Global Specialists in Integrated Security Systems

Synectics plc

Interim Report for the six months ended 31 May 2020

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.

Headlines

- Substantial impact from Covid-19 on our customers' operations, especially in the gaming sector
- Revenue £23.0 million (2019: £33.6 million)
- Underlying loss before tax[1] £(2.0) million (2019: profit £1.2 million)
- Loss before tax £(2.3) million (2019: profit £1.2 million)
- Order book £26.1 million (2019: £25.9 million)
- Net cash as at 31 May 2020 of £4.6 million (30 Nov 2019: £3.6 million)
- Actions taken to reduce costs and re-focus operations around customer requirements, with four operational sites due to be closed by the end of the year.
- Group expects a noticeably improved underlying trading result in second half.

1 Underlying profit represents profit before tax and non-underlying items (which comprise amortisation of acquired intangibles and restructuring costs incurred in respect of the consolidation of the Group's head office from Studley to the existing premises in Sheffield).

"Whilst results this year will be significantly affected by the impact of Covid-19, our relatively strong financial position has allowed us to re-structure our Integration businesses and to continue our investment in Technology development.

This investment is opening a range of future opportunities for Synectics in software applications for enterprise-level operational security management systems.

Our approach puts us in position to take advantage of these opportunities as they arise, and to support our customers as they emerge from their individual pandemic scenarios."

Paul Webb
Chief Executive

In this report

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"

The global market background faced by Synectics was not the one planned for or expected. The Board expects that Synectics will produce a noticeably improved underlying trading result in the second half of this financial year compared to the first half."

David Coghlan
Chairman

Overview

The global market background faced by Synectics in the period under review was not the one planned for or expected. Many of the Group's major customers have suffered unprecedented disruptions as a result of the global Covid-19 pandemic. Our largest customer sector, where Synectics is a long-term partner to many of the world's principal casinos and gaming resorts, was virtually shut down. Likewise, our public transportation customers have faced business declines, typically in the order of 90%.

Having assessed Synectics' position in these changed circumstances, the Board acted quickly to redirect the Group's short-term focus to protecting our people, our customers and the fabric of our business. Fortunately, we were able to take the necessary actions from a position of financial strength.

Synectics' results for the half year to 31 May 2020 suffered substantially from this disruption in our end markets, with revenues down over 30% and a corresponding unavoidable move into operating losses. The biggest impacts were in the Systems division, in particular the gaming sector across Asia Pacific and North America, where normal upgrade work and most planned major projects were put on hold by customers. In contrast, government-related infrastructure and high security business generally held up well.

It was an especially positive sign, and a tribute to the resourcefulness of Synectics' staff and our customer, that progress on the large, and strategically important, Deutsche Bahn Berlin security operations software system continued successfully on schedule. The Company has continued its investment in the development roadmap of its core *Synergy* platform. It has been encouraging to see, even in these unique times, the increasing level of interest from prospective customers and global IT systems integrators in Synectics' vision for the future of enterprise-level security operations control.

Results

Synectics' revenue for the first half declined by 32% to £23.0 million, compared with £33.6 million in the same period last year. The Group recorded a consolidated underlying loss before tax[1] of £2.0 million (2019: profit £1.2 million). After charging £0.28 million for non-underlying items, principally incurred in respect of the consolidation of the Group's head office from Studley to the existing premises in Sheffield, the loss before tax was £2.3 million (2019: profit £1.2 million).

The underlying diluted loss per share[1] for the half year was 9.4p (2019: profit 6.2p).

More details on these results are set out in the divisional reports below.

Net cash at 31 May 2020 was £4.6 million (30 November 2019: £3.6 million) with confirmed facilities of £5.0 million in place if required. It remains the case that Synectics' businesses turn a relatively substantial portion of their profits into free cash flow, although short-term working capital balances can fluctuate significantly.

