SYNECTICS

innovating integrating protecting

Interim Report for the 6 months ended 31 May 2012

Stock code: SNX

Highlights

- Change of name from Quadnetics Group plc to Synectics plc on 16 July 2012
- Revenue £38.4 million (2011: £34.0 million)
- Underlying profit* £2.8 million (2011: £1.8 million)
- Profit before tax £1.7 million (2011: £1.7 million)
- Diluted underlying EPS 12.7p (2011: 8.4p)
- Diluted basic EPS 7.0p (2011: 7.8p)
- Cash at 31 May 2012: £4.4 million (30 November 2011: £3.1 million; 31 May 2011: £6.0 million)
- Net funds at 31 May 2012: £2.7 million (30 November 2011: £1.3 million; 31 May 2011: £6.0 million prior to the acquisition of Indanet AG)
- Interim dividend maintained at 2.5p per share
- Significant contract wins in nuclear power, gaming, transport and oil & gas/marine
- Record order book of £40.6 million (30 November 2011: £35.9 million; 31 May 2011: £26.1 million)

"This is another strong set of results which reflect the continuation of the momentum generated in 2011. We continue to see significant global demand for our advanced electronic security systems resulting in major contract wins and record order book levels. Investment in engineering and management talent is increasing in order to strengthen our position as thought leaders in our chosen markets and is helping us to build long term partner relationships with large global system integrators.

"After careful consideration we have changed the name of the Group to Synectics plc to simplify our brand structure and to take advantage of our brand with the greatest global customer recognition.

"The integration of our German acquisition Indanet continues on plan with significant investment in new product R&D and international sales and marketing resource. We continue to win major contracts with existing and new German transport customers and are now marketing the full Synectics systems capability widely in Europe.

"This excellent first half year gives us increasing confidence in our ability to deliver full year results in line with expectations."

John Shepherd
Chief Executive

* That is profit before tax, non-underlying items (restructuring costs, acquisition expenses, amortisation of intangibles and share based payment charges) and IAS 39 charge on deferred and contingent consideration.

Chairman's Statement

Introduction

Synectics had a good first half. Results for the six months to 31 May 2012 represented appreciable overall growth in both revenues and operating profits compared with last year. This was a reflection of the positive operating changes put in place over recent years, and a further solid step towards the Group's medium term financial goals.

As set out in our last Annual Report, it has been for some time the Board's intention to change the name of the Company to Synectics plc. Shareholders granted approval at our Annual General Meeting in May, and the change was implemented on 16 July. The Synectics brand represents the Group's growing portfolio of proprietary electronic security systems technology, developed over many years, that we expect to be the mainstay of our continuing growth. As deployments of this technology expand globally, and Synectics becomes increasingly well recognised, it is time that the core brand and the parent company share a single name.

Results

Group revenue for the first half was £38.4 million, 13% up on the corresponding period of 2011. Consolidated underlying profit* was £2.8 million (2011: £1.8 million). During the period the Group took an exceptional charge of £0.8 million (2011: nil) to provide for closure of our UK defence activities, as described below. After this charge, and various non-underlying, non-cash items, the Group produced a profit before tax for the first half of £1.7 million (2011: £1.7 million). Fully diluted underlying earnings per share were 12.7 pence (2011: 8.4 pence).

Operationally, the first half was characterised by particularly strong performances at the Synectics Networks and Synectics Industrial Systems divisions, with growth emanating mainly from end markets in the Far East/Australia, the Middle East and the United States. Except for defence, performance in our UK-focused activities was solid, with improved margins achieved in each business area. Indanet, acquired in July last year, has integrated well and produced results in line with our expectations.

The Group generated strong cash flow in the period. Free cash flow (that is, net cash inflow before interest, tax and dividends) was £3.3 million (2011: £3.7 million). Net cash as at 31 May 2012 was £2.7 million (2011: £6.0 million, prior to the acquisition of Indanet AG).

Pleasingly, the Group ended the first half with a record order book of £40.6 million (2011: £26.1 million, prior to the inclusion of Indanet), compared with a like-for-like £35.9 million as at 30 November 2011.

Dividend

The Board has declared an unchanged interim dividend of 2.5 pence per share, payable on 21 September 2012 to shareholders on the register as at 24 August 2012.

* Underlying profit represents profit before tax, non-underlying items (restructuring costs, acquisition expenses, amortisation of intangibles and share based payment charges) and IAS 39 charge on deferred and contingent consideration.

