



Synety Group plc

Interim Report and Financial Statements

6 months ended 30 June 2013

Registered Number 5509873

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1. Summary

Synety announces its interim results for the six month period ended 30 June 2013 (“the Period”)

Simon Cleaver, the Chairman, commented:

“These results represent the first full trading period for the Group as Synety, and comparisons with prior periods should be considered accordingly.

An overall net operating loss of just over £1.3m for the period is in line with the Board’s expectations for the first half year, and reflects the level of investment being made to position the company for the next phase of its journey. Cash balances are just under £1.6m, and our performance KPIs are indicating good early growth patterns.

The Board is extremely encouraged by the initial progress being made, and remains firm in its belief in the potential of this new cloud-based software and communications business.”

Financial Overview

	Unaudited Six months to 30 June 2013 £000	Unaudited Six months to 30 June 2012 £000	Audited Year ended 31 December 2012 £000
Revenue	194	-	76
Operating loss	(1,350)	(515)	(1,326)
Cash and Cash Equivalents	1,550	4,023	2,704
Average Monthly Cash Burn	(186)	n/a	n/a
Total Equity Attributable to Shareholders	2,623	3,985	3,824

Further information

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2. Chairman's Statement

Having successfully disposed of all parts of the old Zenergy business during 2012, these latest results reflect the first full period of operation of the Synety cloud-based software and telecommunications business acquired in September 2012. With that in mind, comparisons with prior periods should be considered accordingly.

The pre-tax loss from continuing operations for the first six months of 2013 was £1.31m. Revenues in the period from continuing operations were £0.19m. Cash balances were £1.55m at the period end.

During the course of this period, the Board has focused on its strategy to make the necessary investment to prepare the CloudCall software for launch, increasing the numbers of partner CRM integrations, and bringing on board the skilled sales personnel required to bring it to market. This exercise is now very much in full swing, and early results are extremely encouraging as sales levels, boosted by several significant contracts, begin to take shape.

During the coming period, the Board will continue its policy of investing in software development, network resilience and capacity, and improving the strength of the sales teams in Leicester and London. Additionally, work is being carried out to strengthen our customer service and back-office functions.

With all of this investment now beginning to change the shape of the business and create the infrastructure required to support future projected growth levels, we are extremely pleased with the progress being made and look forward to continued growth going forward.

Simon Cleaver

Chairman

3. Key Performance Indicators

	Unaudited Six months to 30 June 2013	Unaudited Six months to 30 June 2012	Unaudited Year ended 31 December 2012
No of Customers	169	n/a	98
No of Users	1,336	n/a	564
No of Licences ⁽³⁾	2,149	n/a	794
Average Users Per Customer	7.9	n/a	5.8
Annualised Recurring Revenue	£376,000	n/a	£149,000
RRPU (all) ⁽¹⁾	£24.17	n/a	£22.80
RRPU (Software Subscriptions)	£14.10	n/a	£13.51
RRPU (Telco)	£10.07	n/a	£9.29
RGPPU (Telco) ⁽²⁾	£6.27	n/a	£5.64

⁽¹⁾ RRPU = Recurring Revenue per User

⁽²⁾ RGPPU = Recurring Gross Profit per User

⁽³⁾ The SYNETY Group plc. audited accounts for the period to 31 December 2012 included the figure of 628 seats for KPI reporting. The Directors have replaced seats with "Licences" as one of the KPI measures going forward. Licences are calculated slightly differently to "Seats".

"Seats" remains the single measure which will determine the level of performance for the company's management incentive scheme and contingent consideration calculations.

4. Consolidated Statement of Comprehensive Income

	Unaudited Six months to 30 June 2013 £000	Unaudited Six months to 30 June 2012 £000	Audited Year ended 31 December 2012 £000
Notes			
Revenue	194	-	76
Cost of sales	(64)	-	(47)
Gross profit	130	-	29
Sales & marketing expenses	(276)	-	(38)
Administrative expenses	(988)	(323)	(795)
Research & development expenses	(216)	-	-
Other expenses	-	(192)	(522)
3	(1,350)	(515)	(1,326)
Operating loss	(1,350)	(515)	(1,326)
Net financing income/(expense)	4	5	(8)
Loss before tax	(1,346)	(510)	(1,334)
Taxation	32	-	18
4	(1,314)	(510)	(1,316)
Loss from continuing operations	(1,314)	(510)	(1,316)
Profit/(loss) from discontinued operation (net of income tax)	-	(784)	(390)
Loss for the period attributable to owners of the parent	(1,314)	(1,294)	(1,706)
Other comprehensive income			
Foreign exchange translation differences	-	47	91
Other comprehensive income	-	47	91
Total comprehensive income for the year	(1,314)	(1,247)	(1,615)
Earnings / (Loss) per share (£)			
Basic & fully diluted loss per share	(0.27)	(0.37)	(0.44)
5			

