Press Release **4 February 2009**

Quadnetics Group plc

Interim results for the six months ended 30 November 2008

Quadnetics Group plc, a leader in the development, design, integration and control of advanced CCTV and networked video systems, reports its interim results for the six months ended 30 November 2008.

Highlights

- Revenue virtually unchanged at £35.8m (2007: £35.9m)
- Underlying profit* before tax £0.5m (2007: £1.3m), after £0.6m development and start up costs for Synectics' new product range (2007: £Nil)
- Interim dividend maintained at 2.5p (2007: 2.5p)
- Net cash as at 30 November 2008 £7.1m (2007: £7.9m)
- Resilience in several core markets, notably transport, oil & gas and high security sectors, offsetting weakness in defence, retail, banking and casinos
- New CEO appointed in November
- Actions taken to reduce cost base by an annualised £1.0 million
- Recurring revenue order book up 14%, within total order book of £26 million
- Outlook for significantly stronger second half, and full year in line with market expectations

*Underlying profit represents profit before tax, goodwill reduction in respect of tax losses, and share-based payments charges

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

"*This steady result, when viewed in the light of the current global economic uncertainties, is testament to the underlying strength of the Group's product and service capabilities in our core customer sectors. It demonstrates the resilience of some of our end-customer markets. We will continue to focus on those sectors where we are an integral part of our customers' operations and seek to build on this strength in global markets.*"

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Chairman's Statement

Introduction

The first half of this year was a period of mixed performance for Quadnetics. Compared to the same period last year, the Group experienced decreased contributions from defence, banking and casino customers, offset in major part by gains in the oil & gas and high security sectors.

Action has been taken to reduce the Group's cost base by around £1.0 million on an annualised basis. Net of restructuring costs, these savings will make a small positive contribution this financial year, prior to having a full impact in 2009/10.

As anticipated, the half year results include net costs incurred for the development and bringing to market of Synectics' new product range which will not make a major contribution until our next financial year. This is an important investment that looks, from achieved product performance and customer reactions so far, to have the potential to provide significant future profit growth for the Group. Significant first orders have now been received.

Financial Results

Consolidated revenue for the half year was virtually unchanged from the same period last year at £35.8 million (2007: £35.9 million). Underlying profits (that is, profits before tax, goodwill reduction in respect of tax losses and share-based payments) were £0.5 million (2007: £1.3 million), after charging £0.6 million (2007: £Nil) in respect of net development and start up costs for Synectics' new product range. Therefore on a like-for-like basis, excluding the impact of the new product costs, underlying profits were down 14% at £1.1 million. The main factors behind these results are explained in the Operating Review below.

Underlying earnings per share were 2.4 pence (2007: 6.0 pence).

The Group's total firm order book at 30 November 2008 was £26.0 million (2007: £27.2 million). Of this total, recurring revenue orders, an important measure of our earnings visibility and quality, were up 14% to £13.2 million compared with £11.6 million at the same point last year.

Cash Position and Dividend

The Group's consolidated net cash as at 30 November 2008 was £7.1 million (2007: £7.9 million).

In light of the Group's strong cash position, and the continued strength of its order book and visible pipeline of anticipated orders, the Board has decided to maintain an unchanged interim dividend of 2.5 pence per share, payable on 12 March 2009 to shareholders on the register at 13 February 2009.

Operating Review

Quadrant Security - the security services division, providing integrated security systems, mobile surveillance and security management support services

Quadrant reported revenue of £26.7 million for the half year (2007: £26.0 million), on which it earned an operating profit of £1.4 million (2007: £1.3 million), an increase of 3% and 4% respectively compared with the same period last year. Within these figures, there were strong gains in the high security sector (both in the UK and Middle East) and in mobile transport, offset by a significant decline in retail banking.

Notable new business won in the period included a large UK police custody suite system, prison security systems for the Home Office, extensions of a long-running Middle Eastern border security project, a security maintenance contract for a major palace in Saudi Arabia and expansion of the relationship with Stagecoach. The growth of activity in the Middle East is particularly pleasing, and is beginning to provide solid returns on the investment put into this area in the past two years.

The operational focus is on improving margins through increased efficiency and further growth of recurring revenues. Cost reduction plans have been implemented that will generate around £800,000 of annualised savings in this division.

Synectics - the security technology division, providing security network products and software, hazardous area systems and high security surveillance technology

Synectics' revenue in the period was £10.3 million (2007: £10.6 million). The aggregate operating result was a loss of £0.3 million (2007: profit £0.7 million), after charging £0.6 million (2007: £Nil) for development and start-up costs for Synectics new product range as reported above.

Two areas experienced relatively poor results in the first half. In both defence and US gaming, revenue was significantly below plan due to large projects being delayed or cancelled, particularly towards the end of the period. Action has been taken to reduce the cost base in the defence sector until we have a clearer perspective on realistic new business levels. In the US gaming market, discretionary customer spending has been adversely affected by conditions in the economy generally; nevertheless, electronic security requirements in North American casinos are dictated by regulation and the Group expects many of the delayed projects will of necessity progress in the coming months.

