. These allow us to work with customers flexibly in the manner which best suits their needs.

The Systems and IMS businesses offer integrated solutions which draw on both sets of capabilities wherever this delivers the best outcome for our clients. However, each is a strong business in its own right. We work very flexibly with our customers, adapting our approach to suit their needs and partnering with other providers where we believe this adds value to our client solutions and enhances our market reach.

SYSTEMS BUSINESS MODEL

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

Our Systems businesses, marketed under the Synectics brand, secure major contracts for the design, development, and deployment of security and surveillance solutions founded on our proprietary technology.

We identify future opportunities at an early stage and work closely with customers to understand their needs and create solutions which are tailored to their unique requirements.

These businesses earn revenue primarily through the application of our intellectual property, in the form of proprietary software and specialist expertise. We translate complex client challenges and needs into robust, practical and user-friendly solutions.

Our partnerships with specialist integrators allow our solutions to be deployed in the most efficient way for customers and enable Synectics to maximise its global reach.

Much of our revenue comes from repeat business from clients whom we support over time and across multiple sites and estates. This is both a tribute to the strength of our customer relationships and an important factor in the long-term health and resilience of the business.

IMS BUSINESS MODEL

Synectics' Integration & Managed Services ('IMS') division is one of the leading UK providers of design, integration, turnkey supply, monitoring and management of large-scale electronic security systems.

Its main markets are in critical infrastructure, public space, mobile transport 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 helpdesk.

Our IMS businesses, trading under the Quadrant Security Group Limited ('QSG'), Synectics Mobile Systems, and SSS Management Services brands, serve customers by designing security, surveillance, and facilities management solutions, and then implementing, maintaining, and supporting them over time.

Our IMS businesses generate revenue via a service-based model, working directly with end users to deliver best-in-class solutions.

Contracts are frequently multi-year and deliver a strong recurring and repeat revenue basis for the Group.

The value we deliver

FOR OUR CUSTOMERS...

we provide peace of mind, through robust, technically advanced security and surveillance solutions designed to deliver reliably in the most challenging environments.

FOR OUR INVESTORS...

we provide the strong returns and excellent prospects created by our market-leading positions in our key verticals, underpinned by our entrepreneurial culture and proven track record of technical excellence and customer service.

FOR OUR EMPLOYEES...

we provide stimulating, rewarding employment and excellent development opportunities within a very human and engaged working environment.

FOR OUR COMMUNITIES...

we play a full role in local programmes and charities, both through the Company's direct investments and by strongly encouraging and supporting the initiatives of our employees.

How we deliver

THE PILLARS OF OUR SUCCESS



CUSTOMERS

Our business is founded on successful, lasting relationships with our customers.

Everything we do is driven by a deep understanding of their needs, the environments they work in, and the challenges they must solve.



PEOPLE

As our Company has grown, we have remained true to the human values at its heart – mutual respect, deep personal commitment, and pride in the application of world-class expertise in finding solutions to practical, real-world challenges.



TECHNOLOGY

Synectics has always been at the vanguard of security and surveillance technology, applying emerging capabilities to build sophisticated, value-adding solutions with the exceptional rigour our clients demand.

Today, the heartbeat of our solutions is Synergy 3, an innovative, highly flexible platform which marks us out as a technical leader in our industry.



MARKETS

We focus on market sectors that allow us to leverage the full potential of our capabilities, differentiate our offering and stand out.

Synectics is ideally positioned to benefit from the drivers of growth in its industry: the expanding scale and nature of risks and threats; increasing investment in critical infrastructure requiring protection; and our customers' need for agile partners and value-adding solutions.

Our customers

Synectics' continuing success within the expanding global security and surveillance industry is founded on our track record in building successful, lasting relationships with our customers. Everything we do is driven by a deep understanding of their needs, the environments they work in, and the challenges they must solve.

As a result, 80% of our customers view us as their preferred long-term partner. Our clients also tell us that they believe that the solutions we will offer them will be an excellent fit with their organisations' future needs. This gives us a terrific platform upon which to build further.

Customers come to Synectics for our expertise. We are specialists in security and surveillance, not a general "tech" company. Even more importantly to our clients, we are specialists in their industries, and the specific challenges they face.

In each of the markets in which we operate – Oil & Gas, Gaming, Transport & Infrastructure, and High Security & Public Space – we have built dedicated teams which understand the specific issues in minute detail.

Some of the underlying principles and technologies are of course transferable across markets, even with industries as diverse as these. The scope and flexibility of Synectics' Synergy software platform, for example, means that it is used by customers in all of these areas – from the world's busiest transport systems, gaming resorts and city centres, to infrastructure critical energy developments across the globe.

The key, however, lies in customising the way in which the vast array of tools and expertise at our disposal are used to create the right solution. Not just for each market, but for each individual customer. Having the knowledge, discipline, and desire to assess each set of requirements and deliver a precisely tailored solution is critical.

Above all, we look at things through the eyes of the customer. We focus on the big picture outcomes they need to deliver while also looking at the detailed practicalities of how they need to work day-to-day. What will be easy and intuitive to use? Where will extra speed or precision of results make all the difference when it matters most? These are the questions we consider and answer with the right, tailored solution.

To help us strengthen our relationships still further, we introduced a Customer Excellence programme several years ago.

The programme has created an additional channel of dialogue with our clients. We conduct a formal annual survey across our entire client base, run for us by an independent research consultancy. We feed back the results from each survey to our customers, commit to a programme of actions in response, keep customers updated on progress, and continue to seek their feedback to ensure that we are delivering the improvements they have asked for.

The overall results continue to be very pleasing. Our Net Promoter Score ('NPS™') has risen every year since we began the programme.

The latest findings also reaffirm how highly customers value our inherent strengths – reliability, advanced technology, specialist expertise, and the commitment of our people.

However, we are not complacent. Throughout the business we recognise that we must stay close to our customers and work with them to develop the next generation of solutions and support they need.

For us, "continuous improvement" isn't a slogan, it's a mindset that drives us forward every day to make the solutions we provide easier to use, more efficient to operate, and above all more effective in what they deliver for our customers.

As a result, we enjoy exceptionally high levels of repeat business.



Securing international gateways

"Synectics has a real understanding of how airports work and the key parameters for ensuring a positive passenger experience. More importantly, they understand how innovative technology can alleviate those pressures and support safe, secure, and efficient operations."

Linda Hadi
Director, Jaya Teknik ICT Division



Supporting the wellbeing of students, visitors, and staff

"Throughout the process, Synectics has gone the distance to deliver. We're delighted with the results and we're sure the system will help us in our mission to provide an ever-safer environment for our students."

Mark Stacey
Security Systems Operational Manager, Nottingham Trent University



Making vehicles safer for personnel and passengers

"We initially chose Synectics because the Company has a reputation for quality, flexibility, and the professionalism of its engineers. We've never been disappointed in that respect. But the best thing is that they just make our life simpler."

Martin Fisher
Motor Transport Manager, Bristol Airport



Protecting people, safeguarding energy assets

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

Toni Partipilo
Sales & Proposals Manager, Page Europa



Footage without fail for casinos

"Ever since we first started working together, I've felt looked after. The team has always worked hard to understand our specific needs and develop practical solutions to tackle the challenges we face."

Ted Nilsson
Assistant Surveillance Manager, Casino Cosmopol



Smarter solutions for public protection

"The level of customisation available in Synergy 3, and the way Synectics has worked in partnership with us to capitalise on that, has really been the perfect combination. It has meant we've been able to design and build into the software exactly what we need and use it in a way that suits us."

Oliver Martin
CCTV Manager, London Borough of Ealing

Our people

As our Company has grown, we have remained true to the human values at its heart: mutual respect, deep personal commitment, and the pride we all take in applying world-class expertise to solve practical challenges.

Security and surveillance is a “technology” industry, but it is also a deeply human business. Our work protects assets and infrastructure, but its most important purpose is to protect people – to keep them safe, give them the peace of mind, and enable them to pursue their lives without concern. Whether protecting employees, members of the public, or both, the people who use our solutions – our customers – shoulder an enormous responsibility and rely on us to be with them every step of the way. We cannot fail them.

And our customers know we won't. The feedback we receive from clients consistently praises our expertise and the enormous commitment and dedication our teams show. As one customer commented: “In terms of system and industry knowledge, expertise in the system, and understanding and responding to our requirements, they do an exemplary job.” Another said simply that we “provide instantaneous support and do so with a great attitude.”

None of this happens by accident. Attracting, developing, retaining, and inspiring the right people have always been commitments central to our business strategy.

For several years now, our talent programmes have been built around three simple streams of activity:

- right people, right roles;
- learning and development; and
- communication and engagement.

Our individual initiatives all connect into these streams. The organisational development programme we initiated last year will remain a priority to ensure that our structure is fit for purpose. During 2020, new, company-wide campaigns are promoting employee wellbeing, collaboration, and internal communication.

The launch of Colleague eXperience, our new global platform, connects all our people across the world and reaffirms our commitment to engaging our employees, communicating effectively, and providing everyone in Synectics with access to material that is accurate, relevant, engaging, fresh, and exciting.

As a collective, our people continue to bring innovative thinking and fresh ideas to improve processes, technology, and initiatives, driving our customer-focused values forward. Our job is to inspire and enable that process.

Recruitment is an important part of the strategy. Recent senior appointments and the significant strengthening of our R&D and product management teams are building on the talented pool of individuals already in place.

As we develop the next generation of talent and help new arrivals build their careers with Synectics, we will pass on to them the rich heritage of specialist expertise embedded in our Company.

Our industry is changing and doing so in ways which present new challenges but also great opportunities for our business. We must be a truly customer-centric organisation, ensuring our clients can access resources in whatever way is easiest for them as their own operations evolve. All the while, we must operate with efficient and effective supply chain management and support processes, to maximise the value we deliver for our customers and investors.

We face the future with great confidence and we trust our people to rise to the exciting opportunities which lie ahead.

We are proud of our people, not just for what they do for our Company but for the wider contributions they make to the communities of which we are a part.

We are proud of our people, not just for what they do for our Company but for the wider contributions they make to the communities of which we are a part. Here are just a few examples of their terrific efforts over the past year.



Changing lives

As part of a year-long campaign, Synectics launched Sharing is Caring to support local homeless charities and to combat poverty hygiene.

A collection point was opened in Sheffield for beauty and hygiene items to support Beauty Banks throughout the year.

During the winter months employees donated hundreds of items including washing powder, hats, gloves, sleeping bags, thermals, and tinned goods for homeless charities based in Scunthorpe and Sheffield.

In September, a 17-strong team of employees ran the Sheffield 10K and raised over £1,700 for Cathedral Archer Project.



Active fundraising

We again supported Mission 500 in 2019 with Stephanie Mayes taking part in the tenth annual Security 5K during ISC West to help the charitable organisation raise over \$145,000 for children and families in need across the US.



Supporting cancer charities

As part of the annual employee opinion survey, we make a commitment to donate to charity. The charity with the most nominations this year was Worldwide Cancer Research who fund bold research that uncovers new ways to prevent, diagnose, and treat cancer.



Improving children's wellbeing

The Children's Hospital Charity was one of the many charities that received support from employees during the year. The money raised will help to buy life-saving equipment, fund vital research, alongside creating a comfortable, engaging environment for the patients of Sheffield Children's Hospital.



Special appeal

As part of the annual Customer Excellence Survey, we make a commitment to donate to a charity selected by one of our customers. 2019's worthy recipient was James Rennie School, a local UK charity that focuses on children with severe or profound learning needs.

Our technology



Synectics has always been at the vanguard of security and surveillance technology. We apply human ingenuity and advanced technical capabilities to create practical solutions.

Crucially, these solutions are built for security and surveillance professionals by security and surveillance experts. Our teams understand intimately the world in which our clients operate. That knowledge is critical to designing and delivering configurable systems that mirror customer workflows and are efficient and intuitive to use.

To achieve this, we have remained focused on markets where security and surveillance are fundamental to the customer's entire operation. Our specialist teams have decades of experience in adapting our capabilities to meet the needs of professionals in each of these sectors.

What marks us out as a technical leader in our industry is our Synergy 3 platform. It provides the foundation of integrated solutions which can be configured to meet the specific requirements of each customer. Its seamless ability to integrate and interoperate with systems and devices is crucial to their operational success unlocking huge opportunity and advantage.

Synergy's incredible power and flexibility ensure the right people always have the information they need to make vital security and business decisions. This will never change, but the way in which we deliver those solutions is changing rapidly.

Digital transformation in the markets we serve is leading to the convergence of business systems in IT, surveillance, and security. This presents us with a vast and strategically important opportunity, one we are seizing by expanding Synergy with the tools and transformative capabilities our customers need as they adapt and move forward, tools that will help our customers stay competitive and break new ground.

Our ability to deliver unique capabilities is what sets us apart from the crowd.

- We are working with world-leading technology partners to integrate and leverage their solutions through Synergy. From the latest facial recognition developments to AI-based innovations, our integration strategy – coupled with features like Synergy's dynamic workflows, mapping, and open-architecture – unlocks new levels of pre-emptive threat detection and intelligent automation.
- We are partnering with existing customers to design and develop new applications and business solutions to support them. Applications like Workforce Management and Computer Aided Dispatch enable organisations to transform their entire operational network to enhance and streamline communication to service, security, and surveillance teams for improved efficiency and effectiveness.
- We are continuously expanding our portfolio of Cyber Security features. Our solutions are robust, resilient, and designed to mitigate against data loss or corruption. Protection against potential cyber-attack is a critical part of the peace of mind we deliver.

All of these developments are laying the foundation for a next-gen Synergy platform equipped to help customers anticipate and respond to the new paradigm for safety, service, and security challenges. They will also help our clients achieve their broader business and service ambitions.

Increasingly, we are leveraging our Synergy platform to support our customers in establishing central control hubs from which their teams can proactively anticipate, respond to, and resolve incidents of any nature. This involves connecting field-based customer service and security personnel directly with video-enabled control rooms to enable guided, real time responses and ensure operational safety for the client's business and for its customers.

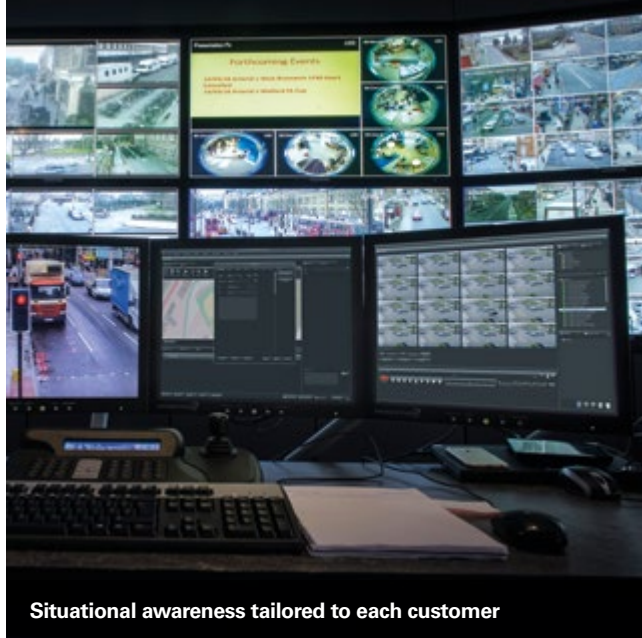
Synergy is pivotal to our offer but we are innovating in many other ways.

- Our Cloud-based evidence locker facilitates secure, real time data sharing between authorised personnel who need to collaborate in order to diagnose and address an incident or problem. The employees concerned may be in different locations, or work for different organisations. The evidence locker allows them to access and share the information they need immediately, within a secure data environment, and determine the action required.
- In the oil & gas and marine industries, we are ensuring our specialist camera stations ("COEX") continue to offer customers the flexible, reliable, and robust functionality they have come to expect. These customers operate in extraordinarily challenging conditions with specific demands and certification requirements that our camera stations have to meet.

The latest development of our COEX camera station range gives customers the peace of mind to mitigate cybersecurity concerns and vulnerabilities, while incorporating the latest technology including powerful 4K video, sophisticated encoding, and built-in analytic applications. These latest innovations, and our future roadmap, will ensure that our 30-year reputation for specialist camera innovation in these industries continues into a new decade.

With our unified portfolio of software solutions, hardware products, and integration partners, we have a scalable platform for future innovation. Our technology and our product development programmes will support profitable sales growth within each of our strategic markets by creating new competitive advantages and opportunities.

Synectics has always been, and will remain, a technical leader in security and surveillance. And it is this, coupled with our unwavering dedication to customer-driven development, that is helping us become a trusted innovator in converged operational management.



Situational awareness tailored to each customer



Reliable image capture in all conditions



Pre-emptive threat detection and intelligent automation

Our markets

We choose to operate in market sectors which allow us to differentiate our offering and deliver unique solutions and value. Our primary focus is oil & gas, gaming, transport & infrastructure, and high security & public space.

These markets present an extraordinarily diverse range of working environments and operational challenges. They also have important things in common – scale, complexity, and an imperative need for proven technologies applied with absolute rigour. Our strengths and capabilities align perfectly with these requirements.

The overall security and surveillance market is growing globally and we expect that trend to continue. The impact of further urbanisation, new investment in infrastructure, and increased international travel, combined with unrelenting and more diverse threats, are expanding the demand for high quality, reliable solutions to protect people and assets.

The emergence of new technologies is enabling the development of new and more powerful surveillance and protection capabilities and facilitating the seamless integration of these systems with others to provide holistic solutions.

We operate in some of the most complex and challenging environments, and it will be here that the forces of change will be most keenly felt in the coming years. Synectics is ideally equipped to benefit from these trends.

Many organisations do not know exactly what they will have to deal with in the coming years. They do know that there will be many challenges, some of which will be unforeseen. Meticulous planning will be important, but it will also be vital to be fast on one's feet and to respond at great speed to the unexpected.

The qualities required to deliver and prosper in this environment are inherent in Synectics' technology and culture.

Our solutions are founded upon proven, core systems and components, such as Synergy 3, but can be quickly adapted to meet specific needs.

Our talent strategy has consistently focused on attracting, retaining and developing exceptionally high-calibre people – individuals who can work closely with clients to understand their needs and apply problem-solving skills and technical expertise to deliver the optimum solution.

Synectics faces the future confident that our core values and capabilities are well aligned with the direction of travel for our customers. Over the next twelve months, we will continue to strengthen our talent base and make significant investments in our products and underlying technology, to ensure that we remain an outstanding specialist partner for clients seeking security and surveillance solutions in the areas of most critical need.

The new era is characterised by an accentuated focus on specific attributes which will be essential to survive and prosper.

Agility – the world we live in, the things we can achieve, and the threats we face are moving in ways which are dramatic, rapid, and unpredictable.

Intuitiveness – the standards of design and “ease of use” set by the likes of Apple, Google, and Facebook have become the new normal – the minimum we expect in every aspect of our personal and working lives.

Pre-emption – Artificial Intelligence and other technologies increasingly offer the potential to anticipate security threats or customer requirements and provide more secure protection and enhanced service.

Integration – different systems and components need to be able to connect seamlessly to support a variety of desired outcomes, albeit recognising that in some environments surveillance capabilities may need to remain ring-fenced to meet regulatory requirements.

We anticipated these trends, and have been working closely with our customers to create the solutions they will need to succeed.

We specialise in the kinds of sophisticated, value-adding solutions our customers are demanding. We are also used to partnering around the world with other organisations whose expertise complements our own, and to playing our own specialist role in delivering the total solution the customer requires.



■ Gaming

Gaming is one of the most technically demanding, tightly regulated leisure industries in the world. Monitoring vast, crowded facilities in low-light conditions where massive amounts of cash constantly change hands is a daily reality. With sophisticated resilience and data retention features that guarantee regulatory compliance, our solutions deliver precision images and absolute peace of mind.



■ Transport & Infrastructure

Transport operators need powerful, integrated command and control systems and monitoring technologies that protect the public *and* help to deliver a better passenger experience, both in and around stations and on vehicles themselves. Our tailored solutions for this sector meet this need now, and future proof the path to the continued adoption of new innovations.



■ High Security & Public Space

Balancing tight security with public access; visual surveillance with data privacy; localised control with central, multi-facility oversight; and operational efficiency with cost maximisation – these are just some of the challenges our High Security & Public Space customers face. Our solutions ensure that our surveillance technologies, integration capabilities and facilities management services are chosen time and time again.



■ Oil & Gas

The complexity of the task facing our Oil & Gas customers is enormous: safeguarding on-site personnel; protecting offshore and onshore pipelines; and monitoring hazardous and explosive areas, often in remote locations under extreme temperatures. It's a challenging brief. It's also why our COEX cameras and integrated solutions are trusted to protect major projects across the globe.



Gaming

Gaming is one of the most technically demanding leisure industries in the world.

From a security and surveillance perspective, safeguarding people is always the first priority, but our customers in this sector also face other challenges. For example, they must comply with stringent regulatory requirements – the installation of approved surveillance systems is a pre-requisite for obtaining a licence. Protection against fraud is an ever-present necessity. Casino operators must continuously monitor activity, analyse suspicious behaviour in real time, and respond appropriately and swiftly when concerns arise. All of this in vast, crowded locations with low-light conditions where very large amounts of money change hands.

Synectics is well established as a global leader in the gaming sector. We have built deep knowledge of the dynamics of this unique industry and applied our core technologies to create solutions tailored to its needs.

The industry itself has been buoyant in recent years, and our specialist skills and propositions have enabled us to gain share within an expanding market. One key to our success has been the expansion from

our original North American base into the dynamic Asian market, where we are now established as one of the main players. Macau, Singapore, Malaysia, the Philippines and South Korea have been especially important for us.

We see plenty of opportunities in the mature US market, where we have recently been gaining footprint with major operators in Las Vegas and nationally, and there is also plenty of potential for us to grow elsewhere, where Japan, Australia, Malaysia, Vietnam and South Africa all present opportunities.

Much of our growth comes through repeat business, with customers expanding or upgrading their operations, and through our specialist integration partners as they invite us to work with them in new geographies. The customer and partner loyalty we experience is both motivation and reward for maintaining the exceptionally high standards we set ourselves.

Casino operators around the world value Synectics for our ability to deliver ultra-reliable, scalable, end-to-end solutions – comprising hardware, software, cameras

and networking – backed up by proven experience, industry knowledge, and technically expert staff who respond fast. Our turnkey approach includes hardware, software, cameras, and a network, and we integrate these into one solution.

Built using our Synergy 3 software platform, our solutions are designed to meet the unique needs of the gaming industry and tailored to meet the specific requirements of each customer. They offer casinos the flexibility to utilise existing hardware, work with their preferred integrator partners, and capitalise on being able to control and manage multiple applications from an intuitive user interface. We ensure that our customers can take advantage of ever-more sophisticated reporting and data analytics capabilities.

Meeting the industry's demanding regulatory requirements is a "must have." However, Synectics' solutions go far beyond this. We give our customers access to high quality video with a speed and flexibility which enables them to mitigate against a plethora of risks and

Case study

Failsafe, flexible surveillance supports ongoing gaming growth

respond immediately to any challenge. This makes us the provider of choice for many of the world's largest, most demanding, and most tightly regulated gaming facilities.

- We record and monitor over 100,000 video channels in over 100 casinos across three continents.
- We have over 15,000 cameras recording on 15 gaming cruise ships.
- At one site, a single Synectics system records over 20,000 channels.



My company has been using Synectics for over ten years as a preferred system. They have grown and adapted with the business and have continued to be an excellent system provider."

- Synectics customer, Gaming industry, North America

In gaming, surveillance is not merely critical to security. Continuous coverage is crucial to regulatory compliance and profitable operations, and system scalability is essential for expansion.

Our ability to meet these needs and serve a global client base sees us continue to win new casinos, and build long-term customer partnerships. The growing relationship with Harrah's – part of the Caesars Entertainment Corporation – is a clear example.

In 2019 we secured the surveillance contract for Harrah's Hoosier Park Racing & Casino in Indiana. This is the third Harrah's property we have served in the US, and the fifth Caesars property in our portfolio.

Brett Davis, Director of Surveillance at Hoosier Park, said: "Synectics has one of the best reputations for gaming surveillance and not just from a system reliability point of view – the Synergy solution also plays well with others which gives us the flexibility we need.

"We know the Synergy 3 solution we've specified will integrate with any third-party system we need it to, grow with us, and enable us to migrate to IP cameras and new technologies as and when we want. Having also received great training, we're excited to see where we can go with this."

The 700-channel solution developed for Harrah's Hoosier Park will be used for all aspects of risk management, from fraud prevention to theft detection. It will cover the entire casino facility – home to over 2,000 slots and a rapidly expanding range of live table games.

Having witnessed Synergy easily scale to support expansion at sister site Indiana Grand Racing & Casino, the team at Harrah's Hoosier Park is already looking at the system's future potential, including connecting satellite betting sites.

Stephanie Mayes, Synectics Vice President of Sales, Americas, said: "Our business is built on trust. Casinos trust that with our technology, surveillance never stops. They also trust that the solutions we design will always evolve to accommodate changing needs. Securing our third Harrah's property is reflective of this successful strategy in action."





Transport & Infrastructure

Synectics systems protect over five billion passenger journeys worldwide each year.

We work extensively across the mass transportation sectors – buses, trams, subway/underground networks, and trains. Our customers include the operators of many different forms of transport, as well as the manufacturers of the vehicles themselves.

We also have deep experience of working with the organisations which create and run the transport infrastructure, from stations and urban transport networks, to airports and ports.

Inevitably, organisations across this spectrum have varying requirements. Running a city bus company presents different challenges to operating an international airport. The key to our success lies in our ability to work closely with each customer and tailor proven technologies and capabilities to address their particular requirements.

However, there are some recurring themes across the transport sectors, and indeed some convergence in the wider issues the leading players are seeking to tackle.

Change is being enabled by rapid advances in technological possibilities. Cloud-based capabilities are making it easier to share and integrate different data streams. Increasingly, analytics are enabling this data to be used in real time to support a range of applications.

In a variety of land-based transport environments, these expanding capabilities are facilitating the pursuit of twin goals: improving safety and security through faster decision making and pre-emptive action; and enhancing passenger experience.