5. Consolidated Statement of Financial Position

	Unaudited Six months to 30 June 2013 £000	Unaudited Six months to 30 June 2012 £000	Audited Year ended 31 December 2012 £000
Notes			
Non-current assets			
Property, plant and equipment	272	-	256
Goodwill	339	-	339
Other intangible assets	1,262	-	1,407
	1,873	-	2,002
Current assets			
Inventories	22	-	13
Trade and other receivables	157	249	179
Research & development tax credit receivable	-	156	-
Cash and cash equivalents	1,550	4,023	2,704
Assets classified as held for sale	-	154	-
	1,729	4,582	2,896
Total assets	3,602	4,582	4,898
Current liabilities			
Trade and other payables	(207)	(542)	(270)
Liabilities classified as held for sale	-	(55)	-
	(207)	(597)	(270)
Non current liabilities			
Deferred tax liabilities	(271)	-	(303)
Contingent consideration	(501)	-	(501)
Total liabilities	(979)	(597)	(1,074)
Net assets	2,623	3,985	3,824
Share capital	6 986	691	986
Share premium	50,654	49,951	50,654
Translation reserve	-	2,383	-
Warrant reserve	34	134	34
Retained loss	(49,051)	(49,174)	(47,850)
Total equity attributable to shareholders	2,623	3,985	3,824

6. Consolidated Statement of Changes in Equity

	Share capital	Share premium	Translation reserve	Capital and other reserves	Retained earnings	Total equity attributable to shareholders
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2012	691	49,951	2,336	134	(47,638)	5,474
Loss for the period	-	-	-	-	(1,294)	(1,294)
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	47	-	-	47
Total comprehensive income for the period						
Equity settled share based payments transactions	-	-	-	-	(242)	(242)
Paid in share capital - cash	-	-	-	-	-	-
Balance at 30 June 2012	691	49,951	2,383	134	(49,174)	3,985
Balance at 1 July 2012	691	49,951	2,383	134	(49,174)	3,985
Loss for the period	-	-	-	-	(412)	(412)
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	44	-	-	44
Total comprehensive income for the period						
Equity settled share based payments transactions	-	-	-	(100)	(29)	(129)
Disposal	-	-	(2,427)	-	1,765	(662)
Paid in share capital - cash	295	703	-	-	-	998
Balance at 31 December 2012	986	50,654	-	34	(47,850)	3,824
Balance at 1 January 2013	986	50,654	-	34	(47,850)	3,824
Loss for the period	-	-	-	-	(1,314)	(1,314)
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	-	-	-	-
Total comprehensive income for the period						
Equity settled share based payments transactions	-	-	-	-	113	113
Balance at 30 June 2013	986	50,654	-	34	(49,051)	2,623

7. Consolidated Cash-flow Statement

	Unaudited Six months to 30 June 2013 £000	Unaudited Six months to 30 June 2012 £000	Audited Year ended 31 December 2012 £000
Notes			
Cash flows from operating activities			
Loss for the period	(1,314)	(1,294)	(1,706)
Adjustments for:			
Depreciation and amortisation	183	157	174
Foreign exchange losses/(gains)	0	-	112
Loss/(gain) on sale of property, plant and equipment	-	-	72
Loss on discontinued operation, net of cash disposed of	-	-	(978)
Financial income	(4)	(6)	(13)
Financial expenses	-	3	1
Equity settled share-based payment expenses	113	(242)	(371)
Taxation	(32)	-	(16)
	(1,055)	(1,382)	(2,725)
Operating loss before changes in working capital and provisions			
Decrease in trade and other receivables	22	114	383
(Increase) in inventory	(9)	(6)	115
Increase/(decrease) in trade and other payables	(63)	9	(321)
	(1,104)	(1,265)	(2,548)
Cash absorbed by operations			
Tax (paid)	-	-	159
	(1,104)	(1,265)	(2,388)
Net cash absorbed by operating activities			
Cash flows from investing activities			
Interest received	4	6	13
Investment in subsidiaries	-	-	(75)
Cash assumed on acquisition of subsidiary	-	-	75
Proceeds from the sale of property, plant and equipment	-	3	-
Acquisition of property, plant and equipment	(54)	-	(188)
Development expenditure capitalised and other intangible assets acquired	-	-	-
	(50)	9	(175)
Net cash absorbed by investing activities			
Cash flows from financing activities			
Interest paid	-	-	(1)
	-	-	(1)
Net cash from financing activities			
	(1,154)	(1,256)	(2,565)
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at start of period	2,704	5,287	5,287
Effect of exchange rate fluctuations on cash held	(0)	(8)	(18)
	1,550	4,023	2,704
Cash and cash equivalents at end of period			