1 Underlying profit represents profit before tax and non-underlying items (which comprise amortisation of acquired intangibles and restructuring costs incurred in respect of the consolidation of the Group's head office from Studley to the existing premises in Sheffield). Underlying earnings per share are based on profit after tax but before non-underlying items.

Dividend

In view of the losses incurred during the half year, and the continuing uncertainty in global markets, the Board has decided not to declare an interim dividend. The position will be reviewed at the time of the release of the Company's audited final results for the year ending 30 November 2020.

Business Review

Systems

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

£000	**Six months ended 31 May 2020**	Six months ended 31 May 2019	Year ended 30 Nov 2019
Revenue	**12,568**	19,108	40,529
Gross margin[2]	**44.9%**	42.3%	42.0%
Operating profit/ (loss)[2]	**(731)**	2,338	4,691
Operating margin[2]	**(5.8)%**	12.2%	11.6%

2 Before non-underlying items and Group central costs.

The effective closure of almost all major casino and gaming resorts globally had a substantial impact on the Systems division's first half revenues. Synectics' total revenues from the gaming sector in the half year were down just over 60%, compared with the same period in 2019. Much of the shortfall represented expected repeat work from long-term customers, required to maintain government-regulated surveillance systems, so is not lost and should return once these businesses are up and running again.

Revenue from other customer sectors served by the Systems division, including transport networks, high security applications and oil & gas, was much less affected by the market disruptions. Most of the Systems division revenue from these sectors is government or quasi-government related and, as such, less exposed to current restrictions on commercial activity.

Europe, Middle East & Africa (Revenue £6.9 million, 2019: £7.5 million)

In the oil & gas sector, the Company recently announced that it had won a large contract to provide surveillance for a new offshore field development in Saudi Arabia. This is one of a few major new projects that is going ahead in this sector.

Further work has been secured for a number of London boroughs, as well as several other high-profile sites in central London. Field support activity for critical sites has been maintained throughout the period.

Good progress continues on the S-Bahn project for Deutsche Bahn, as mentioned above.

To better support our work with Deutsche Bahn and BVG (*Berliner Verkehrsbetriebe*, the local public transport operator), we have decided to focus our operations in Germany where these customers are based. As a result, the Company's office in Munich will close, and re-locate to Berlin before the end of this financial year. Further details are contained in Note 8 below.

Asia Pacific (Revenue £4.0 million, 2019: £7.7 million))

It was pleasing during this difficult period to have been awarded a support contract for a further five years by a major casino resort in South East Asia, which was recently announced. Many expected casino upgrade projects in the region have been delayed, most likely until 2021, due to the almost complete shutdown of the sector in the region for most of the period.

In the oil & gas sector, some expansion work has continued in Indonesia, but otherwise activity was significantly reduced, with essential support work only being carried out.

North America (Revenue £1.6 million, 2019: £3.9 million))

A contract for a new-build casino in Pennsylvania was secured and delivered in the period, however completion of installation has been delayed and is now expected by the end of this financial year.

Activity in the region overall was markedly reduced, and consequently previous plans to increase business development resources and expand activities in the region have been delayed until 2021.

Technology Development

Continued investment in our intellectual property and technology base within the Systems division remains an important priority for the Group, and our investment has continued at previously planned levels despite the impact of the Covid-19 pandemic on the Group's business.

Expenditure on technology development during the six-month period was £2.1 million (2019: £1.5 million) of which £0.4 million (2019: £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.

Changes to our development methodology and organisation implemented last year, alongside increased investment, enabled us to continue improvements in our development and product management programmes.

Technology Development continued

Significant enhancements to the *Synergy* platform include a new cybersecurity management system that proactively monitors the cybersecurity of customer systems and advises them how to maintain a high level of vigilance.

Synectics' new Cloud-based evidence management solution is now being actively used by public sector clients, giving their extended teams and affiliates secure remote access while maintaining full control and traceability of the entire chain of evidence, including video, images and documents, thus supporting their compliance with local regulations and GDPR.

