Global Specialists in Integrated Security Systems

Synectics plc

Interim Report for the six months ended 31 May 2014

We design and deliver integrated, end-to-end security and surveillance control systems for the world's most demanding security environments

Innovating
Integrating
Protecting

Security, surveillance and operations management systems are converging. We design and build powerful, intuitive command and control systems that solve complex problems which are completely adaptable to the individual requirements of the customers we serve.

Contents

- Revenue £31.8 million (2013: £40.7 million)
- Underlying loss[1] £2.5 million (2013: underlying profit[1] £3.6 million)
- Loss before tax £2.6 million (2013: profit before tax £3.3 million)
- Underlying diluted EPS[1] (10.8p) (2013: 16.3p)
- Diluted basic EPS (11.5p) (2013: 14.6p)
- Net debt at 31 May 2014 £5.1 million
  (30 November 2013: net cash £1.2 million; 31 May 2013: net cash £4.7 million)
- Order book £32.9 million (30 November 2013: £28.1 million; 31 May 2013: £34.8 million)
- Launch of new Synergy 3 command and control software platform

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

Commenting on the results, John Shepherd, Chief Executive, said:

"Though trading in the first half of this year has been worse than expected, none of the fundamental factors which will drive profitable growth have changed. We continue to focus on delivering advanced proprietary integrated command and control systems to the most demanding global customers and invest in the intellectual property necessary to keep us ahead of the competition.

The detailed reasons for the shortfall against expectations are set out in the Chairman's Statement and I firmly believe that those factors which are within our control have been properly addressed and will not recur.

We have undertaken a thorough review of all projects to ensure there are no further material loss-making contracts and, now integration of the Systems division has been completed, there will be no more disruption to operations.

We have not allowed these setbacks to slow progress against our strategic objectives, especially the launch of our integrated command and control software platform – Synergy 3, which is gaining significant interest in the market. We have seen strong growth in the Group's consolidated order book and qualified pipeline and are therefore well positioned to maximise the opportunities we can see in our chosen niche markets especially in the Middle and Far East.

I expect a strong performance in the second half of this year and for that momentum to continue into 2015 and beyond."

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Introduction

The key elements of Synectics' performance in the first half were summarised in the trading statement released by the Company on 25 June 2014. The first half of 2013/14 had been expected to be a relatively subdued trading period compared with the consistent strong profit growth and increasing margins recorded over the last four years; in the event, it turned out to be significantly worse than expected.

The main reasons for the Group's profit shortfall are set out in the operating review below. In broad terms, they include the timing of orders on large new contracts, disruption from consolidating two operations into a single, much bigger, factory and a combination of unfortunate external events and inadequate internal management on a major UK integration project. The fact remains, we could and should have done much better.

The impact of these issues has, however, been temporary. The specific problems within Synectics' control have been fully addressed and, where necessary, changes have been made. As we look ahead, the growth in the Group's order book and a strong qualified pipeline of expected new business, details of which are set out below, give the Board confidence that results for the second half will be very strong and that the consistent positive trends of recent years will be restored shortly. The Company's expectations for the year ending 30 November 2015 remain unchanged.

The Group made a number of strategically important advances during the first half. In particular, Synectics successfully launched Synergy 3, the substantially enhanced new version of its core surveillance command and control software, and completed customer acceptance of the largest and most complex surveillance system in the Group's history, which we expect will be a cornerstone for future growth in the Far East.

Results

Synectics' revenue for the first half was £31.8 million, compared with £40.7 million in the same period last year. The Group recorded a consolidated underlying loss[1] of £2.5 million (2013: profit of £3.6 million). The underlying diluted loss per share[1] was 10.8p (2013: EPS 16.3p).

The Group's total firm order book at 31 May 2014 was £32.9 million (2013: £34.8 million), up 17% from £28.1 million at 30 November 2013.

Net debt at 31 May 2014 was £5.1 million (30 November 2013: net cash £1.2 million; 31 May 2013: net cash £4.7 million). In addition to funding the operating loss, the cash outflow in the first half was due to expenditure on the development of a new freehold operations centre in Scunthorpe and a significant increase in working capital in the Systems division caused primarily by customer-imposed delays in schedules. Much of the working capital increase is expected to unwind in the second half of this year.