Chairman's Statement
continued

Operating Review

Integration & Managed Services

£'000	6 months ended 31 May 2012	6 months ended 31 May 2011	12 months ended 30 Nov 2011
Revenue	15,533	17,636	32,622
Gross margin	25.2%	20.8%	22.2%
Underlying operating profit	924	771	1,460
Operating margin	5.9%	4.4%	4.5%

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

Although the division experienced a decline in revenues compared with the first half of last year, the concentration on better-targeted sales and operational efficiencies produced a significant improvement in margins, such that operating profits grew by 20%. The trend towards larger contracts, increasingly directed towards multi-site and multi-country requirements, continued in the period. The most notable achievement was winning a contract to provide service and maintenance of security systems at the majority of Magnox nuclear reactor sites throughout the UK, with a potential value of £7 million over six years. Important contracts were also won from customers seeking a single security provider across multiple European countries.

The outlook in this division is for trading to continue at around current levels in the short term. Significant investment is being made this year in new IT systems to support further improvements in operating efficiency and margins, towards the division's medium term target of 6–8% operating return on sales.

Synectics Network Systems

£'000	6 months ended 31 May 2012	6 months ended 31 May 2011	12 months ended 30 Nov 2011
Revenue	10,143	7,555	16,230
Gross margin	51.6%	46.3%	47.8%
Underlying operating profit	2,918	1,866	3,762
Operating margin	28.8%	24.7%	23.2%

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

Synectics Networks had a record half year by all measures, in both absolute and percentage margin terms.

The primary reason for this performance was the sustained strength of the US gaming market, as newer gaming locations continue to grow outside the larger established centres. The initial investment phase of this process is now slowing, so a more moderate level of continuing business from that source will be likely from the second half of this year onwards. In the first half

Synectics also delivered substantial parts of the wide-area security system for a major US city.

Further good progress was achieved from Synectics' relatively new base in the United Arab Emirates.

We believe that the outstanding levels of operational and financial performance of the Synectics Networks division in the first half are unlikely to be repeated in the remainder of the year. It is nevertheless on track to produce an excellent result for the year as a whole.

Synectics Transport Systems

£'000	6 months ended 31 May 2012	6 months ended 31 May 2011	12 months ended 30 Nov 2011
Revenue	7,214	5,095	13,461
Gross margin	34.0%	31.2%	29.7%
Underlying operating profit	(230)	68	280
Operating margin	(3.2%)	1.3%	2.1%

Synectics Transport Systems provides specialist surveillance systems and products for integrated transports hubs, rail, bus, haulage and defence customers.

As expected, the UK bus market recovered well in the first half, and Synectics' sales of security systems into that market returned to more normal levels of revenues and profit. As reported in March, the UK business secured a five year, £2.5 million support contract with bus operator Abellio during this period.

Indanet completed its first full period as part of the Group. Like Synectics, Indanet is a technology led organisation that works closely with its blue-chip customers to solve highly complex security and surveillance issues. The integration of the two companies has gone well with the technical teams on both sides finding much common ground and potential for profitable collaboration. We said at the time of the acquisition that Indanet would produce a loss in the first part of the year, partly because of investment in additional technical resources and partly because their customers have budgets heavily weighted to the last few months of the calendar year. The actual loss of £0.5 million was in line with our expectations.

During the first half of the year the Board concluded that Synectics' defence activities were no longer core to the Group and made the decision either to sell or close those activities. In the first half, the defence activities produced a loss of £(0.2) million on revenues of £0.7 million. This decision is not a reflection on the undoubted innovative skills and hard work of our people in that business, but an unfortunate consequence of the diminished prospects for defence equipment expenditure by the UK Government.

With the defence activities discontinued, and new business growth at Indanet, a much improved result is expected for this division in the second half.

Synectics Industrial Systems

£'000	6 months ended 31 May 2012	6 months ended 31 May 2011	12 months ended 30 Nov 2011
Revenue	5,965	4,316	7,943
Gross margin	35.4%	37.2%	38.1%
Underlying operating profit	1,036	770	1,258
Operating margin	17.4%	17.8%	15.8%

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

The Industrial Systems division had another record period, with revenues and profit both growing by in excess of 30% year on year. It has coped well with the operational challenges presented by its rate of growth, including moving to expanded premises.

