

Annual Report 2004



Front cover: Designed to operate within the hazardous environments on board oil and gas rigs and refineries, where potentially explosive atmospheres are present, the Coex range of CCTV explosion-proof CCTV cameras and control systems provide a safe visual monitoring solution.



Quadnetics Group plc
Registered number: 1740011

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MAY 2004

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THE Chairman's Statement

PETER RAE CHAIRMAN



Highlights

- Profit before tax, exceptionals and goodwill amortisation of £2.3 million (2003: £1.4 million)
- Underlying earnings per share of 21.2p (2003: 17.7p)
- Net funds of £4.3 million (2003: £3.3 million)
- Proposed dividend of 3p per share (2003: 2p)
- Acquired Look CCTV and Coex, facilitated by a successful share placing that raised £8 million
- Progress in proprietary digital control and recording technologies
- Focus on higher-value work in the installation businesses

During the year ended 31 May 2004 the Group has achieved sales of £18.1 million (2003: £20.3 million) and profit before tax of £1.9 million (2003: £1.4 million) after providing for an exceptional loss of £240,000 resulting from the unexpected receivership of the parent company of a major customer, and after charging £174,000 for amortisation of goodwill arising mostly from the acquisition of Look CCTV.

At the year end the Group had no net borrowings and held net funds of £4.3 million.

The Board is recommending the payment of a dividend of 3p per share (2003: 2p per share) on 14 December 2004 to all shareholders on the share register on 19 November 2004.

Synectic Systems Limited, our subsidiary which develops systems software and equipment, continued to make real progress in the development of its products. We are delighted to announce that Synectics has won a contract worth more than US\$2 million to supply a digital recording and control system to one of the largest casinos in Canada. This is Synectics' first major contract in North America and is a powerful endorsement of our leading technology. It follows on from our announcement on 30 June 2004 that Synectics has been selected to supply a similar advanced digital recording solution to a major UK police force. Revenue from this new work will only be recognised in the current year ending 31 May 2005 and is not reflected in these financial results.

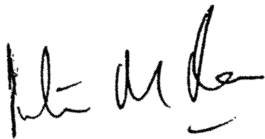
Look CCTV was acquired on 20 February 2004 and has proved to be an excellent investment. Its dominant position in supplying on-board CCTV to the bus market is continuing and both sales and profits are well ahead of our initial expectations. We are particularly pleased that Look is now working with Synectics to enhance and develop Look's products, and we are confident that this will further strengthen its market position.

Coex Limited was acquired on 6 February 2004 and has also exceeded our expectations. Its position in the market for hazardous environment CCTV is strong and, helped by the financial and technical resources of the Group, we see very good prospects.

The lower sales value within Quadrant Video Systems (£11.1 million compared to £16.8 million in the previous year) is the expected result of our having deliberately pursued higher value-added sales. However, despite the sales value having fallen, the profitability of this subsidiary was in fact slightly ahead of the previous year. Quadrant Video Systems has maintained its leading position in the public space surveillance market and is continuing to work on improving customer service and margin enhancement.

The CCTV market continues to migrate to digital solutions involving networks and extensive data management. This market is large and worldwide and we are delighted to look forward with the knowledge that our key products have been selected by the most discerning and sophisticated buyers in North America and the UK.

I am pleased to report that Steve Coggins, who currently heads the Europe, Middle East and Africa operations of Silicon Graphics, Inc., has agreed to join the Board as an independent non-executive director with effect from 1 January 2005. Prior to joining Silicon Graphics, he previously held senior positions with Fujitsu and IBM. I look forward to Steve's contribution to the next stage in the development of the Group.



Peter Rae
Chairman

27 September 2004

Right: Synectics' penetration into vertical markets includes opportunities in the gaming industry, where its range of large-scale digital recording systems are being installed at multiple casino locations throughout the UK and North America.



THE Chief Executive's Report

RUSS SINGLETON CHIEF EXECUTIVE



I am delighted to be able to report once again that we have met our core business objectives and significantly strengthened the Group's capabilities for the future

The financial year just completed was a very challenging and successful period for Quadnetics as we continued to develop the quality of our businesses and established new and evolving opportunities for the Group in a broader range of high complexity CCTV and Security applications, both in the UK and overseas.

Quadnetics now has a strong UK business base from which to grow with some excellent international opportunities unfolding to provide a platform for further success in coming years. Our products are gaining acceptance in overseas markets now and, through our relationship with IBM, the potential exists for them to be produced in volume for world-wide distribution to the expanding global market for IP (Internet Protocol) video solutions.