Within our clients' organisations, different functions such as security and operations are working ever-more collaboratively to balance these two objectives. We are working with leading rail and subway/underground operators to develop pioneering workforce management solutions, linking field staff into control room operations. In the airport sector, we are helping to drive improvements in both the passenger environment and safety and security by combining and leveraging different data streams.

The demands created by this rapidly changing landscape play to Synectics' strengths. Where customers need sophisticated and innovative solutions which deliver greatly expanded functionality, our high end design expertise and powerful technologies come strongly into play. Where their immediate priority is for systems which are robust, compliant, but less ambitious, we offer flexibility, efficiency, and absolute reliability.

Underpinning all this are the decades of experience we have built around the world across the full spectrum of transport operations – from London's buses, through Germany's rail networks, to Asia's most prestigious airports.

We see great opportunities for Synectics to expand its role in these sectors in the coming years.

The global demand for transport and the associated infrastructure is being fuelled by continuing urbanisation at one end of the spectrum and increasing international travel at the other.

■ **Case study**

Next-generation operational management for a smarter, safer transport era

Alongside this, the growing diversity and unpredictability of threats faced and a desire to transform passenger experience are driving increased demand for the sophisticated security, surveillance, command and control solutions in which we excel.

- We protect the busiest airport in the Southern Hemisphere.
- We provide and support command and control systems for the fourth busiest metro system in Europe, covering 170 stations and serving 1 billion passengers each year.
- Our solutions support 27,000 vehicles worldwide.

// **Synergy 3 is a great PSIM (Physical Security Information Management) solution for customers looking to unify their subsystems onto a single platform."**

- Industry specialist integrator, Asia Pacific

Synectics continues to develop technologies which set the new smart-solution standard for how the world's public transportation networks are managed, monitored, and made safe. It's what has enabled us to build long-standing customer relationships and continue to be successful.

We are especially proud of the next-generation operational management system we're developing with Deutsche Bahn (Germany's national rail operator) for their pioneering new "4S" Security and Service Centre for the Berlin-wide S-Bahn (overground train) network. The control centre will connect every aspect of operations across a vast network, to deliver an outstanding passenger experience for the 1.5 million daily users of the city rail network.

The transformative impact on Berlin transport – together with the performance tracking and reporting possible with the new solution – was a major factor in S-Bahn Berlin securing operator status in the city until 2036.

Spanning trains, tracks, and stations, the Synergy 3-based solution will integrate to, and interoperate with a complete range of systems, devices, and communications vital to passenger services and network security.

This exciting, future-focused project will use new functionality we're developing for Synergy 3 as well as existing tools to facilitate state-of-the-art automation of data processing, incident responses, and performance reporting.

The solution will enable staff based at the "4S" control centre in Berlin to detect and react to any service or security event instantly. It will also streamline management and collaboration among the workforce and other stakeholders such as police, other transport operators, and infrastructure companies to ensure rapid and consistent responses.

Bastian Knabe, Chief Financial Officer at S-Bahn Berlin, commented: "We aim to push the boundaries of intelligent transport to deliver the best, most open, and integrated service possible for the benefit of residents and visitors alike.

"As a recognised leader in transportation command and control solutions, Synectics has committed to working closely with us to develop a tailored system that delivers a positive customer experience for passengers using S-Bahn Berlin's services – both now and well into the next decade."





High Security & Public Space

Supporting secure and efficient management of facilities and spaces integral to modern life.

These sectors have always formed a vital part of Synectics' heartland. We quickly established a strong track record of delivering turnkey, end-to-end solutions, and have retained our reputation ever since.

Our commercial and public sector customers require sophisticated yet user-friendly solutions to protect critical infrastructure, often in large-scale, sensitive, operationally difficult environments which present great technical complexity.

While public spending has come under pressure in some countries in recent years, the security and surveillance market in these sectors is expanding. There is more critical infrastructure to protect around the world, and more diverse, less predictable, risks to guard against.

We are also now seeing customers invest significantly in upgrading their existing systems and integrating wider command and control capabilities.

Synectics Systems serves these sectors globally, while our Integration and Managed Services teams at Quadrant Security Group ('QSG') and SSS Management Services ('SSS') operate primarily in the UK. Our solution design, integration, outsourced management, and efficient processes have allowed us to take an ever-widening role in the protection of high security sites, the people who are employed there, and the general public.

Synectics and QSG work with a series of specific customer groups, each with distinctive needs.

- In the commercial world, organisations such as major utilities providers and financial institutions seek sophisticated, value-added solutions from partners with the credentials and proven track record to support their high profile operations. There is a growing demand for greater integration of security systems with other operational and building management systems, and we are exceptionally well placed to deliver this.
- In the public sector, our involvement is greatest where there is a requirement for more complex, far-reaching solutions and the wherewithal to fund major projects. We have particular specialisms in energy (including nuclear), defence, borders, custodial, heritage buildings, and universities.

Synectics' technology and QSG's integration services are strongly complementary. For example, in the UK custodial sector, where both our brands have an outstanding reputation, QSG is highly experienced in implementing new or upgraded systems while maintaining security levels in highly sensitive environments, while Synectics' software provides the foundation for the solutions we deliver.

Our customers' needs and the technology we can bring to bear are evolving rapidly in these sectors, as they are in other areas of our business.

Clients are increasingly willing to invest in areas such as:

- database linked analytics;
- Smart Analytics that can identify behavioural patterns which in turn enable pre-emptive protection;
- IP networks, secure Cloud, and on-site Cloud computing; and
- protection against specific new and rapidly widening threats, for example drone detection.

We are at the forefront of helping our clients to harness these new capabilities and put them to practical, beneficial use to safeguard a wide variety of public spaces and infrastructure, from shopping centres to nuclear power stations.

Our SSS business excels in providing security and facilities management services to UK clients with complex estates, particularly in the retail and leisure sectors. We help these customers protect and maintain their facilities around the clock, while managing the 24/7 on-call support this entails in the most cost-efficient way.

This proposition has been further strengthened by the launch of our Cloud-based security and facilities management portal ("HALO") which provides tailored reporting to enable our clients to monitor activity and gain valuable business insight.

Case study

Protecting a power network critical to national security

In keeping with the culture throughout our Company, SSS combines the scale, resources, and experience required to handle large, continuous programmes, with the dedicated and tailored customer service more commonly associated with a smaller firm.

The market in which SSS operates remains buoyant, with many types of businesses seeking to outsource facilities management services and to integrate these with robust security and surveillance capabilities.

We have an excellent track record of delivering both the responsive support these customers require and the substantial savings they need to achieve by outsourcing, and we are well placed to benefit from further growth potential.

- We have the UK's largest dedicated high security service team.
- We have provided security and surveillance to over 100 town and city centres in the UK.
- We protect and manage over 13,000 sites and £50 million of customer spend, and handle 500,000 operational transactions each year through our Managed Service business.

“**OSG has been able to adapt and expand the system as our needs have changed. There is an open and honest dialogue to ensure we get the best value for money.**”

■ OSG customer, UK

Safeguarding sites critical to national security continues to be a significant component of Synectics' work. The threats are always evolving and the agility of our technology and capabilities allows us to respond continually to the new challenges our customers face.

One recent example involves a multi-site protection project for a major European power distributor.

Responsible for maintaining an energy network that supplies over 3.9 million homes and businesses, the customer required a centralised system to guard against both physical and cyber threats at five key locations – each of these sites recognised as a national asset with corresponding levels of access clearance.

The team based at the state-of-the-art Alarm Receiving Centre ('ARC') requires complete oversight and control of security, safety, and site-management systems at all five locations. The Synergy 3-driven solution developed for the customer seamlessly integrates with third-party sensors, analytics, cameras, personnel databases, and edge-devices to deliver on this challenge.

Each site also has its own localised command and control system, with the ability to escalate incidents to the ARC team as required.

All five locations have government authorisation to trigger armed units in response to imminent threats, so robust alarm verification is crucial. In other words, we need to get it right! Our ability to implement workflows to support clearance verification, incident validation, and protocol-compliant action was a significant factor in Synectics securing the contract.

Cybersecurity was another essential element of the customer brief. In addition to meeting critical technical resiliency specifications, Synectics is providing ongoing cybersecurity consultation, working in partnership with in-house specialists to ensure continuous development of protective measures.

Greg Alcorn, Synectics Divisional Director for Transport & Infrastructure, commented: "Synectics' track record in critical national infrastructure meant the lead systems integrator came directly to us with this complex project. Our credentials and expert team, coupled with Synergy 3's ability to integrate and interoperate remotely with third-party systems vital to effective operations meant we met every aspect of the brief."





Oil & Gas

Monitoring and controlling security, safety, and industrial processes in all conditions.

The task facing our Oil & Gas customers is hugely complex. Often operating in remote locations and under extreme temperatures, they are presented with multiple challenges: safeguarding on-site personnel; protecting offshore and onshore assets; and monitoring hazardous and explosive areas.

The scale of these challenges means that Synectics' specialist capabilities and deep knowledge of the industry are widely respected and sought after. We are long established as a major global player in security and surveillance for the oil & gas sector, and also in the marine markets which share many of the same needs.

The oil & gas market has been an extremely tough one in which to operate in recent years. Our strategy has been to take the long view, anticipate our customers' changing needs, and implement the right actions to secure the future of our business. We have continued to invest to ensure that we keep our product range at the cutting edge of the industry. This has left us extremely well placed to respond to the signs of recovery which are now apparent.

We believe the market is returning, but it is also evolving geographically, with more of the key decisions being taken in Asia, especially in China and South Korea. We are continuing to expand in these markets, as well as in Japan, South East Asia, and Australia. Other regions remain very important to us, especially Western Europe, the Middle East, and the US. More than ever, these are global industries. With proven experience of successful deployment of our solutions all over the world, and a strong network of international partners, Synectics is well positioned to benefit from the opportunities now emerging.

The Synectics proposition is based around turnkey solutions, long-standing industry expertise, and a specialist product range. Our COEX camera stations and Synergy software have an exceptional track record of reliability in the uniquely demanding conditions our customers face and satisfy the constantly changing requirements of compliance legislation.

By definition, many of the facilities we protect are in remote locations. The systems and products we deploy must be faultless. They must also facilitate

remote monitoring and analysis, often thousands of miles away from the site itself. Conditions are often extreme, and we have demonstrated time and again that we can enable our clients to meet the exceptional challenges they face.

The oil & gas industry is founded on teamwork. Our projects frequently involve working in partnership with our end clients – the companies which own and operate the oil & gas installations – and with the engineers, construction firms, telecommunications providers, and other specialist security and surveillance firms with whom these customers also have relationships.

The collective and individual reputations of our people create a foundation of trust and mutual commitment which allows us to interact successfully with other stakeholders throughout every stage of a project. We are proud of the role we play in helping our customers tackle some of the most demanding challenges on the planet, and we are equally proud that these achievements result from Synectics working with trusted partners whose expertise complements our own.



Case study

Advanced protection for a major upstream project

Synectics has been protecting the oil & gas industry for over 30 years with technologies specifically designed for harsh and extreme conditions.

Our long-standing reputation and commitment to ongoing product development gives reassurance to the world's biggest oil & gas companies and systems integration partners as they continue to turn to us with their most challenging projects.

A world-leading automation, electrification, and telecommunication company recently engaged Synectics to develop a tailored solution to protect one of the Middle East's largest onshore projects. This new project builds on an existing relationship which is now being expanded into a new regional division. It's an excellent example of the way our strategic partnerships support our growth ambitions.

The 1,200 sq km estate required a solution to secure and safeguard a wide mix of processing plants, remote degassing stations, gas trains, and other crucial infrastructure.

Linking over 20 different monitoring and control locations, and encompassing over 100 COEX hazardous, safe area, and thermal camera stations, the Synergy 3 solution specified employs advanced capabilities specifically designed for the oil & gas sector, including radiometric monitoring for flare stack performance analysis.

Forging a close working relationship with the integration partner, especially during the bid process itself, was integral to the success of the project. From the outset, the customer has been delighted that the support we have provided has gone far beyond what they expected from a potential vendor.

Darren Alder, Synectics Divisional Director for Oil & Gas, said: "Securing such a major contract in such a competitive industry is a testament to our Oil & Gas offer. It demonstrates not only the quality of our technology and extensive experience within this specialist sector but also the way in which we solve complex client needs through our commitment to customer service excellence."

We engage with our end customers and their partners from the very earliest stages of a new installation or upgrade, providing input and advice from the start. This personal commitment, an understanding second to none of every nuance of the industry's complexities, and a technology platform and product perfectly suited to our customers' needs all lie at the heart of our success.

- We monitor the world's largest gas-to-liquids plant, Shell Pearl GTL in Qatar, with over 340 cameras across the site.
- We have delivered over 800 COEX camera stations for a single major project in the Middle East.
- We protect the largest, most expensive floating structure ever built – the Shell Prelude Floating Liquefied Natural Gas facility.

Synectics is trusted by the end users within oil & gas. They listen to our needs and respond quickly to our changing requirements."

- Oil & Gas industry integrator, Asia/Africa





During 2019, differing performance from our two divisions resulted in an overall financial result which, whilst remaining solidly profitable, fell short of original expectations.”

David Bedford
Finance Director



Keeping track of Group performance

Group results for the year

The Group’s financial performance in 2019 was below that delivered in the prior year. Total revenue for 2019 fell by 3.8% from £71.2 million to £68.5 million, generating an underlying operating profit of £2.6 million, £0.4 million lower than in 2018. Profit before tax of £1.6 million was £0.6 million lower than the prior year and included non-underlying charges of £0.9 million (2018: £0.7 million) in respect of an employment related legal settlement detailed below.

This year’s results are presented reflecting the transfer of our UK on-vehicle surveillance activities into the Integration & Managed Services division better reflecting their scope of activities. This change provides improved visibility of the continuing strong underlying performance of the Systems division which has also been re-organised as a single business unit operating on a regional basis.

The Systems division recorded further strong growth particularly in Asia Pacific, led principally by increased Gaming revenues. Europe, Middle East & Africa also delivered double digit growth with encouraging progress in both Oil & Gas and Transport & Infrastructure. Americas recorded a fall in revenues primarily as a result of the 2018 comparatives including delivery of a major US casino project.

The IMS division was adversely impacted by weakness in its three key UK market segments. Within Integrated Systems delays and cancellations were experienced in both government and civil projects. The Mobile Systems business was impacted by a further year of decline in new UK bus registrations. Within Managed Services, despite a strong performance in retaining existing clients, the UK retail sector continues to face pressures affecting both the timing and levels of investment.

Close control of the cost base, particularly within the IMS Division, together with improvements in the sales mix and operational efficiency, have contributed to the Group’s continued underlying profitable performance. This helped deliver an increase in underlying gross margin to 34.0% (2018: 33.6%).

The Group generated a free cash outflow in the period of £3.1 million (2018: £5.5 million inflow). This was primarily as a result of a £4.9 million increase in working capital (2018: £1.9 million decrease) driven by a £5.9 million increase in trade receivables. This was caused by the timing of revenues being weighted to the final quarter. Capital expenditure also increased to £1.5 million (2018: £1.0 million). The Group finished the year with cash of £3.6 million (2018: £8.1 million) and remains debt free.

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

Income Statement

Overall Group revenue for the year to 30 November 2019 amounted to £68.5 million compared with £71.2 million in the previous year, a decrease of £2.7 million (3.8%).

Revenue split between our two business segments was as follows:

| Revenue | 2019 £000 | 2018* £000 | Inc/(dec) £000 | Inc/(dec) |
|--------------------------------|---------------|---------------|-------------------|---------------|
| Systems | 40,529 | 37,840 | 2,689 | 7.1% |
| Integration & Managed Services | 28,603 | 35,332 | (6,729) | (19.0)% |
| Intra-Group sales | (621) | (1,923) | 1,302 | |
| Total revenue | 68,511 | 71,249 | (2,738) | (3.8)% |

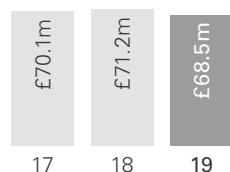
* During the year the Mobile business was moved to be reported as part of the Integration & Managed Services business and so this information has been re-presented from the prior year.

Revenues in the Systems division increased by £2.7 million (7.1%) to £40.5 million. Revenues from Asia Pacific were very strong and increased significantly year on year, contributing £4.5 million of revenue growth. Good progress was also achieved in EMEA, where £1.4 million of revenue growth was achieved. These two growth areas were offset by a period of decline in North America.

Revenues in the IMS division decreased by £6.7 million (19.0%) to £28.6 million. This was predominantly due to difficult market conditions in the UK on-bus sector.

Revenue

-3.8%

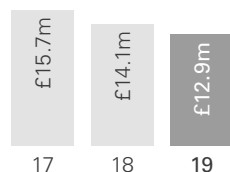


Income earned from the delivery of goods and services.

Revenue is a key indicator of the performance, growth and market share of the business.

Recurring revenue

-8.5%

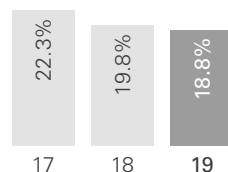


Contracted sales where a service is delivered over a future time period and revenues are recognised in the relevant future accounting period.

Recurring revenue provides an indication of quality of earnings as contracted income reduces dependence on winning new business.

Recurring revenue as % of total revenue

-1.0%

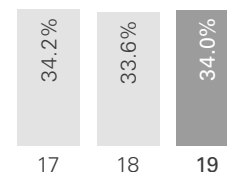


Recurring revenue as % of total revenue.

Recurring revenue as % of total revenue helps us understand how much of the Group's total revenue is made up of contracted income. Higher recurring revenue relative to total revenue reduces the risk and uncertainty of achieving a forecast result.

Underlying gross margin

+0.4%



Ratio of underlying gross profit to revenue.

To assess trends in the underlying gross margin as an important measure of profit available to cover the overheads necessary to generate that profit.

Recurring revenue decreased year on year to £12.9 million (2018: £14.1 million), representing approximately 19% of sales (2018: 20%) due predominantly to a reduction in UK on-vehicle support contracts combined with an overall increase across the Group of install revenues.

The proportion of sales arising outside the UK (measured by the geographical location of the contract) increased slightly during the year to 50%, compared with 45% in the previous year.

| Sales by geographical location of contract | 2019 £000 | 2018 £000 | 2019 % | 2018 % | Inc/(dec) £000 |
|--|---------------|---------------|-------------|-------------|-------------------|
| UK | 34,187 | 39,301 | 50% | 55% | (5,114) |
| Rest of Europe | 4,948 | 4,323 | 7% | 6% | 625 |
| UK and Europe – total | 39,135 | 43,624 | 57% | 61% | (4,489) |
| North America | 7,679 | 10,923 | 11% | 15% | (3,244) |
| Middle East | 3,063 | 2,221 | 5% | 3% | 842 |
| Asia Pacific | 18,113 | 13,911 | 26% | 20% | 4,202 |
| Africa | 521 | 570 | 1% | 1% | (49) |
| Total revenue | 68,511 | 71,249 | 100% | 100% | (2,738) |

Consolidated underlying gross margin for 2019 increased by 0.4% overall. This was predominantly due to a shift in the Group's revenue from the lower margin IMS businesses to the higher margin Systems business. Underlying gross margin within the Systems business itself did decrease in the year, despite the overall increase.

The full segmental analysis is as follows:

| Underlying gross margin % | 2019 | 2018 | Inc/(dec) |
|--------------------------------|--------------|--------------|-------------|
| Systems | 42.0% | 42.4% | (0.4)% |
| Integration & Managed Services | 21.9% | 22.4% | (0.5)% |
| Total Group | 34.0% | 33.6% | 0.4% |

| Gross margin % | 2019 | 2018 | Inc/(dec) |
|--------------------------------|--------------|--------------|-------------|
| Systems | 42.0% | 42.4% | (0.4)% |
| Integration & Managed Services | 21.9% | 20.9% | 1.0% |
| Total Group | 34.0% | 32.9% | 1.1% |

Underlying operating expenses in the year decreased marginally by 1.2% to £20.7 million.

| Operating expenses | 2019 £000 | 2018 £000 | Inc/(dec) £000 | Inc/(dec) |
|---------------------------------------|---------------|---------------|-------------------|---------------|
| Underlying operating expenses | 20,714 | 20,972 | (258) | (1.2)% |
| Non-underlying items: | | | | |
| Costs in relation to legal claim | 908 | - | 908 | |
| UK mobile systems restructuring costs | - | 191 | (191) | |
| Amortisation of acquired intangibles | 23 | 23 | - | |
| | 931 | 214 | 717 | |
| Total operating expenses | 21,645 | 21,186 | 459 | 2.2% |

Non-underlying operating expenses amounted to £931,000 and are comprised of the costs in relation to a legal employment claim in the US, and a charge for the amortisation of intangible assets acquired in previous years.

Consolidated underlying profit before tax was £2.5 million in 2019 compared with £2.9 million in the year to 30 November 2018. Profit before tax also decreased to £1.6 million (2018: £2.1 million) as increased non-underlying costs were incurred during the year.

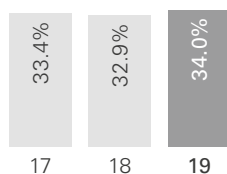
The Systems division performed strongly during the year, with revenue increasing to £40.5 million (from £37.8 million in 2018) and underlying operating profit increasing by £0.7 million to £4.7 million.

Performance review

Group financial results continued

Gross margin

+1.1%

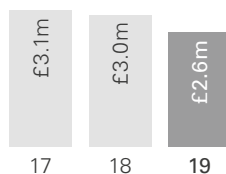


Ratio of gross profit to revenue.

Gross margin is an important measure of profit available to cover the overheads necessary to generate that profit.

Underlying operating profit

-12.6%

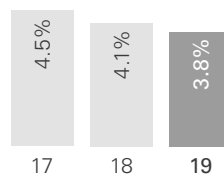


Operating profit before non-underlying items¹.

Underlying operating profit is a key indicator of trends in baseline performance excluding the impact of items which by their nature do not reflect core results.

Underlying operating margin

-0.3%

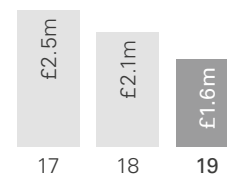


Ratio of underlying operating profit to revenue.

To assess trends in the underlying returns generated by the business to better manage current and future performance.

Profit before tax

-27.2%



Profit before tax.

Profit before tax helps us understand our absolute performance including those costs considered non-underlying.

Income Statement continued

This growth was primarily driven by the performance in Asia Pacific, supported by growth in EMEA. In IMS, which now includes the UK on-bus integration business, the year was much tougher given difficult market conditions in retail and bus. The IMS division ended the year at breakeven, compared to an underlying operating profit of £0.8 million in 2018. Central costs increased slightly by £0.3 million to £2.1 million.

| Underlying operating profit | 2019 £000 | 2018 £000 | Inc/(dec) £000 | Fav/(adv) |
|-------------------------------------|--------------|--------------|-------------------|----------------|
| Systems | 4,691 | 3,961 | 730 | 18.4% |
| Integration & Managed Services | (27) | 796 | (823) | (103.4)% |
| Central costs | (2,082) | (1,802) | (280) | (15.5)% |
| Underlying operating profit | 2,582 | 2,955 | (373) | (12.6)% |
| Net finance costs | (98) | (99) | 1 | 1.0% |
| Underlying profit before tax | 2,484 | 2,856 | (372) | (13.0)% |

A reconciliation of operating profit by division to profit before tax is as follows:

| Operating profit | 2019 £000 | 2018 £000 | Inc/(dec) £000 | Fav/(adv) |
|--------------------------------|--------------|--------------|-------------------|----------------|
| Systems | 3,783 | 3,961 | (178) | (4.5)% |
| Integration & Managed Services | (27) | 95 | (122) | (128.4)% |
| Central costs | (2,105) | (1,825) | (280) | (15.3)% |
| Operating profit | 1,651 | 2,231 | (580) | (26.0)% |
| Net finance costs | (98) | (99) | 1 | 1.0% |
| Profit before tax | 1,553 | 2,132 | (579) | (27.2)% |

Research & development costs are charged to the division benefiting from the service provided by the Synectics Technology Centre, principally the Systems division. In 2019 £3.8 million was spent on research & development. Of this £0.8 million was capitalised as development costs with £3.0 million charged to the Income Statement along with £0.3 million of amortisation from prior period developments. This compares with expenditure of £3.1 million in 2018, of which £0.5 million was capitalised.

The Group underlying operating margin was 3.8% compared with 4.1% in 2018.

| Underlying operating margins | 2019 | 2018 | Inc/(dec) |
|--------------------------------|-------------|-------------|---------------|
| Systems | 11.6% | 10.5% | 1.1% |
| Integration & Managed Services | (0.1)% | 2.3% | (2.4)% |
| Total Group | 3.8% | 4.1% | (0.3)% |

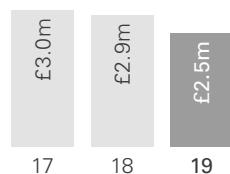
The Group operating margin was 2.4% (2018: 3.1%) split by division as follows:

| Operating margins | 2019 | 2018 | Inc/(dec) |
|--------------------------------|-------------|-------------|---------------|
| Systems | 9.3% | 10.5% | (1.2)% |
| Integration & Managed Services | (0.1)% | 0.3% | (0.4)% |
| Total Group | 2.4% | 3.1% | (0.7)% |

The tax credit for 2019 was £0.1 million compared with a charge of £0.6 million in 2018. The underlying tax rate (being the percentage ratio of the tax charge for the period to underlying profit before tax, after adding back the tax effect of non-underlying items) was 5%. This rate was impacted by the utilisation of previously unrecognised losses combined with the recognition of current year losses.

Underlying profit before tax

-13.0%

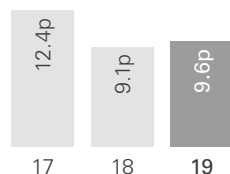


Profit before tax and non-underlying items¹.

Profit before tax and non-underlying items helps us understand our performance excluding those items considered non-underlying to assess the baseline nature of profit or loss.

Diluted earnings per share

+5.5%

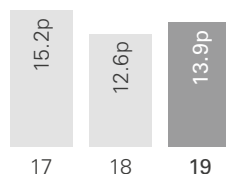


Ratio of profit after tax to weighted number of ordinary shares in issue and dilutive potential ordinary shares arising from share options.

To enable us to track, assess and compare the return for investors and to provide them with a measure of return to compare with other investment opportunities.