Dividend

As a result of the loss reported for the first half, the Board does not propose to pay an interim dividend (2013: 3.0p per share). On the basis that trading in the second half of the year ending 30 November 2014 is as strong as anticipated, the Board intends to recommend payment of a final dividend of 5.5p per share, the same rate as last year.

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

Operating review

Systems

Synectics' Systems division provides specialist video-based electronic surveillance systems and technology globally to end customers with large-scale highly complex security requirements, particularly for oil & gas operations, gaming and critical infrastructure protection.

£000	**Six months ended 31 May 2014**	Six months ended 31 May 2013	Year ended 30 November 2013
Revenue	**15,601**	22,940	44,753
Gross margin	**37.2%**	38.9%	38.5%
Operating profit[2]	**168**	3,625	7,009
Operating margin[2]	**1.1%**	15.8%	15.7%

[2] Before non-underlying items and Group central costs.

Over the past 18 months Synectics has been implementing a major reorganisation of the Group's technology-based Systems division, aimed at creating a much more unified, efficient and scalable business. The final, and in many ways most challenging, step in that consolidation process has been the physical relocation of the division's two UK operations centres in Sheffield and Brigg into a single new 54,000 sq ft freehold facility in Scunthorpe. The move was completed towards the end of the first half.

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

In addition to the disruption referred to above, reduced revenues in the half resulted mainly from customers extending their original schedules, both for new contract awards and for deliveries under existing contracts. Management believes that these delays are project-specific issues, rather than evidence of underlying softening in what remains a very active market, especially in the oil & gas and gaming sectors. Recent increases in the division's order book support that judgement.

Synectics' new Synergy 3 core software product was officially launched in April 2014 and has been received positively by existing and potential new customers. For the first time, Synergy 3 allows the same core command and control integration platform to manage surveillance systems from modest size up to the largest systems in the world, including customised integrated handling in one user interface of video surveillance, audio communications, access control, fire or smoke alarms, video analytics and input from virtually any other electronic sensor from any manufacturer.

Another highlight in the first half was achieving customer acceptance for the largest and most complex surveillance system Synectics has supplied. This system, for a customer in the Far East, was delivered in stages last year and has been performing well in a mission critical environment since installation. Follow on sales for this site in 2014 have already amounted to £0.7 million. We believe the market for similar systems in the region is growing strongly, and we anticipate being able to generate additional such sales over coming months.

Major projects delivered in the first half year included $4 million sales to Penn Gaming for new, upgraded and replacement surveillance systems in the United States, and an additional $2.6 million of sales to replace systems on gaming sites in Ontario, Canada, which were initially supplied by Synectics over seven years ago.

Indanet, our European transport operation, has also recently extended two major contracts to provide maintenance services for CCTV and information infrastructure to BVG, Berlin's main public transport operator, for a period of four years, with a total value of €4 million.

The trading statement released on 25 June 2014 referred to indefinite delays caused by current events in Iraq to certain large oil & gas surveillance system contracts originally expected to be awarded to the Group later this year. Despite having removed these contracts from the division's forecasts, Systems is still expected to trade strongly in the second half.

Integration & Managed Services

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

£000	**Six months ended 31 May 2014**	Six months ended 31 May 2013	Year ended 30 November 2013
Revenue	**16,566**	18,075	38,368
Gross margin	**15.5%**	26.4%	24.7%
Operating (loss)/ profit[2]	**(1,415)**	1,109	2,223
Operating margin[2]	**(8.5%)**	6.1%	5.8%

[2] Before non-underlying items and Group central costs.

The IMS division comprises three areas of activity. Two of these, mobile systems and managed services, performed acceptably during the first half though, in the case of mobile systems, margins were adversely affected by start-up costs on a large new long-term contract.

