



Quadnetics Group plc

Interim results for the six months ended 30 November 2009

Quadnetics Group plc, a leader in advanced video surveillance technology and security networks, reports its interim results for the six months ended 30 November 2009.

Highlights

- Revenue £29.8m (2008: £35.8m), Underlying profit* £161k (2008: £532k), Net cash: £3.4m (2008: £7.1m)
- Significant new business won: Stagecoach (£3.7m), UK Prisons (£2.1m), Kashagan oilfield (£1.6m), Nexus Rail (£1.1m), London Underground (£0.7m), West Midlands Police (£0.8m)
- Restructuring programme on plan, with total of £1.8m net annualised cost savings achieved to date
- Total order book £22.1m (2008: £26.0m); Total pipeline £52.5m (2008: £30.6m)
- Strong second half expected
- Dividend maintained at 2.5p

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

“This result, viewed in the light of the worst global recession for half a century, is a credit to the skills, ingenuity and hard work of all our employees. The Group is settling down well after a period of significant structural change and the new executive team is building momentum, which is underpinning our expectations of a much stronger second half, in our chosen market sectors and territories. As reflected in the significantly increased order pipeline, the pace of new product and system introductions is accelerating and finding strong customer acceptance at the expense of our competition.”

*that is profit before tax, exceptional reorganisation costs and share-based payments charge.

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Chairman's Statement

Introduction

Results for the first half of Quadnetics' current financial year were in line with the expectations set out in the Company's trading statement issued on 5 November 2009. The historically weaker trading pattern in the first half, together with the impact of delayed orders in the North American gaming surveillance market and in the Middle East, led to a weak underlying operating performance. This was offset by market success for the new suite of Synectics network and mobile surveillance products, strengthening of the senior management and implementation of a new organisation structure allowing reduced overhead costs and a more sharply focused strategy.

This is the first financial period following implementation of the strategy review initiated by Quadnetics' new Chief Executive, and consequent reorganisation of the Group into four operating divisions: Integration & Managed Services, Synectics Network Systems, Synectics Mobile Systems and Synectics Industrial Systems. Operating results will therefore be reported within the new divisional structure which will increase visibility of underlying operational performance.

The focus of business operations in the first half was very much on bedding in the new restructured organisation, to ensure the Group has both an efficient cost base, and a stable and scalable platform for growth in its chosen markets. As a result of cost reduction actions taken, annualised net savings in direct labour costs and underlying overheads of £1.8 million were achieved in the first half of this financial year, compared on a like-for-like basis with the same period last year. Against the same base, the full annualised run-rate of cost savings is now expected to be £2.2 million. Exceptional reorganisation costs in respect of these actions have totalled £1.6 million, of which £0.3 million was charged in the first half of this year.

The Board now believes that Quadnetics has the business structure and depth of management in place to deliver on its growth potential.

Results

Consolidated underlying profit (that is, profit before tax, exceptional reorganisation costs and share-based payments) for the half year was £0.2 million (2008: £0.5 million). After charging exceptional reorganisation costs of £0.3 million (2008: nil), and share-based payments of £80,000 (2008: £5,000), the Group incurred a loss before tax of £(0.2) million (2008: profit £0.5 million). Underlying earnings per share were 0.7 pence (2008: 2.4 pence).

The major factors giving rise to these results are set out in the Operating Review below.

In spite of the difficult macroeconomic climate, the Group's total firm order book as at 30 November 2009 held up well at £22.1 million (2008: £26.0 million). As an indication of the improving trend, the formally measured pipeline of expected new business expanded to £52.5 million at the period end, compared with £30.6 million on a like-for-like basis at the same point last year.

At 30 November 2009, Quadnetics had consolidated net cash balances of £3.4 million (2008: £7.1 million) after paying restructuring costs and tax liabilities of £1.3 million in the period. In addition, working capital increased by £3.3 million, partly owing to the decline in activity in the retail managed services business (£1.2 million).

Dividend

In view of the anticipated substantial improvement in results for the remainder of the year, the Board has decided to maintain an unchanged interim dividend of 2.5 pence per share, payable on 19 March 2010 to shareholders on the register as at 19 February 2010.

Operating Review

Integration & Managed Services (Quadrant Security Group and SSS Managed Services)

The Group's security systems services division recorded revenue of £17.4 million for the half year, compared with £22.8 million for the corresponding period last year. However, operating profits were maintained at £0.8 million (2008: £0.8 million). The main reasons for this performance were a continued reduction in low margin pass through capital equipment sales in the managed services area, and margin increases achieved through reduced costs and efficiency improvements.