Underlying diluted earnings per share

+10.3%

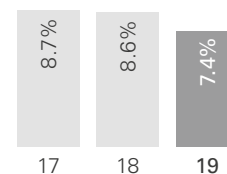


Ratio of underlying profit after tax to weighted number of ordinary shares in issue and dilutive potential ordinary shares arising from share options.

To enable us to track, assess and compare the return for investors and to provide them with a measure of return to compare with other investment opportunities, using a measure that is more representative of our baseline performance.

Underlying return on capital employed

-1.2%



Ratio of underlying operating profit as % of average operating capital employed (being net assets excluding the pension asset, cash, tax and loan balances).

To enable us to track, assess and compare the return for investors and to provide them with a measure of return to compare with other investment opportunities, using a measure that is more representative of our baseline performance.

At 30 November 2019 the Group increased the deferred tax asset in relation to tax losses which are expected to be offset against future taxable profits by £0.6 million (2018: £0.2 million). Further tax losses of £4.8 million (30 November 2018: £5.0 million) exist and may be capable of offset against the future taxable profits of certain Group companies, but have not yet been recognised in the financial statements due to uncertainty of recoverability at this point.

Diluted earnings per share for 2019 were 9.6p compared with 9.1p in the year ended 30 November 2018. The Directors believe that a better measure of performance is the underlying diluted earnings per share, which are calculated on the underlying profit before tax as defined above. Underlying diluted earnings per share were 13.9p compared with 12.6p in 2018.

| Earnings per share | 2019 p | 2018 p | Inc/(dec) p | Inc/(dec) |
|---------------------------------------|--------|--------|-------------|-----------|
| Diluted earnings per share | 9.6 | 9.1 | 0.5 | 5.5% |
| Underlying diluted earnings per share | 13.9 | 12.6 | 1.3 | 10.3% |

Return on capital employed (based on total profit from operations) for 2019 was 4.8% compared with 6.5% in the year ended 30 November 2018. However, the Directors believe that a better measure of performance is the return based on underlying operating profit. Return on capital employed (based on underlying operating profit) was 7.4% compared with 8.6% in 2018.

| Return on capital employed | 2019 | 2018 | Inc/(dec) |
|---------------------------------------|------|------|-----------|
| Based on total profit from operations | 4.8% | 6.5% | (1.7)% |
| Based on underlying operating profit | 7.4% | 8.6% | (1.2)% |

1. Non-underlying items comprise provision for costs on settlement of a legal claim, and amortisation of acquired intangibles.

Statement of Financial Position

The net assets of the Group amounted to £41.0 million at 30 November 2019 (2018: £40.7 million) and can be summarised as follows:

| | 2019 £000 | 2018 £000 |
|---|---------------|---------------|
| Property, plant and equipment | 2,904 | 2,728 |
| Intangibles | 21,712 | 21,488 |
| Retirement benefit asset | 687 | 182 |
| Non-current assets (excluding deferred tax assets) | 25,303 | 24,398 |
| Cash balances | 3,580 | 8,114 |
| Other net current assets | 13,662 | 9,552 |
| Net tax liabilities (including deferred tax assets) | 103 | (367) |
| Provisions | (1,687) | (977) |
| Net assets | 40,961 | 40,720 |

Non-current assets (excluding deferred tax assets) at 30 November 2019 were £25.3 million compared with £24.4 million at 30 November 2018.

Exchange rate movements in the year decreased the retranslated value of goodwill on overseas acquisitions by £0.1 million.

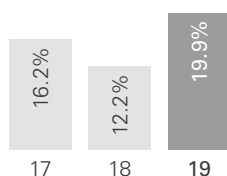
Total capital expenditure increased to £1.5 million (2018: £1.0 million). During 2019 £0.8 million was capitalised in respect of technology development projects. The Group continues to invest significant amounts in the development and enhancement of its product portfolio. However, accounting rules for capitalisation of development spend contain specific criteria around what can be capitalised for ongoing work on products which have been launched in the market. £0.7 million was spent on property, plant and equipment, with minimal investment in external software.

Performance review

Group financial results continued

Working capital

+7.7%

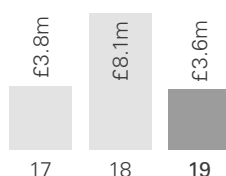


Working capital as % of revenue, where working capital is the sum of inventories, trade and other receivables and trade and other payables.

To understand the extent to which resources have been tied up in the generation of sales to assess the risk of having insufficient liquid resources to meet day-to-day cash requirements as they fall due.

Net cash

-55.9%



Cash balances net of loans.

Net cash provides an indicator of the strength of the balance sheet measured through the liquid resources available to the business to meet future cash requirements.

Free cash flow

-156.9%

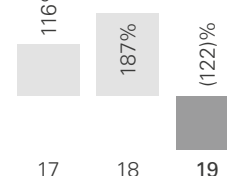


Cash flow from operations less capital expenditure, but before any payments in respect of non-underlying items.

To understand the extent to which the business has generated cash from its trading activities, after replacing the capital assets integral in generating that cash flow, in order to decide whether to invest further in the business or return cash to shareholders.

Cash conversion

-309%



Ratio of free cash flow to underlying operating profit.

Cash conversion indicates how successful the business has been in generating cash (after replacing the capital assets used in generating that cash) from the baseline profit earned in the period.

Statement of Financial Position continued

Capital expenditure of £1.5 million (2018: £1.0 million) compares with depreciation and amortisation charges of £0.9 million in the year (2018: £1.4 million).

The surplus on the Group's closed defined benefit pension scheme was £0.7 million at 30 November 2019 compared to £0.2 million at 30 November 2018. This increase is due largely to a gain on the plan assets. Substantially all of this movement has been posted to reserves through the Consolidated Statement of Comprehensive Income.

Working capital levels increased compared with the prior year to £13.7 million at 30 November 2019 and also increased as a percentage of annual revenues from 13.4% in 2018 to 19.9% at 30 November 2019. This was slightly higher than we would ordinarily expect due to strong sales performance and invoicing towards the end of the financial year.

Net tax assets at 30 November 2019 amounted to £0.1 million (2018: liability of £0.4 million) and comprised a current tax asset of £35,000 (2018: £87,000), a current tax liability of £0.4 million (2018: £0.5 million), deferred tax assets of £1.3 million (2018: £0.7 million) and deferred tax liabilities of £0.8 million (2018: £0.6 million).

Provisions at 30 November 2019 amounted to £1.7 million (2018: £1.0 million). This amount includes £0.7 million (2018: £0.8 million) of warranty provisions which were previously held in accruals and £0.9 million (2018: £nil) provision for the settlement of a legal claim. The remaining balance relates to property dilapidation provisions.

Cash

The Group ended the year with net cash of £3.6 million at 30 November 2019 (2018: £8.1 million). The year-end balance was in line with 30 November 2017 (£3.8 million) following an exceptionally high balance in the prior year.

The net cash outflow of £4.5 million in the year is summarised in the table below. The key reason for the movement in the cash during the year was the large working capital balance at the year end driven by strong performance in revenue and work completed towards the end of the financial year.

| | 2019 £000 | 2018 £000 |
|---|----------------|--------------|
| Underlying operating profit | 2,582 | 2,955 |
| Depreciation and amortisation charges and profit/loss on disposal of non-current assets | 934 | 1,368 |
| Share-based payment charge | 45 | 66 |
| Other non-cash movements | (365) | 192 |
| (Increase)/decrease in working capital | (4,900) | 1,914 |
| Net foreign exchange losses/(gains) | 60 | (16) |
| Cash from operations before non-underlying payments | (1,644) | 6,479 |
| Restructuring costs | - | (191) |
| Cash (used in)/generated by operations | (1,644) | 6,288 |
| Interest paid (net) | (103) | (107) |
| Taxation paid | (356) | (459) |
| Capital expenditure | (1,497) | (955) |
| Loan repayments | - | (900) |
| Share scheme interests realised in the year | - | 33 |
| Dividends paid | (810) | (699) |
| Effect of exchange rate changes on cash | (124) | 192 |
| Net cash flow | (4,534) | 3,393 |

Use of non-GAAP financial performance measures

Certain disclosures and analyses set out in this Annual Report and Accounts include measures which are not defined by generally accepted accounting principles ('GAAP') such as IFRS. We believe this information, along with comparable GAAP measurements, is useful to investors. Management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance. Non-GAAP measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. The primary non-GAAP financial measure we use is underlying profit.

In the following table we provide a reconciliation of this and other non-GAAP measures, as defined in the Performance Review on pages 26 to 35, to relevant GAAP measures:

Underlying profit measures

| | 2019 £000 | 2018 £000 |
|--|---------------|---------------|
| Underlying gross profit | | |
| Reported gross profit | 23,296 | 23,417 |
| UK mobile systems restructuring costs | - | 510 |
| Underlying gross profit | 23,296 | 23,927 |
| Underlying operating profit | | |
| Reported operating profit | 1,651 | 2,231 |
| UK mobile systems restructuring costs | - | 701 |
| Provision for costs of a legal claim | 908 | - |
| Amortisation of acquired intangible assets | 23 | 23 |
| Underlying operating profit | 2,582 | 2,955 |
| Underlying profit before tax | | |
| Reported profit before tax | 1,553 | 2,132 |
| UK mobile systems restructuring costs | - | 701 |
| Provision for costs of a legal claim | 908 | - |
| Amortisation of acquired intangible assets | 23 | 23 |
| Underlying profit before tax | 2,484 | 2,856 |

A reconciliation of reported profits to non-underlying profits for Systems is as follows:

GAAP reconciliation

| Systems | Gross profit | | Operating profit | |
|---------------------------|---------------|---------------|------------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Underlying profit | | | | |
| Reported profit | 17,023 | 16,030 | 3,783 | 3,961 |
| Provision for legal claim | - | - | 908 | - |
| Underlying profit | 17,023 | 16,030 | 4,691 | 3,961 |

| IMS | Gross profit | | Operating profit | |
|---------------------------------------|--------------|--------------|------------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Underlying profit | | | | |
| Reported profit | 6,273 | 7,386 | (27) | 95 |
| UK mobile systems restructuring costs | - | 510 | - | 701 |
| Underlying profit | 6,273 | 7,896 | (27) | 796 |

Underlying diluted EPS

The Group monitors underlying diluted EPS. In calculating earnings for underlying diluted EPS, net profit is adjusted to eliminate the post-tax impact of non-underlying items. Note 13 includes a reconciliation of earnings used for underlying EPS.

Underlying return on capital employed

Underlying return on capital employed is based on underlying operating profit (see reconciliation of underlying operating profit in the previous table).

Free cash flow

The Group measures free cash flow in considering the underlying cash generated from its operations. A reconciliation of reported cash generated from operations to free cash flow is as follows:

| | 2019 £000 | 2018 £000 |
|--|----------------|--------------|
| Free cash flow | | |
| Reported cash generated from operations | (1,644) | 6,288 |
| Capital expenditure | (1,497) | (955) |
| Payments in respect of restructuring costs | - | 191 |
| Free cash flow | (3,141) | 5,524 |

Net cash

Net cash is considered to be a non-GAAP measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current) and cash and cash equivalents. This is the calculation used by the Group to measure net cash.



David Bedford
Finance Director

25 February 2020

Systems



Gaming



Oil & Gas



Transport & Infrastructure



High Security & Public Space



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

| | |
|-------------------------------|-------------------------------------|
| Revenue | £40.5 million (2018: £37.8 million) |
| Gross margin | 42.0% (2018: 42.4%) |
| Operating profit ¹ | £4.7 million (2018: £4.0 million) |
| Operating margin ¹ | 11.6% (2018: 10.5%) |

1. After research & development expenditure, but before non-underlying legal settlement and Group central costs.

The Systems division delivered its fourth successive year of solid profit growth, despite the oil & gas surveillance sector still showing only a tentative recovery from the post-2014 oil market collapse. Underlying operating profits in the year grew by 18% on revenues up by 7%. The compound annual growth in divisional operating profit over the past three years has been 20% pa.

The principal drivers of the profit growth for the division over that three-year period have been the revenue growth and margin improvement achieved in the transport & infrastructure sector in Europe, and continued strong performance in the global gaming sector. High end surveillance command & control solutions within the transport & infrastructure sector represent Synectics' largest target market, so building on and accelerating the success delivered in that area over the past few years is a key priority for the Group.

Asia Pacific (Revenue £17.7 million (2018: £13.2 million))

Synectics' strong growth in the Asia Pacific region in 2018/19 was led principally by increased business from gaming customers, and a modest upturn in the oil, gas & marine sector. The increased orders from casino operators included both new systems and repeat revenue for upgrades to existing installations.

In addition to established territories, significant new sales were made for gaming premises in the Philippines, including the award at the end of the year of a major hotel expansion and new casino complex, for delivery in 2020.

Other notable new contracts in the year included a new 9,000 channel system for a major casino operator in Macau, and continued additional work with established customers in Singapore and Malaysia.

Within the oil, gas & marine sector, the market has remained challenging in this region, however new business was won to protect natural gas projects in Indonesia, as well as follow-on work for the RAPID refinery in Malaysia. Surveillance systems for several new-build LNG vessels were secured with Asian shipyards, showing some recovery in a segment that has been particularly challenging in recent years.

Europe, Middle East & Africa

(Revenue £15.7 million (2018: £14.3 million))

Synectics made a significant breakthrough with the award by Deutsche Bahn in July 2019 of a large, multi-year contract for the supply, implementation and support of an innovative integrated surveillance and operational management system for the S-Bahn network in Berlin. Delivery will be over two years and the contract also includes an eight-year support agreement. This award is based on the latest version of our Synergy command and control system, incorporating expanded capabilities for managing all of the functions of a modern transport security control room, including data analysis, communications and workflows. These expanded capabilities will increase Synectics' capacity to address what we believe is a large and growing market for similar intelligent command and control systems.

In the UK, we continued to deliver surveillance system upgrades to a number of London boroughs, as well as securing a major project to protect nationally important sites for the City of London Corporation. We continued to roll out our central monitoring system across remote sites for a major national utilities network, and also commenced work on a similar scheme with another utilities company.

A new-build oil & gas project across multiple sites in the Middle East for a major national oil company gave the first signs of recovery of new energy investments in this region. Further projects during the year were centred on expansions and upgrades to facilities across the whole EMEA region, with upgrades to Synergy 3 implemented for existing platform installations in the North Sea, the Middle East, and off the coast of Africa.

North America (Revenue £7.2 million (2018: £10.4 million))

Synectics delivered reduced revenues in the North American region in 2019 primarily because the prior year's figures included an exceptionally large project for a new casino resort in Boston.

Following on from the 2018 contract success with Harrah's Las Vegas, in 2019 we secured a further two Harrah's properties, Harrah's Hoosier Park Racing & Casino in Indiana and Harrah's Northern California. The growing relationship with Harrah's – part of the Caesars Entertainment Corporation – is a clear example of our emphasis on building long-term customer partnerships, with a corporate portfolio now totalling five Caesars properties.

We also secured additional work from established customers, including Penn National Gaming across the US, and Wynn Resorts in Las Vegas and Boston.

In the oil & gas sector, we delivered an offshore platform for Shell in the Gulf of Mexico, following on from similar projects in the previous year, and supplied COEX camera stations for a number of land rig facilities in the US.

In 2020 and beyond, Synectics will be increasing business development resources in North America to cover a wider range of the Group's products and capabilities beyond the casino/gaming sector. These resources will be particularly focused on the launch in this region of Synectics' enhanced command and control capabilities for the transport & infrastructure sector.

Research & development

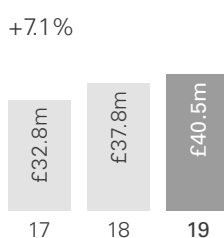
Continued investment in our intellectual property and technology base within the Systems division remains an important priority for the Group. During the 2019 financial year, Synectics spent a total of £3.8 million on technology development (2018: £3.1 million). Of this total, £0.8 million was capitalised, and the remainder expensed to the Income Statement. £0.3 million of previously capitalised development costs were amortised in the year.

During the year we have been able to embed the changes to our development methodology embarked on last year, and we have significantly strengthened our product management organisation, enabling us to connect our product development roadmap even more closely with the rapidly evolving needs of the market.

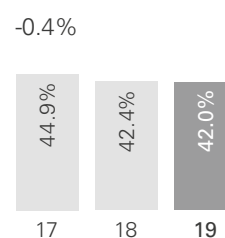
Our substantial increase in R&D spend has allowed us to make significant progress in developing the next-generation of our Synergy software platform, to develop significant further exploitable capability within that platform, and to continuously enhance our portfolio of Cyber Security features.

Major product extensions include a Workforce Management module – which will be deployed by Deutsche Bahn in Berlin in 2020, further development of our Cloud-based evidence management solution, and deep integrations to class-leading AI-based innovations such as facial recognition. Further advances in our mobile device applications will be delivered during the next year, expanding the connection of the control room to field operations for our customers.

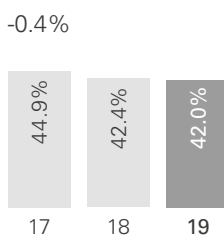
Revenue



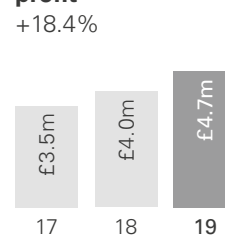
Underlying gross margin



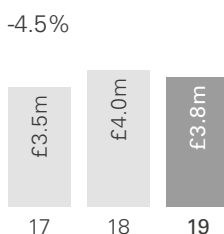
Gross margin



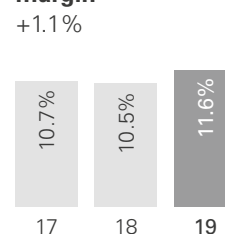
Underlying operating profit



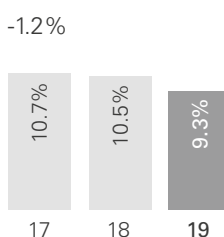
Operating profit



Underlying operating margin



Operating margin



Integration & Managed Services



Transport & Infrastructure



High Security & Public Space



Synectics' Integration & Managed Services ('IMS') division is one of the leading UK providers of design, integration, turnkey supply, monitoring and management of large-scale electronic security systems. Its main markets are in critical infrastructure, public space, mobile transport 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 helpdesk. The IMS division supplies proprietary products and technology from Synectics' Systems division as well as from third parties.

| | |
|--------------------------------------|-------------------------------------|
| Revenue | £28.6 million (2018: £35.3 million) |
| Gross margin ¹ | 21.9% (2018: 22.4%) |
| Operating (loss)/profit ¹ | £(0.0) million (2018: £0.8 million) |
| Operating margin ¹ | (0.1)% (2018: 2.3%) |

1. Before non-underlying items in 2018 and Group central costs.

The IMS division, focused on UK markets, suffered unexpectedly persistent declines in new business in most areas in 2018/19.

In the Integrated Systems business the pipeline of anticipated contract wins remained generally consistent with budgets across the financial year. In both the government and civil sectors, however, the business experienced continued delays and project cancellations well beyond normal levels, such that revenue finished 19% below the previous year. This outcome broke a four-year trend of increasing revenues and profit contribution from this area, and may have been at least in part a result of the unusual UK macro-economic and political environment last year.

Repeat business continued to be won for prisons, critical national infrastructure and public space security system upgrades, including sales of products from Synectics' Systems division. The quality of high visibility, high sophistication customers and landmark sites remains a great strength.

The UK market for sophisticated, high quality security systems integration and support is growing. Technology is advancing at an increasing pace and Synectics' activities in this area are increasingly directed towards customers who need and value expertise, and are prepared to invest in a longer-term relationship rather than rely on one-off lowest-price tenders. Having access to the resources of a Parent Company at the forefront of surveillance technology development is a clear competitive advantage in succeeding with such customers.

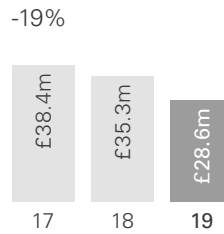
Synectics' UK mobile systems business had another difficult year, with its main end-market experiencing the third straight year of significant decline in new UK bus registrations. Management have done a creditable job in reducing costs to a minimum sustainable level, maintaining both customer service delivery, and staff engagement. For the first time in several years there are indications from a significant customer of emerging upwards revisions in orders.

The focus of the division's managed services activities continues to be on delivering security and facilities management services for UK clients with large multi-site estates. During 2018/19, Synectics' managed service activities secured a 100% renewal rate on its six multi-year contracts that expired in the year. The pipeline of new business also expanded, leading to several new client wins by and just after the year end.

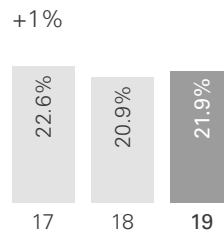
//
I believe that SSS solutions will be an excellent fit in the future due to their helpdesk programmes they have in place. They are always looking for new technology to fit the facilities way of working."

■ Synectics customer comment

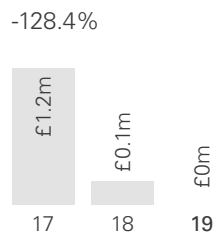
Revenue



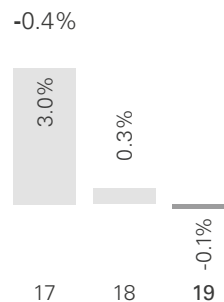
Gross margin



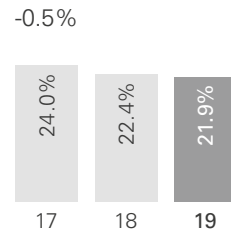
Operating profit



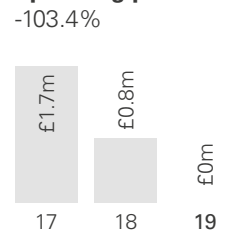
Operating margin



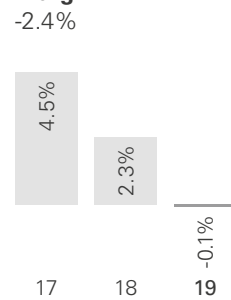
Underlying gross margin



Underlying operating profit



Underlying operating margin



The Board of Directors

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 Independent Non-Executive Directors.

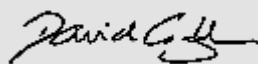
Introduction from the Chairman

In 2018 the AIM Rules were amended to require all companies quoted on AIM to implement a recognised corporate governance code and comply with that code from 28 September 2018.

Consequently, the Board adopted the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") as it was the most appropriate guide against which to manage and report our approach to corporate governance.

The QCA Code follows ten basic principles. Through a set of disclosures on their website and in their annual report, companies are required to provide an explanation of how they consider they are meeting those principles. As I reported last year, the Company continues to maintain compliance with all ten principles and is consistently reviewing areas for improvement in its governance practice.

This statement, together with the Committee reports that follow, outlines the Company's approach to corporate governance and details how the Company complies fully with the ten principles of the QCA Code. Further detail relating to specific principles can be found in other sections of the Annual Report and together with this statement they explain how our governance framework works and how the Board and its Committees function to achieve compliance with the QCA Code.



David Coghlan
Chairman

25 February 2020

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. In addition to a background in developing and implementing board-level strategies for major multinational companies, David brings current wide experience as a director and founder of, and investor in, medium-sized technology growth companies in the B2B software and electronics sectors. He is currently a non-executive director and remuneration committee chairman of AIM-quoted Eckoh plc, and chairman of aviation simulation and training company Quadrant Group Limited. Until its takeover by CGI in December 2019, David was also a non-executive director and audit committee chairman of SCISYS plc.

Paul Webb
Chief Executive



joined the Group in 2004 and drove the rapid growth of the Group's Systems activities. With a 30-year career in the electronic surveillance industry, he has held roles spanning engineering, business development and general management. Before joining the Group, Paul was MD of a surveillance business that was acquired by Siemens, and has previously lived and worked in Asia. He has a degree in Physics from Imperial College, London.

David Bedford
Finance Director



holds a degree in Economics & Accounting from the University of Bristol and is a member of the Institute of Chartered Accountants in England and Wales. Having qualified with Deloitte & Touche in 1994, David joined Price Waterhouse's corporate finance group. Following seven years with Jaguar Land Rover, David held a number of senior finance positions within IMI Precision, the largest division of IMI plc.

Michael Butler
Senior Independent
Non-Executive Director



has held various senior roles in general management, sales and marketing in telecommunications businesses, including president and chief operating officer and an executive board director of Inmarsat plc. He was previously managing director of MCI Worldcom UK. He is currently a director of several other companies, including non-executive chairman of Broadband Satellite Services Limited and non-executive director of AddValue Technologies, a Singapore-listed provider of broadband solutions for the mobile satellite communications 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. He currently chairs one of Fujitsu's pension schemes.

Alison Vincent
Independent
Non-Executive Director



has over 25 years' experience as a technology leader and was most recently Global Chief Information Security Officer for HSBC Group. Until 2017, Dr Vincent was Chief Technology Officer, UK & Ireland, for Cisco Systems, Inc. Her earlier career was spent as Director of Product Development at Micro Focus, and as a software engineer at IBM UK Labs. Dr Vincent has a PhD in Combinatorics and Cryptography from Royal Holloway, London University and is a Fellow of both the IET and the BCS.

Corporate governance statement

Statement of compliance

Having adopted the QCA Code in September 2018 (only two months before the end of the Company's 2018 financial year), this is the first time the Company has had a full year to assess and report on its compliance with the QCA Code. The Company has reviewed its governance framework, ensuring that the Group operates effectively and with integrity, and that all processes and procedures adopted by the Company to support the QCA Code have been applied. The Board can confirm that the Company continued to maintain compliance with all ten principles of the QCA Code during the year ended 30 November 2019.

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

Synectics is a leader in the design, integration and support of advanced security and surveillance systems. Through two complementary divisions, Systems and Integration & Managed Services ('IMS'), the Group serves 55 countries through five major hubs across the world.

- **Systems:** secures major contracts for the design, development, deployment, upgrade and software maintenance of security, surveillance and workforce management solutions founded on our proprietary technology.
- **IMS:** serves customers by designing security, surveillance and facilities management solutions, containing both Synectics' and third-party products, and then implementing, maintaining and supporting them over time.

The Board believes that by achieving leadership positions in the specific market sector and geographical regions that the Group targets, Synectics will generate sustainable revenue and profit growth, and thus long-term value for shareholders.