The third and largest area of activity within the IMS division, integrated systems, performed poorly. This was principally the result of problems on a large surveillance system integration sub-contract, which is a small part of a major new construction project within the UK. Some of the issues arose from delays and inefficiencies caused by adverse weather, limited site access and the actions of other contractors. However, inadequate internal project management contributed materially to the losses on the contract. The total negative impact of the reduced revenues and additional costs incurred or provided for on this project in the first half was £1.1 million. No further significant costs arising on this project are expected in the second half of 2014.

A thorough review by senior management of all integration projects has not revealed any other material loss-making contracts.

Firm action has been taken by Group management to address the issues, including changes of senior management personnel and structure within the division. These changes have provided the opportunity to accelerate a closer integration of the managed services and integrated systems areas within the IMS division, and there are early signs of potential benefits to both revenue and costs from such closer working.

Major wins during the first half included a contract worth around £0.9 million over three years to deliver facilities management helpdesk services to one of the UK's largest builders' merchants which has an estate of over 2,000 properties, and through our integrated systems business we further developed our relationship with the UK Ministry of Justice by providing security systems worth £0.5 million in total to a number of prison sites.

During 2013 we announced that Synectics had either renewed or won contracts with Stagecoach and Go-Ahead Group, each for a three-year period. Sales to these two major transport companies amounted to £1.3 million in the first half of 2014, and we expect this level of activity to increase in the second half.

Synectics' IMS division remains one of the UK's largest and most capable providers of security systems and services, and the Board is confident of a return to solid profitability in the second half of this year.

Research & Development

Group expenditure on technology development during the six month period totalled £1.3 million (2013: £1.2 million) of which £0.6 million (2013: £0.3 million) was capitalised and the remainder expensed to profit and loss. £0.2 million of previously capitalised development was amortised in the period. These figures are included within the results of the Systems division.

During the first half, the development team achieved an important milestone with the successful launch of Synergy 3, referred to above, as well as good progress on the other development roadmap priorities approved by the Board.

Outlook

The Board expects strongly positive trading in the second half of this year. This is based on substantial growth in the Group's consolidated order book, which stood at £32.9 million at 31 May 2014 compared with £28.1 million at our last year end, and by an increase of 34% in the Group's qualified pipeline of anticipated orders to £46.8 million at 31 May 2014 (30 November 2013: £35.0 million).

From a wider perspective, activity levels in most of our end markets remain high, particularly in the global oil & gas and gaming sectors. This underlying market strength, together with the recent availability of important new Synectics products and of expanded operations infrastructure to service the Group's planned growth, gives us confidence for the future.

David Coghlan
Chairman

29 July 2014

Condensed Consolidated Income Statement

For the six months ended 31 May 2014

	Note	Unaudited six months ended 31 May 2014 £000	Unaudited six months ended 31 May 2013 £000	Year ended 30 November 2013 £000
Revenue	3	**31,797**	40,679	82,363
Cost of sales		**(23,436)**	(26,981)	(55,664)
Gross profit		**8,361**	13,698	26,699
Operating expenses		**(10,920)**	(10,409)	(19,985)
(Loss)/profit from operations				
Excluding non-underlying items	3	**(2,426)**	3,590	7,217
Non-underlying items	4	**(133)**	(301)	(503)
Total (loss)/profit from operations		**(2,559)**	3,289	6,714
Finance income		**121**	121	245
Finance costs		**(197)**	(150)	(338)
(Loss)/profit before tax				
Excluding non-underlying items		**(2,502)**	3,561	7,124
Non-underlying items	4	**(133)**	(301)	(503)
Total (loss)/profit before tax		**(2,635)**	3,260	6,621
Income tax credit/(expense)	5	**767**	(841)	(1,704)
(Loss)/profit for the period attributable to equity holders of the parent		**(1,868)**	2,419	4,917
Basic earnings per ordinary share	7	**(11.5p)**	15.3p	30.9p
Diluted earnings per ordinary share	7	**(11.5p)**	14.6p	29.4p
Underlying basic earnings per ordinary share	7	**(10.8p)**	17.1p	34.2p
Underlying diluted earnings per ordinary share	7	**(10.8p)**	16.3p	32.6p