Our *Synergy* software platform is leading the way in providing customers with precisely configured 'command and control' solutions that provide verifiable feedback to help identify, respond to and resolve incidents. With our new developments, we are expanding the reach of *Synergy* by bringing the control room into the field- giving remote teams greater situational awareness, and the control room the real-time intelligence that they need to manage incidents faster and more effectively than before.

New technology developments are constantly emerging from manufacturers of specific security applications, such as video analytics, artificial intelligence, and other related systems. By working with our customers' choice of technology manufacturing partners on integrations we are able to leverage their solutions through our *Synergy* platform. Taken as a whole, this approach enables a *Synergy*-controlled system to unlock new levels of pre-emptive threat detection and intelligent automation that set Synectics apart.

Our developments remain focused on markets where safety, security and surveillance are fundamental to our customers' operations. Our *Synergy* platform provides the foundation of integrated solutions that can be configured to meet the exacting requirements of each customer.

By the end of this year, we will also release a new range of COEX camera stations to our oil & gas customers. The new cameras incorporate advanced cybersecurity features, 4K video capability, and built-in analytics, ensuring our 30-year reputation for specialist camera innovation in these industries continues into a new decade.

Integration & Managed Services

Synectics' Integration & Managed Services ('IMS') division is a leading UK provider of electronic security systems, supporting large-scale and multi-site systems through its nationwide network of service engineers, security-cleared personnel, and an in-house 24-hour monitoring centre and helpdesk. Its main markets are in public space, public transport, and critical infrastructure.

IMS operates independently, providing products and technology from both Synectics' Systems division, and other "best-in-class" providers.

£000	**Six months ended 31 May 2020**	Six months ended 31 May 2019	Year ended 30 Nov 2019
Revenue	**11,186**	14,738	28,603
Gross margin[3]	**24.0%**	22.1%	21.9%
Operating profit/ (loss)[3]	**(209)**	100	(26)
Operating margin[3]	**(1.9)%**	0.7%	(0.1)%

3 Before non-underlying items and Group central costs.

Synectics' security integration business remains one of the UK's largest and most capable providers of security systems and services.

The division's poor operating results over the last 18 months are principally due to an ongoing multi-year decline in the UK bus market, the main clients for Synectics' on-vehicle security systems. This effect was exacerbated by the major market disruptions caused by Covid-19 in the first half of this year. Nevertheless, the recently announced award of a major contract renewal by Stagecoach, and new orders for hybrid vehicles for operators in Ireland, supports an expectation of some increase in activity as bus manufacturers return to production.

New security integration business won in the first half came primarily from government and public sector clients. Unsurprisingly, delays and lengthened procurement cycles were a feature of the period, though the pipeline of expected new business remains relatively resilient. Synectics' position as a leading supplier of security systems to landmark buildings, major infrastructure operators and government agencies should protect this area of the business from any extended downturn in the commercial sector.

Notable wins in the period were a new control room for West Midlands Police and upgraded systems for a number of local authorities across the UK, as well as other Government agencies.

Organisation

Market shocks of the magnitude experienced in the first half of 2020 have clearly required action to protect Synectics' business. In addition to taking advantage of UK Government job protection initiatives, agreeing management compensation cuts and suspending the payment of a final dividend, the Company has thoroughly reviewed, and reduced its cost base.

In addition, steps have been taken to accelerate the planned review of certain operations and physical sites within the Group's UK integration activities. The decision has been taken to merge Synectics' on-vehicle security integration business (Synectics Mobile Systems) with the Nottingham-based high-security integration activities (Quadrant Security Group). As a result, two operating sites will close during the second half of this financial year. Provision for the costs of these changes will be charged as a non-underlying item in the second half of this financial year and are expected to amount to approximately £0.9m. Further details are contained in Note 8 below.

This new entity, which will trade as Synectics Security, provides the foundation for a stronger and more capable business, suitably positioned to deliver long-term growth and increasingly significant profit contributions.