For information on our strategy and business model, please refer to the Strategic Review.

Principle 2: Seek to understand and meet shareholder needs and expectations

The Board welcomes dialogue with shareholders and actively engages with them through face-to-face meetings, written queries, and at the Company's Annual General Meeting ('AGM'). The AGM notice is sent to shareholders at least 21 days before the AGM. All Directors, including the Chairman, Chief Executive and Finance Director, routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website.

The Directors actively seek to build a relationship with substantial shareholders. Shareholder relations are managed primarily by the Chief Executive and Finance Director, supported by the Chairman, as appropriate. The Chief Executive and Finance Director make presentations to analysts and substantial shareholders each year immediately following the release of the full-year and half-year results.

The Board is kept informed of the views and any concerns of major shareholders by briefings, as appropriate, from the Chairman. Investment reports from analysts and feedback reports from brokers following the investor meetings are also circulated to the Board. The Chairman and Senior Independent Non-Executive Director ('SID') are available to meet with major shareholders if required to discuss issues of importance to them.

As part of the continued review of the Company's governance reporting, the Annual Report and Accounts includes expanded narrative governance disclosures that take into account the views of shareholders.

Principle 3: Take into account wider stakeholder and social responsibilities, and their implications for long-term success

The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision making. In addition to our shareholders, one of our most important stakeholder groups, is our employees. The Board therefore closely monitors and reviews the results of the Group's annual Employee Survey as well as other feedback it receives in relation to employee engagement.

We also have a deep understanding of the needs of our customers, another important stakeholder group. To develop our relationships with our customers further, the Board receives feedback from the annual Customer Excellence Survey, including the progress made against previous years initiatives as well as new initiatives made in the current year. See page 10 for more information on our Customer Excellence programme.

Modern slavery

The Company opposes modern slavery in all its forms and will try to prevent it by any means that it can. It is expected that anyone who has any suspicions of modern slavery within the business or the supply chain to raise their concerns without delay. The Group maintains relationships with many different organisations in its supply chain, as well as directly employing over 400 people worldwide. In the light of the Modern Slavery Act 2015, each year the Board reviews internal measures to ensure the Group is doing what it can to prevent slavery and human trafficking. The Company's modern slavery statement can be found on our website at www.synecticsplc.com.

For more information on our people please see pages 12 and 13.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board has overall responsibility for risk management and is assisted by the Audit Committee in monitoring the principal risks and uncertainties facing the Group as well as the actions taken to mitigate those risks. The Board has delegated responsibility for review of the adequacy of the effectiveness of the internal control framework to the Audit Committee.

The Chief Executive and Finance Director are responsible for the day-to-day operational and commercial activity across the Group and are, therefore, responsible for the management of risk. The Audit Committee reviews the risk register prepared by the Chief Executive and Finance Director bi-annually and any emerging risks are identified and reported to the Board.

Further information on the Group's internal control systems, the key risks facing the Group, and how the Board gets its assurance that the risk management and related control systems in place are effective, can be found in the Audit Committee Report on pages 43 to 45 and the Risks and Risk Management section on pages 54 and 55.

Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chairman

The Board

During the year, the Board comprised a Chairman, three Non-Executive Directors and an Executive Director following the resignation of Simon Beswick as Finance Director in April 2018. Whilst a replacement Finance Director was recruited, Amanda Larnder took over as Acting Finance Director, although not appointed to the Board. The resulting size and composition of the Board gave it sufficient independence, balance and broad experience to provide effective oversight of the Group's strategy, performance, resources and standards of conduct. The continued 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 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 Chief Executive, Paul Webb, assisted by senior management.

Since his appointment as Senior Independent Director in 2018, Michael Butler continues to be responsible for supporting the Chairman and monitoring the division of responsibility between the Chairman and the Chief Executive. He is also available to address shareholder concerns where applicable.

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 are matters 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 the 2019 financial year, six scheduled Board meetings, three Audit Committee and five Remuneration Committee meetings were held. In addition, as it does each year, the Board convened and participated in a separate two-day session on 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, business performance, 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 receives 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.

Statement of compliance continued

Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chairman continued

During the 2019 financial year, 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, review of internal controls and monitoring of the Group’s risk registers;
- Board and senior management succession planning;
- approval of large contracts and bids;
- approval of large capital expenditure projects;
- Committee reports and recommendations;
- review of corporate governance reporting;
- Board and Committee evaluation, reviewing progress of actions from the 2018 evaluation and setting actions for 2019/20;
- considering the risk registers and the outcome of the risk review, as reviewed in detail by the Audit Committee;
- the re-appointment of RSM UK Audit LLP as external auditor, upon the recommendation of the Audit Committee;
- reviewing the findings of the 2019 employee opinion survey;
- review of the Code and agreement of actions necessary to achieve full compliance;
- review and approval of the annual update to the Group’s approach to meeting the requirements of the Modern Slavery Act 2015;
- monitoring the programme of work to ensure the EU General Data Protection Regulation was successfully embedded within the organisation;
- monitoring the progress of the Customer Excellence programme and the Market Development Programme; and
- reviewing the Group’s product development roadmap and technological developments in the industry.

Excluding ad hoc meetings, and Board calls for general administrative matters, the number of Board and Committee meetings attended during the year are as follows:

| | Total number of meetings | | |
|--|--------------------------|-----------------|------------------------|
| | Board | Audit Committee | Remuneration Committee |
| DJ Coghlan Chairman | 6 | – | – |
| S Beswick ¹ | 1 | – | – |
| MJ Butler Chairman of Remuneration Committee | 6 | 3 | 5 |
| SW Coggins Chairman of Audit Committee | 6 | 3 | 5 |
| PM Rae | 6 ² | 2 | 5 |
| PA Webb | 6 | – | – |

1. Resigned from the Board on 18 April 2019.

2. Attended for part of the meeting held on 13 September 2019.

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 within, 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 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.

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 Michael Butler have served on the Board for 21, 14 and three years respectively. Each brings different and complementary high level experience relevant to the current business and future development of the Group. During 2019, 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 that contribute to the success of the Group and to the performance and effectiveness of the Board. For these reasons, each of these three Non-Executive Directors is considered by the Board to be independent.

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of technology, engineering, finance, law, international trading, sales and marketing.

Biographies of each Director can be found on pages 36 and 37.

Each member of the Board takes responsibility for maintaining his skill set, which includes roles and experience with other boards and organisations as well as formal training and seminars.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its budget and forecast, and the Board reviews the update on performance at each meeting.

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.

The Directors are aware that a Board comprising six men and no women does not reflect current views of best practice and carries some risks in terms of the breadth of capability and views brought to the table. An issue in the technology and surveillance industries is that there are not many women in senior positions, and the Board's policy is to appoint members who have the most appropriate skills for the role, irrespective of gender. In line with that policy, Dr Alison Vincent was appointed to the Board as a Non-Executive Director on 23 January 2020.

Induction

The Company'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; the business plan; investor presentations; protocol for conflicts of interest; Directors' duties; Group Share Dealing Code and Group policies; Board meeting procedures and matters reserved; Board minutes and papers from previous meetings; 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.

Independent advice

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary. In addition, the Directors have direct access to the advice and services of the Company Secretary and Finance Director.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Board carries out an annual self-assessment of its performance. 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 the subject of a full, robust and open debate in a Board meeting and actions for improvements are agreed. Progress against these actions arising from performance evaluations is then monitored and reported on throughout the following year.

As a result of the evaluation process during 2018, the Board identified and agreed four action steps for 2018/19 focused on:

- widening the scope of the annual Board strategy review to include a more in-depth review of potential future industry scenarios based on emerging technology applications;
- extending the Board's access to expert views on technology developments in the wider industry;
- further refining the content and use of the template developed for effective monitoring of progress against the Company's strategic objectives across all business areas; and
- increasing the number and frequency of attendance of senior managers at Board meetings.

During the 2019 financial year, progress was made on each of the identified objectives, with further improvements to be made. Initial work has contributed to an increase in the effectiveness of the Board's review processes. It has been agreed that further action still needs to be taken to increase the exposure of NEDs to the latest industry technology developments and to the Senior Management Team, and this will be undertaken in 2019/20.

Principle 8: Promote a corporate culture that is based on ethical values and behaviours

The Board aims to lead by example and do what is in the best interests of the Group. Synectics has a strong ethical culture, supported in recent years by embedding policies and practices across the business to ensure that the 'whole' is greater than the sum of the parts. The success of the 'whole' depends on the Company's business principles of Professionalism and Quality, Openness, Communication and Integrity, and Value and Respect our Employees and on the values embedded in the business of Understand, Innovate, Respect and Do The Right Thing.

The Company has a Bribery and Corruption Policy and each of its businesses has implemented that policy and adequate procedure to prevent bribery. Any known non-compliance with the policy would be reported to the Board. The Group's policy is reviewed annually by the Board.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision making by the Board**Board programme**

The Board sets direction for the Group through a formal schedule of matters reserved for its decision. Prior to the start of each financial year, a schedule of dates for that year's Board meetings is compiled to ensure an appropriate spread of meetings across the financial year and in line with the Group's half-year and full-year results reporting. This may be supplemented by additional meetings as and when required.

The Board meets at least six times each year in accordance with its scheduled meeting calendar. The attendance by each Board member at scheduled meetings is shown in the Board table on page 40.

During the year to 30 November 2019, the Board met for all of its scheduled meetings. The Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place. Minutes of the meetings are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by management or the Board, as appropriate.

Roles of the Board, Chairman and Chief Executive Officer

The Board is responsible for the long-term success of the business. It is responsible for overall Group strategy; approval of major contracts; approval of significant investments; approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of each business, their annual budgets and their performance in relation to those budgets and subsequent forecasts. There is clear division of responsibility. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the business through the Senior Management Team.

Senior management below Board level attend Board meetings where appropriate to present business updates. Board meetings throughout the year are held at the Group's various offices within the UK, giving access to the different locations to gain a greater understanding of the Group's activities.

Executive Team

Until April 2019, the Executive Team consisted of Paul Webb and Simon Beswick with input from the Senior Management Team. Following Simon's resignation, Amanda Larnder took up the position and together with Paul Webb and the Senior Management Team was responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, plans and budgets approved by the Board of Directors, as well as managing key business risks. On 6 January 2020, David Bedford was appointed to the Board as Finance Director.

Board Committees

The Group has two standing Board Committees: an Audit Committee and a Remuneration Committee. The roles and activities of those Committees are included in the respective Committee reports on pages 43 to 49.

The functions of a Nominations Committee are undertaken by the 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.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the AGM and one-to-one meetings with large existing or potential new shareholders. A range of corporate information (including all announcements and presentations) is also available to shareholders, investors and the public on the corporate website.

The Board receives regular updates on the views of shareholders through briefings and reports from the Chairman of the Board, the Chief Executive and the brokers. Analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views.

The Company conducts an annual Employee Surveys to maintain an open communication with employees and introduced its Customer Excellence programme in 2016 which has created an additional channel of dialogue with customers.

Audit Committee report

Introduction from Audit Committee Chairman

On behalf of the Audit Committee (the "Committee"), I am pleased to present our report for the year ended 30 November 2019, which has been approved by the Board. During the year, the Committee has considered the integrity of the Group's financial reporting and provided advice to the Board that the 2019 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, providing shareholders with the necessary information to assess the Company's position, performance, business model and strategy. The activities of the Committee are kept under review in line with regulatory and market developments.

During the year, the Committee comprised me, Michael Butler and Peter Rae. All members of the Committee are Independent Non-Executive Directors and have no personal or financial interests, other than as shareholders, in the matters considered by the Committee.



Steve Coggins

Chairman of the Audit Committee

25 February 2020

Role and operation of the Committee

The Committee is responsible for ensuring that the Company maintains a strong control environment. It provides effective governance over the Group's financial reporting, including oversight and review of the systems of internal control and risk management and the performance of internal and external audit functions.

The Committee's formal terms of reference, which are reviewed and approved annually, 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 Governance section of our website at www.synecticsplc.com.

During the last financial year, the Committee met three times. Neither the Executive Directors nor the Chairman attend meetings other than by invitation by the Committee. The Committee invites the external auditor to attend certain 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 Committee's principal duties are to:

- make recommendations to the Board on the appointment, re-appointment or removal of the external auditor and the amount of its 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 Committee considered the following matters:

- the suitability of the Group's accounting policies and practices;
- the half-year and full-year financial results, including the assessment of Going Concern and recommendation to the Board that it is appropriate to adopt the Going Concern assumption;
- the scope and cost of the external audit;
- the auditor's full-year report for 2018;
- re-appointment of RSM UK Audit LLP ("RSM") as the Group's external auditor;
- the evaluation of the performance and independence of RSM as the Group's external auditor;
- the review and approval of the external auditor's plan for 2019, which detailed the proposed audit scope and risk and governance assessment;
- the review and approval of the external auditor's fees for 2019, including the review of the policy of the provision of non-audit fees by the auditor;
- the implementation of new accounting standards, including IFRS 15 concerning revenue recognition;
- the internal control environment across the Group;
- the arrangements in respect of internal audit, including its resourcing and the scope of the annual internal audit plan for 2018/19, as well as reports on the activity carried out during the year;
- detailed reviews of strategic and operational risks facing the Group, the risk registers and the mitigating actions to minimise risk;
- the annual review of the whistleblowing policy;
- the review of the Committee's terms of reference and recommendation of the updated terms of reference to the Board for approval;
- the assessment of the internal finance organisation;
- the results of the internally conducted assessment of the Committee's performance and effectiveness in 2019;
- the approval of the Committee plan for 2019;
- the training requirements of the Audit Committee members; and
- a technical update detailing accounting standards that would impact the Group over the next few years.

Financial reporting

During the year, the Committee reviewed and recommended approval of the half-year and full-year financial statements. As part of its review, the Committee interrogated the key judgements and accounting policies applied and considered the basis for estimates and assumptions underlying the financial statements.

The Committee recognises the importance of understanding changes in accounting policies and practice, and receives regular updates from both the external auditor, and the finance team on key changes in this area.

At the beginning of the year the Group adopted accounting standard IFRS 15 ‘Revenue from Contracts with Customers’. A significant amount of work has been undertaken throughout the Group to enable the new standard to be implemented. Further information on IFRS 15 is provided in the notes to the financial statements.

During the year, the Committee, management and the external auditor considered and concluded on a number of significant matters in relation to the financial statements. Those matters and what the Committee did to ensure that these matters had been appropriately addressed in the financial statements are set out below:

| Area of focus | How the matter was addressed by the Audit Committee |
|---|---|
| Revenue recognition and contract accounting | The Committee reviewed the Group’s implementation and financial statements disclosures for the adoption of IFRS 15. In addition, the Committee reviewed the controls in place to ensure the appropriateness of the estimates used in assessing contract stage of completion, anticipated profitability and the amounts recognised in the financial statements. The Committee agreed with the conclusions reached. |
| Goodwill impairment review | The Committee reviewed a management report outlining the approach taken on impairment testing and the key assumptions and sensitivities supporting the conclusions. The Committee agreed with the conclusions reached on impairment. |
| Going concern | The Committee reviewed management’s report outlining the assessment of going concern, giving consideration to the Group’s forecast cash flows, liquidity requirements and borrowing facilities. Following this review the Committee agreed that the going concern basis of accounting continues to be appropriate. |
| Presentation of the Group’s Income Statement – non-underlying items | The Committee considered the items classified as non-underlying and challenged the significance, timing and nature of those items and the disclosures in note 5. The Committee agreed with the conclusions reached. |

Risk management and internal control

The Committee also has responsibility for reporting to the Board on whether the Group’s key control policies and procedures remain appropriate and that it is operating a robust and effective control environment.

Risk management

The Committee, on behalf of the Board, ensures that the Group’s principal risks and uncertainties have been appropriately identified and assessed. It reviews those key risks and the quality of the assurance on the effectiveness of the controls that mitigate those risks, allowing it to conclude on the principal risks for disclosure in the Annual Report.

Effective internal control

Operating policies, procedures and controls are in place across the Group, and have been in place throughout the year under review. These policies ensure the accuracy and reliability of financial reporting and the preparation of financial statements including the consolidation process.

The controls relating to financial reporting include:

- an appropriately qualified management structure, with clear lines of responsibility;
- a comprehensive annual budgeting process, which is approved by the Board;
- close management of the day-to-day activities of the Group by the Chief Executive and Finance Director;
- detailed monthly reporting of performance, and against budget and forecast;
- central control over key areas such as contract risk assessment, capital expenditure authorisation and banking facilities.

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 Risk and Risk Management section on pages 54 and 55.

External audit

The Committee has responsibility to ensure that there is a sufficiently robust and effective external audit through considering the independence of the external auditor, the appointment and re-appointment of the external auditor and all reports from the external auditor.

Appointment of the external auditor

The Committee reviews and makes recommendations regarding the appointment of the external auditor. In making this recommendation, the Committee considers auditor effectiveness and independence, and any other factors which may impact upon the external auditor's re-appointment. After careful consideration, the Committee recommends the re-appointment of RSM as external auditor of the Group, subject to approval by shareholders at the 2020 AGM.

Audit independence

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

When required, the external Audit Partner is present at Committee meetings to ensure full communication of matters relating to the audit. The overall performance of the external auditor is reviewed annually by the 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 Committee also has discussions with the external auditor, without management being present, on the adequacy of controls and on any judgemental areas. The scope of the forthcoming year's external audit is discussed in advance by the Committee. Audit fees are approved by the Committee.

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

Other than the external audit, the Committee is required to give prior approval of work carried out by the auditor and its associates with a value 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 Committee with confidence in the independence of the auditor in its reporting on the audit of the Group.

Non-audit services

The independence and objectivity of the non-audit services provided by RSM to the Group are safeguarded by the Group's non-audit services policy. The policy on engaging the external auditor for non-audit services has always been designed to ensure that such engagements do not result in the creation of a mutuality of interest between the auditor and the Group, that a transparent process and reporting structure is established to enable the Committee to monitor policy compliance and that unnecessary restrictions on the engagement of the auditor for non-audit services are avoided where the provision of advice is commercially sensible and is more cost effective than other providers.

RSM provides non-audit services to the Group which are governed by the Group's non-audit services policy. Compliance with the policy is actively managed and an analysis of non-audit services is reviewed throughout the year. During the year ended 30 November 2019 15% of fees for services provided to the Group were non-audit services and related predominantly to support in relation to the implementation of IFRS 15 (see note 6 to the financial statements). This work was undertaken by a separate specialist team, engaged prior to the appointment of RSM as external auditor.

Remuneration Committee report

Introduction from the Remuneration Committee Chairman

On behalf of the Remuneration Committee (the "Committee"), I am pleased to present our report for the year ended 30 November 2019, which has been approved by the Board. This report is divided into two sections:

- an unaudited section which sets out the work of the Committee in 2019 and the Company's remuneration policy for Executive Directors and Non-Executive Directors; and
- an audited section, the Remuneration Report, which details the remuneration paid to Directors in the year ended 30 November 2019.

As an AIM-listed company, the information provided is disclosed to fulfil the requirements of AIM Rule 19. The Company is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This information is unaudited, except where stated.

During the year, the Committee comprised me, Steve Coggins and Peter Rae. All members of the Committee are Independent Non-Executive Directors and have no personal or financial interests, other than as shareholders, in the matters considered by the Committee.



Michael Butler

Chairman of the Remuneration Committee

25 February 2020

Unaudited information

The 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 Directors. 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 Governance section of the Company's website at www.synecticsplc.com.

Neither the Executive Directors nor the Chairman attend other than by invitation of the Committee and are not present at any discussion of their own remuneration.

The principal duties of the 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 Management Team 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 certain senior managers;
- 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 ensures each year that the Remuneration Committee Report, which contains the Directors' remuneration, is put to shareholders for approval at the AGM.

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 year the Committee met five times. Matters dealt with by the Committee included the:

- approval of the 2018 bonus awards and salary increases for the Executive Directors and certain senior managers;
- approval of the discretionary executive bonus scheme to take effect in the financial year 2019 for Executive Directors. For the 2019 financial year, the upper limits on bonuses were set at 75% of base salary for the Chief Executive;
- approval of an award of options under the Synectics' Performance Share Plan ('PSP') on 1 March 2019 for certain senior managers;
- approval of exercises of options over shares, and sales of shares, in respect of the Group's various incentive plans during the year; and
- review of the outturn of the 2016 PSP awards and the determination that those awards vested had vested in full.

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 also seeks to ensure that Executive Directors are rewarded fairly for their individual contributions to the Group's performance and to 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 based only on 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 or have a prior interest in. Details of the share plans are given in note 22 to the financial statements. Directors' interests in the shares of the Group are detailed in the shareholdings disclosure on page 51.

Executive Directors are not automatically entitled 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 unrelated to the Group 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 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.

a) Remuneration

| | Salary and fees £000 | Bonuses ¹ £000 | Benefits £000 | PSP awards ² £000 | 2019 Total (excl. pension) £000 | 2018 Total (excl. pension) £000 | 2019 Pension allowance ³ £000 | 2018 Pension allowance ³ £000 |
|---|-------------------------|------------------------------|------------------|---------------------------------|---------------------------------------|---------------------------------------|---|---|
| Executive Directors | | | | | | | | |
| S Beswick (resigned 18 April 2019) | 55 | – | 11 | – | 66 | – | 3 | – |
| MJ Stilwell (resigned 30 November 2018) | – | – | – | – | – | 192 | – | 7 |
| PA Webb | 242 | – | 15 | 61 | 318 | 358 | 29 | 29 |
| Non-Executive Directors | | | | | | | | |
| D Bate (retired 26 April 2018) | – | – | – | – | – | 12 | – | – |
| MJ Butler | 30 | – | – | – | 30 | 30 | – | – |
| SW Coggins | 30 | – | – | – | 30 | 30 | – | – |
| DJ Coghlan | 75 | – | 12 | – | 87 | 85 | – | – |
| PM Rae | 30 | – | – | – | 30 | 30 | – | – |
| Total | 462 | – | 38 | 61 | 561 | 737 | 32 | 36 |

1. Bonuses are paid or accrued based on the achievement of agreed personal objectives and corporate performance metrics.
2. This is the value of PSP awards vesting and exercised in the financial period. This has been calculated by reference to a share price of £2.04, being the share price on the day the awards were exercised.
3. Pension allowance includes both contributions to the Group's defined contribution pension scheme and cash payments in lieu of contributions.

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 2019 and 25 February 2020.

Performance Share Plan

The following Executive Directors held an interest in the Company's shares at 30 November 2019 through awards made under the PSP, which was established on 9 October 2012, as set out below and in note 22.

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 Quadnetics Executive Shared Ownership Plan ('ExSOP'), details of which are presented below.

| Date awarded | 1 March 2017 | | 1 March 2018 | | 7 March 2019 | |
|--------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| | Number of shares | Issue price (p) | Number of shares | Issue price (p) | Number of shares | Issue price (p) |
| S Beswick | – | – | – | – | 20,000 | 200.0 |
| PA Webb | 15,000 | 225.0 | – | – | 25,000 | 200.0 |

Following his resignation on 18 April 2019, the 20,000 shares awarded to Simon Beswick on 7 March 2019 lapsed.

The PSP awards granted on 1 March 2016 vested in full and were exercised in the year ended 30 November 2019 as follows:

| Date awarded | 1 March 2016 | | Share price on day exercised (p) |
|--------------|------------------|-----------------|----------------------------------|
| | Number of shares | Issue price (p) | |
| PA Webb | 30,000 | 117.5 | 204.0 |

Executive Shared Ownership Plan

The following Directors held an interest in the Company's shares at 30 November 2019 through participation in the ExSOP, which was established on 7 July 2009, having superseded an earlier scheme established in 2005, as set out in note 22. 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 ¹ | | 7 March 2011 | |
|--------------|--------------------------|-----------------|------------------|-----------------|
| | Number of shares | Issue price (p) | Number of shares | Issue price (p) |
| PA Webb | 100,000 | 147.5 | 100,000 | 178.0 |
| DJ Coghlan | 93,243 | 147.5 | – | – |

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

The Executive Directors had the following interests over Company shares held in the ESAP at 30 November 2019:

| | Total number of partnership and dividend shares held at 1 December 2018 | Number of partnership shares purchased during the year | Number of dividend shares purchased during the year | Total number of partnership and dividend shares held at 30 November 2019 | Value of shares as at 30 November 2019 (£) | Holding date |
|---------|---|--|---|--|--|--------------|
| PA Webb | 6,923 | 1,036 | 190 | 8,149 | 12,427 | Various |

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 2018 | 191.7p |
| At 30 November 2019 | 152.5p |

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

| | Ordinary shares of 20p each |
|---------|-----------------------------|
| Maximum | 228.0p |
| Minimum | 133.1p |

Employees' Share Acquisition Plan

The Executive Directors also participate in the Quadnetics Employees' Share Acquisition Plan ('ESAP'), which was adopted on 23 April 2010. Deductions from salary are used to buy partnership shares in the Company 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.

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 |
|------------|---------------|
| DM Bedford | 6 months |
| MJ Butler | 3 months |
| SW Coggins | 6 months |
| DJ Coghlan | 12 months |
| PM Rae | 1 month |
| A Vincent | 3 months |
| PA Webb | 12 months |

Statutory Directors' report

The following matters are reported by the Directors in accordance with the Companies Act 2006 requirements in force at the date of this 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 6 to 35, and pages 54 and 55.

Review of business and future developments

The Consolidated Income Statement for the year ended 30 November 2019 is set out on page 60.

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 4 to 35. These reports, together with the Corporate Governance Statement, the Audit Committee Report and the Remuneration 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 gross margin %;
- underlying operating profit and underlying profit before tax;
- underlying operating margin %, being the ratio of underlying operating profit to revenue;
- operating profit;
- profit before tax;
- diluted earnings per share;
- underlying diluted 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 %;
- return on capital employed %;
- 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 54 and 55.

Group results and dividends

The consolidated profit after tax for the year was £1,630,000 (2018: £1,535,000).

The Directors recommend the payment of a final dividend of 3.5p per share (2018: 3.5p per share), totalling around £601,000. Subject to approval, this is expected to be paid on 7 May 2020 to shareholders on the register as at close of business on 3 April 2020. An interim dividend of 1.3p per share was paid during the year (2018: 1.2p per share).