Notes

1. Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2013 have been prepared under applicable International Financial Reporting Standards adopted by the European Union ('IFRS') except that the Group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK Groups listed on AIM, in the preparation of these condensed consolidated interim financial statements.

They do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the group for the year ended 31 December 2012.

The accounting policies used in the preparation of condensed consolidated interim financial statements for the six months ended 30 June 2013 are in accordance with the recognition and measurement criteria of IFRS and are consistent with those which are expected to be adopted in the annual statutory financial statements for the year ending 31 December 2013.

A number of IFRSs and Interpretations have been endorsed by the EU in the period to 30 June 2013 and although they have been adopted by the Group, none of them has had a material impact on the Group's financial statements.

The Group's 2012 annual report provides full details of significant judgements and estimates used in the application of the Group's accounting policies. There have been no significant changes to these judgements and estimates during the period.

The financial information included in this document is unaudited and does not comprise statutory accounts within the meaning of section 498 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2012 are the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Going Concern

The directors have prepared trading and cash flow forecasts which indicate that the Group may need additional funding in order to meet its growth targets within the next twelve months. Whilst the directors are confident that they will be able to raise additional funds, should such additional funding not be forthcoming, they are satisfied that they could scale back the rate of growth in order to align costs with income on a cash basis, including the deferral of capital expenditure to support those growth plans, in order to ensure that the Group can continue to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these results.

For these reasons, the Directors have adopted the going concern basis in preparing these interim financial statements.

3. Other Expenses

Other expenses comprise the expenses incurred in connection with the closure and disposal of discontinued activities. There are no “other expenses” reported during the period concerned.

4. Taxation Recognised in the Statement of Income

	Unaudited Six months to 30 June 2013 000's	Unaudited Six months to 30 June 2012 000's	Audited Year ended 31 December 2012 000's
Current tax income/(expense)	-	-	-
Current period	-	-	-
R&D tax credit	-	-	2
Adjustments prior period - R&D tax credit	-	-	-
Deferred tax income	32	-	16
Origination and reversal of temporary timing differences	-	-	-
Total tax income	32	-	18

5. Loss per Share

	Unaudited Six months to 30 June 2013 000's	Unaudited Six months to 30 June 2012 000's	Audited Year ended 31 December 2012 000's
Issued ordinary shares at start of period (*)	4,930	69,059	69,059
1:20 Share Consolidation	-	(65,606)	(65,606)
		3,453	3,453
Shares issued as consideration	-	-	393
Weighted average number of ordinary shares	4,930	3,453	3,845
	£000	£000	£000
Loss attributable to ordinary shareholders (£000)	(1,314)	(1,294)	(1,706)
	£	£	£
Earnings/(loss) per share (£)			
Basic and fully diluted loss per share	(0.27)	(0.37)	(0.44)

* The weighted average number of ordinary shares in issue for the six month period to 30 June 2012 has been adjusted to reflect the share consolidation which took place in September 2012 in order to make the resulting EPS figure comparable with later periods.

6. Discontinued operations, assets and liabilities classified as held for sale

There are no further results of disposals and their related assets and liabilities to be disclosed as discontinued and as assets and liabilities reclassified as held for sale in these Interim Results.

INDEPENDENT REVIEW REPORT TO SYNETY GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2013 which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement, and the related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors’ Responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing and presenting the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union, and the AIM Rules of the London Stock Exchange.

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August 2013