Strategy

Important progress was made in the first half towards building on the recent market breakthroughs achieved by Synectics' *Synergy* platform in the field of security operations control for transport and infrastructure. The scale and complexity of such systems has meant that, up to now, the market has largely been supplied by very costly and inflexible bespoke software solutions. The latest versions of *Synergy* offer typically 75% – 90% of the required functionality in its standard commercial-off-the-shelf core modules, with only the limited remainder requiring bespoke software code. The available benefits to customers in cost, delivery timescales and, most importantly, project risk management, are considerable.

Following on from the Deutsche Bahn project won last year, and long-term work for BVG, also in Berlin, Synectics is in the process of bidding or preparing a small number of similar proposals elsewhere. As a result, positive engagement is underway with prospective customers as well as, critically, major IT systems integrators with global footprints. These latter potential partners will be key to enabling Synectics to increase the pace at which it can scale its market penetration.

People

The last few months have been particularly hard for employees in most companies. In line with Synectics' long-standing culture, our people have stepped up brilliantly to support colleagues and customers through the Covid-19 pandemic-induced difficulties, and to share the sacrifices needed for the Company to survive and prosper.

The Group was quick to instigate a specific programme to keep employees connected to the business and each other. We are making extensive use of video conferencing and other communication tools to facilitate continued effective teamwork and engagement, and to minimise any potential sense of isolation. The Group continues to utilise a growing range of remote capabilities to work creatively with customers on new ways of delivering projects and services.

On behalf of the Board and shareholders, I would like to thank all of our employees most sincerely for their exceptional and much valued efforts.

Outlook

As casinos and gaming resorts start to re-open in North America and Asia, regular maintenance and upgrade revenues from installed gaming systems should begin to pick up quite soon. However, the Board expects that the majority of delayed orders for new surveillance projects and major upgrades in this sector are unlikely to return until calendar 2021.

In other customer sectors of the Systems division, transport, high security and oil & gas all look to be picking up somewhat in the second half of the current financial year.

The Group's UK security integration activities are generally holding up quite well and, despite the evident challenges, are expected to produce a result for the current financial year as a whole at a similar level to the prior year.

There is still a high degree of uncertainty around revenue forecasts, even for the relatively short-term future. Nevertheless, the Board expects that Synectics will produce a noticeably improved underlying trading result in the second half of this financial year compared to the first half.

David Coghlan
Chairman

14 July 2020

Consolidated income statement

For the six months ended 31 May 2020

	Notes	**Unaudited six months ended 31 May 2020 £000 (IFRS 16)**	Unaudited six months ended 31 May 2019 £000 (IAS 17)
Revenue	3	**23,022**	33,568
Cost of sales		**(14,862)**	(22,193)
Other income[2]		**189**	–
Gross profit		**8,349**	11,375
Operating expenses		**(10,514)**	(10,107)
Other income[2]		**344**	–
(Loss)/profit from operations, before non-underlying items		**(1,821)**	1,268
Non-underlying items[1]		**(277)**	(12)
(Loss)/profit from operations		**(2,098)**	1,256
Finance income		**51**	84
Finance costs		**(227)**	(122)
(Loss)/profit before tax		**(2,274)**	1,218
Income tax credit/(expense)	5	**458**	(183)
(Loss)/profit for the period attributable to equity holders of the Parent Company		**(1,816)**	1,035
Basic (loss)/earnings per share	7	**(10.7p)**	6.2p
Diluted (loss)/earnings per share	7	**(10.7p)**	6.1p
Underlying (loss)/basic earnings per share	7	**(9.4p)**	6.2p
Underlying diluted (loss)/earnings per share	7	**(9.4p)**	6.2p

1 Non-underlying items represent the amortisation of acquired intangible assets and restructuring costs incurred in respect of the consolidation of the Group's head office from Studley to the existing premises in Sheffield.