Financial instruments

Details of financial instruments to which the Group is a party are shown in note 29 to the financial statements.

Fixed assets

In the opinion of the Directors, there is no material difference between the book value and the current open market value of the Group's interest in land and buildings.

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 £3.8 million (2018: £3.1 million), of which £3.0 million (2018: £2.6 million) has been expensed 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 2019. No shares were held in treasury and 1,019,617 shares were held by the Company's employee share trusts. Details of movements in the issued share capital can be found in note 21 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 17,120 shares in the Company were purchased by the employee benefit trust during the 2019 financial year.

Directors' interests

Interests of the Directors and their connected persons in the issued share capital of the Company as at 30 November 2019 were as follows:

| | 2019 Number of shares held | 2019 Interests in share schemes | 2019 Total interests in shares | 2018 Total interests in shares |
|------------------------|----------------------------------|--|---|---|
| S Beswick ¹ | – | – | – | – |
| MJ Butler | 40,000 | – | 40,000 | 40,000 |
| SW Coghlan | 13,080 | – | 13,080 | 13,080 |
| DJ Coghlan | 1,521,303 | 93,243 | 1,614,546 | 1,614,546 |
| PM Rae | 232,302 | – | 232,302 | 232,302 |
| PA Webb | 52,115 | 248,149 | 300,264 | 288,245 |
| | 1,858,800 | 341,392 | 2,200,192 | 2,188,173 |

1. S Beswick resigned from the Board on 18 April 2019.

There has been no change in the interests of the Directors and their connected persons in the issued share capital of the Company from those set out in the table above to 25 February 2020.

Significant shareholdings

As at the close of the market on 1 February 2020, 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 |
|-------------------------------------|---------------------|-----------------------------|
| Whitehall Associated SA | 3,901,564 | 21.93 |
| Downing LLP | 2,227,618 | 12.52 |
| Cavendish Asset Management | 1,506,346 | 8.47 |
| Canaccord Genuity Wealth Management | 1,190,000 | 6.69 |
| Quadnetics Employee Benefit Trust | 1,019,617 | 5.73 |
| Sapia Partners | 748,500 | 4.21 |

Board of Directors

With the exception of Simon Beswick who resigned from the Board on 18 April 2019, all Directors were in office throughout the financial year ended 30 November 2019. Since the year end, David Bedford has been appointed Finance Director with effect from 6 January 2020 and Dr Alison Vincent has been appointed Non-Executive Director with effect from 23 January 2020. Peter Rae has retired from the Board with effect from 19 February 2020. Details and biographies of the current Directors are shown on pages 36 and 37.

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. The Directors retiring by rotation at the 2020 AGM are David Coghlan and Steve Coggins.

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 25 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 402 people in 2019 (2018: 436).

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 has in place a Diversity and Equality Policy which sets out Synectics' approach to equal opportunities and avoidance of discrimination at work. This policy confirms the Group's commitment to treating employees fairly and inclusively, ensuring that all decisions on recruitment, selection, training, promotion, career opportunities, pay and other terms and conditions are based solely on objective and job-related criteria.

Employment policies continued

The Group is committed to offering employment to suitably qualified people with disabilities and making reasonable adjustments to the working environment to accommodate their needs. Where a role has an intrinsic occupational characteristic which may prevent the employment of a disabled applicant Synectics will make this clear during the recruitment process. The Group also makes every effort to continue the employment, training and promotion of disabled employees who develop disabilities during the course of their employment by making reasonable adjustments and providing appropriate support.

Employee engagement

The Group engages with its employees regularly through various media: email alerts, focus groups, monthly bulletins, team briefings, a biannual 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 an 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 46 to 49.

Policy on payment of suppliers

The Group's policy during the year was to pay suppliers in accordance with agreed terms. At 30 November 2019 the Group had 65 days' purchases outstanding in trade payables (2018: 72 days').

Charitable donations and activity

The Group made donations amounting to £2,673 (2018: £1,142) to charitable causes during the year.

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 ('AGM')

The notice convening the AGM is distributed separately to shareholders at least 21 working days before the meeting. Separate Resolutions are proposed on each substantially separate issue. The poll results from the 2020 AGM will be made available on the Company's website after the meeting.

Auditor

As detailed in the Audit Committee Report, RSM UK Audit LLP has been re-appointed by the Board as the Company's external auditor, upon the recommendation of the Audit Committee. Accordingly, a Resolution for the re-appointment of RSM UK Audit LLP as auditor of the Company is to be proposed at the forthcoming AGM.

Post-balance sheet events

An employment related dispute in the US has been settled subsequent to the year end. See note 5 to the financial statements.

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' responsibility statement

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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, relevant, reliable 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;

- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Parent Company or cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

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 position and performance, business model and strategy.

Forward-looking statements

This report may contain certain statements about the future outlook for Synectics plc. Although the Directors believe their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

The Strategic Report and the Directors' Report have been approved by the Board.

By Order of the Board



Claire Stewart
Company Secretary

25 February 2020

Understanding and managing key risks to the Group

Synectics plc 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 adequate and appropriate given the size and complexity of the Group.

A robust risk reporting framework has been adopted by the Board. As part of this framework, the divisional management teams submit a report to monthly business review meetings setting out their top five business risks, mitigation plans and associated timescales. The Executive Directors review and challenge this risk analysis with the divisional management teams at each business review meeting. The Executive Directors then review the individual divisional submissions, consider the broader strategic threats facing the Group and present their assessment of the most significant risks facing the Group to the Audit Committee and then the Board twice a year for detailed review and discussion. The Audit Committee and Board also receive the detailed risk reviews prepared by the divisional teams and these business risk registers are used when setting the Group's internal audit strategy.

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.

People skills and dependency

Exposure to specific market sectors

Product failure

Project delivery & contractual liability

Technology development

Bad debt & non-recovery of costs

Price & margin pressure

Cybersecurity

Exchange rates/Brexit

Strategic project delivery

Complexity of operations

Risk

Factors that may impact the business

As with most businesses, particularly those operating in a technical field, we are dependent on our employees with key managerial, engineering and technical skills.

One of the Group's key strengths is its expertise in delivering tailored solutions to customers in key sectors with critical security needs. The success of this strategy has resulted in revenues which are concentrated in a relatively small number of market segments. This results in a level of risk related to external market specific impacts – for example how the current low oil price is affecting new projects within Oil & Gas. Similarly, external factors, including governmental policies, may impact the timing and scale of investment within our other key markets including Gaming and Transport & Infrastructure (Systems Division) and UK Retail and UK Government funded Infrastructure (IMS Division).

Where the Group's product offering fails to meet agreed standards there is a risk that the Group will be exposed to replacement or rework costs as a result of this failure, and the associated reputational impact on new business.

Where the Group's 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.

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

The Group is exposed to the risk of non-payment for work performed. This may be due to the inability of the customer to pay as a result of financial difficulty, or unwillingness to pay due to dissatisfaction with the work performed or dispute over the obligation to pay, particularly where extension of time and contract variations are claimed.

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

Unauthorised access to the Group's systems or to our customers' systems in relation to software supplied by the Group could result in material losses. In addition to the risk of financial theft or fraud, losses could result from an inability to run key internal processes affecting the ability of the business to operate. Security breaches could result in the loss of intellectual property or other confidential information which may also result in fines from regulatory bodies. Actual breaches or deficiencies within our cyber security procedures could impact the Group's external certifications which could affect our ability to do business within certain regulated environments.

The Group operates internationally giving rise to exposure from changes in foreign currency exchange rates. The Group conducts a significant amount of trade with businesses located in EU countries. The outcome of post-Brexit trade negotiations may disrupt or impede this trade with a consequent impact on revenues and profits.

The failure to deliver key change projects in line with planned costs, benefits and timings could impact the future financial performance of the Group.

For a company of its scale Synectics has relatively complex operations: multiple locations, varied product offerings, multiple information systems and significant overseas operations. The company is therefore relatively complex to manage giving a greater risk of weaknesses or failures in internal controls or systems.

Mitigation

What we are doing to minimise the risk

The Group aims to offer competitive remuneration packages and incentive arrangements, together with an agile environment which encourages and rewards excellent performance. Employee engagement is assessed via an annual survey and regular "Pulse" checks with feedback and recommended actions agreed at Board level and built into business units' plans. In addition, the Group actively reviews its succession planning objectives and, in recent years, has increased its focus on personal development reviews and the provision of relevant training.

The Group's transition of the Systems Division into a Regional structure is designed to support a broadening of the customer base which should result, over time, in a more balanced mix of Sector revenues in each Region. The recently announced project win with S-Bahn Berlin GmbH will contribute this. The Group continues to seek new opportunities in both existing and new sectors which should also, over time, reduce the level of sector related risk.

Product quality is closely monitored and reviewed across Synectics with comprehensive product testing and customer support in place. The Group maintains rigorous quality standards in all its operations and expects the same standards of its supplier base. Where possible product liability is mitigated through contractual arrangements within the supply chain.

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

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 Board regularly reviews the Divisions' product development roadmaps to gain assurance that we will continue to be able to meet the evolving needs of our customers.

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. Where possible credit risk is mitigated through deposit and milestone payment requirements which at least cover the cost of work performed. In addition, financial instruments such as letters of credit are utilised where appropriate. Robust reporting of outstanding positions, customer payment issues and projects experiencing delays is in place to the monthly business review meetings with the Executive Directors and exceptionally to the Board.

Synectics 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, Synectics will maintain a core of increasingly software-based proprietary technology giving higher-margin opportunities and focus on developing recurring revenues.

The Group operates strict cybersecurity practices to secure information, trade secrets, source code and our product development processes. This includes training, penetration testing, external accreditations such as ISO 27001 and cybersecurity monitoring. We employ numerous industry leading practices to ensure our products are secure from cyber-attacks including data encryption of data at rest and in transit, and the use of digital secure certificates. We have engaged with a cyber consultancy firm to undertake a full independent audit and to provide advice on further improving the cyber security of our products.

The Group manages exchange risk on an ongoing basis through the matching of foreign currency receipts and payments, where possible, or alternatively through forward exchange contracts. The Board is monitoring closely any risks or opportunities that may emerge as a result of the UK's departure from the EU.

Proposals involving significant investment or organisational changes are rigorously reviewed by the Executive Directors and where necessary by the Board. The Group operates robust systems and procedures to ensure the monitoring and successful delivery of key projects.

The Group has in 2019 integrated more fully its Systems supply-chain. In addition, the executive management are reviewing management processes and options to update and integrate information systems. In particular the benefits of a single integrated ERP across the Systems Division will be considered.

The Audit Committee advises the Board of Directors on matters of risk management. It has its own report, which can be read on pages 43 to 45.

Independent auditor's report

Opinion

We have audited the financial statements of Synectics plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 November 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement, company statement of comprehensive income, company statement of changes in equity, company statement of financial position and notes to the financial statements, including a summary of significant accounting policies. 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 European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition, contract accounting and the adoption of IFRS 15 "Revenue from contracts with customers"

(2019 £68.5m; 2018 £71.2m) – refer to Audit Committee report (page 44), accounting policies and critical accounting estimates and judgements (pages 66-67 and 72) and financial disclosures (note 3 – pages 75-76 and note 31 – pages 92-94).

The risk:

The group recognises a substantial element of its revenue and profit from non-recurring contracts, which may span accounting periods. Contract accounting requires the assessment of the stage of completion of each contract and likely outcome of the contract in order to determine the revenue and profit to be recognised.

The group adopted IFRS 15 at 1 December 2018 using the modified retrospective method, with the cumulative effect of initially applying the standard adjusted to opening equity at 1 December 2018. As a result, the comparative information has not been restated and is reported under IAS 18.

There is a risk of misstatement resulting from inappropriate recognition bases being used, inappropriate assessments being made on the adoption of IFRS 15 and inaccurate estimates being made.

Our response:

We reviewed and evaluated the group's process and controls over their assessment of the impact of IFRS 15 and reviewed and tested the output of the process, including the adjustment to opening equity at 1 December 2018.

Our procedures also included:

- A review of the appropriateness of the revenue recognition and contract accounting policies and practices;
- Evaluation of the controls in place to assess the accuracy of the stage of completion and likely outcome of contracts;
- Testing of a sample of contracts to agree details to supporting documentation and consider and challenge the contract accounting assessments;
- A review of any significant old accrued income balances; and
- A retrospective review of the outcome of contracts in progress at the prior year end to assess the validity of the estimates applied in the prior period.

Carrying value of goodwill

(2019 £19.9m; 2018 £20.1m) – refer to Audit Committee report (page 44), accounting policies and critical accounting estimates and judgements (pages 66 and 72) and financial disclosures (note 15 – pages 81-82).

The risk:

The group balance sheet includes goodwill totalling £19.9m at 30 November 2019. The risk is that the goodwill is not recoverable and should be impaired.

Impairment testing requires management to identify appropriate cash generating units ("CGUs"), identify the carrying amount of each CGU, including its goodwill, and determine whether the higher of the fair value less cost to sell and the value in use for the CGU, based on the net present value of the forecast earnings of the CGU, exceeds the carrying amount. Impairment testing involves a significant degree of judgement due to the level of estimation involved in forecasting future performance and setting appropriate assumptions regarding discount rates, growth rates and working capital movements.

Our response:

Our procedures included:

- A critical assessment of the key assumptions made in determining the recoverable amounts of each CGU, with particular focus on the poorer performing components;
- Consideration of the appropriateness of the allocation of goodwill to CGUs in the light of our understanding of the group's businesses, including the appropriateness of the transfer of Synectic Mobile Systems from the Systems CGU to the IMS CGU;

- Considering whether the CGUs reflect the IAS 36 requirement that they represent the smallest identifiable group of assets that generate cash flows that are largely independent and, whether, if an alternative view was taken on this there would be any impact on the impairment assessment;
- Agreeing the forecast future performance to the most recently approved business plan;
- Considering the forecasts in the context of historical forecasting accuracy and our understanding of the sectors in which the group operates;
- Considering the appropriateness of the assumptions used in the calculation of the discount rates used, including comparison with external data sources;
- Undertaking our own sensitivity analyses; and
- Assessing the appropriateness of the group's disclosures about the sensitivity of their impairment assessment.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £650,000, which was not changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £600,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £33,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group comprises nine reporting components. Of these, the parent company was subject to full scope statutory audit to the group reporting timetable and a further five components have been subject to full scope audit to group materiality to the group reporting timetable. Three components were subject to reduced scope review procedures to the group reporting timetable.

The UK audit team conducted the audits of the five UK components and conducted the reduced scope review of the US and German components.

The other two components are accounted for in Singapore.

- The Singapore entity is a significant component and was subject to full scope audit to group materiality to the group reporting timetable by RSM Singapore. We issued detailed audit instructions to RSM Singapore, highlighting our assessment of the significant risks to be addressed by their work and setting out certain requested procedures and group reporting requirements. The group audit team has undertaken a remote review of the Singapore team audit working papers, reviewed the group reporting documents and discussed the findings of the work with the Singapore team.

Financial statements

Independent auditor's report continued

To the members of Synectics plc

An overview of the scope of our audit continued

- The Macau entity is not a significant component and is not subject to local statutory audit. RSM Singapore conducted the reduced scope procedures requested by the group audit team to the group reporting timetable. The group audit team work was restricted to reviewing the Singapore team group reporting documents and discussing the findings of their work with them.

The full scope audit work for group audit purposes covered 74% of the group's revenue, 100% of the group's profit before tax and 85% of the group's total assets.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 52-53, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

RSM UK Audit LLP

Charles Fray (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants
St Philips Point
Temple Row
Birmingham
B2 5AF

25 February 2020

Financial statements

Consolidated income statement

For the year ended 30 November 2019

| | Note | 2019 | | | 2018 | | |
|---|------|----------------------------------|------------------------------------|---------------|----------------------------------|------------------------------------|------------|
| | | Before non-underlying items £000 | Non-underlying items (note 5) £000 | Total £000 | Before non-underlying items £000 | Non-underlying items (note 5) £000 | Total £000 |
| Revenue | 2,3 | 68,511 | – | 68,511 | 71,249 | – | 71,249 |
| Cost of sales | | (45,215) | – | (45,215) | (47,322) | (510) | (47,832) |
| Gross profit | | 23,296 | – | 23,296 | 23,927 | (510) | 23,417 |
| Operating expenses | 4 | (20,714) | (931) | (21,645) | (20,972) | (214) | (21,186) |
| Profit from operations | | 2,582 | (931) | 1,651 | 2,955 | (724) | 2,231 |
| Finance income | 9 | 165 | – | 165 | 167 | – | 167 |
| Finance costs | 10 | (263) | – | (263) | (266) | – | (266) |
| Profit before tax | | 2,484 | (931) | 1,553 | 2,856 | (724) | 2,132 |
| Income tax credit/(expense) | 11 | (122) | 199 | 77 | (738) | 141 | (597) |
| Profit for the year attributable to equity holders of the Parent | | 2,362 | (732) | 1,630 | 2,118 | (583) | 1,535 |
| Basic earnings per share | 13 | 14.0p | – | 9.7p | 12.7p | – | 9.2p |
| Diluted earnings per share | 13 | 13.9p | – | 9.6p | 12.6p | – | 9.1p |

Consolidated statement of comprehensive income

For the year ended 30 November 2019

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Profit for the year | 1,630 | 1,535 |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Remeasurement gain/(loss) on defined benefit pension scheme, net of tax | 414 | (97) |
| | 414 | (97) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of foreign operations | (211) | 286 |
| (Losses)/gains on a hedge of a net investment taken to equity | (134) | 25 |
| | (345) | 311 |
| Total comprehensive income for the year attributable to equity holders of the Parent | 1,699 | 1,749 |

Financial statements

Consolidated statement of financial position

As at 30 November 2019

| | Note | 2019 £000 | 2018 ¹ £000 |
|--|------|-----------------|---------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 14 | 2,904 | 2,728 |
| Intangible assets | 15 | 21,712 | 21,488 |
| Retirement benefit asset | 28 | 687 | 182 |
| Deferred tax assets | 11 | 1,259 | 659 |
| | | 26,562 | 25,057 |
| Current assets | | | |
| Inventories | 16 | 7,076 | 7,632 |
| Trade and other receivables | 17 | 17,536 | 20,395 |
| Contract assets ² | 3 | 7,933 | – |
| Tax assets | | 35 | 87 |
| Cash and cash equivalents | 18 | 3,580 | 8,114 |
| | | 36,160 | 36,228 |
| Total assets | | 62,722 | 61,285 |
| Current liabilities | | | |
| Trade and other payables | 19 | (14,821) | (18,475) |
| Contract liabilities ² | 3 | (4,062) | – |
| Tax liabilities | | (384) | (467) |
| Current provisions | 20 | (1,366) | (656) |
| | | (20,633) | (19,598) |
| Non-current liabilities | | | |
| Non-current provisions | 20 | (321) | (321) |
| Deferred tax liabilities | 11 | (807) | (646) |
| | | (1,128) | (967) |
| Total liabilities | | (21,761) | (20,565) |
| Net assets | | 40,961 | 40,720 |
| Equity attributable to equity holders of the Parent Company | | | |
| Called up share capital | 21 | 3,559 | 3,559 |
| Share premium account | | 16,043 | 16,043 |
| Merger reserve | | 9,971 | 9,971 |
| Other reserves | | (1,499) | (1,748) |
| Currency translation reserve | | 720 | 1,065 |
| Retained earnings | | 12,167 | 11,830 |
| Total equity | | 40,961 | 40,720 |

1. Re-presented for the reclassification of the warranty provision from accruals to provisions. See note 1.

2. Contract assets and contract liabilities arise following the adoption of IFRS 15 on 1 December 2018. See note 31.

The financial statements on pages 56 to 104 were approved and authorised for issue by the Board of Directors on 25 February 2020 and were signed on its behalf by:



Paul Webb
Chief Executive



David Bedford
Finance Director

Company number: 1740011

Financial statements

Consolidated statement of changes in equity

For the year ended 30 November 2019

| | 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 2017 | 3,559 | 16,043 | 9,971 | (2,185) | 754 | 11,429 | 39,571 |
| Profit for the year | - | - | - | - | - | 1,535 | 1,535 |
| Other comprehensive income | | | | | | | |
| Currency translation adjustment | - | - | - | - | 311 | - | 311 |
| Remeasurement loss on defined benefit pension scheme, net of tax | - | - | - | - | - | (97) | (97) |
| Total other comprehensive income | - | - | - | - | 311 | (97) | 214 |
| Total comprehensive income for the year | - | - | - | - | 311 | 1,438 | 1,749 |
| Dividends paid (note 12) | - | - | - | - | - | (699) | (699) |
| Credit in relation to share-based payments (note 23) | - | - | - | - | - | 66 | 66 |
| Share scheme interests realised in the year | - | - | - | 437 | - | (404) | 33 |
| At 30 November 2018 ¹ | 3,559 | 16,043 | 9,971 | (1,748) | 1,065 | 11,830 | 40,720 |
| IFRS 15 opening balance adjustment (note 31) | - | - | - | - | - | (808) | (808) |
| Tax on IFRS 15 opening balance adjustment | - | - | - | - | - | 115 | 115 |
| At 1 December 2018 ² | 3,559 | 16,043 | 9,971 | (1,748) | 1,065 | 11,137 | 40,027 |
| Profit for the year | - | - | - | - | - | 1,630 | 1,630 |
| Other comprehensive income | | | | | | | |
| Currency translation adjustment | - | - | - | - | (345) | - | (345) |
| Remeasurement gain on defined benefit pension scheme, net of tax | - | - | - | - | - | 414 | 414 |
| Total other comprehensive income | - | - | - | - | (345) | 414 | 69 |
| Total comprehensive income for the year | - | - | - | - | (345) | 2,044 | 1,699 |
| Dividends paid (note 12) | - | - | - | - | - | (810) | (810) |
| Credit in relation to share-based payments (note 23) | - | - | - | - | - | 45 | 45 |
| Share scheme interests realised in the year | - | - | - | 249 | - | (249) | - |
| At 30 November 2019 | 3,559 | 16,043 | 9,971 | (1,499) | 720 | 12,167 | 40,961 |

1. Prepared under IAS 18 and IAS 11.

2. Prepared under IFRS 15.

Financial statements

Consolidated cash flow statement For the year ended 30 November 2019

| | Note | 2019 £000 | 2018 £000 |
|--|------|----------------|----------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 1,630 | 1,535 |
| Income tax (credit)/expense | 11 | (77) | 597 |
| Finance income | 9 | (165) | (167) |
| Finance costs | 10 | 263 | 266 |
| Depreciation and amortisation charge | | 941 | 1,378 |
| Loss on disposal of non-current assets | | 16 | 13 |
| Net foreign exchange differences | | 60 | (16) |
| Net movement in provisions | | (198) | (123) |
| Non-underlying items | | 908 | 701 |
| Other inventory write down | | 37 | 669 |
| Cash flow relating to non-underlying items | | – | (191) |
| Other non-cash movements | | (204) | (354) |
| Share-based payment charge | | 45 | 66 |
| Operating cash flows before movement in working capital | | 3,256 | 4,374 |
| Decrease in inventories | | 886 | 678 |
| (Increase)/decrease in receivables | | (8,315) | 4,147 |
| Increase/(decrease) in payables | | 2,529 | (2,911) |
| Cash (used in)/generated from operations | | (1,644) | 6,288 |
| Tax paid | | (356) | (459) |
| Net cash (used in)/from operating activities | | (2,000) | 5,829 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 14 | (706) | (426) |
| Capitalised development costs | 15 | (762) | (461) |
| Purchased software | 15 | (29) | (68) |
| Net cash used in investing activities | | (1,497) | (955) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | – | (900) |
| Share scheme interests realised in the year | | – | 33 |
| Interest paid | | (103) | (107) |
| Dividends paid | 12 | (810) | (699) |
| Net cash used in financing activities | | (913) | (1,673) |
| Effect of exchange rate changes on cash and cash equivalents | | (124) | 192 |
| Net (decrease)/increase in cash and cash equivalents | | (4,534) | 3,393 |
| Cash and cash equivalents at the beginning of the year | | 8,114 | 4,721 |
| Cash and cash equivalents at the end of the year | 18 | 3,580 | 8,114 |

Financial statements

Notes to the consolidated financial statements

For the year ended 30 November 2019

1 Principal accounting policies

Synectics plc is a public limited company incorporated in England and Wales and domiciled in the UK.

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.

Basis of preparation

These financial statements have been prepared in accordance with IFRS as endorsed 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 Financial Reporting Standard ('FRS') 101 'Reduced Disclosure Framework'; these are presented on pages 96 to 104. The consolidated financial statements of the Company as at and for the year ended 30 November 2019 comprise the Company and its subsidiaries.

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.

The following new standards became applicable for the current reporting period and the Group changed its accounting policies and, where applicable, made retrospective adjustments as a result of adopting:

- IFRS 15 'Revenue from Contracts with Customers'; and
- IFRS 9 'Financial Instruments'.

The impact of adoption of these standards is set out in note 31.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

New standards and interpretations not yet adopted

Accounting Standards that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

IFRS 16 'Leases'

Background

The Group will adopt IFRS 16 with effect from 1 December 2019. The standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model requiring lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is twelve months or less.

Lessees will be required to recognise on the balance sheet "right-of-use" assets which represent the right to use underlying assets during the lease term and a lease liability representing the minimum lease payment for all leases. Depreciation of "right-of-use" assets and interest on lease liabilities will be charged to the Income Statement, replacing the corresponding operating lease rentals.

Transition

The Group will adopt IFRS 16 on a modified retrospective basis. On transition, remaining payments payable under lease arrangements will be discounted using an appropriate incremental borrowing rate and recognised as lease liabilities. Right-of-use assets will be recognised equivalent to the lease liability, adjusted for any pre-existing prepaid lease payments, accrued lease expenses, and related onerous lease and dilapidation provisions.

The Group will recognise the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1 December 2019, i.e. the date of initial application. Results in the 2020 financial year will be reported under IFRS 16 and the Annual Report 2020 will be the first Annual Report to include the results on this basis.

Practical expedients and judgements

The Group has elected to make use of the following practical expedients and exemptions available under IFRS 16:

- Low value leases and short-term leases will be excluded from IFRS 16 accounting, i.e. they will be accounted for in the same manner as operating leases currently are.
- Where we are lessee in a contract containing both lease components and non-lease components, we will account for the arrangement as though it comprises a single lease component.
- Initial direct costs will be excluded when measuring the right-of-use asset.
- Hindsight will be used when assessing the lease term.