Activity levels in the UK security systems integration area began to pick up noticeably towards the end of the period, with major contract wins in the prisons, transport and police sectors. Managed services for multiple retailers continued to feel the effects of reduced client budgets, particularly for capital projects. Innovative solutions, for example offering clients reduced costs through IP (internet protocol) based alarm signalling, are starting to generate sales after a considerable gestation period.

Overall, this division is expecting an improved profit performance in the second half.

Synectics Network Systems

Synectics Network Systems provides video-based electronic surveillance systems and technology globally to end customers with large scale high security requirements. In the first half of 2009/10, the division had revenue of £4.9 million (2008: £5.8 million), on which it recorded an operating profit of £0.3 million (2008: £0.8 million). One of Synectics Network Systems' largest markets is surveillance for casinos in North America, where the impact of the recession has been felt most strongly within the Group. A number of anticipated orders where Synectics has either been notified of an impending award, or specified as the sole-source provider, have been and continue to be delayed. Customers for most of these projects have indicated that they expect to issue contracts in the next few months.

As previously reported, Quadnetics' activities in the Middle East have been consolidated under the control of the Synectics Network Systems division, with the aim of focussing more on higher margin proprietary systems sales. The additional sales resource and a short-term hiatus in new business as the re-focused sales model is implemented, mean that there has been a negative impact in the current financial year. The new management team has had early success with the award of a substantial contract for surveillance in a fleet of cash-in-transit vehicles, and substantial improvement is expected from this area in the second half.

Synectics Network Systems' results in the first half in its core UK market were, as anticipated, slightly weaker than last year; however, with growing sales of its recently introduced H.264 products and virtual matrix systems, this division is expected to deliver stronger sales and profits in the second half.

Synectics Mobile Systems

Synectics Mobile Systems provides specialist ruggedised surveillance systems and products for the bus, rail and defence industries. Revenue in the first half of this financial year was £5.2 million (2008: £5.4 million) on which it earned an operating profit of £0.1 million (2008: loss £(0.1) million). Both the lower sales and increased profit are principally due to the restructuring of the defence business, which is expected to be profitable in the second half after two loss-making years.

Sales of bus and rail systems were strong, with some significant contract wins giving us confidence for an improved second half. We won our first order for a rail based Synectics' T1000 mobile digital video recorder on the London Underground, secured the first orders for our new "Genius" advanced driver training and telematics system and recently secured a £3.7m three year contract with Stagecoach to fit digital CCTV systems to all their new buses. Sales of the T1000 accelerated, and have now passed 1,000 units shipped, with evidence of increasing demand by both bus and rail customers.

Restructuring of the defence activities is now complete, with all manufacturing consolidated in the Synectics Industrial Systems plant in Brigg. An initial £0.4 million order has been shipped for our T1000-based Insight 360 video recorders for military armoured vehicles, an area of significant promise for future growth.

Synectics Industrial Systems

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 for the half year grew by 7% to £3.4 million (2008: £3.1 million), and operating profits nearly trebled to £0.5 million (2008: £0.2 million). Significant contract wins included £1.6m of new business for the Kashagan oil field in the Caspian Sea.

The major reasons for this margin improvement are continuing manufacturing efficiency gains and an increasing proportion of Synectics' proprietary technology in systems sales. During the second half, the division will be launching a new range of hazardous area products, designed to open up the North American Market. We expect further positive momentum despite the likely continued lull in new orders from shipbuilders.

Year End

Quadnetics' businesses have historically reflected a seasonal pattern of significantly stronger performance in the second half of its financial year, particularly in the final quarter. This has made forecasting annual results early in the year particularly difficult. As announced on 5 November 2009, Quadnetics has accordingly changed its year end for 2010 from 31 May to 30 November. This will not affect the comparability or transparency of the Company's financial performance, since we will be reporting second interim results for the 12 months to 31 May 2010 in early August, followed by preliminary results for the 18 months to 30 November 2010 in February 2011.

Outlook

Quadnetics is anticipating a stronger than usual second half weighting to its profits this year, supported by an increase in the firm order book to £26.8m at the end of December (December 2008: £24.5m). A full period of benefit from cost reduction measures taken during last year and the year so far, as well as expected significantly increased contributions from the Middle East, mobile systems and North American gaming, should accentuate the normal seasonal upturn.

Overall, the Company continues to anticipate that results for the 12 months to 31 May 2010 will be in line with market expectations.