I am delighted to be able to report once again that we have met our core business objectives and significantly strengthened the Group's capabilities for the future by developing new award winning digital-IP surveillance and recording products and by completing two strategically important acquisitions.

Total sales of £18.1 million in the year produced an operating profit (before exceptional costs and goodwill amortisation) of £2.3 million, 59% up on the £1.4 million reported last year, and representing a 12.6% return on sales.

Original business review

At the beginning of the year we anticipated a reduction in large-scale tendered infrastructure projects compared with previous years, due to changes in central funding. We concentrated our sales and marketing

efforts in retail, property, health, transportation, logistics and services applications where we could improve our operations and deliver enhanced customer service, and with a resultant improvement in operating margins. This has worked well for us.



We continued to invest in research and development in the year incurring costs of approximately £0.3 million, which were fully expensed to the profit & loss account.

This was rewarded by our winning the much-coveted BSIA industry award at IFSEC 2004 and, importantly, the selection by a major UK Police force of our Time Lapse Later technology.

The effectiveness of our margin improvement strategy is evidenced by the pre-acquisition operating results, where margins increased to 9.8% compared with 7% last year.

Rationale for acquisitions

The rationale behind our acquisitions and choice of partners is a function of our drive to achieve a measure of control over end-user applications. This can be achieved by specific new product development, by partnering with an existing manufacturer or distributor, or by acquiring proven expertise in specialist, attractive market segments outside of the mainstream.

The CCTV industry is now in full transition from closed analogue systems to open digital networks. This presents significant challenges both to customers and, importantly, to suppliers who may have shed technical capability over recent years to reduce costs as the market for standard analogue solutions became more price-sensitive.

& Review of Last Year

We have positioned ourselves to take advantage of these situations, especially where they provide lower risk access to a broader and larger platform for significant growth opportunities. The synergy benefits provide opportunities to leverage the Group's technology, finances and management and are not just limited to economies of scale.

In February this year we raised £8 million in cash from a placing of new shares to fund two acquisitions in complementary niche market sectors. Look CCTV are the UK's leading suppliers of CCTV on buses, with approximately 70% market share. The existing Managing Director continues to lead the business post-acquisition.

Coex are specialist manufacturers of explosion-proof and hazardous environment surveillance technologies within the offshore oil and gas and marine industries. The two founders retired on completion of the earn-out. We appointed a new Managing Director with many years experience in the sector in February this year, 7 months prior to the vendors' departure. Both of these operations complement our existing business activities.

Performance with the acquisitions included for part of the year

The acquisitions were completed in February this year and have subsequently performed ahead of our expectations, especially in the bus CCTV sector. Integration of the businesses has progressed well, with the Group's financial, quality and management control systems now established in the new subsidiaries, and co-operative development work under way to extend Synectics' products and technical solutions to these new customer bases. The demise of Mayflower Group plc, the parent company of Look CCTV's biggest customer,

Transbus, was an unforeseen development resulting in an exceptional bad debt of £240,000 in the period, although the terms of the purchase agreement insulated the Group from any cash impact. Following the move of Transbus to new ownership, trading levels for Look with this customer are now returning to normal.

Outlook for coming year and future

Quadnetics is now a much larger and stronger Group comprising the following customer-facing businesses:

- Quadrant Video Systems, based in Nottingham, is one of the UK's largest and most respected CCTV, access control and security systems suppliers to local authorities, commercial, industrial and banking sectors.
- Look CCTV, based in Poulton-le-Fylde, Lancashire, is the UK's market leading provider of CCTV systems for buses.
- Coex, based in Brigg, Lincolnshire, is a specialist manufacturer of stainless steel explosion-rated surveillance and control technology. 80% of their sales are export.
- Synectics, based in Sheffield, are award-winning designers and manufacturers of advanced CCTV switching, recording and network technology. Synectics' technology is now the UK industry standard for large-scale CCTV systems control. Exports currently account for 10% of revenues and are growing.

We have extended our Quality Assurance systems to incorporate product design within the ISO9000 standards.

We also have made significant investments in new Customer Relations Management (CRM) and Management Information Systems (MIS) technology to provide the

vital data and networking technology to our people so that they can continue to deliver the best-of-breed products and services our customers demand.