2 Other income represents government grant income received in relation to Covid-19. See basis of preparation (note 2) for further detail.

Consolidated statement of comprehensive income

For the six months ended 31 May 2020

	Unaudited six months ended 31 May 2020 £000 (IFRS 16)	Unaudited six months ended 31 May 2019 £000 (IAS 17)
(Loss)/profit for the period	**(1,816)**	1,035
Items that will not be reclassified subsequently to profit or loss		
Re-measurement gain on defined benefit pension scheme, net of tax	**–**	84
	–	84
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**537**	91
Losses on a hedge of a net investment taken to equity	**(171)**	(17)
	366	74
Total comprehensive (loss)/income for the period attributable to equity holders of the Parent Company	**(1,450)**	1,193

Consolidated statement of financial position

As at 31 May 2020

	Unaudited 31 May 2020 £000 (IFRS 16)	Unaudited 31 May 2019 £000 (IAS 17)	30 Nov 2019 £000 (IAS 17)
Non-current assets			
Property, plant and equipment[1]	**6,100**	2,752	2,904
Intangible assets	**22,047**	21,485	21,712
Retirement benefit asset	**687**	283	687
Deferred tax assets	**1,780**	774	1,259
	30,614	25,294	26,562
Current assets			
Inventories	**6,947**	10,247	7,076
Trade and other receivables	**12,619**	14,898	17,536
Contract assets[1]	**7,173**	10,472	7,933
Tax assets	**25**	97	35
Cash and cash equivalents	**4,600**	5,337	3,580
	31,364	41,051	36,160
Total assets	**61,978**	66,345	62,722
Current liabilities			
Trade and other payables	**(13,902)**	(20,587)	(14,821)
Contract liabilities	**(3,016)**	(3,072)	(4,062)
Lease liabilities[1]	**(906)**	–	–
Tax liabilities	**(490)**	(457)	(384)
Current provisions[2]	**(542)**	(486)	(1,366)
	(18,856)	(24,602)	(20,633)
Non-current liabilities			
Non-current provisions[2]	**(489)**	(433)	(321)
Lease liabilities[1]	**(2,294)**	–	–
Deferred tax liabilities	**(807)**	(662)	(807)
	(3,590)	(1,095)	(1,128)
Total liabilities	**(22,446)**	(25,697)	(21,761)
Net assets	**39,532**	40,648	40,961
Equity attributable to equity holders of the Parent Company			
Called up share capital	**3,559**	3,559	3,559
Share premium account	**16,043**	16,043	16,043
Merger reserve	**9,971**	9,971	9,971
Other reserves	**(1,453)**	(1,582)	(1,499)
Currency translation reserve	**1,086**	1,139	720
Retained earnings	**10,326**	11,518	12,167
Total equity	**39,532**	40,648	40,961

1 Right of use assets (included in property, plant and equipment) and lease liabilities arose on transition to IFRS 16 on 1 December 2019. See note 7.

2 The 31 May 2019 balance sheet is re-presented for the reclassification of warranty provision from accruals to provisions, consistent with the 2019 annual report.