1 Principal accounting policies continued

New standards and interpretations not yet adopted continued

IFRS 16 'Leases' continued

Impact

All arrangements previously disclosed as operating lease commitments will now be recognised on the balance sheet. The main drivers will be the Group's leased buildings and cars, the majority of which is currently recognised off balance sheet.

The Group expects the following on adoption:

- lease liabilities will be recognised as a result of bringing operating lease commitments onto the balance sheet. Corresponding right-of-use assets will be recognised, adjusted for accrued lease payments and provisions currently recognised as liabilities. We do not anticipate a material impact on retained earnings due to the transition options selected.
- the increase in liabilities will have a corresponding impact on working capital ratios.
- depreciation expense and interest expense will replace the current operating lease expense.
- within the cash flow statement, lease payments will now be presented in cash flows from operating activities and cash flows from financing activities in respect of depreciation and interest expense, respectively. The timing of cash flows will remain unchanged.

It is not currently practicable to provide a reasonable estimate of the value of the impact of the standard at this stage; however, it is not expected to have a material impact on the result for the year ending 30 November 2020.

The following standards and interpretations are applicable in future periods but are not expected to have a significant impact on the consolidated financial statements:

- IFRIC 23 'Uncertainty over Tax Treatments'.
- IFRS 17 'Insurance Contracts'.

Prior year re-presentation of warranty provision

The Group has reclassified its warranty provision from accruals to provisions; the amount reclassified at 30 November 2018 of £849,000 is shown in note 20. The Group believes that the new presentation is more appropriate as the warranty provision is now presented alongside other provisions.

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 6 to 25 and on pages 54 and 55.

As detailed in note 18, the Group has secured banking facilities in place which are used to meet the day-to-day working capital requirements. The Directors have considered the financial position of the Group at 30 November 2019 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.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Change in subsidiary ownership and loss of control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Financial statements

Notes to the consolidated financial statements continued
For the year ended 30 November 2019

1 Principal accounting policies continued

Basis of consolidation continued

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated.

Goodwill

Goodwill is recorded at cost, being the excess of the cost of acquisition over the fair value at the date of acquisition of the Group's share of identifiable assets, liabilities and contingent liabilities, less accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ('CGUs') expected to benefit from the synergies of the combination. CGUs 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 CGU 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.

Revenue

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Group, to customers in exchange for consideration in the ordinary course of the Group's activities.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

The Group has determined that most of its contracts (both installation and maintenance) include a single performance obligation as the promises within the contracts are generally not separately identifiable within the contract.

The Group provides warranties to its customers to give them assurance that its products will function in line with agreed-upon specifications. Warranties only represent separate performance obligations where they are deemed to be service-type warranties.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as discounts, liquidated damages or penalties, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time.

Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

1 Principal accounting policies continued

Revenue continued

Revenue and profit recognition continued

The Group has determined that most of its contracts satisfy the over time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs (typically support or maintenance contracts) or the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically installation contracts).

For each performance method to be recognised over time, the Group recognises revenue using an input method, based on costs incurred or as a proportion of estimated total contract costs or physical proportion of contract work completed in relation to the total. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs and are therefore recognised progressively as costs are incurred or work is completed.

If the over time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment.

If it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Software licences

The Group has determined that sales of software licences are not distinct within the context of the contract and are not the predominant component of the combined performance obligation. Therefore, revenue in relation to software licences is recognised as part of the single performance obligation.

Contract modifications

The Group's contracts can be amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. prospectively, as an additional, separate contract;
2. prospectively, as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch-up.

The majority of the Group's contract modifications are treated in line with point 3 above (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Warranty arrangements

The Group provides both assurance and service-type warranties. Assurance-type warranties are accounted for in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; an estimate of costs is expensed as a provision. Revenue in relation to service-type warranties is deferred over the term of the warranty and no cost provision is made.

Costs of obtaining a contract

The incremental costs of obtaining a contract with a customer are recognised as an asset if the Group expects to recover them. The Group incurs costs such as bid cost, legal fees and sales commission when it enters into a new contract.

Judgement is applied by the Group when determining what costs qualify to be capitalised in particular when considering whether these costs are incremental and whether these are expected to be recoverable. For example, the Group considers which type of sales commissions are incremental to the cost of obtaining specific contracts and the point in time when the costs will be capitalised.

The Group applies the practical expedient within IFRS 15 not to capitalise costs on contracts that are less than one year in length.

Costs incurred prior to winning a contract are not capitalised, but expensed as incurred.

Contract balances

An unconditional right to consideration is disclosed as a receivable and a conditional right to consideration is disclosed separately as a contract asset. In addition, any obligation of the Group to transfer goods or services to a customer for which consideration has already been received is disclosed separately as a contract liability.

Financial statements

Notes to the consolidated financial statements continued

For the year ended 30 November 2019

1 Principal accounting policies continued

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.

Payments made under operating leases are recognised in the Consolidated 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 Consolidated Income Statement on a straight-line basis over the lease term.

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 Statement of Financial Position date, monetary items denominated in foreign currencies are retranslated at the prevailing rates. 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 Consolidated Income Statement in the period in which they arise.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve. Foreign currency differences arising on the retranslation of a hedge of a net investment in a foreign operation are recognised directly in equity, in the translation reserve, to the extent that the hedge is effective. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is recycled to profit or loss as an adjustment to the profit or loss on disposal.

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 Statement of Financial Position date. Income and expense items are translated at the average exchange rates for the period. 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 Consolidated 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 Statement of Financial Position date.

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 Consolidated 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 Consolidated 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 Consolidated 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.

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.

1 Principal accounting policies continued

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.

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".

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 Statement of Financial Position 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 Statement of Financial Position 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, 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 Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the Statement of Financial Position 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.

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

Financial statements

Notes to the consolidated financial statements continued

For the year ended 30 November 2019

1 Principal accounting policies continued

Non-underlying items

The Group discloses certain financial information both including and excluding non-underlying items. The presentation of information excluding non-underlying items allows a better understanding of the underlying trading performance of the Group and provides consistency with the Group's internal management reporting. Non-underlying items are identified by virtue of their size, nature or incidence and the Directors consider that these items should be separately identified so as to facilitate comparison with prior periods and to assess the underlying trends in the financial performance of the Group.

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.

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 property, plant and equipment, 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 Consolidated Income Statement.

Research & development costs

Research costs are written off to the Consolidated Income Statement as incurred.

Development costs are capitalised and held as "Intangible assets" in the Consolidated 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 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.

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.

Development costs that do not meet these criteria are written off to the Consolidated Income Statement as incurred.

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 operating expenses in the Consolidated 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.

Impairment of tangible and intangible assets other than goodwill

At each Statement of Financial Position 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 CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs.

1 Principal accounting policies continued

Other intangible assets continued

Impairment of tangible and intangible assets other than goodwill continued

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

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in income.

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.

Provisions

Provisions are recognised in the Consolidated 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 Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation.

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.

Warranty provisions

The Group provides both assurance and service-type warranties. Assurance-type warranties are accounted for in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; an estimate of costs is expensed as a provision. Revenue in relation to service-type warranties is deferred over the term of the warranty and no cost provision is made.

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. Hedge accounting is undertaken by the Group in respect of a balance sheet hedge of a net investment in a foreign subsidiary.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits and bank current accounts.

Trade receivables and contract assets

Trade receivables and contract assets are initially recognised at fair value; they are subsequently measured at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

Trade receivables and contract assets are assessed for impairment using an expected credit loss ('ECL') model. The Group applies a simplified approach in calculating ECLs, therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs, at initial recognition and at each subsequent reporting date. The Group has established a provision matrix that is based on its historical experience over a period of 24 months before 30 November 2019, adjusted for forward-looking factors such as the economy and particular market issues. All reasonable and supportable information that is relevant and available without undue cost or effort is considered. The provision rates are based on days past due for groupings of various customer segments (i.e. by geography and business activities). Once recognised, trade receivables and contract assets are continuously monitored and updated.

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 overdrafts.

Financial statements

Notes to the consolidated financial statements continued

For the year ended 30 November 2019

1 Principal accounting policies continued

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. To meet these criteria, the right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances: the normal course of business, the event of default and the event of insolvency or bankruptcy of the Group and all of the counterparties.

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.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. We continually evaluate our estimates, judgements and associated assumptions based on available information, experience and any other factors that are considered to be relevant. As the use of estimates is inherent in financial reporting, actual results may differ from these estimates.

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.

Management has discussed its significant estimates and associated disclosures with the Audit Committee. The areas involving a higher degree of judgement or complexity are described below:

Revenue recognition

The ultimate profitability of contracts is based on estimates of revenue and costs which are reliant on the knowledge and experience of the Group's project managers and finance and commercial professionals. Material changes in these estimates could affect the timing of profitability of individual contracts. Revenue and cost estimates are reviewed and updated monthly.

The Group determined that the promises within its contracts are not distinct within the context of the contract. The Group is providing a significant integration service which results in additional or combined functionality. In addition, the promises are highly interrelated. Consequently, the Group has determined that most of its contracts include a single performance obligation.

Goodwill

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a CGU level. The determination of the CGU is judgemental and for goodwill impairment purposes represents the lowest level within the business at which the goodwill is monitored for internal management purposes, and cannot be larger than an operating segment. The relevant CGUs are deemed to be Systems and Integration & Managed Services, which match the segments identified in the Group's segmental reporting.

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs 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 15 to the financial statements.

The future cash flows used in the value-in-use calculations are based on the latest three-year financial plans approved by the Board. Expectations about future growth reflect the expectations of growth in the markets in which the CGU operates. The discount rate is derived from the Group's post-tax weighted average cost of capital, which is assessed each year. The discount rate used in each CGU is adjusted for the risk specific to that CGU. The Directors perform sensitivity analysis to determine whether any reasonably possible change in the key assumptions on which the recoverable amounts are based would cause the CGUs' carrying amounts to exceed the recoverable amounts.

Provisions

Judgement is required in assessing the level of provisions required against assets, including slow-moving and potentially obsolete inventory and for liabilities including onerous property obligations and warranties. The Directors use information available at the balance sheet date to determine the level of provisions required and consider whether further information received after the balance sheet date impacts these provisions.

1 Principal accounting policies continued

Critical accounting estimates and judgements continued

Non-underlying items

Judgement is required in determining which items, by virtue of their size, nature or incidence, should be separately identified and disclosed as non-underlying items. The Directors assess which items of a non-recurring nature detailed in the Group's internal management reporting are of sufficient significance as to warrant separate presentation to provide a better understanding of the trading performance of the Group.

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. The Systems segment develops, integrates and delivers resilient, flexible electronic surveillance solutions based around its proprietary hardware and software, and operates globally across all sectors. The Integration & Managed Services segment focuses on the design, delivery, maintenance and management of end-to-end security and surveillance systems for high security & public space applications, and operates principally in the UK. These, together with Central functions, comprise the Group's three reportable segments. No operating segments have been aggregated to form these reportable segments.

As highlighted in the Performance Review, Synectics' UK on-vehicle surveillance activities, previously reported within the Systems segment, is now included in the Integration & Managed Services Division. This change follows naturally from both the underlying, integration-oriented characteristics of the on-vehicle activities, and the new management structure of the Systems business. 2018 segmental disclosures have been re-presented in line with this.

The CODM uses underlying operating profit, as reviewed at monthly business 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 used within the Group.

| | 2019 £000 | 2018 Re-presented £000 |
|---|--------------|------------------------------|
| Revenue | | |
| Systems | 40,529 | 37,840 |
| Integration & Managed Services | 28,603 | 35,332 |
| Total segmental revenue | 69,132 | 73,172 |
| Reconciliation to consolidated revenue: | | |
| Intra-Group sales | (621) | (1,923) |
| | 68,511 | 71,249 |

No single customer contributed 10% or more to the Group's revenues.

| | 2019 £000 | 2018 Re-presented £000 |
|---|--------------|------------------------------|
| Underlying operating profit | | |
| Systems | 4,691 | 3,961 |
| Integration & Managed Services | (27) | 796 |
| Total segmental underlying operating profit | 4,664 | 4,757 |
| Reconciliation to consolidated underlying operating profit: | | |
| Central costs | (2,082) | (1,802) |
| | 2,582 | 2,955 |

Financial statements

Notes to the consolidated financial statements continued
For the year ended 30 November 2019

2 Segmental analysis continued

| | Underlying operating profit ¹ £000 | Legal provision £000 | Amortisation of acquired intangibles £000 | Total profit from operations £000 |
|---|--|-------------------------|--|--------------------------------------|
| Underlying operating profit 2019 | | | | |
| Systems | 4,691 | (908) | – | 3,783 |
| Integration & Managed Services | (27) | – | – | (27) |
| Total segmental underlying operating profit | 4,664 | (908) | – | 3,756 |
| Reconciliation to consolidated underlying operating profit: | | | | |
| Central costs | (2,082) | – | (23) | (2,105) |
| | 2,582 | (908) | (23) | 1,651 |

| | Underlying operating profit ¹ £000 | UK mobile systems restructuring costs £000 | Amortisation of acquired intangibles £000 | Total profit from operations £000 |
|---|--|---|--|--------------------------------------|
| Underlying operating profit 2018 | | | | |
| Systems (re-presented) | 3,961 | – | – | 3,961 |
| Integration & Managed Services (re-presented) | 796 | (701) | – | 95 |
| Total segmental underlying operating profit | 4,757 | (701) | – | 4,056 |
| Reconciliation to consolidated underlying operating profit: | | | | |
| Central costs | (1,802) | – | (23) | (1,825) |
| | 2,955 | (701) | (23) | 2,231 |

1. Underlying operating profit represents operating profit before non-underlying items (2019: provision for costs on settlement of a legal claim and amortisation of acquired intangibles (2018: UK mobile systems restructuring costs and stock write down and amortisation of acquired intangibles)).

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 | 2019 Net assets £000 |
|--|----------------|---------------------|----------------------------|
| Systems | 28,024 | (12,495) | 15,529 |
| Integration & Managed Services | 9,971 | (8,827) | 1,144 |
| Total segmental net assets | 37,995 | (21,322) | 16,673 |
| Reconciliation to consolidated net assets: | | | |
| Goodwill | 19,936 | – | 19,936 |
| Cash and borrowings | 3,580 | – | 3,580 |
| Unallocated | 1,211 | (439) | 772 |
| | 62,722 | (21,761) | 40,961 |

| | Assets £000 | Liabilities £000 | 2018 Net assets £000 |
|---|----------------|---------------------|----------------------------|
| Systems (re-presented) | 21,138 | (8,553) | 12,585 |
| Integration & Managed Services (re-presented) | 11,475 | (11,453) | 22 |
| Total segmental net assets | 32,613 | (20,006) | 12,607 |
| Reconciliation to consolidated net assets: | | | |
| Goodwill | 20,066 | – | 20,066 |
| Cash and borrowings | 8,114 | – | 8,114 |
| Unallocated | 492 | (559) | (67) |
| | 61,285 | (20,565) | 40,720 |

2 Segmental analysis continued

Net assets continued

| By geographical segment Geographical location of contract | 2019 Revenue £000 | 2019 Total assets £000 | 2019 Capital additions £000 | 2018 Revenue £000 | 2018 Total assets £000 | 2018 Capital additions £000 |
|--|-------------------------|---------------------------------|--------------------------------------|-------------------------|---------------------------------|--------------------------------------|
| UK & Europe | 39,135 | 49,529 | 372 | 43,624 | 51,472 | 157 |
| North America | 7,679 | 3,011 | 293 | 10,923 | 3,204 | 186 |
| Middle East | 3,063 | 617 | – | 2,221 | 251 | – |
| Africa | 521 | 172 | – | 570 | 661 | – |
| Asia Pacific | 18,113 | 9,393 | 41 | 13,911 | 5,697 | 83 |
| | 68,511 | 62,722 | 706 | 71,249 | 61,285 | 426 |

3 Revenue from contracts with customers

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

| Revenue by contract location 2019 | NAM £000 | Systems APAC £000 | EMEA £000 | IMS £000 | 2019 £000 |
|-----------------------------------|-------------|-------------------------|--------------|-------------|--------------|
| UK & Europe | – | – | 10,720 | 28,415 | 39,135 |
| North America | 7,183 | – | 479 | 17 | 7,679 |
| Middle East | – | 13 | 3,050 | – | 3,063 |
| Africa | – | – | 521 | – | 521 |
| Asia Pacific | – | 17,668 | 287 | 158 | 18,113 |
| | 7,183 | 17,681 | 15,057 | 28,590 | 68,511 |

| Revenue by contract location 2018 | NAM £000 | Systems APAC £000 | EMEA £000 | IMS £000 | 2018 £000 |
|-----------------------------------|-------------|-------------------------|--------------|-------------|--------------|
| UK & Europe | – | – | 8,992 | 34,632 | 43,624 |
| North America | 10,235 | – | 688 | – | 10,923 |
| Middle East | – | 190 | 2,031 | – | 2,221 |
| Africa | – | – | – | 570 | 570 |
| Asia Pacific | 126 | 13,013 | 663 | 109 | 13,911 |
| | 10,361 | 13,203 | 12,374 | 35,311 | 71,249 |

Set out below, is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information (note 2):

| Reconciliation to segment revenue 2019 | NAM £000 | Systems APAC £000 | EMEA £000 | IMS £000 | 2019 £000 |
|--|-------------|-------------------------|--------------|-------------|--------------|
| External | 7,183 | 17,681 | 15,057 | 28,590 | 68,511 |
| Intra-group | – | – | 608 | 13 | 621 |
| | 7,183 | 17,681 | 15,665 | 28,603 | 69,132 |

| Reconciliation to segment revenue 2018 | NAM £000 | Systems APAC £000 | EMEA £000 | IMS £000 | 2018 £000 |
|--|-------------|-------------------------|--------------|-------------|--------------|
| External | 10,361 | 13,203 | 12,374 | 35,311 | 71,249 |
| Intra-group | – | – | 1,902 | 21 | 1,923 |
| | 10,361 | 13,203 | 14,276 | 35,332 | 73,172 |

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Notes to the consolidated financial statements continued
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3 Revenue from contracts with customers continued

Disaggregated revenue information continued

Set out below, is a reconciliation of the timing of revenue showing goods transferred at a point in time and services transferred over time:

| | NAM £000 | Systems APAC £000 | EMEA £000 | IMS £000 | 2019 £000 |
|---|--------------|-------------------------|---------------|---------------|---------------|
| Timing of revenue recognition 2019 | | | | | |
| Revenue transferred at a point in time | 201 | 498 | 1,978 | 8,643 | 11,320 |
| Revenue transferred over time | 6,982 | 17,183 | 13,079 | 19,947 | 57,191 |
| Intra-group | – | – | 608 | 13 | 621 |
| | 7,183 | 17,681 | 15,665 | 28,603 | 69,132 |

| | NAM £000 | Systems APAC £000 | EMEA £000 | IMS £000 | 2018 £000 |
|---|---------------|-------------------------|---------------|---------------|---------------|
| Timing of revenue recognition 2018 | | | | | |
| Revenue transferred at a point in time | 166 | 671 | 1,403 | 9,362 | 11,602 |
| Revenue transferred over time | 10,195 | 12,532 | 10,971 | 25,949 | 59,647 |
| Intra-group | – | – | 1,902 | 21 | 1,923 |
| | 10,361 | 13,203 | 14,276 | 35,332 | 73,172 |

Contract balances

| | 2019 £000 | 1 Dec 2018 £000 |
|----------------------|----------------|--------------------|
| Contract assets | 7,933 | 5,433 |
| Contract liabilities | (4,062) | (3,001) |

Contract assets relate to revenue earned from ongoing projects. As such, the balance of this account varies and depends on the number of ongoing projects at the end of the year. No expected credit loss has been recognised in relation to the contract asset as the Group's historical experience shows that no credit losses have been incurred.

Contract liabilities relate to short-term advances received to deliver ongoing projects.

£2.1 million of the contract liabilities balance recognised at 1 December 2018 were recognised as revenue during the year. No revenue was recognised in the current year in relation to performance obligations satisfied, or partially satisfied in previous years.

Performance obligations

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 November 2019, that are expected to be recognised over more than one year is £21.7 million. These performance obligations relate predominantly to the provision of service and maintenance contracts.

The Group has taken advantage of the practical expedient within IFRS 15 not to disclose the amount of the remaining performance obligations for contracts with original expected duration of less than one year.

4 Net operating expenses

| | 2019 £000 | 2018 £000 |
|---|---------------|--------------|
| Distribution costs | 167 | 310 |
| Administrative expenses (before non-underlying items) | 20,547 | 20,662 |
| Non-underlying items (note 5) | 931 | 214 |
| Total administrative expenses | 21,478 | 20,876 |
| | 21,645 | 21,186 |

5 Non-underlying items

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Provision for costs on settlement of a legal claim | 908 | – |
| UK mobile systems restructuring costs | – | 701 |
| Amortisation of acquired intangible assets | 23 | 23 |
| | 931 | 724 |

The provision for costs on settlement of a legal claim relates to an employment related dispute in the US which has been settled subsequent to the year end.

The restructuring costs incurred during the prior year related to the severance costs incurred from the review of the cost base in the UK mobile systems business (£0.2 million) and a stock write down (£0.5 million) in this business.

6 Auditor's remuneration

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 55 | 55 |
| Fees payable to the Company's auditor for other services to the Group: | | |
| – the audit of the Company's subsidiaries pursuant to legislation | 95 | 99 |
| – tax compliance services | 3 | 2 |
| – other services | 24 | 42 |
| | 177 | 198 |

7 Profit from operations

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Profit from operations is stated after charging: | | |
| Amortisation of intangible assets | 435 | 873 |
| Depreciation of property, plant and equipment | 506 | 505 |
| Net foreign exchange losses | 110 | 96 |
| Write down of inventories recognised as an expense | 37 | 1,179 |
| Cost of inventories recognised as an expense | 34,924 | 34,799 |
| Research & development costs | 3,033 | 2,607 |
| Rental payments under operating leases: | | |
| – plant, machinery and vehicles | 545 | 717 |
| – other | 881 | 792 |

8 Staff costs and Directors' remuneration

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

| | 2019 Number | 2018 Number |
|--|----------------|----------------|
| Reportable segment (see note 2) | | |
| Systems | 199 | 203 |
| Integration & Managed Services | 190 | 219 |
| Central | 13 | 14 |
| | 402 | 436 |

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Notes to the consolidated financial statements continued
For the year ended 30 November 2019

8 Staff costs and Directors' remuneration continued

| | 2019 £000 | 2018 £000 |
|--------------------------------------|---------------|---------------|
| Staff costs | | |
| Wages and salaries | 16,207 | 17,019 |
| Social security costs | 1,707 | 1,768 |
| Pension costs | 1,027 | 1,009 |
| Share-based payment charge (note 23) | 45 | 66 |
| | 18,986 | 19,862 |

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 48. Details of the remuneration for key management personnel are set out in note 25.

9 Finance income

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Interest income on pension scheme assets (note 28) | 165 | 167 |

10 Finance costs

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Interest payable on bank overdrafts | 103 | 85 |
| Interest payable on bank loans | – | 22 |
| Interest on pension scheme liabilities (note 28) | 160 | 159 |
| | 263 | 266 |

11 Taxation

| Tax (credit)/charge | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Current taxation | | |
| UK tax | 8 | 14 |
| Overseas tax | 310 | 567 |
| Adjustments in respect of prior periods | 22 | (62) |
| Total current tax | 340 | 519 |
| Deferred taxation | | |
| Origination and reversal of temporary differences | (287) | 174 |
| Adjustments in respect of prior periods | (130) | (96) |
| Total deferred tax | (417) | 78 |
| Total tax (credit)/charge for the year | (77) | 597 |
| Further analysed as tax relating to: | | |
| Underlying profit | 122 | 738 |
| Non-underlying items | (199) | (141) |

11 Taxation continued

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 19% (2018: 19%). The differences are explained below:

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Profit on ordinary activities before tax | 1,553 | 2,132 |
| Tax on profit on ordinary activities before tax at standard rate of 19% (2018: 19%) | 295 | 405 |
| Effects of: | | |
| Net effect of different rates of tax in overseas businesses | (43) | (20) |
| Tax losses not recognised | – | 244 |
| Utilisation of previously unrecognised tax losses | (67) | – |
| Net permanent differences | (136) | (60) |
| Effect of changes in tax rates and tax laws | (4) | 131 |
| Other differences and (income)/expenses not deductible for tax purposes | (14) | 55 |
| Adjustment in respect of prior periods | (108) | (158) |
| Total tax (credit)/charge for the year | (77) | 597 |

The Group's tax rate is sensitive to a geographic mix of profits and reflects a combination of higher rates in the US and lower rates in Singapore and Macau. The Group's effective tax rate in 2019 has been impacted by R&D tax relief and current year losses, as well as utilisation of previous years' losses that had not been recognised.

Deferred tax

The deferred tax in the Consolidated Statement of Financial Position relates to the following:

| Deferred tax (liability)/asset | Property, plant and equipment £000 | Other temporary differences £000 | Retirement benefit asset £000 | Losses £000 | Total £000 |
|---|---|---|--|----------------|---------------|
| At 1 December 2017 | (96) | (109) | (49) | 314 | 60 |
| (Charged)/credited to the Income Statement | (71) | (223) | – | 216 | (78) |
| Credited to the Statement of Comprehensive Income | – | – | 18 | – | 18 |
| Currency translation adjustment | (1) | 16 | – | (2) | 13 |
| At 30 November 2018 | (168) | (316) | (31) | 528 | 13 |
| Tax on IFRS 15 opening balance adjustment (note 31) | – | – | – | 115 | 115 |
| At 1 December 2018 (IFRS 15) | (168) | (316) | (31) | 643 | 128 |
| (Charged)/credited to the Income Statement | (62) | (35) | – | 514 | 417 |
| Charged to the Statement of Comprehensive Income | – | – | (86) | – | (86) |
| Currency translation adjustment | 1 | (14) | – | 6 | (7) |
| At 30 November 2019 | (229) | (365) | (117) | 1,163 | 452 |

Factors that may affect future tax charges

The UK government announced its intention to reduce the corporation tax rate to 17% effective by 1 April 2020. This was substantively enacted during the 2016 financial year. Accordingly deferred tax has been provided for at the rate at which it is expected to be settled.