We are investing in training, mentoring and development of our subsidiary directors and senior personnel as part of a programme to develop each business unit and its management team so that we can continue to exploit opportunities as they arise, preserving that essential spark, enthusiasm and can-do attitude of the Quadnetics' culture.

We are determined to gain acceptance for our products in the North American marketplace where the scale of opportunities is considerable in casinos, transport, homeland defence, traffic monitoring and public area surveillance programmes. The contract win for a major North American casino group, involving what we believe to be the largest real-time digital CCTV system anywhere, is a very significant step towards this goal.

Thanks to everyone

I would like to extend my thanks to all of our people in the enlarged Group for their hard work and dedication to the business. They have risen to the challenges and I am confident that with such a skilled and committed workforce we will continue to distinguish Quadnetics' businesses from our competitors and enable the Group to continue to succeed in future.



Russ Singleton
Chief Executive

27 September 2004

Directors and Advisers

Directors

PM Rae* (Non-executive Chairman)
DJ Coghlan* (Non-executive Deputy Chairman)
RC Singleton (Chief Executive)
NC Poultney (Finance Director)

** member of Audit and Remuneration Committees*

Secretary and Registered Office

NC Poultney
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Tel: 01527 850080
e-mail: secretary@quadnetics.com

Bankers

Barclays Bank PLC
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Birmingham B3 2EP

Stockbrokers

Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds LS1 4LX

Auditors

PKF
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Solicitors

Macfarlanes
10 Norwich Street
London EC4A 1BD

Registrars and Transfer Office

Capita Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Corporate Communications

Abchurch Communications Limited
100 Cannon Street
London EC4N 6EU

Right: The award-winning SynergyPro™ CCTV software control system from Synectics provides simple intuitive control and advanced systems integration, pictured here in operation at Ilford in London.



Report of the Directors

FOR THE YEAR ENDED 31 MAY 2004

The Directors present their report together with the audited financial statements for the year ended 31 May 2004.

Principal activities

The principal activity of the Group during the year was the provision of advanced CCTV and networked video systems and related services.

Review of business and future developments

The consolidated profit and loss account for the year is set out on page 14.

A review of the Group's activities during the year and its prospects for the future are contained in the Chairman's Statement on pages 2 and 3 and the Chief Executive's Report on pages 4 and 5.

Group results and dividend

The consolidated profit after tax and minority interests for the year was £1,420,000 (2003: £1,175,000).

The Directors recommend the payment of a final dividend of 3p per share (2003: 2p per share), totalling £346,000 (2003: £150,000) on 14 December 2004 to shareholders registered on 19 November 2004.

The retained profit for the year of £1,074,000 (2003: £1,025,000) has been transferred to reserves.

Share Capital

On 13 February 2004, 617,567 new Ordinary Shares were issued as a result of share options being exercised.

Following approval by the Company's shareholders at an extraordinary general meeting on 18 February 2004 the Company issued 3,031,368 new Ordinary Shares at £2.65 each under a placing agreement dated 23 January 2004 (the "Placing Agreement"). The proceeds of £7.7 million, net of expenses, were used to finance the acquisition of Look Closed Circuit TV Limited ("Look") and provide further working capital for the development of the Group.

In addition, 400,000 new Ordinary Shares were issued on 20 February 2004 as part consideration for Look.

Further details are set out in note 20.

Acquisitions

On 6 February 2004, the Company acquired the entire issued ordinary share capital of Coex Limited ("Coex"), a specialist manufacturer of CCTV equipment and systems for extreme or hazardous environments, for an initial consideration of £1.165 million in cash. A further £0.2 million of deferred consideration is payable on 30 September 2004.

On 20 February 2004, the Company acquired the entire issued ordinary share capital of Look, which develops and supplies CCTV systems to bus manufacturers and operators, for an initial consideration of £6.3 million made up of cash (£4.9 million), loan notes (£0.3 million) and new Ordinary Shares (£1.1 million). A further £0.2 million of deferred consideration is payable in October 2004.

Further details are set out in note 30.

Research and development expenditure

The Group has continued to invest in research and development of both software and hardware products for CCTV applications during the year incurring costs of £0.3 million which have been written off to the profit and loss account.

Directors

The Directors of the Company who served during the year ended 31 May 2004 were PM Rae, DJ Coghlan, RC Singleton, NC Poultney, JM Cangardel (resigned 31 March 2004) and NJ Taylor (resigned 31 March 2004).

