Press Release **27 July 2010**

Quadnetics Group plc

Interim results for the 12 months ended 31 May 2010

Quadnetics Group plc, a leader in advanced video surveillance technology and security networks, reports its interim results for the 12 months ended 31 May 2010.

Highlights

- Performance benefits of strategic review now evident
- Significantly stronger second half, in line with the guidance provided in February
- 12 month underlying Profit Before Tax* increased by 27% to £2.3 million (2009: £1.8 million)
- 12 month Profit Before Tax increased by 135% to £1.1 million (2009: £0.5 million)
- Underlying EPS up 39% to 11.4p (2009: 8.2p)
- Basic EPS up 229% to 5.6p (2009: 1.7p)
- Order book up 61% at £27.7 million (2009: £17.2 million)
- 10 major project wins with a total value exceeding £13 million
- Well financed for growth with net cash of £4.8 million (2009: £8.1 million)
- Major operational restructuring completed in the period

*before exceptional reorganisation costs and share-based payments charge.

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

"We said in February that we expected to deliver a much stronger second half and that is what we achieved. Market conditions are somewhat mixed overall. However, our strategic focus on the protection of critical infrastructure in attractive niche markets, has enabled our performance to improve. The expected cutback in UK government spending is creating new opportunities for the Group. We are able to offer innovative, technologically advanced and highly cost effective consolidated surveillance system solutions to multiple local authorities. We have introduced a number of new hardware and software products over the last six months which are gaining market acceptance, and we expect to maintain this increased pace of innovation. The order book position has improved and the restructuring programme is delivering benefits - we are positive about the outlook for the next six months and beyond."

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Chairman's Statement

Introduction

Because of the previously announced change of financial year end from 31 May to 30 November, Quadnetics is reporting interim results covering the 12 month period to 31 May 2010. Comparative figures are extracted from the Group's audited accounts for the year to 31 May 2009.

I am pleased to report that the results in the second half of this period showed a considerable upturn, both compared to the first half, and also to the corresponding six months of the previous financial year. The improving trend reflects a combination of limited market recovery in some areas and the impact of the Group's revised strategy, which has reduced costs and brought tighter focus and integration of activities across our divisions.

Results

Consolidated underlying profit (that is, profit before tax, exceptional reorganisation costs and share-based payments charges) for the 12 months was £2.3 million, up 27% from £1.8 million for the comparable period last year. This increased profit was earned on revenue that reduced from £70.7 million to £62.7 million. The substantial majority of the revenue decline originated from the continuing transition of the Managed Services activities towards fee-based services rather than buying and reselling equipment as principal on behalf of clients.

After charging exceptional reorganisation costs of £1.1 million (2009: £1.4 million) and share-based payments of £146,000 (2009: £7,000), the Group reported a profit before tax of £1.1 million (2009: £0.5 million). The exceptional reorganisation costs mainly related to restructuring of the Integration and Managed Services division's operations in the UK and Middle East, and are expected to be the final costs charged for this process.

Underlying earnings per share for the 12 months increased 39% to 11.4 pence (2009: 8.2 pence).

Net cash at 31 May 2010 was £4.8 million (2009: £8.1 million), after payment of £1.1 million of restructuring costs and £0.8 million of tax in the period. Working capital rose by £2.6 million, largely as a result of £1.9 million of negative working capital unwinding from the reduction in equipment sales in the Group's Managed Services business referred to above.

The Group's order book at 31 May 2010 was £27.7 million compared with £17.2 million at 31 May 2009.

Dividend

In this 18 month financial year as we transition to the new November year end, the Board has decided to pay a second interim dividend of 2.5 pence per share. This amount is unchanged from the interim dividend paid in respect of the first six month period, and also from the interim dividend paid in our previous financial year. The dividend will be payable on 24 September 2010 to shareholders on the register as of 27 August 2010.

Operating Review

Integration & Managed Services

Revenue	£35.0 million (2009: £43.3 million)
Gross Margin	23.9% (2009: 21.2%)
Operating Profit*	£1.6 million (2009: £2.3 million)

Quadnetics' 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 Quadnetics divisions as well as from third parties.

In the 12 months to 31 May 2010, revenue declined by 19% to £35.0 million. This was primarily due to the continuing transition of the managed services activities towards fee-for-service and away from the direct sale of third party systems and components and, to a lesser extent, to the exit of the division from activities outside the UK. The reduction in revenue from third party systems also resulted in an increase in gross margin for the period, as planned.

The IMS division suffered considerable disruption during the period from the Group restructuring, involving the consolidation of operational and overhead functions between sites, and consequent significant staff redundancies. This process is now close to completion, and the benefits of the restructuring should become apparent in the remainder of this financial year.