Deferred tax assets of £1.2 million (2018: £0.5 million) have been recognised in relation to legal entities which suffered a tax loss in the current or preceding periods. The assets are recognised based upon future taxable profit forecasts for the entities concerned.

The Group has further losses which may be available to be carried forward for offset against the future taxable profits of certain Group companies amounting to approximately £4.8 million (2018: £5.0 million). No deferred tax asset (2018: £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 addition to the above, the Group has capital losses of approximately £17.8 million (2018: £17.8 million) available for offset against future taxable gains. No deferred tax asset in respect of these losses has been recognised in these financial statements as there is insufficient certainty that the asset will be recovered against future capital gains.

Financial statements

Notes to the consolidated financial statements continued
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12 Dividends

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

| | 2019 | | 2018 | |
|---|-----------------|------------|-----------------|------|
| | Pence per share | £000 | Pence per share | £000 |
| Final dividend paid in respect of prior year but not recognised as a liability in that year | 3.5 | 599 | 3.0 | 506 |
| Interim dividend paid in respect of current year | 1.3 | 223 | 1.2 | 205 |
| | 4.8 | 822 | 4.2 | 711 |
| Total dividend paid, net of treasury share dividends | – | 810 | – | 699 |
| Proposed final dividend for the year ended 30 November | 3.5 | 601 | 3.5 | 597 |

The proposed final dividend for the year ended 30 November 2019 has not yet been approved by shareholders and as such has not been included as a liability as at 30 November 2019. Subject to approval, this is expected to be paid on 7 May 2020 to shareholders on the register as at close of business on 3 April 2020. This will give a total dividend for the year of 4.8p per share (2018: 4.7p per share).

13 Earnings per share

| | 2019 Pence per share | 2018 Pence per share |
|---------------------------------------|----------------------------|----------------------------|
| Basic earnings per share | 9.7 | 9.2 |
| Diluted earnings per share | 9.6 | 9.1 |
| Underlying basic earnings per share | 14.0 | 12.7 |
| Underlying diluted earnings per share | 13.9 | 12.6 |

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

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

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Earnings for basic and diluted earnings per share | 1,630 | 1,535 |
| Non-underlying items | 931 | 724 |
| Impact of non-underlying items on tax (credit)/charge for the year | (199) | (141) |
| Earnings for underlying basic and underlying diluted earnings per share | 2,362 | 2,118 |

| | 2019 000 | 2018 000 |
|--|-------------|-------------|
| Weighted average number of ordinary shares – basic calculation | 16,814 | 16,643 |
| Dilutive potential ordinary shares arising from share options | 139 | 221 |
| Weighted average number of ordinary shares – diluted calculation | 16,953 | 16,864 |

14 Property, plant and equipment

| | Freehold land and buildings £000 | Short leasehold improvements £000 | Plant, machinery and equipment £000 | Total £000 |
|---------------------------------|-------------------------------------|--------------------------------------|--|---------------|
| Cost | | | | |
| At 1 December 2017 | 1,700 | 1,351 | 4,597 | 7,648 |
| Additions | – | 56 | 370 | 426 |
| Disposals | (2) | – | (1,320) | (1,322) |
| Currency translation adjustment | – | 8 | 71 | 79 |
| At 30 November 2018 | 1,698 | 1,415 | 3,718 | 6,831 |
| Additions | 134 | 182 | 390 | 706 |
| Disposals | – | (51) | (377) | (428) |
| Currency translation adjustment | – | (5) | (31) | (36) |
| At 30 November 2019 | 1,832 | 1,541 | 3,700 | 7,073 |
| Depreciation | | | | |
| At 1 December 2017 | 125 | 922 | 3,805 | 4,852 |
| Charge for the year | 34 | 69 | 402 | 505 |
| Disposals | (2) | – | (1,311) | (1,313) |
| Currency translation adjustment | – | 5 | 54 | 59 |
| At 30 November 2018 | 157 | 996 | 2,950 | 4,103 |
| Charge for the year | 35 | 72 | 399 | 506 |
| Disposals | – | (51) | (361) | (412) |
| Currency translation adjustment | – | (2) | (26) | (28) |
| At 30 November 2019 | 192 | 1,015 | 2,962 | 4,169 |
| Net book value | | | | |
| At 30 November 2019 | 1,640 | 526 | 738 | 2,904 |
| At 30 November 2018 | 1,541 | 419 | 768 | 2,728 |

15 Intangible assets

| | Goodwill £000 | Acquired intangibles £000 | Capitalised development costs £000 | Purchased software £000 | Total £000 |
|------------------------------------|------------------|------------------------------|---------------------------------------|----------------------------|---------------|
| Cost | | | | | |
| At 1 December 2017 | 24,514 | 759 | 7,397 | 1,846 | 34,516 |
| Additions | – | – | 461 | 68 | 529 |
| Disposals | – | – | (50) | (16) | (66) |
| Currency translation adjustment | 210 | 6 | 3 | 2 | 221 |
| At 30 November 2018 | 24,724 | 765 | 7,811 | 1,900 | 35,200 |
| Additions | – | – | 762 | 29 | 791 |
| Disposals | – | – | – | (314) | (314) |
| Currency translation adjustment | (334) | (10) | (16) | (3) | (363) |
| At 30 November 2019 | 24,390 | 755 | 8,557 | 1,612 | 35,314 |
| Amortisation and impairment | | | | | |
| At 1 December 2017 | 4,535 | 674 | 6,061 | 1,497 | 12,767 |
| Charge for the year | – | 23 | 652 | 198 | 873 |
| Disposals | – | – | (46) | (16) | (62) |
| Currency translation adjustment | 123 | 6 | 3 | 2 | 134 |
| At 30 November 2018 | 4,658 | 703 | 6,670 | 1,681 | 13,712 |
| Charge for the year | – | 23 | 315 | 97 | 435 |
| Disposals | – | – | – | (314) | (314) |
| Currency translation adjustment | (204) | (7) | (16) | (4) | (231) |
| At 30 November 2019 | 4,454 | 719 | 6,969 | 1,460 | 13,602 |
| Net book value | | | | | |
| At 30 November 2019 | 19,936 | 36 | 1,588 | 152 | 21,712 |
| At 30 November 2018 | 20,066 | 62 | 1,141 | 219 | 21,488 |

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15 Intangible assets continued

Annual test for impairment of goodwill

The Group has assessed the recoverable amount of goodwill by comparing it to the value in use of the CGUs to which it relates. Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

As highlighted in the Performance Review, Synectics' UK on-vehicle surveillance activities, previously reported within the Systems Division, is now included in the Integration & Managed Services Division. This change follows naturally from both the underlying, integration-oriented characteristics of the on-vehicle activities, and the new management structure of the Systems business. The on-vehicle element of the Group's goodwill of £4.6 million has been transferred from Systems to IMS during the year.

The carrying amount of goodwill was allocated to the CGUs as follows:

| | 2019 £000 | 2018 £000 |
|--------------------------------|---------------|---------------|
| Systems | 10,747 | 15,486 |
| Integration & Managed Services | 9,189 | 4,580 |
| | 19,936 | 20,066 |

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 2.1% 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.

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

- terminal value applied after ten years assuming an 8.5 (2018: 8.5) times multiple; and
- pre-tax discount rates as follows:

| | 2019 % | 2018 % |
|--------------------------------|-----------|-----------|
| Systems | 13.5 | 15.0 |
| Integration & Managed Services | 11.7 | 12.9 |

The discount rates used are based on the Group weighted average cost of capital, which has been risk adjusted to reflect 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.

The other key assumptions have been assigned values by management using estimates based on past experience and expectations of the future performance of the CGUs.

The Directors believe that, based on the sensitivity analysis performed, 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. There is no impairment to goodwill in the period (2018: no impairment).

16 Inventories

| | 2019 £000 | 2018 £000 |
|-------------------------------|--------------|--------------|
| Raw materials and consumables | 3,132 | 3,424 |
| Work in progress | 426 | 296 |
| Finished goods for resale | 3,518 | 3,912 |
| | 7,076 | 7,632 |

The cost of inventories recognised as an expense during the year was £35.0 million (2018: £36.0 million).

The cost of inventories recognised as an expense includes £37,000 (2018: £1,179,000) in respect of write downs of inventory to net realisable value.

17 Trade and other receivables

| | 2019 £000 | 2018 £000 |
|--------------------------------------|---------------|--------------|
| Trade receivables | 16,337 | 10,594 |
| Allowance for expected credit losses | (106) | (312) |
| | 16,231 | 10,282 |
| Amounts recoverable on contracts | – | 8,654 |
| Other receivables | 602 | 693 |
| Prepayments | 703 | 766 |
| | 17,536 | 20,395 |

Trade receivables are non-interest bearing and generally have 30 to 90-day terms. At 30 November 2019 the Group had 75 days' sales outstanding in trade receivables (2018: 52 days').

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

Movement in allowance for expected credit losses

| | 2019 £000 | 2018 £000 |
|------------------------------|--------------|--------------|
| At 1 December | 312 | 271 |
| Provided for in the year | 35 | 54 |
| Amounts utilised in the year | (171) | (13) |
| Amounts released in the year | (70) | – |
| At 30 November | 106 | 312 |

As at 30 November 2019, trade receivables of £7,447,000 (2018: £3,913,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

| | 2019 £000 | 2018 £000 |
|------------------------------|--------------|--------------|
| Up to three months past due | 6,194 | 3,037 |
| Three to six months past due | 451 | 650 |
| Over six months past due | 802 | 226 |
| | 7,447 | 3,913 |

18 Cash and cash equivalents

| | 2019 £000 | 2018 £000 |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | 3,580 | 8,114 |

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

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

At 30 November 2019 the Group had undrawn overdraft facilities of up to £5.0 million, on which interest would be payable at the rate of bank base rate +2.0%.

19 Trade and other payables

| | 2019 £000 | 2018 £000 |
|------------------------------------|---------------|--------------|
| Trade payables | 7,501 | 7,249 |
| Other taxation and social security | 393 | 776 |
| Other payables | 205 | 295 |
| Accruals | 6,722 | 7,154 |
| Deferred income | – | 3,001 |
| | 14,821 | 18,475 |

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

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For the year ended 30 November 2019

20 Provisions

| | Legal £000 | Warranty £000 | Restructuring £000 | Property £000 | Total £000 |
|---------------------------------|---------------|------------------|-----------------------|------------------|---------------|
| At 1 December 2017 | – | 555 | – | 251 | 806 |
| Utilised in the year | – | (343) | (191) | (125) | (659) |
| Charged to the Income Statement | – | 637 | 191 | 2 | 830 |
| At 30 November 2018 | – | 849 | – | 128 | 977 |
| Utilised in the year | – | (482) | – | – | (482) |
| Released in the year | – | – | – | (64) | (64) |
| Charged to the Income Statement | 908 | 346 | – | 2 | 1,256 |
| At 30 November 2019 | 908 | 713 | – | 66 | 1,687 |

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

| | 2019 £000 | 2018 £000 |
|-------------|--------------|--------------|
| Current | 1,366 | 656 |
| Non-current | 321 | 321 |
| | 1,687 | 977 |

During the year, a provision was made for costs of settlement of a legal claim relating to an employment related dispute in the US which has been settled subsequent to the year end.

Costs of warranty include the cost of labour, material and related overhead necessary to repair a product during the warranty period. The standard warranty periods are usually one to three years. The Group accrues for the estimated cost of the warranty on its products shipped in the provision for warranty, upon recognition of the sale of the product. The costs are estimated based on actual historical expenses incurred and on estimated future expenses related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty.

The Group has certain properties where the Directors believe that dilapidation costs may be incurred, therefore, appropriate cost provisions have been made. It is anticipated that substantially all of the property cost provision carried forward at 30 November 2019 will be utilised within a year.

The impact of discounting the above provisions is immaterial.

21 Called up share capital and reserves

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

| | 2019 | | 2018 | |
|------------------------------------|------------|-------|------------|-------|
| | Number | £000 | Number | £000 |
| Ordinary shares of 20p each | | | | |
| Allotted, called up and fully paid | 17,794,439 | 3,559 | 17,794,439 | 3,559 |

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 shareholder meetings. The 930,629 shares (2018: 1,051,265) held under the Group Executive Shared Ownership Plan ('ExSOP') at 30 November 2019 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 £2,222,000 (2018: £2,471,000) has been deducted from other reserves. The nominal value of these shares is £186,000 (2018: £210,000).

22 Options over shares of Synectics plc

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

Quadnetics Employees' Share Acquisition Plan

The Quadnetics Employees' Share Acquisition Plan ('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.

At 30 November 2019, the scheme holds 74,971 (2018: 63,535) ordinary shares with a market value of £114,331 (2018: £120,717).

Movements during the year were as follows:

| | Number of shares |
|---|------------------|
| Shares held at 1 December 2018 | 63,535 |
| Shares acquired during the year | 17,120 |
| Withdrawals from the scheme during the year | (5,684) |
| Shares held at 30 November 2019 | 74,971 |

Quadnetics Executive Shared Ownership Plan

The Quadnetics Executive Shared Ownership Plan ('ExSOP') was formed in July 2009. Under the provisions of the ExSOP, shares ('ExSOP shares') are jointly owned by nominated senior employees and by an employees' share trust on terms, similar to a share option scheme, whereby the value of appreciation in the Company's share price over a minimum three-year period accrues to the relevant employee, provided the Company meets certain performance thresholds.

In summary, none of the awarded ExSOP shares will vest unless the total return (dividends plus share price appreciation) on the Company's shares is better than the performance of the FTSE AIM All Share Total Return Index ('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.

ExSOP shares outstanding at 30 November 2019 are exercisable as follows:

| Date awarded | Exercise dates | Relevant share price at date of award | 2019 Number of shares | 2018 Number of shares |
|---|----------------------|---------------------------------------|-----------------------|-----------------------|
| 7 July 2009 | 8 July 2012 onwards | 147.5p | 206,743 | 206,743 |
| 7 March 2011 | 8 March 2014 onwards | 178.0p | 108,000 | 108,000 |
| Balance of shares in respect of leavers | | | 615,886 | 736,522 |
| | | | 930,629 | 1,051,265 |

Movements during the year were as follows:

| | Number of shares |
|---|------------------|
| Shares held at 1 December 2018 | 1,051,265 |
| Vested shares sold or transferred in the year | (120,636) |
| Shares held at 30 November 2019 | 930,629 |

Dividends have been waived in respect of the 615,886 (2018: 736,522) shares not specifically allocated to employees.

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22 Options over shares of Synectics plc continued

Synectics Performance Share Plan

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

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

The performance criteria are identical to those that apply under the existing ExSOP. Provided that the total return on Synectics plc shares has outperformed 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 2019 are exercisable as follows:

| Date awarded | Exercise dates | Relevant share price at date of award | 2019 Number of shares | 2018 Number of shares |
|---------------|-----------------------|---------------------------------------|-----------------------|-----------------------|
| 30 March 2015 | 30 March 2018 onwards | 125.0p | 7,300 | 42,300 |
| 1 March 2016 | 1 March 2019 onwards | 117.5p | 20,000 | 114,500 |
| 1 March 2017 | 1 March 2020 onwards | 225.0p | 58,477 | 66,000 |
| 28 March 2018 | 28 March 2021 onwards | 181.6p | 30,000 | 30,000 |
| 7 March 2019 | 7 March 2022 onwards | 200.0p | 45,000 | – |
| | | | 160,777 | 252,800 |

1,336 (2018: nil) shares under the PSP expired during the year.

23 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 is 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:

| Synectics PSP | March 2016 awards | March 2017 awards | March 2018 awards | March 2019 awards |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| Number of share options awarded | 155,000 | 88,500 | 30,000 | 65,000 |
| Exercise price | nil | nil | nil | nil |
| Share price on date of award | £1.175 | £2.25 | £1.816 | £2.00 |
| Expected volatility | 30% | 30% | 35% | 30% |
| Expected dividend yield | 3.0% | 3.0% | 3.5% | 2.0% |
| Risk-free interest rate | 1.8% | 1.4% | 1.6% | 1.35% |
| Vesting period | 3 years | 3 years | 3 years | 3 years |
| Expected life of option | 5 years | 5 years | 4 years | 3 years |

The weighted average fair value of options granted during 2019 is £1.88 (2018: £1.58).

The expected volatility is based wholly on the historical 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 Index.

23 Share-based payment charge continued

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

| | 2019 £000 | 2018 £000 |
|-------------------------------------|--------------|--------------|
| Equity-settled share-based payments | 45 | 66 |

24 Contingent liabilities

Certain subsidiary companies have agreed to guarantee a number of bonds, issued by Lloyds Bank plc and HSBC, amounting to a total of £0.5 million at 30 November 2019 (2018: £0.3 million).

25 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 subsidiaries in the Group are listed in note 7 of the Company accounts.

During the year an amount was paid to the spouse of a director of Synectic Systems (Asia) Pte Limited of S\$2,160 for provision of accommodation to an external consultant engaged by the company (2018: S\$4,320).

During the year rental amounts of S\$70,335 were paid to a company in which two of the directors of Synectic Systems (Asia) Pte Limited held a direct interest (2018: S\$78,150).

Transactions with key management personnel are as follows:

| | 2019 £000 | 2018 £000 |
|-------------------------------|--------------|--------------|
| Salary and fees | 462 | 547 |
| Bonuses | – | 18 |
| Benefits | 38 | 40 |
| Total short-term remuneration | 500 | 605 |
| Post-employment benefits | 32 | 36 |
| Share-based payments | 13 | 21 |
| | 545 | 662 |

Share options exercised by key management personnel during the year amounted to £61,000 (2018: £132,000).

26 Capital commitments

At the year end capital commitments not provided for in these financial statements amounted to £nil (2018: £170,000).

27 Operating lease commitments

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

| | 2019 £000 | 2018 £000 |
|--------------------------|--------------|--------------|
| Within one year | 1,251 | 1,441 |
| Within two to five years | 2,132 | 2,394 |
| In excess of five years | 1,276 | 313 |
| | 4,659 | 4,148 |

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

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28 Pension commitments

The Group operates a closed 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 a defined benefit section and a defined contribution section both in respect of past employees. 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 2016. These results have been updated to 30 November 2019. The major assumptions used by the actuary are shown below.

The Group has paid contributions of £1,000 (2018: £1,000) in the year.

The disclosures below relate to the defined benefit section, with the contributions to the defined contribution section being disclosed in section b) on page 89.

Net defined benefit asset

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Fair value of scheme assets | 6,701 | 6,272 |
| Present value of scheme liabilities | (6,014) | (6,090) |
| Net defined benefit asset recognised in the Statement of Financial Position | 687 | 182 |
| Associated deferred tax liability | (117) | (31) |

Future economic benefits are available to the Group in the form of a 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.

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

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Defined benefit obligations at the start of the year | 6,090 | 6,523 |
| Interest cost | 160 | 159 |
| Remeasurements: | | |
| – losses due to scheme experience | – | 6 |
| – gains due to changes in demographic assumptions | (59) | (81) |
| – losses/(gains) due to financial assumptions | 606 | (220) |
| Benefits paid | (783) | (297) |
| Defined benefit obligations at the end of the year | 6,014 | 6,090 |

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

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Fair value of plan assets at the start of the year | 6,272 | 6,812 |
| Interest income | 165 | 167 |
| Return/(loss) on plan assets, excluding amounts recognised in interest income | 1,046 | (411) |
| Contributions by the Company | 1 | 1 |
| Benefits paid | (783) | (297) |
| Fair value of plan assets at the end of the year | 6,701 | 6,272 |

28 Pension commitments continued

a) Defined benefit scheme continued

Assets

| | 2019 Fair value of plan assets £000 | 2018 Fair value of plan assets £000 | 2017 Fair value of plan assets £000 |
|---------------------|--|--|--|
| UK equities | 16 | 20 | 22 |
| Government bonds | 1,123 | 1,100 | 1,194 |
| Corporate bonds | 5,538 | 5,121 | 5,557 |
| Cash | 24 | 31 | 39 |
| Total assets | 6,701 | 6,272 | 6,812 |

All of the scheme assets have a quoted market price in an active market with the exception of the cash holding, being the Trustee's bank account balance.

As at 30 November 2019, the fair value of the assets shown above include holdings of £15,669 (2018: £19,523) 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 2019 was £1,211,000 (2018: loss £(244,000)).

Principal actuarial assumptions

| | 2019 % per annum | 2018 % per annum | 2017 % per annum |
|--|------------------------|------------------------|------------------------|
| Inflation | 3.30 | 3.50 | 3.40 |
| Inflation (CPI) | 2.40 | 2.60 | 2.50 |
| Rate of discount | 1.90 | 2.80 | 2.50 |
| Allowance for revaluation of deferred pensions of CPI or 5% pa if less | 2.40 | 2.60 | 2.50 |

The mortality assumptions adopted at 30 November 2019 imply the following life expectancies at age 65:

| | 2019 Years | 2018 Years |
|-------------------------|---------------|---------------|
| Male currently age 45 | 22.6 | 22.8 |
| Female currently age 45 | 24.7 | 24.9 |
| Male currently age 65 | 21.6 | 21.8 |
| Female currently age 65 | 23.5 | 23.7 |

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 benefit obligation at 30 November 2019 is twelve years (2018: twelve years).

| | Change in assumption | Change in liability |
|-------------------|---|---------------------|
| Discount rate | Decrease of 0.25% pa | Increase by 3.0% |
| Rate of inflation | Increase of 0.25% pa | No change |
| Rate of mortality | Increase in life expectancy of one year | Increase by 4.2% |

The Company estimates that no additional contributions will be paid to the plan during the year ending 30 November 2020.

b) Defined contribution schemes

Contributions made by the Company to the defined contribution section of the Quadrant Group plc Retirement Benefit Scheme amounted to £nil in the year (2018: £nil).

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 £1,027,000 (2018: £1,009,000).

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29 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 18), bank overdrafts (note 18) and equity attributable to equity holders of the Parent, comprising issued share capital (note 21), 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. The main foreign currencies in which the Group currently operates are the US dollar and the euro.

The Group's policy is to manage transaction exposure in respect of the Group's UK subsidiaries where appropriate through the use of forward exchange contracts, which are entered into in respect of forecast foreign currency transactions when the amount and timing of such forecast transactions becomes reasonably certain. At 30 November 2019 the Group had the following commitments in respect of forward exchange contracts:

| | 2019 | | 2018 | |
|-------------------|-------|-------------------|-------|-------------------|
| | \$000 | Average rate \$:£ | \$000 | Average rate \$:£ |
| Forward purchases | 15 | 1.28 | 99 | 1.29 |

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

At 30 November 2019, certain subsidiaries within the Group had the following forecast foreign currency transactions during the next two years which have not been hedged. This is due to the following: the amounts relate to intercompany transactions whereby payment and receipts will be closely matched, natural hedges on external transactions are available of receipts against payments or there is significant uncertainty over the timing of the transactions:

| | 2019 | | 2018 | |
|----------|---------|----------|---------|----------|
| | €000 | \$000 | €000 | \$000 |
| Receipts | 2,000 | 16,850 | 240 | 18,100 |
| Payments | (1,425) | (18,945) | (1,320) | (15,955) |

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 10.4% (2018: (2.9%)) of the Group's net assets as follows:

| Functional currency of entity | 2019 % | 2018 % |
|-------------------------------|-------------|--------------|
| United States dollars | 4.7 | 8.9 |
| Euros | 5.7 | (11.8) |
| Total | 10.4 | (2.9) |

Translation exposure in respect of these assets is not hedged.

At 30 November 2019 the Group held foreign currency cash balances of \$(1,216,000) overdrawn balance (2018: \$1,024,000 positive cash balance); €1,053,000 (2018: €(6,892,000) overdrawn balance) and S\$214,000 (2018: S\$489,000).

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

| | USD impact | | Euro impact | |
|---------------|------------|--------------|-------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Profit/(loss) | 236 | 384 | 49 | (61) |
| Other equity | 252 | 786 | 521 | (327) |
| Total | 488 | 1,170 | 570 | (388) |

29 Financial instruments continued

Foreign currency risk continued

The table below shows the extent to which the Group had significant monetary assets and liabilities in currencies other than the functional 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.

| | 2019 | | 2018 | |
|-------------------|------------------|-------------|------------------|-------------|
| | Sterling £000 | USD £000 | Sterling £000 | USD £000 |
| Sterling | - | 133 | - | 180 |
| US dollars | (1,934) | - | (991) | - |
| Euros | (97) | - | (43) | - |
| Singapore dollars | - | 31 | - | 73 |
| Total | (2,031) | 164 | (1,034) | 253 |

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.

For some trade receivables the Group may obtain security in the form of guarantees or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

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

Liquidity risk

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

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

| | 2019 £000 | 2018 £000 |
|----------------------------|--------------|--------------|
| Current accounts (note 18) | 3,580 | 8,114 |

The level of the Group's bank overdraft facilities is reviewed annually, and at 30 November 2019 the Group had undrawn overdraft facilities of up to £5.0 million, on which interest would be payable at the rate of bank base rate +2.0%.

Financial liabilities of the Group principally comprise trade creditors falling due for payment within twelve months of the Statement of Financial Position date (2018: twelve months) and a bank overdraft repayable on demand.

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 0.75% (2018: 0.50% from 1 December 2017 to 2 August 2018 and 0.75% from 2 August 2018 to the end of the year). The Group benchmarks the rates being obtained in order to maximise its returns within the credit risk framework referred to above.

Interest rates charged for the bank overdraft are set out in note 18.

The Group's funding position did not carry any significant interest rate risk at 30 November 2019 or 30 November 2018.

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

Financial statements

Notes to the consolidated financial statements continued

For the year ended 30 November 2019

30 Subsidiaries

The Group consists of a Parent Company, Synectics plc, incorporated in the UK, and a number of subsidiaries held directly and indirectly by Synectics plc, which operate and are incorporated around the world. Note 7 to the Company's financial statements lists details of all subsidiaries.

The following companies have taken their entitlement to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies for the year ended 30 November 2019:

- Synectics EFX Limited
- Protec plc
- Quadrant Video Systems plc

One subsidiary, Synectic Systems (Macau) Limited, has an accounting reference date of 31 December, which is different to that of the consolidated financial statements of 30 November. This is to more closely align the accounting period with the tax reporting requirements in Macau and thereby reduce administrative costs.

