



advanced surveillance solutions ●●●

Quadnetics Group plc
Interim Report 2006



Highlights

- Turnover up 74% to £30.9 million (2005: £17.8 million) with full six months contribution from businesses acquired in the previous year
- Overall gross margins increased from 29.0% to 31.9%
- Underlying profit* before tax up 91% to £1.8 million (2005: £0.9 million)
- Underlying earnings* per share up 21% to 8.7p
- Interim dividend of 2p (2005: 1.5p)
- \$7.1 million of orders or letters of intent received by Synectics for digital surveillance solutions in North American casinos with Synectics specified in upgrades valued at a further \$3 million

* before goodwill amortisation, exceptional items and share based payments charges

Chairman's Statement

OVERVIEW

In the first half of our current financial year Quadnetics Group delivered a healthy performance in almost all areas. Quadrant Security Group maintained its leadership position in markets such as prisons and secure hospitals, while the Synectics digital technology offering is generating substantial sales in the rapidly expanding casino market segment. The businesses acquired last year have continued to contribute strongly within the restructured Quadnetics organisation. Good progress has been achieved in financial results, flowing from the Group's strategy of concentrating our efforts on specific sectors of the electronic security market where we have relevant scale and a strong competitive position.

RESULTS

In the half year to 30 November 2006, Quadnetics Group recorded consolidated turnover of £30.9 million (2005: £17.8 million) and a profit before tax, exceptional costs, goodwill amortisation and share-based payments charges of £1.8 million (2005: £0.9 million). The half year benefited from inclusion of a full six month period of contribution from the acquired Protec businesses, compared with only one month in the first half last year. No exceptional costs were incurred in the period, but there was a charge of £0.24 million (2005 restated: £0.15 million) from application for the first time of the new share-based payment accounting standard. Previously,

equivalent items of share-based compensation were noted in the financial statements but not charged to the profit and loss account.

Profit before tax was £1.1 million (2005 restated: loss £0.1 million). Underlying earnings per share increased by 21% to 8.7p (2005: 7.2p).

Net cash balances at 30 November 2006 were £6.3 million (30 November 2005: £7.9 million; 31 May 2006: £8.9 million). The cash outflow in the first half reflected an increase in working capital as business activity levels have risen in most areas, particularly towards the end of the period.

DIVIDEND

An interim dividend of 2p per share (2005: 1.5p) will be paid on 16 March 2007 to shareholders on the register as at 16 February 2007.

OPERATIONAL REVIEW

The most pleasing element of the Group's operating performance in the first half was the increase in gross margins, particularly in the security services area. This in part reflects achievement of planned operational benefits in integrating the acquired Protec businesses with Quadnetics' existing activities. We are continuing to deliver customer and margin advantages from pushing these integration benefits further.

Chairman's Statement

continued

Quadrant Security, our security services business, achieved turnover of just under £23 million (2005: £12.3 million) and an underlying operating profit (being operating profit before exceptional costs, goodwill amortisation and share-based payments charges) of £1.7 million (2005: £0.9 million). This strong performance was underlined by Quadrant Security's continued leadership position in security systems for UK prisons and secure hospitals, where a number of large new orders were won and delivered. The division benefited from the expected resurgence of activity in the local government town centre CCTV sector, a traditional area of strength for Quadrant. Encouraging results are also being achieved in the specialist onshore petrochemical and major corporate sectors.

The increased scale of our security services activities has enabled Quadrant to extend the scope and density of its national service network, and hence grow the higher margin recurring revenue portion of the business. This trend is expected to continue.

Synectics, the Group's security technology business, grew turnover in the half year to £9.3 million (2005: £6.2 million), on which it made an underlying operating profit of £0.7 million (2005: £0.4 million). This result was achieved despite delays in receiving formal orders for two large casino contracts that were expected to contribute in the first half. These orders have now been received and will be produced and delivered in the second half. In fact since 1 December 2006 Synectic Systems, Inc. has received orders or letters of intent for casino surveillance products and software totalling \$7.1 million, and in addition the Synectics digital surveillance solution has been specified for two casino upgrades expected to be worth a further \$3.0 million. These orders confirm Synectics' strong position in this growing market segment, where we expect results for the year as a whole will be fully in line with our original plan.

Notable achievements by Synectics during the first half included successful delivery of its software solution for the UK National Air Traffic Control emergency radio-based air traffic system, as well as the next phase of its specialist hazardous area video security system for AGIP's oil platforms on the Caspian Sea. Follow-on orders are expected for both these projects. Synectics also received and successfully supplied an urgent follow-on order from the Ministry of Defence for a classified surveillance system for use by the UK defence forces.

One of Synectics' primary strategic objectives is to expand as rapidly as possible the range of worldwide video surveillance applications using its proprietary Synergy software control system. Good progress has been made in developing Synergy for mobile, marine and other transport infrastructure applications, and we are successfully increasing sales of this product through our systems integration businesses.