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 May 2014

	Unaudited six months ended 31 May 2014 £000	Unaudited six months ended 31 May 2013 £000	Year ended 30 November 2013 £000
(Loss)/profit for the period	**(1,868)**	2,419	4,917
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses	–	–	(264)
Effect of not recognising the pension scheme surplus	–	–	264
	–	–	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**(130)**	(6)	(65)
Available-for-sale financial assets:			
– Gains arising during the period, net of tax	–	403	403
– Less: reclassification adjustments for gains included in profit, net of tax	–	–	(403)
Total comprehensive income for the period attributable to equity holders of the parent	**(1,998)**	2,816	4,852

Condensed Consolidated Statement of Financial Position
As at 31 May 2014

	Note	Unaudited 31 May 2014 £000	Unaudited 31 May 2013 £000	30 November 2013 £000
Non-current assets				
Property, plant and equipment		**3,623**	1,870	2,641
Intangible assets		**22,869**	21,144	22,672
		26,492	23,014	25,313
Current assets				
Inventories		**10,798**	9,815	9,735
Trade and other receivables		**32,042**	25,464	27,695
Other financial assets		–	525	–
Current tax asset		**681**	–	–
Cash and cash equivalents		–	7,835	5,774
		43,521	43,639	43,204
Total assets		**70,013**	66,653	68,517
Current liabilities				
Trade and other payables		**(27,107)**	(24,764)	(22,569)
Tax liabilities		–	(730)	(1,118)
Current provisions	8	**(148)**	(18)	(147)
Overdraft and borrowings	9	**(2,131)**	–	–
		(29,386)	(25,512)	(23,834)
Non-current liabilities				
Loans and borrowings		**(2,983)**	(3,163)	(4,575)
Non-current provisions	8	**(85)**	(48)	(97)
Deferred tax liabilities		**(463)**	(563)	(469)
		(3,531)	(3,774)	(5,141)
Total liabilities		**(32,917)**	(29,286)	(28,975)
Net assets		**37,096**	37,367	39,542
Equity attributable to equity holders of the Parent Company				
Called up share capital		**3,559**	3,517	3,539
Share premium account		**16,043**	15,751	15,765
Merger reserve		**9,971**	9,565	9,971
Other reserves		**(2,656)**	(2,604)	(2,797)
Currency translation reserve		**(3)**	186	127
Retained earnings		**10,182**	10,952	12,937
Total equity		**37,096**	37,367	39,542

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 May 2014

	Called up share capital £000	Share premium account £000	Merger reserve £000	Other reserves £000	Currency translation reserve £000	Retained earnings £000	Total £000
At 1 December 2012	3,514	15,721	9,565	(3,239)	192	9,387	35,140
Profit after tax for the period	–	–	–	–	–	2,419	2,419
Dividends paid	–	–	–	–	–	(831)	(831)
Credit in relation to share-based payments	–	–	–	–	–	43	43
Gains on valuation of available-for-sale financial assets, net of tax	–	–	–	403	–	–	403
Currency translation adjustment	–	–	–	–	(6)	–	(6)
Issue of ordinary shares	3	30	–	–	–	–	33
Share scheme interests realised in the period	–	–	–	232	–	(66)	166
At 31 May 2013	3,517	15,751	9,565	(2,604)	186	10,952	37,367
Profit after tax for the period	–	–	–	–	–	2,498	2,498
Dividends paid	–	–	–	–	–	(505)	(505)
Credit in relation to share-based payments	–	–	–	–	–	35	35
Reclassification adjustment for gains on available-for-sale financial assets included in profit, net of tax	–	–	–	(403)	–	–	(403)
Currency translation adjustment	–	–	–	–	(59)	–	(59)
Issue of ordinary shares	2	14	–	–	–	–	16
Share scheme interests realised in the period	–	–	–	210	–	(43)	167
Acquisition of Coex Services Asia Pte Limited	20	–	406	–	–	–	426
At 30 November 2013	3,539	15,765	9,971	(2,797)	127	12,937	39,542
Loss after tax for the period	–	–	–	–	–	(1,868)	(1,868)
Dividends paid	–	–	–	–	–	(928)	(928)
Credit in relation to share-based payments	–	–	–	–	–	72	72
Currency translation adjustment	–	–	–	–	(130)	–	(130)
Issue of ordinary shares	20	278	–	–	–	–	298
Share scheme interests realised in the period	–	–	–	141	–	(31)	110
At 31 May 2014	**3,559**	**16,043**	**9,971**	**(2,656)**	**(3)**	**10,182**	**37,096**