The division won a number of significant new contracts in the period, most notably the TAKREER Inter Refinery Pipeline II and Abu Dhabi National Oil Company's Shah Gas projects with a combined value in excess of £6 million.

Because of the long lead times of projects in this sector, Synectics Industrial Systems has good visibility of its future pipeline of work. We are therefore confident that the division's results for the year will be strong.

Research and Development

Group expenditure on technology development during the six month period totalled £0.9 million (2011: £0.9 million), of which £0.3 million (2011: £0.2 million) was capitalised and the remainder expensed to profit and loss. £0.5 million of previously capitalised development was amortised in the period.

The Synectics Technology Centre is now operating with well directed purpose in delivering on its roadmap of technology developments. The pipeline of new applications due for release in the coming 6–12 months gives us confidence in the Group's future ability to sustain its areas of competitive advantage.

We continue to believe that Synectics' future lies in nurturing our capabilities both as a technology innovator and developer, as well as a systems integrator with increasingly specialised expertise.

Outlook

Whilst we do not anticipate that the second half will be as strong as the first, performance in the year so far, and in particular the Group's strong order book, give the Board confidence that results for the year as a whole will be solidly in line with our expectations.

David Coghlan
Chairman
25 July 2012

Condensed Consolidated Income Statement

For the 6 months ended 31 May 2012

	Notes	**Unaudited 6 months ended 31 May 2012 £'000**	Unaudited 6 months ended 31 May 2011 £'000	12 months ended 30 November 2011 £'000
Revenue	3	**38,374**	33,990	69,083
Cost of sales		**(24,658)**	(23,629)	(47,062)
Gross profit		**13,716**	10,361	22,021
Operating expenses		**(11,826)**	(8,665)	(19,418)
Profit from operations				
Excluding non-underlying items	3	**2,849**	1,788	3,541
Non-underlying items	4	**(959)**	(92)	(938)
Total profit from operations		**1,890**	1,696	2,603
Finance income		**138**	160	268
Finance costs		**(329)**	(159)	(409)
Profit before tax				
Excluding non-underlying items		**2,795**	1,789	3,510
Non-underlying items	4	**(959)**	(92)	(938)
IAS 39 charge on deferred and contingent consideration		**(137)**	–	(110)
Total profit before tax		**1,699**	1,697	2,462
Income tax expense	5	**(569)**	(458)	(874)
Profit for the period attributable to equity holders of the parent		**1,130**	1,239	1,588
Basic earnings per Ordinary share	7	**7.3p**	8.0p	10.2p
Diluted earnings per Ordinary share	7	**7.0p**	7.8p	10.0p

Condensed Consolidated Statement of Comprehensive Income

For the 6 months ended 31 May 2012

	Unaudited 6 months ended 31 May 2012 £'000	Unaudited 6 months ended 31 May 2011 £'000	12 months ended 30 November 2011 £'000
Profit for the period	**1,130**	1,239	1,588
Exchange differences on translation of foreign operations	**(56)**	(34)	(21)
Actuarial gains/(losses)	**–**	–	114
Effect of not recognising the pension scheme surplus	**–**	–	(114)
Total comprehensive income for the period attributable to equity holders of the parent	**1,074**	1,205	1,567

Condensed Consolidated Statement of Financial Position
31 May 2012

	Notes	**Unaudited 31 May 2012 £'000**	Unaudited 31 May 2011 £'000	30 November 2011 £'000
Non-current assets				
Property, plant and equipment		**1,460**	1,525	1,618
Intangible assets		**24,473**	17,324	25,189
Deferred tax asset		**–**	147	–
		25,933	18,996	26,807
Current assets				
Inventories		**6,694**	5,430	7,459
Trade and other receivables		**26,099**	21,382	26,501
Cash and cash equivalents		**4,406**	5,955	3,098
		37,199	32,767	37,058
Total assets		**63,132**	51,763	63,865
Current liabilities				
Trade and other payables		**(21,993)**	(18,749)	(22,507)
Tax liabilities		**(233)**	(604)	(861)
Current provisions	8	**(396)**	–	(44)
		(22,622)	(19,353)	(23,412)
Non-current liabilities				
Loans and borrowings		**(1,739)**	–	(1,843)
Non-current provisions	8	**(5,776)**	(25)	(6,028)
Deferred tax liabilities		**(99)**	–	(133)
		(7,614)	(25)	(8,004)
Total liabilities		**(30,236)**	(19,378)	(31,416)
Net assets		**32,896**	32,385	32,449
Equity attributable to equity holders of parent company				
Called up share capital		**3,515**	3,514	3,514
Share premium account		**15,721**	15,719	15,719
Merger reserve		**9,565**	9,565	9,565
Other reserves		**(3,486)**	(3,486)	(3,486)
Currency translation reserve		**40**	83	96
Retained earnings		**7,541**	6,990	7,041
Total equity		**32,896**	32,385	32,449

Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 31 May 2012

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Currency translation reserve £'000	Retained earnings £'000	Total £'000
At 1 December 2010	3,514	15,719	9,565	(3,486)	117	6,371	31,800
Profit after tax for the period	–	–	–	–	–	1,239	1,239
Dividends paid	–	–	–	–	–	(712)	(712)
Credit in relation to share based payments	–	–	–	–	–	92	92
Currency translation adjustment	–	–	–	–	(34)	–	(34)
At 31 May 2011	3,514	15,719	9,565	(3,486)	83	6,990	32,385
Profit after tax for the period	–	–	–	–	–	349	349
Dividends paid	–	–	–	–	–	(398)	(398)
Credit in relation to share-based payments	–	–	–	–	–	100	100
Currency translation adjustment	–	–	–	–	13	–	13
At 30 November 2011	3,514	15,719	9,565	(3,486)	96	7,041	32,449
Issue of shares	1	2	–	–	–	–	3
Profit after tax for the period	–	–	–	–	–	1,130	1,130
Dividends paid	–	–	–	–	–	(731)	(731)
Credit in relation to share-based payments	–	–	–	–	–	101	101
Currency translation adjustment	–	–	–	–	(56)	–	(56)
At 31 May 2012	**3,515**	**15,721**	**9,565**	**(3,486)**	**40**	**7,541**	**32,896**

Condensed Consolidated Cash Flow Statement

For the 6 months ended 31 May 2012

	Unaudited 6 months ended 31 May 2012 £'000	Unaudited 6 months ended 31 May 2011 £'000	12 months ended 30 November 2011 £'000
Cash flows from operating activities			
Profit for the period	**1,130**	1,239	1,588
Income tax expense	**569**	458	874
Finance income	**(138)**	(160)	(268)
Finance costs	**329**	159	409
Depreciation and amortisation charge	**998**	621	1,268
Loss/(profit) on disposal of non-current assets	**4**	–	(10)
Share based payments charge	**101**	92	192
Operating cash flows before movement in working capital	**2,993**	2,409	4,053
Decrease/(increase) in inventories	**737**	462	(871)
Decrease/(increase) in receivables	**320**	1,072	(3,175)
(Decrease)/increase in payables and provisions	**(172)**	514	3,422
Cash generated from operations	**3,878**	4,457	3,429
Interest received	**1**	2	11
Tax paid	**(1,223)**	(352)	(485)
Net cash from operating activities	**2,656**	4,107	2,955
Cash flows from investing activities			
Purchase of property, plant and equipment	**(128)**	(245)	(566)
Sale of property, plant and equipment	**–**	–	10
Acquisition of subsidiaries	**–**	(230)	(2,555)
Capitalised development costs	**(272)**	(254)	(747)
Purchased software	**(176)**	(40)	(69)
Net cash used in investing activities	**(576)**	(769)	(3,927)
Cash flows from financing activities			
New borrowings	**–**	–	1,843
Issue of shares	**3**	–	–
Interest paid	**(40)**	(3)	(33)
Dividends paid	**(731)**	(712)	(1,110)
Net cash used in financing activities	**(768)**	(715)	700
Effect of exchange rate changes on cash and cash equivalents	**(4)**	(17)	21
Net increase/(decrease) in cash and cash equivalents	**1,308**	2,606	(251)
Cash and cash equivalents at the beginning of the period	**3,098**	3,349	3,349
Cash and cash equivalents at the end of the period	**4,406**	5,955	3,098

Notes

1. General information

These consolidated interim financial statements were approved by the Board of Directors on 25 July 2012.

2. Basis of preparation

These consolidated interim financial statements of the Group are for the six months ended 31 May 2012.

The comparative figures for the financial year ended 30 November 2011 are not the Group's statutory accounts for that financial year. Those statutory accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their 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 2011.