In accordance with the Articles of Association of the Company, PM Rae and NC Poultney retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election at the Annual General Meeting.

Substantial shareholdings

The Company has been notified that on 21 September 2004 the following shareholders, other than Directors, had interests amounting to in excess of 3% of the issued Ordinary share capital of the Company:

	NUMBER OF SHARES
Fleming Mercantile Investment Trust	721,309
JM Finn Nominees Limited	561,620
SLIC UK Small Companies Fund	401,717
AJ Myers	400,000
Gartmore UK & Irish Smaller Companies Strategy Fund	373,409

Directors' interests in the Company

The Directors' interests in the Company's Ordinary share capital at 31 May 2004, which were all beneficial, are shown in the table below:

	31 MAY 2004 NUMBER OF SHARES	31 MAY 2003 NUMBER OF SHARES
DJ Coghlan	1,930,875	1,930,875
RC Singleton	537,750	537,750
PM Rae	35,000	462,191

NC Poultney did not have any interest in the shares of the Company.

The interests of the Directors in the Company's share option schemes are included in the Remuneration Report on pages 11 and 12.

There have been no movements in the above interests between the year end and 27 September 2004.

Employees

The Group's policy is to consult and discuss current developments within the Group with employees and to take account of their views in making decisions likely to affect their interests.

The Group makes every effort to recruit and continue the employment, training and promotion of those persons who are or become disabled.

Policy on the payment of suppliers

The Company's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ended 31 May 2005.

For the year ended 31 May 2004 the Company settled outstanding invoices on average within 31 days.

Auditors

A resolution to reappoint PKF as Auditors will be proposed at the Annual General Meeting.

Authorities to buy the Company's own shares, allot shares and disapply statutory pre-emption rights

The following resolutions will be proposed at the Annual General Meeting:

- 1) An Ordinary Resolution to authorise the Directors to allot Ordinary shares of up to £832,113 in nominal value. In accordance with guidelines issued by the Association of British Insurers, this figure comprises one-third of the issued Ordinary share capital, plus the maximum nominal value of the shares which the Directors could be required to allot if the holders of share options exercise their rights to have shares allotted to them. The Directors have no present intention of exercising the authority, except in connection with the Company's share option schemes.
- 2) A Special Resolution to enable the Company to purchase its own shares up to a maximum of 1,152,669 shares, representing 10% of the current issued Ordinary share capital. The Directors have no present intention to exercise such powers and would only do so if satisfied that it would be in the interests of shareholders to do so.
- 3) A Special Resolution to renew the existing disapplication of the pre-emption provisions of Section 89(1) of the Companies Act 1985 so as to give the Directors power to allot shares, firstly in relation to rights issues, and secondly in relation to the issue of Ordinary shares for cash up to a maximum aggregate nominal value of £115,266.

Statement of Directors' responsibilities

The Directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 May 2004. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for ensuring that proper accounting records are maintained which disclose, with reasonable accuracy, the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for taking reasonable steps to safeguard the assets of the Company and the Group, and to prevent and detect fraud and other irregularities. They are also responsible for ensuring that the Directors' Report and other information is prepared in accordance with UK company law.

The Auditors' responsibilities are stated in their report on page 19.

Going concern

After making appropriate enquiries the Directors have reasonable expectations that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Corporate Governance

Although not required to do so by the AIM rules the Directors have decided to provide the following corporate governance and directors' remuneration disclosures.

The Board

The Board currently consists of 2 executive and 2 non-executive directors. It meets at least six times a year, and relevant information is distributed to Directors in advance of these meetings. The Directors have access to all information and, if required, external advice at the expense of the Company, and access to the Company Secretary. The Board has adopted a schedule of matters specifically reserved to itself for decision. In relation to non-reserved matters, it is assisted by a number of committees with delegated authority.

Following the resignation of JM Cangardel and NJ Taylor, the Board is pleased to announce that S Coggins will join the Group as a non-executive director on 1 January 2005.

The Board attaches a high priority to communication with shareholders. The Group's annual and half yearly reports are sent to all shareholders. The Group liaises regularly with major shareholders and there is an opportunity for individual shareholders to question the Chairman at the Annual General Meeting. The Company's website (www.quadnetics.com) provides financial and business information about the Group, including copies of its most recent annual and interim reports.

The Board includes non-executive Directors, who bring strong judgement and considerable knowledge and experience to the Board's deliberations. They do not participate in the Company's share option scheme and their service is non-pensionable.