Condensed Consolidated Cash Flow Statement

For the six months ended 31 May 2014

	Unaudited six months ended 31 May 2014 £000	Unaudited six months ended 31 May 2013 £000	Year ended 30 November 2013 £000
Cash flows from operating activities			
(Loss)/profit for the period	**(1,868)**	2,419	4,917
Income tax (credit)/expense	**(767)**	841	1,704
Finance income	**(121)**	(121)	(245)
Finance costs	**197**	150	338
Depreciation and amortisation charge	**726**	518	1,187
Profit on disposal of non-current assets	**–**	–	(16)
Other non-underlying items	**–**	–	(191)
Share-based payments charge	**72**	43	78
Operating cash flows before movement in working capital	**(1,761)**	3,850	7,772
Increase in inventories	**(1,063)**	(2,613)	(2,533)
(Increase)/decrease in receivables	**(4,347)**	1,040	(586)
Increase/(decrease) in payables	**4,527**	1,367	(1,910)
Cash (used in)/generated from operations	**(2,644)**	3,644	2,743
Interest received	**5**	3	12
Tax paid	**(1,032)**	(393)	(731)
Net cash (used in)/from operating activities	**(3,671)**	3,254	2,024
Cash flows from investing activities			
Purchase of property, plant and equipment	**(1,353)**	(619)	(1,570)
Sale of property, plant and equipment	**–**	14	15
Acquisition of subsidiaries, net of cash acquired	**–**	(1,408)	(1,858)
Capitalised development costs	**(602)**	(332)	(1,008)
Purchased software	**(72)**	(214)	(335)
Net cash used in investing activities	**(2,027)**	(2,559)	(4,756)
Cash flows from financing activities			
(Decrease)/increase in borrowings	**(732)**	1,238	2,952
Share scheme interests realised in the period	**110**	166	333
Issue of shares	**298**	33	49
Interest paid	**(81)**	(32)	(105)
Dividends paid	**(928)**	(831)	(1,336)
Net cash (used in)/from financing activities	**(1,333)**	574	1,893
Effect of exchange rate changes on cash and cash equivalents	**(73)**	75	122
Net (decrease)/increase in cash and cash equivalents	**(7,104)**	1,344	(717)
Cash and cash equivalents at the beginning of the period	**5,774**	6,491	6,491
Cash and cash equivalents at the end of the period	**(1,330)**	7,835	5,774

1. General information
These consolidated interim financial statements were approved by the Board of Directors on 29 July 2014.

2. Basis of preparation
These consolidated interim financial statements of the Group are for the six months ended 31 May 2014.

The comparative figures for the financial year ended 30 November 2013 are not the Group's statutory accounts for that financial year. Those statutory accounts have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report and (iii) did not contain a statement under Section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 November 2013.

The condensed consolidated interim financial statements for the six months to 31 May 2014 have not been audited or reviewed by an auditor pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

The condensed consolidated interim financial statements for the six months to 31 May 2014 have been prepared on the basis of the accounting policies expected to be adopted for the year ending 30 November 2014. These are anticipated to be consistent with those set out in the Group's latest annual financial statements for the year ended 30 November 2013. These accounting policies are drawn up in accordance with adopted International Accounting Standards ('IAS') and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and adopted by the EU.

Significant accounting policies
AIM-listed companies are not required to comply with IAS 34 "Interim Financial Reporting" and accordingly the Company has taken advantage of this exemption.

3. 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 CODM uses underlying operating profit, before Central costs (segment result), as reviewed at Board meetings, as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Underlying operating profit is a consistent measure within the Group.