At the beginning of the current financial year, Synectics established a dedicated research and development facility that will broaden the Company's digital surveillance product range within the market sectors we serve, and allow it to scale more easily. The first new products from this effort are expected to be released by early autumn this year. Related development costs of £0.1 million were capitalised in the first half.

OUTLOOK

The market for electronic surveillance systems continues to grow. In addition, the shift in underlying video capture, transmission, storage and network technology from analogue to digital is creating opportunities for new products and services. Within this very positive environment, Quadnetics will maintain its focus on providing integrated, workable open platform solutions in a sub-set of specialised market sectors that we know well, and where we can deliver a competitive advantage.

The Group's order books remain healthy and further large orders, in particular from the casino sector, are expected in the coming months. Overall, the activity level and momentum of our businesses are strong, and the Board continues to expect good results for the full year and further progress beyond.

David Coghlan

Chairman

7 February 2007

Consolidated Profit and Loss Account

For the half year ended 30 November 2006

		Unaudited	Restated	Restated
		Half year to	Unaudited	Restated
		30 Nov	Half year to	Year to
		2006	30 Nov	31 May
		2006	2005	2006
	Notes	£'000	£'000	£'000
Turnover	2	30,935	17,790	49,642
Cost of sales		(21,064)	(12,623)	(34,495)
Gross profit		9,871	5,167	15,147
Net operating expenses		(8,949)	(5,285)	(13,687)
Operating profit before goodwill amortisation, exceptional items and share based payments charges		1,622	871	3,467
Goodwill amortisation		(456)	(283)	(740)
Exceptional items		-	(555)	(965)
Share based payments charge		(244)	(151)	(302)
Operating profit/(loss)		922	(118)	1,460
Exceptional item in respect of a subsidiary disposed of in a previous year		-	-	(300)
Net interest receivable		141	52	147
Profit before tax, goodwill amortisation, exceptional items and share based payments charges		1,763	923	3,614
Goodwill amortisation		(456)	(283)	(740)
Exceptional items		-	(555)	(1,265)
Share based payments charge		(244)	(151)	(302)
Profit/(loss) on ordinary activities before taxation		1,063	(66)	1,307
Tax (charge)/credit on ordinary activities	3	(350)	8	(87)
Profit/(loss) for the financial period		713	(58)	1,220
Earnings/(loss) per ordinary share:				
- Basic (and Diluted)	5	4.6p	(0.5)p	8.9p
- Underlying (and Diluted Underlying)	5	8.7p	7.2p	24.2p

Consolidated Balance Sheet

30 November 2006

	Unaudited 30 Nov 2006 £'000	Restated Unaudited 30 Nov 2005 £'000	Restated 31 May 2006 £'000
Fixed assets			
Intangible assets	16,497	17,788	16,925
Tangible assets	2,098	2,264	2,049
	18,595	20,052	18,974
Current assets			
Stocks	5,442	3,463	4,281
Debtors	20,054	17,556	19,995
Cash at bank and in hand	6,309	7,899	8,940
	31,805	28,918	33,216
Creditors: amounts falling due within one year	(20,084)	(20,430)	(22,015)
Net current assets	11,721	8,488	11,201
Total assets less current liabilities	30,316	28,540	30,175
Creditors: amounts falling due after more than one year	-	-	-
Provisions for liabilities and charges	(1,667)	(1,414)	(1,763)
Net assets	28,649	27,126	28,412
Capital and reserves			
Called up share capital	3,366	3,244	3,263
Share premium account	14,621	13,366	13,634
Merger reserve	9,565	9,416	9,565
Other reserves	(2,391)	(1,164)	(1,307)
Profit and loss account	3,488	2,264	3,257
Equity shareholders' funds	28,649	27,126	28,412

Consolidated Cash Flow Statement

For the half year ended 30 November 2006

	Unaudited	Restated	Restated
	Half year to	Unaudited	Year to
	30 Nov	Half year to	31 May
	2006	30 Nov	2006
	£'000	2005	£'000
		£'000	£'000
Net cash (outflow)/inflow from operating activities	(2,075)	462	3,246
Returns on investments and servicing of finance	94	82	132
Taxation	(175)	176	(299)
Net capital expenditure and financial investment	(461)	(156)	(238)
Acquisitions and disposals	-	3,782	3,220
Equity dividends paid	-	-	(573)
Cash (outflow)/inflow before use of liquid resources and financing	(2,617)	4,346	5,488
Management of liquid resources – amounts (placed on)/withdrawn from bank deposit	-	(1,396)	-
Financing	(14)	(9)	(110)
(Decrease)/increase in cash	(2,631)	2,941	5,378

Reconciliation of Net Cash Flow to Movements in Net Funds

For the half year ended 30 November 2006

	Unaudited	Restated	Restated
	Half year to	Unaudited	Year to
	30 Nov	Half year to	31 May
	2006	30 Nov	2006
	£'000	2005	£'000
		£'000	£'000
(Decrease)/increase in cash in the period	(2,631)	2,941	5,378
Increase in bank deposits	-	1,396	-
Decrease in debt and lease financing	20	359	395
Change in net funds resulting from cash flows	(2,611)	4,696	5,773
Acquisitions	-	(53)	(53)
Movement in net funds in the period	(2,611)	4,643	5,720
Opening net funds	8,920	3,200	3,200
Closing net funds	6,309	7,843	8,920