All Directors are subject to re-election every three years. Accordingly, PM Rae and NC Poultney retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election at that meeting.

A brief biography of the directors is given below:

Peter Rae (age 48) is a graduate of Cambridge University, and formerly Chief Executive of S.W. Wood plc (now Wyndeham Press plc). He has current interests in a wide range of engineering and other businesses.

David Coghlan (age 49) has degrees in Law and in Finance from the University of New South Wales in Sydney and an MBA from Wharton in Philadelphia. He was formerly a partner at strategy consultants Bain & Company and is currently a non-executive director of Evans & Sutherland Computer Corporation (listed on NASDAQ) and of several other companies.

Nigel Poultney (age 47) has a degree in business studies from Aston University, and qualified as a Chartered Accountant with Deloitte, Haskins and Sells in 1981. He joined Quadnetics Group in 1991, having previously worked for Dairy Crest and the RTZ group.

Russ Singleton (age 45), who is a Chartered Engineer and has a degree in Electrical and Electronic Engineering from Leeds Metropolitan University, became Group Chief Executive on 26 March 2002. Prior to this he had been Managing Director of Quadnetics' Security Division comprising Quadrant Video Systems plc, which he joined in 1984, and Synectic Systems Limited.

The Audit Committee

The Audit Committee comprises PM Rae and DJ Coghlan, who are both non-executive directors, and provides a forum for reporting by the Group's external auditors. It meets at least annually, without executive directors being present, and reviews the scope and results of the external audit.

Internal control

The Board of Directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The purpose of the system of internal control is to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. In particular, there are clear procedures for capital investment appraisal and approval and financial reporting within a comprehensive financial planning and accounting framework.

The Board has reviewed the need for an internal audit function and concluded that such a function is not currently appropriate given the size of the Group.

Remuneration Report

The Company's Remuneration Committee comprises PM Rae and DJ Coghlan, who are both non-executive directors and have no personal or financial interests in the matters to be decided. The objective of the Committee's policy is to attract, retain and motivate high calibre individuals as executive directors with a competitive package of basic salary, incentives and rewards, including share options, which are linked to individual performance, the overall performance of the Group and the interests of shareholders. The Committee is also responsible for agreeing the remuneration of the managing directors of the principal subsidiaries and awarding share options to other employees.

a) Remuneration

	SALARY AND FEES £'000	BONUSES* £'000	BENEFITS £'000	SUBTOTAL £'000	PENSION CONTRIBUTIONS £'000	YEAR TO 31 MAY 2004 TOTAL £'000	YEAR TO 31 MAY 2003 TOTAL £'000
Executive Directors							
NC Poultney	75	–	11	86	5	91	111
RC Singleton	120	–	28	148	12	160	158
Non-executive Directors							
PM Rae	25	–	–	25	–	25	25
DJ Coghlan	25	25	–	50	–	50	20
JM Cangardel (resigned 31 March 2004)	8	–	–	8	–	8	10
NJ Taylor (resigned 31 March 2004)	8	–	–	8	–	8	10
Total	261	25	39	325	17	342	334

* Bonuses were paid or accrued in 2003/4 for specific achievement of agreed personal and corporate objectives.

Pension contributions shown above reflect pension payments into money purchase schemes for NC Poultney and RC Singleton. There were no other pension payments or accrued pension benefits arising under money purchase schemes in respect of directors.

Comparative figures for the year ended 31 May 2003 include pension contributions of £4,000 and £9,000 made for NC Poultney and RC Singleton respectively.

b) Share options

The interests of the Directors in the Company's share option schemes at the beginning and end of the year are set out below:

	NUMBER OF OPTIONS AT 31 MAY 2003	OPTIONS EXERCISED ON 13 FEBRUARY 2004	NUMBER OF OPTIONS AT 31 MAY 2004
NC Poultney			
Company Share Option Scheme	50,000	(50,000)	–
EMI Share Option Scheme	85,135	(85,135)	–
RC Singleton			
Company Share Option Scheme	50,000	(50,000)	–
EMI Share Option Scheme	108,108	(108,108)	–

The share options held by NC Poultney and RC Singleton under the Company Share Option Scheme were issued on 19 October 1998 with an exercise price of 42¹/₂p and could only be exercised if earnings per share (excluding exceptional capital items) exceeded a notional earnings per share of 3.473p adjusted by inflation plus 3¹/₂% between 31 May 1998 and the last date on which results have been announced prior to the exercise.