Consolidated statement of changes in equity
For the six months ended 31 May 2020

	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 30 November 2018	3,559	16,043	9,971	(1,748)	1,065	11,830	40,720
IFRS 15 opening balance adjustment	–	–	–	–	–	(808)	(808)
Tax on IFRS 15 opening balance adjustment	–	–	–	–	–	115	115
At 1 December 2018	3,559	16,043	9,971	(1,748)	1,065	11,137	40,027
Profit for the period	–	–	–	–	–	1,035	1,035
Other comprehensive income							
Currency translation adjustment	–	–	–	–	74	–	74
Re-measurement gain on defined benefit pension scheme, net of tax	–	–	–	–	–	84	84
Total other comprehensive income	–	–	–	–	74	84	158
Total comprehensive income for the period	–	–	–	–	74	1,119	1,193
Dividends paid	–	–	–	–	–	(590)	(590)
Credit in relation to share-based payments	–	–	–	–	–	18	18
Share scheme interests realised in the period	–	–	–	166	–	(166)	–
At 31 May 2019	**3,559**	**16,043**	**9,971**	**(1,582)**	**1,139**	**11,518**	**40,648**
Profit for the period	–	–	–	–	–	595	595
Other comprehensive income							
Currency translation adjustment	–	–	–	–	(419)	–	(419)
Re-measurement loss on defined benefit pension scheme, net of tax	–	–	–	–	–	330	330
Total other comprehensive income	–	–	–	–	(419)	330	(89)
Total comprehensive income for the period	–	–	–	–	(419)	925	506
Dividends paid	–	–	–	–	–	(220)	(220)
Credit in relation to share-based payments	–	–	–	–	–	27	27
Share scheme interests realised in the period	–	–	–	83	–	(83)	–
At 30 November 2019[1]	3,559	16,043	9,971	(1,499)	720	12,167	40,961
Loss for the period	–	–	–	–	–	(1,816)	(1,816)
Other comprehensive income							
Currency translation adjustment	–	–	–	–	366	–	366
Re-measurement gain on defined benefit pension scheme, net of tax	–	–	–	–	–	–	–
Total other comprehensive income	–	–	–	–	366	–	366
Total comprehensive (loss) / income for the period	–	–	–	–	366	(1,816)	(1,450)
Dividends paid	–	–	–	–	–	–	–
Credit in relation to share-based payments	–	–	–	–	–	21	21
Share scheme interests realised in the period	–	–	–	46	–	(46)	–
At 31 May 2020	**3,559**	**16,043**	**9,971**	**(1,453)**	**1,086**	**10,326**	**39,532**

1 The Group implemented IFRS 16 with effect from 1 December 2019. As described in note 7, the Group adopted the modified retrospective approach to implementation and therefore required no adjustment to brought forward retained earnings.

Consolidated cash flow statement
For the six months ended 31 May 2020

	Unaudited six months ended 31 May 2020 £000 (IFRS 16)	Unaudited six months ended 31 May 2019 £000 (IAS 17)
Cash flows from operating activities		
(Loss)/profit for the period	**(1,816)**	1,035
Income tax (credit)/expense	**(458)**	183
Finance income	**(51)**	(84)
Finance costs	**227**	122
Depreciation and amortisation charge	**1,075**	496
Profit on disposal of non-current assets	**–**	–
Net foreign exchange differences	**89**	23
Net movement in provisions	**(656)**	(63)
Share-based payment charge	**21**	18
Operating cash flows before movement in working capital	**(1,569)**	1,730
Decrease/(increase) in inventories	**160**	(185)
Decrease/(increase) in trade, other and contract receivables	**6,051**	(8,051)
(Decrease)/increase in trade, other and contract payables	**(2,194)**	5,121
Cash generated from operations	**2,448**	(1,385)
Tax paid	**–**	(198)
Net cash from/(used in) operating activities	**2,448**	(1,583)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(207)**	(267)
Capitalised development costs	**(419)**	(265)
Purchased software	**(41)**	(5)
Net cash used in investing activities	**(667)**	(537)
Cash flows from financing activities		
Lease payments	**(599)**	–
Repayment of borrowings	**–**	–
Interest paid	**(117)**	(38)
Dividends paid	**–**	(590)
Net cash used in financing activities	**(716)**	(628)
Effect of exchange rate changes on cash and cash equivalents	**(45)**	(29)
Net increase/(decrease) in cash and cash equivalents	**1,020**	(2,777)
Cash and cash equivalents at the beginning of the period	**3,580**	8,114
Cash and cash equivalents at the end of the period	**4,600**	5,337

1 General information

These consolidated interim financial statements were approved by the Board of Directors on 14 July 2020.