Elsewhere, there were strong performances in Synectics network products and in the hazardous area oil & gas sector. Of particular note, Synectics has won a multi-vessel oil & gas tanker project in Brazil, opening up our presence in this important geographical area. Last year's operational issues have now been successfully overcome.

The T-1000 mobile digital video recorder, a cornerstone product in Synectics' new H.264 range, has won important orders in its target bus and light rail markets, and performed well in extensive trials. The supply chain is now being adapted to volume production. This is a product that is expected to solidify Synectics' leading UK market position and that has the potential for real growth into European and other global markets from our next financial year onwards.

Objectives and Outlook

The Board has recently appointed John Shepherd as Group Chief Executive and asked him to lead a thorough review of Quadnetics' strategy and objectives. This review will be complete within the next few months and the Board will give an update to shareholders in its June trading statement, prior to setting out its conclusions in detail with our preliminary results and Annual Report in September. John has an established track record of achieving major growth in medium-to-large technology businesses. Initial indications are that he will be seeking to narrow further the Group's focus on its core customer sectors and opportunities and accelerate geographic expansion, building on the strong market and technology positions that have been established over the past few years.

As in previous years, Quadnetics expects to have a substantially stronger second half of this financial year, particularly in the Synectics division. The net impact of costs associated with Synectics' new products is likely to be similar to that of the first half. Allowing for this, and based on the Group's order book and pipeline of new business, the Board anticipates that full year results will be in line with current market expectations.

David Coghlan
4 February 2009

Consolidated Income Statement
For the half year ended 30 November 2008

	Notes	**Unaudited Half year to 30 Nov 2008 £'000**	Unaudited Half year to 30 Nov 2007 £'000	Year to 31 May 2008 £'000
Continuing operations				
Revenue	3	**35,847**	35,939	79,174
Cost of sales		**(26,668)**	(26,175)	(57,849)
Gross profit		**9,179**	9,764	21,325
Net operating expenses		**(8,777)**	(7,865)	(17,147)
Profit from operations				
Excluding goodwill reduction and share-based payments	3	**407**	1,235	3,514
Goodwill reduction in respect of tax losses		**-**	(141)	(141)
Share-based payments (charge)/credit		**(5)**	805	805
Total profit from operations		**402**	1,899	4,178
Finance income		**366**	303	459
Finance costs		**(241)**	(232)	(243)
Profit before tax				
Excluding goodwill reduction and share-based payments		**532**	1,306	3,730
Goodwill reduction in respect of tax losses		**-**	(141)	(141)
Share-based payments (charge)/credit		**(5)**	805	805
Total profit before tax		**527**	1,970	4,394
Income tax expense	4	**(159)**	(610)	(1,037)
Profit for the period		**368**	1,360	3,357
Basic and diluted earnings per Ordinary share	6	**2.4p**	8.8p	21.6p

Consolidated Statement of Recognised Income and Expense
For the half year ended 30 November 2008

	Unaudited Half year to 30 Nov 2008 £'000	Unaudited Half year to 30 Nov 2007 £'000	Year to 31 May 2008 £'000
Profit for the period	**368**	1,360	3,357
Exchange differences on translation of foreign operations	**157**	(14)	-
Total recognised income and expense for the period	**525**	1,346	3,357

Consolidated Balance Sheet
30 November 2008

	Unaudited 30 Nov 2008 £'000	Unaudited 30 Nov 2007 £'000	31 May 2008 £'000
Non-current assets			
Property, plant and equipment	**1,993**	2,002	1,951
Intangible assets	**18,333**	17,246	17,938
Interest in joint venture	**38**	-	-
Deferred tax asset	**391**	641	502
	20,755	19,889	20,391
Current assets			
Inventories	**5,281**	4,718	4,249
Trade and other receivables	**23,590**	22,765	29,502
Cash and cash equivalents	**7,089**	7,863	7,940
	35,960	35,346	41,691
Total assets	**56,715**	55,235	62,082
Current liabilities			
Trade and other payables	**(22,780)**	(21,368)	(27,777)
Tax liabilities	**(296)**	(968)	(372)
Current provisions	**(871)**	(329)	(380)
	(23,947)	(22,665)	(28,529)
Non-current liabilities			
Non-current provisions	**(75)**	(709)	(691)
	(75)	(709)	(691)
Total liabilities	**(24,022)**	(23,374)	(29,220)
Net assets	**32,693**	31,861	32,862
Equity attributable to equity holders of parent company			
Called up share capital	**3,382**	3,382	3,382
Share premium account	**14,851**	14,851	14,851
Merger reserve	**9,565**	9,565	9,565
Other reserves	**(2,486)**	(2,486)	(2,486)
Currency translation reserve	**144**	(27)	(13)
Retained earnings	**7,237**	6,576	7,563
Total equity	**32,693**	31,861	32,862