The condensed consolidated interim financial statements for the six months to 31 May 2011 have not been audited or reviewed by auditors 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 2012 have been prepared on the basis of the accounting policies expected to be adopted for the year ending 30 November 2012. These are anticipated to be consistent with those set out in the Group's latest annual financial statements for the year ended 30 November 2011. 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 operating segment reporting format reflects the differing economic characteristics and nature of the services provided by the Group and is the basis on which strategic operating decisions are made by the CODM.

The CODM uses underlying operating profit, before Research & Development and 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. There has been no aggregation of the operating segments in arriving at these reportable segments.

	Unaudited 6 months ended 31 May 2012 £'000	Unaudited 6 months ended 31 May 2011 £'000	12 months ended 30 November 2011 £'000
Revenue			
Integration & Managed Services	**15,533**	17,636	32,622
Network Systems	**10,143**	7,555	16,230
Transport Systems	**7,214**	5,095	13,461
Industrial Systems	**5,965**	4,316	7,943
Total segmental revenue	**38,855**	34,602	70,256
Reconciliation to consolidated revenue:			
Intra-group sales	**(481)**	(612)	(1,173)
	38,374	33,990	69,083
Underlying operating profit			
Integration & Managed Services	**924**	771	1,460
Network Systems	**2,918**	1,866	3,762
Transport Systems	**(230)**	68	280
Industrial Systems	**1,036**	770	1,258
Total segmental underlying profit	**4,648**	3,475	6,760
Reconciliation to consolidated underlying profit:			
Research & Development costs	**(640)**	(669)	(1,025)
Central costs	**(1,159)**	(1,018)	(2,194)
	2,849	1,788	3,541

Notes
continued

4. Non-underlying items

	Unaudited 6 months ended 31 May 2012 £'000	Unaudited 6 months ended 31 May 2011 £'000	12 months ended 30 November 2011 £'000
Acquisition costs	**–**	–	352
Restructuring costs	**800**	–	346
Share based payments charge	**101**	92	192
Amortisation of intangible assets acquired as a result of business combinations	**58**	–	48
	959	92	938

Restructuring costs reflect the anticipated cost of closure of exiting from the Group's defence activities, based in Tewkesbury, which are no longer considered to be core to the Group and include £415,000 in respect of accelerated amortisation to fully write off goodwill and capitalised development costs relating to this activity.

5. Tax charge

The tax charge for the period is based on the estimated rate of corporation tax that is likely to be effective for the year to 30 November 2012.

6. Dividends

An interim dividend of 2.5p per share, totalling approximately £439,000, will be paid on 21 September 2012 to shareholders on the register as at 24 August 2012.

7. Earnings per share

Earnings per Ordinary share are as follows:

	Unaudited 6 months ended 31 May 2012 p	Unaudited 6 months ended 31 May 2011 p	12 months ended 30 November 2011 p
Basic earnings			
– Underlying	**13.2**	8.6	16.4
– Basic	**7.3**	8.0	10.2
Diluted earnings per share			
– Underlying	**12.7**	8.4	16.2
– Basic	**7.0**	7.8	10.0

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

	£'000	£'000	£'000
Earnings for basic and diluted earnings per share	**1,130**	1,239	1,588
Non-underlying items	**959**	92	938
Impact of non-underlying items on tax charge for the period	**(169)**	–	(82)
IAS 39 charge on deferred and contingent consideration	**137**	–	110
Earnings for underlying basic and underlying diluted earning per share	**2,057**	1,331	2,554

	'000	'000	'000
Weighted average number of Ordinary shares – basic calculation	**15,556**	15,529	15,529
Dilutive potential Ordinary shares arising from share options	**644**	310	274
Weighted average number of Ordinary shares – diluted calculation	**16,200**	15,839	15,803

Notes
continued

8. Provisions

	Deferred & contingent consideration £'000	Restructuring £'000	Property £'000	Total £'000
At 1 December 2011	5,981	37	54	6,072
Utilised in year	–	(37)	(5)	(42)
Charge to income statement	–	385	–	385
IAS 39 charge on deferred and contingent consideration	137	–	–	137
Currency translation adjustment	(380)	–	–	(380)
At 31 May 2012	**5,738**	**385**	**49**	**6,172**

The restructuring provision relates to future costs anticipated to arise as a result of the Board's decision to close the Group's defence activities (see note 4).

9. 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, Haydon House, 5 Alcester Road, Studley, Warwickshire, B80 7AN.

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