The share options held by NC Poultney and RC Singleton under the EMI Share Option Scheme were issued on 27 December 2001 with an exercise price of 92¹/₂p.

Following the exercise of the above share options on 13 February 2004 the allotted shares were sold under the Placing Agreement at a price of £2.65 generating gross gains of £258,000 and £298,000 for NC Poultney and RC Singleton respectively.

No new options were granted to, or exercised by, any Directors between 1 June 2003 and 27 September 2004.

The mid market price of the Company's shares at the beginning and end of the financial year were as follows:

At 31 May 2003
At 31 May 2004

ORDINARY SHARES OF 20p EACH
<u>170p</u>
<u>278p</u>

The maximum and minimum share prices during the year were as follows:

Maximum
Minimum

ORDINARY SHARES OF 20p EACH
<u>330p</u>
<u>170p</u>

c) Service contracts

There are no Directors' service contracts with notice periods in excess of one year. The service contracts of the Directors who are eligible for re-election at the Annual General Meeting are as follows:

NC Poultney
PM Rae

NOTICE PERIOD
<u>Twelve months</u>
<u>One month</u>

By Order of the Board



NC Poultney
Secretary

27 September 2004

Quadnectics Group plc
Registered Number: 1740011



SynergyMobile™

Wireless, hand-held
mobile video
monitoring system
from Syntectics

Consolidated Profit & Loss Account

FOR THE YEAR ENDED 31 MAY 2004

	NOTES	BEFORE EXCEPTIONAL ITEMS AND GOODWILL AMORTISATION £'000	EXCEPTIONAL ITEMS £'000	GOODWILL AMORTISATION £'000	2004 TOTAL £'000	2003 TOTAL £'000
Turnover						
Continuing operations		14,128	–	–	14,128	20,299
Acquisitions		3,951	–	–	3,951	–
Total turnover	2	18,079	–	–	18,079	20,299
Cost of sales	3	(11,570)	–	–	(11,570)	(15,110)
Gross profit	4	6,509	–	–	6,509	5,189
Net operating expenses	5	(4,223)	(240)	(174)	(4,637)	(3,773)
Operating profit						
Continuing operations		1,447	–	(63)	1,384	1,416
Acquisitions		839	(240)	(111)	488	–
Total operating profit	6	2,286	(240)	(174)	1,872	1,416
Net interest receivable/(payable)	9	42	–	–	42	(9)
Profit before taxation		2,328	(240)	(174)	1,914	1,407
Tax charge on ordinary activities	10				(494)	–
Profit on ordinary activities after taxation					1,420	1,407
Minority interests					–	(232)
Profit on ordinary activities after taxation and minority interests					1,420	1,175
Dividends	11				(346)	(150)
Retained profit for the year – transferred to reserves	22				1,074	1,025
Basic earnings per ordinary share	12				16.4p	17.4p
Diluted earnings per ordinary share	12				16.3p	17.0p
Underlying earnings per ordinary share	12				21.2p	17.7p

All activities are continuing.

In 2003 there were no exceptional items and amortisation of goodwill was £23,000.

Consolidated Balance Sheet

31 MAY 2004

	NOTES	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	13	7,721	1,233
Tangible assets	14	956	501
		8,677	1,734
Current assets			
Stocks	16	2,710	1,767
Debtors	17	7,945	4,375
Cash at bank and in hand		4,711	3,376
		15,366	9,518
Creditors: amounts falling due within one year	18	(7,767)	(5,722)
Net current assets		7,599	3,796
Total assets less current liabilities		16,276	5,530
Creditors: amounts falling due after more than one year	18	(375)	(25)
Provisions for liabilities and charges	19	(83)	(48)
Net assets		15,818	5,457
Capital and reserves			
Called up share capital	20	2,305	1,496
Share premium account	22	12,248	3,770
Other reserves	22	715	835
Profit and loss account	22	550	(644)
Equity shareholders' funds		15,818	5,457

The financial statements on pages 14 to 32 were approved by the Board of Directors on 27 September 2004 and were signed on its behalf by:



RC Singleton
Director



NC Poultney
Director

Company Balance Sheet

31 MAY 2004

	NOTES	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	14	84	2
Investments	15	14,647	6,281
		14,731	6,283
Current assets			
Debtors	17	3,714	2,294
Cash at bank and in hand		1,277	196
		4,991	2,490
Creditors: amounts falling due within one year	18	(1,624)	(1,014)
Net current assets		3,367	1,476
Total assets less current liabilities		18,098	7,759
Creditors: amounts falling due after more than one year	18	(1,830)	(1,482)
Provisions for liabilities and charges	19	(3)	(10)
Net assets		16,265	6,267
Capital and reserves			
Called up share capital	20	2,305	1,496
Share premium account	22	12,248	3,770
Other reserves	22	715	835
Profit and loss account	22	997	166
Equity shareholders' funds		16,265	6,267

The financial statements on pages 14 to 32 were approved by the Board of Directors on 27 September 2004 and were signed on its behalf by:



RC Singleton
Director



NC Poultney
Director

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MAY 2004

	NOTES	2004 £'000	2003 £'000
Net cash inflow from operating activities	27	4	3,719
Returns on investments and servicing of finance	28	42	(14)
Taxation		(13)	–
Net capital expenditure and financial investment	28	(331)	(88)
Acquisitions and disposals	28	(6,409)	593
Equity dividends paid		(150)	–
Cash (outflow)/inflow before use of liquid resources and financing		(6,857)	4,210
Management of liquid resources – amounts placed on bank deposit		(2,500)	–
Financing	28	8,192	(14)
(Decrease)/increase in cash		(1,165)	4,196
 Reconciliation of Net Cash Flow to Movements in Net Funds			
For the year ended 31 May 2004			
		2004 £'000	2003 £'000
(Decrease)/increase in cash in the year		(1,165)	4,196
Increase in bank deposits		2,500	–
Decrease in debt and lease financing		35	35
Change in net funds resulting from cash flows		1,370	4,231
Acquisitions		(410)	–
Movement in net funds in the year		960	4,231
Opening net funds/(debt)		3,326	(905)
Closing net funds	29	4,286	3,326

Total Recognised Gains and Losses and Movements in Shareholders' Funds

FOR THE YEAR ENDED 31 MAY 2004

Statement of Total Recognised Gains and Losses

For the year ended 31 May 2004

Total gains recognised since the last annual report:

Consolidated profit after taxation and minority interests

2004 £'000	2003 £'000
1,420	1,175

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 May 2004

Total recognised gains in the year

Proposed dividend

Issue of shares

Net movement in shareholders' funds

Opening shareholders' funds

Closing shareholders' funds

2004 £'000	2003 £'000
1,420	1,175
(346)	(150)
1,074	1,025
9,287	1,380
10,361	2,405
5,457	3,052
15,818	5,457

Independent Auditors' Report

TO THE MEMBERS OF QUADNETICS GROUP plc

We have audited the financial statements of Quadnetics Group plc for the year ended 31 May 2004 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Report, and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 May 2004 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London, UK
27 September 2004

PKF
Registered Auditors

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MAY 2004

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important Group accounting policies, which have been consistently applied, is set out below.

a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

b) Basis of consolidation

The consolidated financial statements include those of the Company and all its subsidiaries on an acquisition accounting basis. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account and consolidated cash flow statement from the date of their acquisition or up to the date of their disposal.

c) Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied during the year and includes the proportion of the sales value of long-term contracts relevant to their state of completion. Income receivable from maintenance contracts invoiced in advance is recognised in turnover on a straight-line basis over the contract term. Income from maintenance contracts which relates to periods subsequent to the year end is included in creditors as deferred income.

d) Long-term contracts

Long-term contract balances are stated at cost, net of amounts transferred to cost of sales in respect of work recorded as turnover, after deducting foreseeable losses and payments on account not matched with turnover. Turnover and profits attributable to long-term contracts are included in the profit and loss account as the contracts proceed in proportions relevant to their state of completion. Amounts recoverable on contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received or receivable as progress payments on account. Excess progress payments are included in creditors as payments on account.

e) Intangible fixed assets

Goodwill arising on consolidation consists of the excess of the purchase price over the fair value of the net assets of subsidiary companies at the date of acquisition. Goodwill arising on acquisitions prior to 31 May 1998 was written off directly against reserves, and is charged to the profit and loss account on the subsequent disposal of the related businesses. Goodwill on consolidation arising after this date is capitalised as a fixed asset and amortised on a straight-line basis over its estimated useful life of up to 20 years.

f) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned, commencing on the first day of the month after being brought into use. The principal annual rates used for this purpose are:

Freehold buildings	2%
Plant, equipment, motor vehicles and other assets	10%–33%

Leasehold buildings and improvements are written off over 50 years or, if shorter, the period of the lease. Freehold land is not depreciated.

g) Leased assets

Assets acquired under finance leases, including hire purchase agreements where applicable, are capitalised and depreciated in accordance with the Group's depreciation policy or over the term of the lease if shorter. The capital element of future lease payments is included in the balance sheet as obligations under finance leases.