David Coghlan
3 February 2010

**Condensed Consolidated Income Statement
For the six months ended 30 November 2009**

	Notes	Unaudited Half year to 30 Nov 2009 £'000	Unaudited Half year to 30 Nov 2008 £'000	Year to 31 May 2009 £'000
Continuing operations				
Revenue	3	29,844	35,847	70,655
Cost of sales		(20,731)	(26,668)	(50,881)
Gross profit		9,113	9,179	19,774
Operating expenses		(9,301)	(8,777)	(19,578)
(Loss)/profit from operations				
Excluding exceptional reorganisation costs and share-based payments	3	162	407	1,553
Exceptional reorganisation costs	4	(270)	-	(1,350)
Share-based payments charge	5	(80)	(5)	(7)
Total (loss)/profit from operations		(188)	402	196
Finance income		146	366	552
Finance costs		(143)	(241)	(287)
Share of results of joint venture		(4)	-	10
(Loss)/profit before tax				
Excluding exceptional reorganisation costs and share-based payments		161	532	1,828
Exceptional reorganisation costs	4	(270)	-	(1,350)
Share-based payments charge	5	(80)	(5)	(7)
Total (loss)/profit before tax		(189)	527	471
Income tax credit/(expense)	6	55	(159)	(212)
(Loss)/profit for the period		(134)	368	259
Basic and diluted earnings per Ordinary share	8	(0.9)p	2.4p	1.7p
Underlying basic and diluted earnings per Ordinary share	8	0.7p	2.4p	8.2p

**Condensed Consolidated Statement of Recognised Income and Expense
For the six months ended 30 November 2009**

	Unaudited Half year to 30 Nov 2009 £'000	Unaudited Half year to 30 Nov 2008 £'000	Year to 31 May 2009 £'000
(Loss)/profit for the period	(134)	368	259
Exchange differences on translation of foreign operations	(10)	157	117
Total recognised income and expense for the period	(144)	525	376

**Condensed Consolidated Balance Sheet
30 November 2009**

	Notes	Unaudited 30 Nov 2009 £'000	Unaudited 30 Nov 2008 £'000	31 May 2009 £'000
Non-current assets				
Property, plant and equipment		1,772	1,993	1,809
Intangible assets	9	17,190	18,333	17,903
Deferred tax asset		412	391	414
Interest in joint venture		51	38	55
		19,425	20,755	20,181
Current assets				
Inventories		5,396	5,281	5,343
Trade and other receivables		20,886	23,590	22,503
Cash and cash equivalents		3,408	7,089	8,111
		29,690	35,960	35,957
Total assets		49,115	56,715	56,138
Current liabilities				
Trade and other payables		(17,208)	(22,780)	(21,767)
Tax liabilities		-	(296)	(553)
Current provisions	9	(529)	(871)	(1,585)
		(17,737)	(23,947)	(23,905)
Non-current liabilities				
Non-current provisions	9	(75)	(75)	(75)
		(75)	(75)	(75)
Total liabilities		(17,812)	(24,022)	(23,980)
Net assets		31,303	32,693	32,158
Equity attributable to equity holders of parent company				
Called up share capital	10	3,514	3,382	3,382
Share premium account	10	15,719	14,851	14,851
Merger reserve	10	9,565	9,565	9,565
Other reserves	10	(3,486)	(2,486)	(2,486)
Currency translation reserve	10	94	144	104
Retained earnings	10	5,897	7,237	6,742
Total equity		31,303	32,693	32,158

**Condensed Consolidated Cash Flow Statement
For the six months ended 30 November 2009**

	Unaudited Half year to 30 Nov 2009 £'000	Unaudited Half year to 30 Nov 2008 £'000	Year to 31 May 2009 £'000
Cash flows from operating activities			
(Loss)/profit for the period	(134)	368	259
Income tax (credit)/expense	(55)	159	212
Finance income	(146)	(366)	(552)
Finance costs	143	241	287
Depreciation and amortisation charge	631	504	1,140
(Profit)/loss on disposal of non-current assets	(3)	(13)	51
Share-based payments charge	80	5	7
Operating cash flows before movement in working capital	516	898	1,404
Increase in inventories	(62)	(998)	(1,067)
Decrease in receivables	1,846	6,753	7,617
Decrease in payables and provisions	(5,592)	(6,625)	(5,974)
Cash generated from operations	(3,292)	28	1,980
Interest received	19	111	281
Tax paid	(760)	(144)	56
Net cash (used in)/from operating activities	(4,033)	(5)	2,317
Cash flows from investing activities			
Purchase of property, plant and equipment	(249)	(267)	(460)
Sale of property, plant and equipment	3	13	46
Capitalised development costs	(192)	(167)	(174)
Purchased software	(135)	(49)	(68)
Deferred consideration on acquisition made in 2005	(79)	(383)	(382)
Interest in joint venture	-	(38)	(45)
Net cash used in investing activities	(652)	(891)	(1,083)
Cash flows from financing activities			
Interest paid	(11)	-	(11)
Dividends paid	-	-	(1,087)
Net cash used in financing activities	(11)	-	(1,098)
Effects of exchange rate changes on cash and cash equivalents	(7)	45	35
Net (decrease)/increase in cash and cash equivalents	(4,703)	(851)	171
Cash and cash equivalents at the beginning of the period	8,111	7,940	7,940
Cash and cash equivalents at the end of the period	3,408	7,089	8,111