Important contract wins in the period included the security system for the major new Pembroke Power Station at Milford Haven, London Borough of Lambeth system upgrade, several HM Prison establishments (including Rampton), West Midlands Police and the East Coast Main Line upgrade.

The strategy of the division is steadily to improve its operating margin and revenue base through increased concentration on its specialised critical infrastructure customer sector, better exploitation of marketing synergies with other divisions and greater use of the in-house technology they provide.

Although the division relies to a significant degree on government revenues, the need for securing important facilities, infrastructure and public spaces in the UK remains. As well as the obvious challenges, government budget constraints are expected to provide new opportunities for business growth within the high-end surveillance market, for example with innovative managed service and control room consolidation proposals.

Synectics Network Systems

Revenue	£11.8 million (2009: £11.7 million)
Gross Margin	45.2% (2009: 48.3%)
Operating Profit*	£1.7 million (2009: £2.1 million)

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 in our Sheffield facility with the Group Technology Centre which provides R&D, products and systems expertise to each of the other divisions.

After a weak first six months, especially in the US casino sector, SNS recovered well.

Delayed casino contracts began to come through in the final three months, such that US revenues for the 12 month period finished just ahead of last year, having been down 32% in the first half. This trend is continuing into the current period. Revenues from other markets were marginally ahead of the previous year, also with an increased second half bias.

Synectics continued to deliver systems for protecting important high security assets around the world, including a system upgrade for Lambeth Borough Council, protection in Durban for the World Cup in South Africa, $3 million of sales to existing casino customers, and for our first Las Vegas casino - Stratosphere. In addition Sandia Casino in New Mexico has announced that we have been selected to supply a 1400 camera IP surveillance system.

The reduction in gross margin compared with last year reflected a return to more typical margins in this period following increased higher margin sales to the US in the second half of last year.

The re-organisation of Quadnetics' activities in the Middle East under the Synectics Network Systems division, and increased resource dedicated to the region, negatively affected the division's profits in the period. This is an important market for Quadnetics, and the increased investment is expected to bear fruit in our next financial year.

Synectics Mobile Systems

Revenue	£11.3 million (2009: £12.2 million)
Gross Margin	33.2% (2009: 25.8%)
Operating Profit*	£0.9 million (2009: loss £(0.1) million)

Synectics Mobile Systems provides specialist ruggedised surveillance systems and products for bus, rail security, haulage and defence customers.

Revenue in the 12 month period was £11.3 million (2009: £12.2 million) on which it earned an operating profit of £0.9 million (2009: loss £(0.1) million). Both the lower sales and increased profit are principally due to restructuring of the defence business, which was profitable in the period after two loss-making years. We are confident that future prospects for the Group in the defence sector are now good.

The first implementation of Synectics' T1000 mobile digital video recorder on the London Underground was successfully completed with further orders expected in due course. The division's new "Genius" journey data management system continues to make progress in the UK bus market with more than 1600 systems already ordered.

Orders totalling £0.4 million have been received for our T1000-based Insight 360 video recorders for military armoured vehicles, an area of significant promise for future growth.

Other significant contract wins included a three year deal for CCTV systems on all new Stagecoach buses, and ten specialist surveillance antennas for the UK Government.

Synectics Industrial Systems

Revenue	£6.6 million (2009: £6.3 million)
Gross Margin	33.9% (2009: 28.4%)
Operating Profit*	£0.9 million (2009: £0.5 million)

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

Revenue grew by 5% to £6.6 million (2009: £6.3 million), and operating profits by 84% to £0.9 million (2009: £0.5 million). Continuing margin improvements were driven by manufacturing efficiency gains and an increasing proportion of Synectics' proprietary technology in systems sales, as well as by a higher proportion of follow-on sales within large contracts.

Major contracts were won in the following oil & gas projects - Kashagan (Thales); El Merk (Page Europa); Karan Offshore and Subsea Pipeline (Transtel); South Pars 15 & 16 (NesscoInvsat) and Sahil & Shah (Thales).

Development has been completed on an important new generation of explosion-rated camera heads, which will be launched shortly. This new product range will be the first we have certified for sale in the North American market as well as the rest of the world.

Although the market for surveillance systems on new-build ships is likely to remain depressed for another two years, the oil & gas and process control markets remain healthy.

Research and Development

Group expenditure on technology development during the 12 month period totalled £1.5 million (2009: £1.5 million). Of this, £0.5 million (2009: £0.2 million) was capitalised, and the remainder expensed to the profit and loss account.