2 Basis of preparation

These consolidated interim financial statements of the Group are for the six months ended 31 May 2020.

The comparative figures for the financial year ended 30 November 2019 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 for the six months to 31 May 2020 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 2019.

The condensed consolidated interim financial statements for the six months to 31 May 2020 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 2020 have been prepared on the basis of the accounting policies expected to be adopted for the year ending 30 November 2020. These are anticipated to be consistent with those set out in the Group's latest annual financial statements for the year ended 30 November 2019, with the exception of the adoption of new and amended standards as set out below. 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.

New and amended standards adopted by the Group

A number of new or amended 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 16 Leases.

Note 7 provides more details on the Group's application of IFRS 16.

Government grants

The Group has received funding from various Governments in relation to Covid-19. Government income is recognised in profit or loss (within other income) on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate. Where it is not yet considered highly probable that Government funding will not have to be repaid, this element is deferred on the balance sheet within other creditors.

3 Segmental analysis

Revenue by operating segment

Revenue	**Unaudited six months ended 31 May 2020 £000**	Unaudited six months ended 31 May 2019 £000 (Re-presented[1])
Systems	**12,568**	19,108
Integration & Managed Services	**11,186**	14,738
Total segmental revenue	**23,754**	33,846
Reconciliation to consolidated revenue:		
Intra-Group sales	**(732)**	(278)
	23,022	33,568

1 Re-presented in line with the 2019 annual report. Synectics' UK on-vehicle surveillance activities, previously reported within the Systems segment, is now included in the Integration & Managed Services segment.

Underlying operating result by operating segment

Underlying operating profit	**Unaudited six months ended 31 May 2020 £000 (IFRS 16)**	Unaudited six months ended 31 May 2019 £000 (IAS 17) (Re-presented[1])
Systems	**(731)**	2,338
Integration & Managed Services	**(209)**	100
Total segmental underlying operating profit	**(940)**	2,438
Reconciliation to consolidated underlying operating profit:		
Central costs	**(881)**	(1,170)
	(1,821)	1,268

1 Re-presented in line with the 2019 annual report. Synectics' UK on-vehicle surveillance activities, previously reported within the Systems segment, is now included in the Integration & Managed Services segment.

Underlying operating profit from operations is reconciled to total profit from operations as follows:

	Unaudited six months ended 31 May 2020 £000 (IFRS 16)	Unaudited six months ended 31 May 2019 £000 (IAS 17)
Underlying operating profit	**(1,821)**	1,268
Non-underlying items	**(277)**	(12)
	(2,098)	1,256

4 Income tax expense

The income tax expense for the period is based on the estimated rate of corporation tax that is likely to be effective for the year to 30 November 2020.

5 Dividends

No interim dividend (2019: 1.3p per share) has been announced or will be paid for the financial year 2020.

6 Earnings per share

Earnings per share are as follows:

	Unaudited six months ended 31 May 2020 Pence per share	Unaudited six months ended 31 May 2019 Pence per share
Basic (loss)/earnings per share	**(10.7)**	6.2
Diluted (loss)/earnings per share	**(10.7)**	6.1
Underlying basic (loss)/earnings per share	**(9.4)**	6.2
Underlying diluted (loss)/earnings per share	**(9.4)**	6.2

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

	Unaudited six months ended 31 May 2020 £000	Unaudited six months ended 31 May 2019 £000
(Loss)/earnings for basic and diluted earnings per share	**(1,816)**	1,035
Non-underlying items	**277**	12
Impact of non-underlying items on tax expense for the period	**(51)**	(4)
(Loss)/earnings for underlying basic and underlying diluted earnings per share	**(1,590)**	1,043

	Unaudited six months ended 31 May 2020 £000	Unaudited six months ended 31 May 2019 £000
Weighted average number of ordinary shares – basic calculation	**16,902**	16,771
Dilutive potential ordinary shares arising from share options[1]	–	123
Weighted average number of ordinary shares – diluted calculation	**16,902**	16,894

1 Under IFRS no allowance is made for the dilutive impact of share options which reduce a loss. The basic and diluted EPS measures are therefore the same for the half year ended 31 May 2020.