Notes

1. General information

These consolidated interim financial statements were approved by the Board of Directors on 3 February 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. Following this interim report the Company will be providing a second interim report for the period 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 six months ended 30 November 2009.

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 six months to 30 November 2009 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 2009 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 Half year to 30 Nov 2009 £'000	Unaudited Half year to 30 Nov 2008 £'000	Year to 31 May 2009 £'000
Revenue			
Integration & Managed Services	17,400	22,775	43,325
Network Systems	4,906	5,818	11,655
Mobile Systems	5,190	5,355	12,241
Industrial Systems	3,353	3,139	6,305
Intra-group sales	(1,005)	(1,240)	(2,871)
	29,844	35,847	70,655
Underlying operating profit			
Integration & Managed Services	792	788	2,251
Network Systems	271	795	2,067
Mobile Systems	121	(95)	(81)
Industrial Systems	505	186	473
Research & Development costs	(685)	(595)	(1,340)
Central costs	(842)	(672)	(1,817)
	162	407	1,553

4. Exceptional reorganisation costs

Following the strategic review announced in February 2009, further reorganisation costs of £270,000 have been expensed in the period, and primarily relate to redundancy and related costs.

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 £80,000 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 twelve months to 31 May 2010. This is estimated to be 29% (2008: 30%).

7. Dividends

An interim dividend of 2.5p per share (2008: 2.5p), totalling approximately £439,000 (2008: £388,000) will be paid on 19 March 2010 to shareholders on the register as at 19 February 2010.

A final dividend of 4.5p per share totalling £791,000 for the year ended 31 May 2009 was approved at the Company's Annual General Meeting on 11 November 2009 and accordingly has been included as a liability as at 30 November 2009.

8. Earnings per share

Earnings per Ordinary share are as follows:

	Unaudited Half year to 30 Nov 2009 £'000	Unaudited Half year to 30 Nov 2008 £'000	Year to 31 May 2008 £'000	Unaudited Half year to 30 Nov 2009 p	Unaudited Half year to 30 Nov 2008 p	Year to 31 May 2009 p
Basic earnings	(134)	368	259	(0.9)	2.4	1.7
Exceptional reorganisation costs	270	-	1,350	1.7	-	8.7
Impact of exceptional reorganisation costs on tax charge for the year	(78)	-	(342)	(0.5)	-	(2.2)
Share-based payments charge	80	5	7	0.5	-	-
Impact of share-based payments (credit)/charge on tax charge for the period	(23)	(2)	(2)	(0.1)	-	-
Underlying earnings	115	371	1,272	0.7	2.4	8.2
Basic earnings – diluted	(134)	368	259	(0.9)	2.4	1.7
Underlying earnings – diluted	115	371	1,272	0.7	2.4	8.2
				'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				-	-	-
Weighted average number of Ordinary shares – diluted calculation				15,529	15,529	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	-	270	-	270
Utilised in year	(79)	(517)	(54)	(650)
Deferred consideration adjustment *	(663)	-	-	(663)
Currency translation adjustment	(13)	-	-	(13)
At 30 November 2009	-	529	75	604

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

	30 Nov 2009 £'000	31 May 2009 £'000
Current	529	1,585
Non-current	75	75
	604	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 £0.7m have been credited back to goodwill.

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

10. Reconciliation of movements in Total Equity

	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 2009	3,382	14,851	9,565	(2,486)	104	6,742	32,158
Issue of shares to ExSOP	132	868	-	(1,000)	-	-	-
Loss after tax for the period	-	-	-	-	-	(134)	(134)
Dividends (approved but not paid)	-	-	-	-	-	(791)	(791)
Credit in relation to share-based payments	-	-	-	-	-	80	80
Currency translation adjustment	-	-	-	-	(10)	-	(10)
At 30 November 2009	3,514	15,719	9,565	(3,486)	94	5,897	31,303

11. 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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