During the period, the excellent reliability of the T1000 mobile recorder allowed us to wind down the development activities at Guildford and to consolidate the Group's technical capabilities at our Sheffield site.

Group Strategy and Objectives

Quadnetics' strategy was set out clearly in our last Annual Report. In summary, it is to invest to grow our technology base and market share in three security and surveillance end markets with complex or highly critical needs: critical infrastructure, on-vehicle surveillance and oil & gas/marine. The specialist requirements of these market niches will enable us increasingly to exploit and expand the differentiation of our systems solutions from competitor product offerings developed for higher volume applications.

These three markets are regional or global in scope and are specifically addressed by our three Synectics divisions: Synectics Network Systems, Synectics Mobile Systems and Synectics Industrial Systems respectively. We believe that each of these divisions is a fundamentally sound business, with good revenue growth opportunities and capable of reaching and sustaining operating profit margins in the mid-to-high teens percent (before R&D and Group central costs).

The Integration and Managed Services division is different in its scope and business characteristics. Its core skills are in security systems integration, project management and engineering services. It is people-intensive and operates mainly in a UK national, or sometimes even local, competitive arena. Its primary target market is medium-to-large scale critical infrastructure security projects in the UK and, as such, we believe it can increasingly benefit from, and contribute to, the success of the Synectics divisions' solutions in that market. Given the high bought-in content of sales in this division, we believe a realistic sustainable target operating profit margin is in the range of 6-8% (before Group central costs).

Each of our divisions has, and will continue to have, profitable sales outside its core target market. Currently these sales are estimated to amount in total to be around 40-45% of Group revenues, the majority in the IMS division. Our intention is that the proportion of such ancillary sales within the Group will reduce over time as growth efforts and investment are directed towards the higher margin target market niches.

Progress towards the Group's objectives will flow in part from continuing the closer integration and focus of our overall business, including management and administration, technology development and co-operation between divisions. A lot of good work has been done in the past year in creating the current divisions and moving them collectively towards a single company culture. In addition to providing a more efficient and scalable organisation, this platform will also allow the Group to manage bolt-on acquisitions effectively, if and when we find the right opportunities in line with our strategy.

We believe that, as now structured, Quadnetics is capable of delivering consolidated underlying operating profit margins (after all R&D and central costs) in the range of 8-10%, within a reasonable time frame and given normal economic conditions. This is obviously a significant step up from 3.7% in the most recent 12 month period. Of course, any action to improve the operating profit margin will only be taken if it is also consistent with the Group's overriding financial objectives, the most important of which is sustainable growth in earnings per share.

Outlook

Based on current firm order books and the pipeline of anticipated new business, the Board is positive about the outlook for the next six months. Improvement should be particularly evident in the Synectics Network Systems division, where the recovery in the US gaming market looks likely to continue, reinforced by sales growth in the Middle East and other markets.

Although signs of recovery are evident in some markets, there is continuing uncertainty in others, especially those dependent on UK government spending. The Group's short term plans do not assume any significant improvement in the general external environment, but we do anticipate that recent actions will allow Quadnetics to increase its share of its target market sectors.

Overall, the Board is pleased with the progress demonstrated by these results and is confident that the restructuring undertaken in the past year has positioned the Group well in a fundamentally attractive business area.

David Coghlan
27 July 2010

Condensed Consolidated Statement of Comprehensive Income
For the 12 months ended 31 May 2010

	Notes	**Unaudited Year to 31 May 2010 £'000**	Year to 31 May 2009 £'000
Continuing operations			
Revenue	3	**62,731**	70,655
Cost of sales		**(43,051)**	(50,881)
Gross profit		**19,680**	19,774
Operating expenses		**(18,572)**	(19,578)
Profit from operations			
Excluding exceptional reorganisation costs and share-based payments	3	**2,322**	1,553
Exceptional reorganisation costs	4	**(1,068)**	(1,350)
Share-based payments charge	5	**(146)**	(7)
Total profit from operations		**1,108**	196
Finance income		**279**	552
Finance costs		**(280)**	(287)
Share of results of joint venture		**-**	10
Profit before tax			
Excluding exceptional reorganisation costs and share-based payments		**2,321**	1,828
Exceptional reorganisation costs	4	**(1,068)**	(1,350)
Share-based payments charge	5	**(146)**	(7)
Total profit before tax		**1,107**	471
Income tax expense	6	**(232)**	(212)
Profit for the period		**875**	259
Other comprehensive income			
Exchange differences on translation of foreign operations		**74**	117
Total comprehensive income		**949**	376
Basic and diluted earnings per Ordinary share	8	**5.6p**	1.7p
Underlying basic and diluted earnings per Ordinary share	8	**11.4p**	8.2p