Statement of Total Recognised Gains and Losses

For the half year ended 30 November 2006

	Unaudited	Restated	Restated
	Half year to	Unaudited	Year to
	30 Nov	Half year to	31 May
	2006	30 Nov	2006
	£'000	2005	£'000
		£'000	£'000
Total gains recognised since the last annual report:			
Profit/(loss) for the financial period	713	(58)	1,220
Other recognised gains and losses relating to the year – currency translation adjustment	17	1	(9)
	730	(57)	1,211

Reconciliation of Movements in Shareholders' Funds

For the half year ended 30 November 2006

	Unaudited	Restated	Restated
	Half year to	Unaudited	Year to
	30 Nov	Half year to	31 May
	2006	30 Nov	2006
	£'000	2005	£'000
		£'000	£'000
Profit/(loss) for the financial period	713	(58)	1,220
Dividends	(524)	(351)	(573)
	189	(409)	647
Other recognised gains and losses relating to the year – currency translation adjustment	17	1	(9)
Share based payment reserve	25	22	45
Issue of shares	6	9,183	9,477
Share buy-back	-	-	(77)
Net movement in shareholders' funds	237	8,797	10,083
Opening shareholders' funds as originally stated in year ended 31 May 2006 and 31 May 2005 accounts	28,578	17,978	17,978
Prior year adjustment in respect of FRS20	(166)	-	-
Prior year adjustment in respect of dividends	-	351	351
Restated opening shareholders' funds	28,412	18,329	18,329
Closing shareholders' funds	28,649	27,126	28,412

Notes

- 1 These interim accounts and the comparative figures are prepared on the basis of the accounting policies set out in the financial statements of the Group for the year ended 31 May 2006, with the exception of FRS20 (Share Based Payments) which has been applied for the first time. Prior year figures have been restated accordingly. The half year results have not been audited by the Group's auditors and do not constitute statutory accounts. The comparative figures for the year ended 31 May 2006 have been abridged from the statutory accounts for the year ended on that date, subject only to the adjustments noted above in respect of FRS20. The Auditors' opinion on those accounts was unqualified and did not contain any statements under section 237(2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31 May 2006 have been filed with the Registrar of Companies.
- 2 Turnover and underlying operating profit (operating profit before goodwill amortisation, exceptional items and share based payments charges) derives from the Group's two business segments as follows:

	Unaudited	Restated	Restated
	Half year to	Unaudited	Year to
	30 Nov	Half year to	31 May
	2006	30 Nov	2006
	£'000	2005	£'000
	£'000	£'000	£'000
Turnover			
Services	22,946	12,267	36,241
Products and software	9,301	6,161	14,595
Intra-group sales	(1,312)	(638)	(1,194)
	30,935	17,790	49,642
Underlying operating profit			
Services	1,655	943	3,198
Products and software	653	407	1,466
Central costs	(686)	(479)	(1,197)
	1,622	871	3,467

- 3 The tax charge for the period is based on the estimated rate of corporation tax that is likely to be effective for the full year to 31 May 2007.

- 4 An interim dividend of 2p per share, totalling approximately £300,000 will be paid on 16 March 2007 to shareholders on the register at 16 February 2007.
- 5 Basic, diluted and underlying earnings per share have been calculated on the following earnings and numbers of shares:

	Earnings			Earnings per share		
	Half year to 30 Nov 2006 £'000	Restated	Restated	Half year to 30 Nov 2006 p	Restated	Restated
		Half year	Year to		Half year	Year to
		to 30 Nov	31 May		to 30 Nov	31 May
	2005 £'000	2006 £'000		2005 p	2006 p	
Basic Earnings	713	(58)	1,220	4.6	(0.5)	8.9
Share based payments charge	244	151	302	1.6	1.2	2.2
Exceptional items	-	555	1,265	-	4.5	9.1
Impact of exceptional items and share based payments on tax charge for the period	(73)	(45)	(189)	(0.5)	(0.3)	(1.4)
Goodwill amortisation	456	283	740	3.0	2.3	5.4
Underlying Earnings	1,340	886	3,338	8.7	7.2	24.2
Basic Earnings – diluted	713	(58)	1,220	4.6	(0.5)	8.9
Underlying Earnings – diluted	1,340	886	3,338	8.7	7.2	24.2
				'000	'000	'000
Weighted average number of ordinary shares – basic calculation				15,479	12,318	13,782
Dilutive potential ordinary shares arising from share options				6	7	7
Weighted average number of ordinary shares – diluted calculation				15,485	12,325	13,789

- 6 Copies of this statement will be sent to shareholders and will be available on the Group's website (www.quadnetics.com) and from Quadnetics Group plc, Haydon House, 5 Alcester Road, Studley, Warwickshire, B80 7AN.

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