Revenue	**Unaudited six months ended 31 May 2014 £000**	Unaudited six months ended 31 May 2013 £000	Year ended 30 November 2013 £000
Systems	**15,601**	22,940	44,753
Integration & Managed Services	**16,566**	18,075	38,368
Total segmental revenue	**32,167**	41,015	83,121
Reconciliation to consolidated revenue:			
Intra-Group sales	**(370)**	(336)	(758)
	31,797	40,679	82,363

3. Segmental analysis continued

Underlying operating (loss)/profit	**Unaudited six months ended 31 May 2014 £000**	Unaudited six months ended 31 May 2013 £000	Year ended 30 November 2013 £000
Systems	**168**	3,625	7,009
Integration & Managed Services	**(1,415)**	1,109	2,223
Total segmental underlying operating (loss)/profit	**(1,247)**	4,734	9,232
Reconciliation to consolidated underlying operating (loss)/profit:			
Central costs	**(1,179)**	(1,144)	(2,015)
	(2,426)	3,590	7,217

Underlying operating (loss)/profit from operations is reconciled to total (loss)/profit from operations as follows:

	Unaudited six months ended 31 May 2014 £000	Unaudited six months ended 31 May 2013 £000	Year ended 30 November 2013 £000
Underlying operating (loss)/profit	**(2,426)**	3,590	7,217
Non-underlying items (note 4)	**(133)**	(301)	(503)
	(2,559)	3,289	6,714

4. Non-underlying items

	Unaudited six months ended 31 May 2014 £000	Unaudited six months ended 31 May 2013 £000	Year ended 30 November 2013 £000
Restructuring costs	**–**	–	562
Acquisition costs	**–**	197	265
Share-based payment charge	**72**	43	78
Amortisation of intangible assets	**61**	61	123
Reclassification of available-for-sale assets to profit or loss	**–**	–	(525)
	133	301	503

5. Income tax credit

The income tax credit for the period is based on the estimated rate of corporation tax that is likely to be effective for the year to 30 November 2014.

6. Dividends

As a result of the loss reported for the first half, the Board does not propose to pay an interim dividend.

7. Earnings per share

Earnings per ordinary share are as follows:

	Unaudited six months ended 31 May 2014 pence per share	Unaudited six months ended 31 May 2013 pence per share	Year ended 30 November 2013 pence per share
Basic earnings per share			
– Underlying	**(10.8)**	17.1	34.2
– Basic	**(11.5)**	15.3	30.9
Diluted earnings per share[3]			
– Underlying	**(10.8)**	16.3	32.6
– Basic	**(11.5)**	14.6	29.4

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

	£000	£000	£000
Earnings for basic and diluted earnings per share	**(1,868)**	2,419	4,917
Non-underlying items	**133**	301	503
Impact of non-underlying items on tax charge for the period	**(22)**	(20)	30
Earnings for underlying basic and underlying diluted earnings per share	**(1,757)**	2,700	5,450

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Weighted average number of ordinary shares – basic calculation	**16,268**	15,777	15,929
Dilutive potential ordinary shares arising from share options[3]	**–**	830	789
Weighted average number of ordinary shares – diluted calculation	**16,268**	16,607	16,718

[3] Under IFRS no allowance is made for the dilutive impact of share options which reduce a loss. The basic and diluted EPS measures are therefore the same for the six months ended 31 May 2014.

8. Provisions

	Deferred and contingent consideration £000	Restructuring £000	Property £000	Total £000
At 1 December 2013	49	126	69	244
Utilised in the period	–	–	(11)	(11)
At 31 May 2014	**49**	**126**	**58**	**233**

The Group has a number of properties where the Directors believe that dilapidation costs may be incurred or where the property is sublet and the Directors believe that they may not be able to fully recover future rental cost and therefore appropriate cost provisions have been made. It is anticipated that the property cost provision carried forward at 31 May 2014 will be utilised within six years.

9. Overdraft and borrowings

	Unaudited six months ended 31 May 2014 £000	Unaudited six months ended 31 May 2013 £000	Year ended 30 November 2013 £000
Overdraft	**1,330**	–	–
Borrowings	**801**	–	–
	2,131	–	–

10. Copies of this statement will be sent to shareholders and will be available on the Group's website (www.synecticsplc.com) and from Synectics plc, Studley Point, 88 Birmingham Road, Studley, Warwickshire B80 7AS.

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