Condensed Consolidated Statement of Financial Position
31 May 2010

	Notes	**Unaudited 31 May 2010 £'000**	31 May 2009 £'000
Non-current assets			
Property, plant and equipment		**1,635**	1,809
Intangible assets	9	**17,407**	17,903
Deferred tax asset		**394**	414
Interest in joint venture		**-**	55
		19,436	20,181
Current assets			
Inventories		**5,913**	5,343
Trade and other receivables		**22,579**	22,503
Cash and cash equivalents		**4,811**	8,111
		33,303	35,957
Total assets		**52,739**	56,138
Current liabilities			
Trade and other payables		**(19,792)**	(21,767)
Tax liabilities		**-**	(553)
Current provisions	9	**(707)**	(1,585)
		(20,499)	(23,905)
Non-current liabilities			
Non-current provisions	9	**(75)**	(75)
		(75)	(75)
Total liabilities		**(20,574)**	(23,980)
Net assets		**32,165**	32,158
Equity attributable to equity holders of parent company			
Called up share capital		**3,514**	3,382
Share premium account		**15,719**	14,851
Merger reserve		**9,565**	9,565
Other reserves		**(3,486)**	(2,486)
Currency translation reserve		**178**	104
Retained earnings		**6,675**	6,742
Total equity		**32,165**	32,158

Condensed Consolidated Statement of Changes in Equity
For the 12 months to 31 May 2009 and twelve months to 31 May 2010

	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 June 2008	3,382	14,851	9,565	(2,486)	(13)	7,563	32,862
Profit after tax for the period	-	-	-	-	-	259	259
Dividends paid	-	-	-	-	-	(1,087)	(1,087)
Credit in relation to share-based payments	-	-	-	-	-	7	7
Currency translation adjustment	-	-	-	-	117	-	117
At 31 May 2009	3,382	14,851	9,565	(2,486)	104	6,742	32,158
Issue of shares to ExSOP	132	868	-	(1,000)	-	-	-
Profit after tax for the period	-	-	-	-	-	875	875
Dividends paid	-	-	-	-	-	(1,088)	(1,088)
Credit in relation to share-based payments	-	-	-	-	-	146	146
Currency translation adjustment	-	-	-	-	74	-	74
At 31 May 2010	**3,514**	**15,719**	**9,565**	**(3,486)**	**178**	**6,675**	**32,165**

Condensed Consolidated Cash Flow Statement
For the 12 months ended 31 May 2010

	Unaudited Year to 31 May 2010 £'000	Year to 31 May 2009 £'000
Cash flows from operating activities		
Profit for the period	**875**	259
Income tax expense	**232**	212
Finance income	**(279)**	(552)
Finance costs	**280**	287
Depreciation and amortisation charge	**1,279**	1,140
(Profit)/loss on disposal of non-current assets	**(2)**	51
Share-based payments charge	**146**	7
Operating cash flows before movement in working capital	**2,531**	1,404
Increase in inventories	**(511)**	(1,067)
Decrease in receivables	**175**	7,617
Decrease in payables and provisions	**(2,505)**	(5,974)
Cash generated from operations	**(310)**	1,980
Interest received	**21**	281
Tax (paid)/received	**(803)**	56
Net cash (used in)/from operating activities	**(1,092)**	2,317
Cash flows from investing activities		
Purchase of property, plant and equipment	**(369)**	(460)
Sale of property, plant and equipment	**-**	46
Capitalised development costs	**(483)**	(174)
Purchased software	**(216)**	(68)
Deferred consideration on acquisition made in 2005	**(79)**	(382)
Interest in joint venture	**-**	(45)
Net cash used in investing activities	**(1,147)**	(1,083)
Cash flows from financing activities		
Interest paid	**(16)**	(11)
Dividends paid	**(1,088)**	(1,087)
Net cash used in financing activities	**(1,104)**	(1,098)
Effects of exchange rate changes on cash and cash equivalents	**43**	35
Net (decrease)/increase in cash and cash equivalents	**(3,300)**	171
Cash and cash equivalents at the beginning of the period	**8,111**	7,940
Cash and cash equivalents at the end of the period	**4,811**	8,111

Notes

1. General information

These consolidated interim financial statements were approved by the Board of Directors on 27 July 2010.

The Board has announced a change in the Company's year end to 30 November, by extending its current financial year to 30 November 2010. The Company has already provided an interim report for the six months to 30 November 2009. This is the second interim report for the twelve months to 31 May 2010, ensuring transparency and comparability with prior financial years. A full annual report and audited accounts will be provided for the 18 months to 30 November 2010.