31 Changes in accounting policies

IFRS 15 'Revenue from Contracts with Customers' – impact of adoption

As disclosed in our 2018 Annual Report and Accounts the Group has adopted the standard on a modified retrospective basis and has recognised the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1 December 2018. Under this transition method:

- the standard has been applied only to contracts in progress but not completed at the date of initial application;
- for contracts that were modified before 1 December 2018, the Group has reflected the aggregate effect of all of the modifications that occurred before this date at 1 December 2018;
- prior year comparatives have not been restated for the effect of IFRS 15 but, instead, opening retained earnings at 1 December 2018 have been restated for the full cumulative impact of adopting this standard; and
- for the period ended 30 November 2019 a reconciliation has been provided of the primary financial statements under IFRS 15 to those that would have been reported under IAS 18 and IAS 11.

The accounting policy in respect of revenue applied from 1 December 2018 is set out in note 1.

Financial impact and changes to accounting policies

Applying the modified retrospective method, a cumulative catch-up adjustment of £0.7 million was recognised as a reduction to the opening balance of retained earnings in the Consolidated Statement of Changes in Equity for the year ended 30 November 2018.

Input method – uninstalled goods

Prior to the adoption of IFRS 15, where revenue and profits attributable to contracts were recognised as the contracts proceeded in proportions relevant to their stage of completion based on costs incurred as a proportion of estimated total contract costs, revenue and profits could be recognised on costs that did not necessarily transfer control of the goods or services to the customer.

31 Changes in accounting policies continued

IFRS 15 'Revenue from Contracts with Customers' – impact of adoption continued

Financial impact and changes to accounting policies continued

Input method – uninstalled goods continued

Under IFRS 15, inputs that do not represent the entity's performance in transferring control of goods or services to the customer must be excluded from the input method calculation of the stage of completion. This means that revenues and related profits have been reversed in the cumulative catch-up adjustment. The following line items in the Consolidated Statement of Financial Position as at 30 November 2018 have been impacted as a result of the adjustment:

| | At 30 Nov 2018 as re-presented £000 | Cumulative catch-up adjustment £000 | At 1 December 2018 £000 |
|--|--|--|----------------------------------|
| Non-current assets | | | |
| Deferred tax assets | 659 | 115 | 774 |
| Current assets and liabilities | | | |
| Trade and other receivables | 20,395 | (3,221) | 17,174 |
| Inventories | 7,632 | 375 | 8,007 |
| Trade and other payables | (18,475) | 2,038 | (16,437) |
| Net assets | 40,720 | (693) | 40,027 |
| Equity attributable to equity holders of the Parent Company | | | |
| Retained earnings | 11,830 | (693) | 11,137 |
| Total equity | 40,720 | (693) | 40,027 |

The impact of adoption on the Group's retained earnings at 1 December 2018 is as follows:

| | £000 |
|--|--------|
| Retained earnings – at 30 November 2018 (as published) | 11,830 |
| Uninstalled goods – profit not recognised | (808) |
| Tax on adjustment for uninstalled goods | 115 |
| Adjustment to retained earnings upon adoption of IFRS 15 | (693) |
| Retained earnings – at 1 December 2018 (IFRS 15) | 11,137 |

Revenue and profit recognition

The Group has determined that most of its contracts include a single performance obligation recognised over time (note 1). This does not change the previously adopted accounting treatment and therefore the change is not material. There was no transition impact at 1 December 2018.

Balance sheet reclassification – contract assets and contract liabilities

At the date of initial application, the following presentation and classification changes were made to the Consolidated Statement of Financial Position as a result of applying IFRS 15:

- 'Amounts recoverable on contracts' of £5.4 million (after applying the cumulative catch-up adjustment) classified within 'Trade and other receivables' representing conditional rights to consideration were reclassified to 'Contract assets'.
- 'Deferred income' of £3.0 million classified within 'Trade and other payables' was reclassified to 'Contract liabilities'.

Software licences

The Group has determined that sales of software licences are not distinct within the context of the contract and are not the predominant component of the combined performance obligation. Therefore, revenue in relation to software licences is recognised as part of the single performance obligation. There was no transition impact at 1 December 2018.

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Notes to the consolidated financial statements continued
For the year ended 30 November 2019

31 Changes in accounting policies continued

IFRS 15 'Revenue from Contracts with Customers' – impact of adoption continued

Consolidated Income Statement restatement under IFRS 15

The following shows a reconciliation of the Consolidated Income Statement for the period ended 30 November 2019 under IFRS 15 to those results that would have been reported under IAS 18 and IAS 11:

| | 2019 (IAS 18 & 11) £000 | Impact of IFRS 15 £000 | 2019 (IFRS 15) £000 |
|---|-------------------------------|------------------------------|---------------------------|
| Revenue | 67,265 | 1,246 | 68,511 |
| Cost of sales | (44,241) | (974) | (45,215) |
| Gross profit | 23,024 | 272 | 23,296 |
| Operating expenses | (20,714) | – | (20,714) |
| Profit from operations, before non-underlying items | 2,310 | 272 | 2,582 |
| Non-underlying items | (931) | – | (931) |
| Profit from operations | 1,379 | 272 | 1,651 |
| Finance income | 165 | – | 165 |
| Finance costs | (263) | – | (263) |
| Profit before tax | 1,281 | 272 | 1,553 |
| Income tax credit/(expense) | 126 | (49) | 77 |
| Profit for the period attributable to equity holders of the Parent Company | 1,407 | 223 | 1,630 |

The increase to revenue of £1,246,000 and resulting profit before tax of £272,000 relates to the change in accounting treatment in relation to inputs that do not represent the entity's performance in transferring control of goods or services to the customer being excluded from the input method calculation of the stage of completion, as described above.

IFRS 9 'Financial Instruments' – impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 December 2018 resulted in changes to accounting policies; however, no adjustments were required to the amounts recognised in the financial statements in previous periods. The accounting policies applied from 1 December 2018 are set out in note 1.

Classification and measurement

On 1 December 2018, the Group has classified its financial instruments in the appropriate IFRS 9 categories.

Trade receivables, previously classified within the trade and other receivables category and measured at amortised cost under IAS 39, continue to be classified in the amortised cost category under IFRS 9 as they are held within a business model to collect contracted cash flows and these cash flows consist solely of payments of principal and interest.

Trade payables, previously classified with the trade and other payables category and measured at amortised cost under IAS 39, continue to be classified in the amortised cost category under IFRS 9 as they relate to contracted cash flows that consist solely of payments of principal and interest.

Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model: trade receivables and contract assets.

Trade receivables and contract assets do not contain a significant financing element and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables.

The Group has measured credit risk associated with its financial assets and believes it to be extremely low; therefore, the provision for expected credit losses is immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The overall impact to the Group on transition to IFRS 9 was not material and there was no impact to retained earnings.

Company statement of comprehensive income
For the year ended 30 November 2019

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Profit for the year | 1,436 | 2,666 |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Remeasurement gain/(loss) on defined benefit pension scheme, net of tax | 414 | (97) |
| | 414 | (97) |
| Total comprehensive income for the year | 1,850 | 2,569 |

Company statement of changes in equity
For the year ended 30 November 2019

| | Called up share capital £000 | Share premium account £000 | Merger reserve £000 | Other reserves £000 | Retained earnings £000 | Total £000 |
|--|---------------------------------------|-------------------------------------|---------------------------|---------------------------|------------------------------|---------------|
| At 1 December 2017 | 3,559 | 16,043 | 9,971 | (1,388) | 11,892 | 40,077 |
| Profit for the year | - | - | - | - | 2,666 | 2,666 |
| Other comprehensive loss | | | | | | |
| Remeasurement loss on defined benefit pension scheme, net of tax | - | - | - | - | (97) | (97) |
| Total other comprehensive loss | - | - | - | - | (97) | (97) |
| Total comprehensive income for the year | - | - | - | - | 2,569 | 2,569 |
| Dividends paid | - | - | - | - | (699) | (699) |
| Credit in relation to share-based payments | - | - | - | - | 66 | 66 |
| Share scheme interests realised in the year | - | - | - | 475 | (442) | 33 |
| At 30 November 2018 | 3,559 | 16,043 | 9,971 | (913) | 13,386 | 42,046 |
| IFRS 9 opening balance adjustment | - | - | - | - | (1,261) | (1,261) |
| At 1 December 2018 | 3,559 | 16,043 | 9,971 | (913) | 12,125 | 40,785 |
| Profit for the year | - | - | - | - | 1,436 | 1,436 |
| Other comprehensive income | | | | | | |
| Remeasurement gain on defined benefit pension scheme, net of tax | - | - | - | - | 414 | 414 |
| Total other comprehensive income | - | - | - | - | 414 | 414 |
| Total comprehensive income for the year | - | - | - | - | 1,850 | 1,850 |
| Dividends paid | - | - | - | - | (810) | (810) |
| Credit in relation to share-based payments | - | - | - | - | 45 | 45 |
| Share scheme interests realised in the year | - | - | - | 248 | (248) | - |
| At 30 November 2019 | 3,559 | 16,043 | 9,971 | (665) | 12,962 | 41,870 |

Financial statements

Company statement of financial position

As at 30 November 2019

| | Note | 2019 £000 | 2018 £000 |
|--|------|---------------|--------------|
| Non-current assets | | | |
| Plant and equipment | 5 | 28 | 108 |
| Intangible assets | 6 | 53 | 71 |
| Investments in subsidiary undertakings | 7 | 35,809 | 19,630 |
| Retirement benefit asset | 16 | 687 | 182 |
| | | 36,577 | 19,991 |
| Current assets | | | |
| Other receivables | 8 | 4,725 | 29,794 |
| Cash at bank and in hand | | 1,262 | – |
| Deferred tax assets | | – | 9 |
| | | 5,987 | 29,803 |
| Total assets | | 42,564 | 49,794 |
| Current liabilities | | | |
| Loans and borrowings | 9 | – | (645) |
| Trade and other payables | 10 | (629) | (7,093) |
| Tax liabilities | | – | (6) |
| Provisions | 11 | (6) | (4) |
| | | (635) | (7,748) |
| Non-current liabilities | | | |
| Deferred tax liabilities | 11 | (59) | – |
| | | (59) | – |
| Total liabilities | | (694) | (7,748) |
| Net assets | | 41,870 | 42,046 |
| Equity | | | |
| Called up share capital | 12 | 3,559 | 3,559 |
| Share premium account | | 16,043 | 16,043 |
| Merger reserve | | 9,971 | 9,971 |
| Other reserves | | (665) | (913) |
| Retained earnings | | 12,962 | 13,386 |
| Total equity | | 41,870 | 42,046 |

The financial statements on pages 95 to 104 were approved and authorised for issue by the Board of Directors on 25 February 2020 and were signed on its behalf by:



Paul Webb
Director



David Bedford
Director

Company number: 1740011

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

1 Company accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard ('FRS') 101 'Reduced Disclosure Framework'. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ('IFRS') as adopted by the EU.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payments' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7 'Financial Instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1 'Presentation of Financial Statements', comparative information requirements in respect of:
 - Paragraph 79(a)(iv) of IAS 1; and
 - Paragraph 73 of IAS 16 'Property, Plant and Equipment'.
- The following paragraphs of IAS 1 'Presentation of Financial Statements':
 - 10(d) (statement of cash flows);
 - 10(f)(a) (statement of financial position as at the beginning of the preceding period);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B–D (additional comparative information);
 - 40A–D (requirements for a third statement of financial position);
 - 111 (cash flow statement information); and
 - 134–136 (capital management disclosures).
- IAS 7 'Statement of Cash Flows'.
- Paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but not yet effective).
- Paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation).
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group.

In accordance with section 408(3) of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement. The amount of profit for the year of the Company is £1.4 million (2018: £2.7 million).

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

Going concern

The Directors have assessed, in light of current and anticipated economic conditions, the Company's ability to continue as a going concern. The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the Parent Company financial statements. For further consideration of the going concern position of the Group see page 52 of the Directors' Report.

Financial statements

Notes to the Company financial statements continued

For the year ended 30 November 2019

1 Company accounting policies continued

Significant accounting policies

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

Investments in subsidiaries

Fixed asset investments in subsidiaries are stated at cost plus deemed capital contributions arising from share-based payment transactions less any provision for impairment. The Company records an increase in its investments in subsidiaries equal to the share-based payments charge recognised by its subsidiaries with a corresponding credit to equity. Details of the Group's share-based payment charge are set out in note 23 of the Group financial statements.

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 purchases of shares in the Company are debited directly to equity.

Other significant accounting policies

Other significant accounting policies are consistent with the Group accounts and are disclosed on pages 64 to 73.

Changes in accounting policies

IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' became effective for the Company on 1 December 2018.

Details in relation to the adoption of IFRS 9 are set out in note 31 to the Group accounts. In addition to the information presented in note 31, the Company has receivables from subsidiary undertakings that are within the scope of IFRS 9. These were previously classified in the loans and receivables category and measured at amortised cost under IAS 39 and continue to be classified in the amortised cost category under IFRS 9. The Company has assessed the Expected Credit Loss ('ECL') on receivables from subsidiary undertakings and identified an ECL of £1.3 million which has been recognised by a cumulative catch-up adjustment as a reduction to the opening balance of retained earnings in the statement of changes in equity.

The adoption of IFRS 15 did not have any impact on the Company because the Company does not have any revenue from contracts with customers.

Significant estimates

In the application of the Company'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.

Management has discussed its significant estimates and associated disclosures with the Audit Committee. An area involving a higher degree of judgement or complexity is the recoverability of the Company's investment in subsidiaries. The Company assesses the carrying value of its investments in subsidiaries using the value-in-use model. 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 15 of the Group financial statements. The future cash flows used in the value-in-use calculations are based on the latest three-year financial plans approved by the Board.

2 Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company's annual accounts are £55,000 (2018: £55,000).

3 Directors and employees

The remuneration of the Directors is set out below:

| | 2019 £000 | 2018 £000 |
|--------------------------------|--------------|--------------|
| Directors' emoluments | | |
| Salaries, bonuses and benefits | 384 | 550 |
| Pension allowance* | 32 | 36 |
| | 416 | 586 |

* Pension allowance includes both contributions to the Group's defined contribution pension scheme and cash payments in lieu of contributions.

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Committee Report on pages 46 to 49. The average number of persons (including executive directors) employed by the Company during the year was 13 (2018: 14).

4 Dividends

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

| | 2019 | | 2018 | |
|---|-----------------|------------|-----------------|------------|
| | Pence per share | £000 | Pence per share | £000 |
| Final dividend paid in respect of prior year but not recognised as a liability in that year | 3.5 | 599 | 3.0 | 506 |
| Interim dividend paid in respect of current year | 1.3 | 223 | 1.2 | 205 |
| | 4.8 | 822 | 4.2 | 711 |
| Total dividend paid, net of treasury share dividends | – | 810 | – | 699 |
| Proposed final dividend for the year ended 30 November | 3.5 | 601 | 3.5 | 597 |

The proposed final dividend for the year ended 30 November 2019 has not yet been approved by shareholders and as such has not been included as a liability as at 30 November 2019. Subject to approval, this is expected to be paid on 7 May 2020 to shareholders on the register at 3 April 2020. This will give a total dividend for the year of 4.8p per share (2018: 4.7p per share).

5 Plant and equipment

| | £000 |
|----------------------------|------------|
| Cost | |
| At 1 December 2018 | 575 |
| Additions | 10 |
| At 30 November 2019 | 585 |
| Depreciation | |
| At 1 December 2018 | 467 |
| Charge for the year | 90 |
| At 30 November 2019 | 557 |
| Net book value | |
| At 30 November 2019 | 28 |
| At 30 November 2018 | 108 |

Financial statements

Notes to the Company financial statements continued
For the year ended 30 November 2019

6 Intangible assets

| | £000 |
|----------------------------|------------|
| Cost | |
| At 1 December 2018 | 285 |
| Additions | 23 |
| At 30 November 2019 | 308 |
| Amortisation | |
| At 1 December 2018 | 214 |
| Charge for the year | 41 |
| At 30 November 2019 | 255 |
| Net book value | |
| At 30 November 2019 | 53 |
| At 30 November 2018 | 71 |

7 Investments in subsidiary undertakings

| | £000 |
|--|---------------|
| Cost | |
| At 1 December 2018 | 27,812 |
| Investment in the year ¹ | 16,510 |
| Disposal | (23) |
| Share-based payments capital contribution | 25 |
| At 30 November 2019 | 44,324 |
| Provision for impairment at 1 December 2018 | (8,182) |
| Impairment in the year | (333) |
| Provision for impairment at 30 November 2019 | (8,515) |
| Net book value | |
| At 30 November 2019 | 35,809 |
| At 30 November 2018 | 19,630 |

1. Investment in the year relates to the conversion of existing intercompany balances into investments held by the Company.

7 Investments in subsidiary undertakings continued

Details of the Company's subsidiaries at 30 November 2019 are as follows:

| | Registered office (see footnote) | Country of incorporation | Class of share | Proportion of voting rights and shares held | Nature of business |
|--|----------------------------------|--------------------------|-----------------|---|---|
| Directly held by Synectics plc | | | | | |
| Synectic Systems Group Limited | 1 | UK | Ordinary shares | 100% | Design and development of security and surveillance solutions |
| Quadrant Security Group Limited | 2 | UK | Ordinary shares | 100% | Design, installation and maintenance of security and surveillance solutions |
| Synectic Systems, Inc. | 3 | USA | Common stock | 100% | Design and supply of security and surveillance solutions |
| Synectics EFX Limited | 1 | UK | Ordinary shares | 100% | Intermediate holding company |
| Coex Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Flash No.1 Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Flash No.2 Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Flash No.3 Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Fotovalue Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Foxall & Chapman Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Look CCTV Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Look Closed Circuit TV Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Midlands Video Systems Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Monument Photographic Laboratories Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| MVS (Research) plc | 1 | UK | Ordinary shares | 100% | Dormant |
| Newco 3006 Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Protec plc | 1 | UK | Ordinary shares | 100% | Non-trading |
| QSG Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Quadnetics Employees' Trustees Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Quadnetics Group Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Quadnetics Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Quadnetics SIP Trustees Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Quadrant Integrated Systems Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Quadrant Properties Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Quadrant Research & Development Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Quadrant Support Services Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Quadrant Video Systems plc | 1 | UK | Ordinary shares | 100% | Non-trading |
| Quick Imaging Centre Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| S&M (Processing) Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Sanpho Pension Trustees Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| SSS Management Services Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Stanmore Systems Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics Group Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics High Security Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics Industrial Systems Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics Mobile Systems Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics Security Group Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics Security Networks Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectic Systems Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics Surveillance Technology Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics Technology Centre Limited | 1 | UK | Ordinary shares | 100% | Dormant |

Financial statements

Notes to the Company financial statements continued
For the year ended 30 November 2019

7 Investments in subsidiary undertakings continued

| | Registered office (see footnote) | Country of incorporation | Class of share | Proportion of voting rights and shares held | Nature of business |
|--|----------------------------------|--------------------------|-----------------|---|--|
| Indirectly held by Synectics plc | | | | | |
| Indanet GmbH | 4 | Germany | Ordinary shares | 100% | Intermediate holding company |
| Synectic Systems GmbH | 5 | Germany | Ordinary shares | 100% | Design and supply of security and surveillance solutions |
| Synectic Systems (Asia) Pte Limited | 6 | Singapore | Ordinary shares | 100% | Design and supply of security and surveillance solutions |
| Synectic Systems (Macau) Limited | 7 | Macau | Ordinary shares | 100% | Design and supply of security and surveillance solutions |
| A1 Presentations Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Falcon Equipment and Systems Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| IES Integrated Electronic Systems Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Integrated Environmental Systems Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Protec 2001 Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| SDA Network Solutions Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| SDA Protec (2001) Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| SDA Protec Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Sectronic (Marketing) Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Security Design Associates (1979) Limited | 8 | UK | Ordinary shares | 100% | Dormant |
| Software Developments (Digital Direct) Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| SSS Managed Services Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics Managed Services Limited | 1 | UK | Ordinary shares | 100% | Dormant |
| Synectics No. 2 Limited | 1 | UK | Ordinary shares | 100% | Dormant |

1. Synectics House, 3–4 Broadfield Close, Sheffield S8 0XN.
2. 3 Attenborough Lane, Chilwell, Nottingham NG9 5JN.
3. 6398 Cindy Lane, Suite 200, Carpinteria, California, USA.
4. Briener Straße 28, 80333 München, Germany.
5. Machtlfinger Straße 13, 81379 München, Germany.
6. 10 Ubi Crescent, #06-80 Ubi Techpark (Lobby E), Singapore, 408564.
7. Avenida do Dr. Rodrigo Rodrigues, No. 600-E, Centro Comercial First Nacional, P14-04, Macau.
8. 272 Bath Street, Glasgow, Scotland, G2 4JR.

8 Other receivables

| | 2019 £000 | 2018 £000 |
|-------------------------------|--------------|---------------|
| Other receivables | 106 | 285 |
| Amounts due from subsidiaries | 4,556 | 29,405 |
| Prepayments | 63 | 104 |
| | 4,725 | 29,794 |

Amounts due from subsidiaries are net of an expected credit loss provision of £1.3 million.

9 Loans and borrowings

| | 2019 | | | 2018 | | |
|----------------|-----------------|---------------------|---------------|-----------------|---------------------|---------------|
| | Current £000 | Non-current £000 | Total £000 | Current £000 | Non-current £000 | Total £000 |
| Bank overdraft | – | – | – | 645 | – | 645 |
| Total | – | – | – | 645 | – | 645 |

Loans and borrowings comprise the Company's overdraft facilities. The fair value of financial liabilities is not substantially different from the carrying value. The terms and debt repayment details are as follows:

| | Value drawn £000 | Maturity | Interest rate | Security |
|------------------------|---------------------|-----------|---------------|--------------|
| £5.0 million overdraft | – | On demand | Base +2.0% | Group assets |

The bank overdraft facility is undrawn at the year-end on a net basis, and is part of a Group offset arrangement.

10 Trade and other payables

| | 2019 £000 | 2018 £000 |
|------------------------------------|--------------|--------------|
| Trade payables | 202 | 234 |
| Amounts owed to subsidiaries | 203 | 6,643 |
| Other taxation and social security | – | 54 |
| Other payables | 12 | 11 |
| Accruals | 212 | 151 |
| | 629 | 7,093 |

11 Provisions

| | Deferred tax £000 | Property £000 | Total £000 |
|--|----------------------|------------------|---------------|
| At 1 December 2018 | (9) | 4 | (5) |
| (Credited)/charged to the Income Statement | (18) | 2 | (16) |
| Charged to the Statement of Comprehensive Income | 86 | – | 86 |
| At 30 November 2019 | 59 | 6 | 65 |

The deferred taxation balances relate to the following:

| | 2019 £000 | 2018 £000 |
|--------------------------------|--------------|--------------|
| Retirement benefit asset | 117 | 31 |
| Fixed asset timing differences | (54) | (58) |
| Other timing differences | 22 | 44 |
| Tax losses | (26) | (26) |
| | 59 | (9) |

12 Called up share capital and reserves

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

| | 2019 | | 2018 | |
|------------------------------------|-------------------|--------------|------------|-------|
| | Number | £000 | Number | £000 |
| Ordinary shares of 20p each | | | | |
| Allotted, called up and fully paid | 17,794,439 | 3,559 | 17,794,439 | 3,559 |

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 £0.5 million at 30 November 2019 (2018: £0.3 million).

Financial statements

Notes to the Company financial statements continued
For the year ended 30 November 2019

14 Capital commitments

At 30 November 2019 capital commitments not provided for in these financial statements amounted to £nil (2018: £nil).

15 Operating lease commitments

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

| | 2019 £000 | 2018 £000 |
|--------------------------|--------------|--------------|
| Within one year | 15 | 36 |
| Within two to five years | – | 7 |
| | 15 | 43 |

16 Pension commitments

The Company participates in all of the Group's pension schemes. Full disclosures relating to these schemes are given in note 28 to the Group accounts.

Defined contribution schemes

Contributions made by the Company to the defined contribution section of the Quadrant Group plc Retirement Benefit Scheme in the year amounted to £nil (2018: £nil).

In addition, the Company's total expense for other defined contribution pension schemes during the year was £49,000 (2018: £56,000).

Defined benefit schemes

The table below shows the gross assets and liabilities of the Group's closed defined benefit pension scheme that have been recognised in the Company's Statement of Financial Position.

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Fair value of scheme assets | 6,701 | 6,272 |
| Present value of scheme liabilities | (6,014) | (6,090) |
| Net defined benefit asset recognised in the Statement of Financial Position | 687 | 182 |
| Associated deferred tax liability | (117) | (31) |

100% of the values of the scheme assets and liabilities have been allocated to the Company as this reflects a reasonable estimate of its share of the surplus.

Other information

Principal subsidiaries

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

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) 114 280 2828

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

Synectic Systems, Inc.

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

synecticsglobal.com

6398 Cindy Lane, Suite 200
Carpinteria
California
USA
Tel: +1 888 755 6255

Synectic Systems GmbH

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

synecticsglobal.com

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

Advisers

Secretary and registered office

Claire Stewart

Synectics plc

Synectics House
3–4 Broadfield Close
Sheffield S8 0XN
Tel: +44 (0) 114 280 2828
Email: legalandsecretarial@synecticsplc.com

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

Synectic Systems (Macau) Limited

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

synecticsglobal.com

Avenida do Dr. Rodrigo Rodrigues
No. 600-E
Centro Comercial First Nacional
P14-04
Macau
Tel: +853 2855 5178

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

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

Synectics Mobile Systems

Development and supply of CCTV systems for bus manufacturers and operators

synecticsglobal.com

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

Bankers

Lloyds Bank plc

125 Colmore Row
Birmingham B3 3SF

Stockbrokers

Shore Capital & Corporate Ltd

Cassini House
57 St James's St
London SW1A 1 LD

Auditor

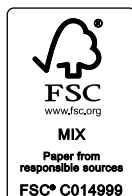
RSM UK Audit LLP

St Philips Point
Temple Row
Birmingham B2 5AF

Registrars and transfer office

Link Asset Services

34 Beckenham Road
Beckenham BR3 4TU



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