7 Change in accounting policies

IFRS 16 Leases

The Group has adopted IFRS 16 Leases from 1 December 2019, replacing IAS 17, using the modified retrospective approach. IFRS 16 has introduced a single accounting model for lessees, bringing all leases onto the balance sheet. As a result the Group, as a lessee, has recognised right-of-use assets representing its right to use leased assets, and lease liabilities representing its obligation to make future payments under the terms of lease contracts. The Group is not a lessor.

The carrying amounts of right of use assets and lease liabilities, included within plant, property and equipment, are set out below:

Right of use assets	Land & Buildings	Motor Vehicles	**Total**
Balance at 1 December 2019	3,031	403	**3,434**
Balance at 31 May 2020	2,946	280	**3,226**

Lease liabilities	Land & Buildings	Motor Vehicles	**Total**
Balance at 1 December 2019	2,985	398	**3,383**
Balance at 31 May 2020	2,920	280	**3,200**

As a result of using the modified retrospective approach on transition to IFRS 16, the Group realised no difference between the carrying value of the right of use assets and lease liabilities in retained earnings. The difference between the opening right of use asset and lease liability relates to prepaid rent which is excluded from the carrying value of the lease liability but included in the value of the right of use asset. The impact on transition is shown below:

	1 Dec 2019 £'000
Right of use assets presented in plant, property and equipment	**3,434**
Lease liabilities	**(3,383)**
Prepaid rent reclassified from prepayments to right of use assets on transition	**51**

On transition, all lease liabilities which were classified as operating leases under IAS 17 were measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate which reflects the characteristics of the underlying lease, at at the transition date of 1 December 2019. The weighted average rate applied is 3.1% for land & buildings and 3.0% for vehicles. Right-of-use assets are measured at an amount equal to the lease liability, adjusted for prepaid rent at the date of transition. IFRS 16 has been applied to all leases regardless of their lease term, and those with an asset or liability value greater than £5,000. For leases of low value assets, the Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The table below reconciles the Group's operating lease commitment at 30 November 2019, under IAS 17, to the lease liability initially recognised under IFRS 16.

	1 Dec 2019 £'000
Operating lease commitment at 30 November 2019 as disclosed in the Group's consolidated financial statements	**4,659**
Impact of discounting using the incremental borrowing rate at 1 December 2019	**(713)**
Recognition exemption for leases of low value assets	**(563)**
Lease liabilities recognised at 1 December 2019	**3,383**

In relation to those leases under IFRS 16, the Group now recognises depreciation and interest costs, instead of an operating lease expense. During the period ended 30 May 2020, this amounted to £576,000 of depreciation charges and £62,000 of interest costs from these leases. Had IAS 17 continued to be applied, the overall impact on the Group statement of comprehensive income would not have been materially different.

8 Post balance sheet events

After the balance sheet date the Group approved and has announced internally two separate projects which created constructive obligations. The first of these, announced to staff in June 2020, will involve the closure of the Synectic Systems' Munich office later this year to align the company's resources with key customers in Berlin. Furthermore, the decision was made to consolidate the IMS division's resources in the Nottingham facility, which will lead to the closure of two other existing sites. This was announced to staff in July and should be completed before year-end. Further details of these projects will be outlined in the year-end financial statements, but both are expected generate cumulative cost savings in excess of their upfront costs within a two year period. Both projects are designed to further enhance customer service and responsiveness. It is anticipated that the costs related to these projects of c.£0.9 million will be included within non-underlying items in the year-end financial statements.

9 Copies of this statement will be available on the Group's website (www.synecticsplc.com) and from Synectics plc, Synectics House, 3-4 Broadfield Close, Sheffield, England, S8 0XN.

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