2. Basis of preparation

These consolidated interim financial statements of the Group are for the 12 months ended 31 May 2010.

The comparative figures for the financial year ended 31 May 2009 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 237 (2) or (3) of the Companies Act 1985.

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 31 May 2009.

The condensed consolidated interim financial statements for the twelve months to 31 May 2010 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 twelve months to 31 May 2010 have been prepared on the basis of the accounting policies expected to be adopted for the period ended 30 November 2010. These are anticipated to be consistent with those set out in the Group's latest annual financial statements for the year ended 31 May 2009. 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.

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

The analysis below sets out the Group's revenue and underlying operating profit (operating profit before exceptional reorganisation costs and share-based payments charge) derived from the Group's four business segments which were identified in the Group's 2009 Annual Report following a restructuring of the Group's activities at the start of this period. Comparative figures have been restated accordingly.

	Unaudited Year to 31 May 2010 £'000	Year to 31 May 2009 £'000
Revenue		
Integration & Managed Services	**35,025**	43,325
Network Systems	**11,789**	11,655
Mobile Systems	**11,271**	12,241
Industrial Systems	**6,589**	6,305
Intra-group sales	**(1,943)**	(2,871)
	62,731	70,655
Underlying operating profit		
Integration & Managed Services	**1,582**	2,251
Network Systems	**1,655**	2,067
Mobile Systems	**885**	(81)
Industrial Systems	**872**	473
Research & Development costs	**(983)**	(1,340)
Central costs	**(1,689)**	(1,817)
	2,322	1,553

4. Exceptional reorganisation costs

Following the strategic review announced in February 2009, further reorganisation costs of £1,068,000 have been expensed in the period.

5. Share-based payments charge

A new Group Executive Share Ownership Plan (the 'ExSOP') was introduced in July 2009 and awards were made under this scheme in July and September 2009 and the previous Long Term Incentive Plan has been discontinued. Accordingly a share-based payment charge of £146,000 arises in respect of the ExSOP during the period.

6. 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 eighteen months to 30 November 2010.

7. Dividends

A second interim dividend of 2.5p per share, totalling approximately £388,000 will be paid on 24 September 2010 to shareholders on the register as at 27 August 2010.

8. Earnings per share

Earnings per Ordinary share are as follows:

	Unaudited Year to 31 May 2010 £'000	Year to 31 May 2009 £'000	**Unaudited Year to 31 May 2010 p**	Year to 31 May 2009 p
Basic earnings	**875**	259	**5.6**	1.7
Exceptional reorganisation costs	**1,068**	1,350	**6.9**	8.7
Impact of exceptional reorganisation costs on tax charge for the year	**(271)**	(342)	**(1.7)**	(2.2)
Share-based payments charge	**146**	7	**0.9**	-
Impact of share-based payments charge on tax charge for the period	**(41)**	(2)	**(0.3)**	-
Underlying earnings	**1,777**	1,272	**11.4**	8.2
Basic earnings – diluted	**875**	259	**5.6**	1.7
Underlying earnings – diluted	**1,777**	1,272	**11.4**	8.2

	'000	'000
Weighted average number of Ordinary shares – basic calculation	**15,529**	15,529
Dilutive potential Ordinary shares arising from share options	**1**	-
Weighted average number of Ordinary shares – diluted calculation	**15,530**	15,529

9. Provisions

	Deferred consideration £'000	Restructuring £'000	Property £'000	Total £'000
At 1 June 2009	755	776	129	1,660
Charge to income statement	-	1,068	-	1,068
Utilised in year	(79)	(1,137)	(54)	(1,270)
Deferred consideration adjustment *	(663)	-	-	(663)
Currency translation adjustment	(13)	-	-	(13)
At 31 May 2010	**-**	**707**	**75**	**782**

Provisions have been analysed between current and non-current as follows:

	31 May 2010 £'000	31 May 2009 £'000
Current	**707**	1,585
Non-current	**75**	75
	782	1,660

*In May 2005, the Group acquired the trade and net assets of AlphaPoint LLC, a specialist provider of digital surveillance technology in North America, for a total consideration of up to $3.3 million, made up of $1.3 million in cash and Ordinary shares of the Company, plus a further amount in cash, capped at $2 million, which was dependent on the future profits of the business. Following the conclusion of the earn-out period surplus provisions for deferred consideration of £0.7 million have been credited back to goodwill.

The restructuring provision primarily relates to redundancy and related costs and costs of rationalising certain properties.

10. 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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