Consolidated Cash Flow Statement
For the half year ended 30 November 2008

	Unaudited Half year to 30 Nov 2008 £'000	Unaudited Half year to 30 Nov 2007 £'000	Year to 31 May 2008 £'000
Cash flows from operating activities			
Profit for the period	**368**	1,360	3,357
Income tax expense	**159**	610	1,037
Finance income	**(366)**	(303)	(459)
Finance costs	**241**	232	243
Depreciation and amortisation charge	**504**	391	611
Goodwill reduction in respect of tax losses	**-**	141	141
(Profit)/loss on disposal of non-current assets	**(13)**	10	13
Share-based payments charge/(credit)	**5**	(805)	(805)
Operating cash flows before movement in working capital	**898**	1,636	4,138
(Increase)/decrease in inventories	**(998)**	356	825
Decrease/(increase) in receivables	**6,753**	(2,243)	(9,057)
(Decrease)/increase in payables and provisions	**(6,625)**	2,377	8,813
Cash generated from operations	**28**	2,126	4,719
Interest received	**111**	76	249
Tax paid	**(144)**	(481)	(1,368)
Net cash (used in)/from operating activities	**(5)**	1,721	3,600
Cash flows from investing activities			
Purchase of property, plant and equipment	**(267)**	(763)	(892)
Sale of property, plant and equipment	**13**	-	52
Capitalised development costs	**(167)**	(484)	(1,132)
Purchased software	**(49)**	(163)	(236)
Sale of property held for resale	**-**	2,060	2,060
Deferred consideration on acquisition made in 2005	**(383)**	(99)	(99)
Interest in joint venture	**(38)**	-	-
Net cash (used in)/from investing activities	**(891)**	551	(247)
Cash flows from financing activities			
Interest paid	**-**	(5)	-
Dividends paid	**-**	-	(1,009)
Net cash used in financing activities	**-**	(5)	(1,009)
Effects of exchange rate changes on cash and cash equivalents	**45**	-	-
Net (decrease)/increase in cash and cash equivalents	**(851)**	2,267	2,344
Cash and cash equivalents at the beginning of the period	**7,940**	5,596	5,596
Cash and cash equivalents at the end of the period	**7,089**	7,863	7,940

Notes

1. General information

These consolidated interim financial statements were approved by the Board of Directors on 4 February 2009.

2. Basis of preparation

These consolidated interim financial statements of the Group are for the six months ended 30 November 2008.

The comparative figures for the financial year ended 31 May 2008 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 2008.

The condensed consolidated interim financial statements for the six months to 30 November 2008 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

The condensed consolidated interim financial statements for the six months to 30 November 2008 have been prepared on the basis of the accounting policies expected to be adopted for the year ended 31 May 2009. These are anticipated to be consistent with those set out in the Group's latest annual financial statements for the year ended 31 May 2008. 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

Turnover and underlying operating profit (operating profit before goodwill reduction and share-based payments credit or charge) derives from the Group's two business segments as follows:

	Unaudited Half year to 30 Nov 2008 £'000	Unaudited Half year to 30 Nov 2007 £'000	Year to 31 May 2008 £'000
Turnover			
Services	**26,735**	26,016	57,920
Products and software	**10,314**	10,601	23,140
Intra-group sales	**(1,202)**	(678)	(1,886)
	35,847	35,939	79,174
Underlying operating profit			
Services	**1,376**	1,328	3,545
Products and software	**(297)**	734	1,584
Central costs	**(672)**	(827)	(1,615)
	407	1,235	3,514

4. 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 full year to 31 May 2009.

5. Dividends

An interim dividend of 2.5p per share (2007: 2.5p), totalling approximately £388,000 (2007: £388,000) will be paid on 12 March 2009 to shareholders on the register as at 13 February 2009.

A final dividend of 4.5p per share totalling £699,000 for the year ended 31 May 2008 was approved at the Company's Annual General Meeting on 26 November 2008 and accordingly has been included as a liability as at 30 November 2008.

6. **Earnings per share**

Earnings per Ordinary share are as follows:

	Unaudited Half year to 30 Nov 2008 £'000	UnauditedHalf year to 30 Nov 2007 £'000	Year to 31 May 2008 £'000	**Unaudited Half year to 30 Nov 2008 £'000 p**	UnauditedHalf year to 30 Nov 2007 p	Year to 31 May 2008 p
Basic earnings	**368**	1,360	3,357	**2.4**	8.8	21.6
Goodwill reduction	**-**	141	141	**-**	0.9	0.9
Share-based payments charge/(credit)	**5**	(805)	(805)	**-**	(5.2)	(5.2)
Impact of share-based payments (credit)/charge on tax charge for the period	**(2)**	242	249	**-**	1.5	1.6
Underlying earnings	**371**	938	2,942	**2.4**	6.0	18.9
Basic earnings – diluted	**368**	1,360	3,357	**2.4**	8.8	21.6
Underlying earnings – diluted	**371**	938	2,942	**2.4**	6.0	18.9
				'000	'000	'000
Weighted average number of Ordinary shares – basic calculation				**15,529**	15,529	15,529
Dilutive potential Ordinary shares arising from share options				**-**	13	7
Weighted average number of Ordinary shares – diluted calculation				**15,529**	15,542	15,536

7. 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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