Payments under operating leases are charged wholly to the profit and loss account in the year in which they are incurred.

h) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

i) Research and development expenditure

Research and development expenditure is written off to the profit and loss account as incurred.

j) Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax balances are not discounted.

k) Pension costs

The Group operates various pension schemes, all of which are of a money purchase type. Contributions to these schemes are charged to the profit and loss account as incurred.

l) Foreign currency

Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Transactions denominated in foreign currency are translated into sterling at the exchange rates prevailing at the date of the transaction. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

2 Analysis of turnover

The Directors consider that the Group has only one business segment. All sales and profit before tax originated in the United Kingdom. Similarly, the net assets of the Group are located in the United Kingdom.

Analysis of Group turnover by geographical area	TURNOVER BY DESTINATION	
	2004 £'000	2003 £'000
United Kingdom	17,201	20,144
Rest of the World	878	155
	18,079	20,299

3 Cost of sales

	CONTINUING OPERATIONS £'000	ACQUISITIONS £'000	2004 TOTAL £'000	2003 TOTAL £'000
Cost of sales	9,128	2,442	11,570	15,110

4 Gross profit

	CONTINUING OPERATIONS £'000	ACQUISITIONS £'000	2004 TOTAL £'000	2003 TOTAL £'000
Gross profit	5,000	1,509	6,509	5,189

5 Net operating expenses

	BEFORE EXCEPTIONAL ITEMS AND GOODWILL AMORTISATION £'000	EXCEPTIONAL ITEMS £'000	GOODWILL AMORTISATION £'000	2004 TOTAL £'000	2003 TOTAL £'000
Distribution costs:					
Continuing operations	81	–	–	81	70
Acquisitions	40	–	–	40	–
	121	–	–	121	70
Administrative expenses:					
Continuing operations	3,472	–	63	3,535	3,703
Acquisitions	630	240	111	981	–
	4,102	240	174	4,516	3,703
	4,223	240	174	4,637	3,773

Exceptional operating expenses relate to the post-acquisition element of bad debts incurred by Look with subsidiaries of the Mayflower Corporation plc which went into receivership in March 2004. The exceptional items have been allowed as a deduction from taxable profits when calculating the Group's tax liability.

6 Group operating profit

Group operating profit is stated after charging:

	2004 £'000	2003 £'000
Auditors' remuneration		
– audit fees	55	38
– other fees	23	28
Amortisation of intangible assets	174	23
Depreciation of fixed assets held under finance leases	29	33
Depreciation of other fixed assets	105	109
Research and development expenditure	251	166
Rental payments under operating leases		
– plant, machinery and vehicles	289	274
– other	88	65

Amounts paid to the auditors for other services and not expensed through the profit and loss account amounted to £49,000 (2003: £nil).

7 Directors' remuneration

Directors' remuneration is shown on pages 11 and 12 of the Directors' Report.

8 Employee information

The average number of persons (including executive directors) employed by the Group during the year was:

Class of business	2004 NUMBER	2003 NUMBER
CCTV security systems and services	125	99
Head Office	3	3
	128	102
Staff costs (for the above persons)	2004 £'000	2003 £'000
Wages and salaries	3,564	3,087
Social security costs	444	324
Pension costs	103	84
	4,111	3,495

9 Net interest receivable/(payable)

	2004 £'000	2003 £'000
Interest payable on bank loans and overdrafts	(5)	(43)
Interest payable on other loans	(8)	(6)
Interest payable on finance lease arrangements	(5)	(8)
	(18)	(57)
Interest receivable and similar income	60	48
	42	(9)

10 Tax charge on ordinary activities

	2004 £'000	2003 £'000
Current taxation		
UK corporation tax on profits for the year	573	–
Deferred taxation	(79)	–
	494	–

The corporation tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

Profit on ordinary activities before tax	1,914	1,407
Tax on profit on ordinary activities before tax at standard rate of 30%	574	422
Effects of:		
Expenses not deductible for tax purposes and other timing differences	6	36
Additional relief for qualifying research and development expenditure	(9)	–
Small companies relief	(5)	–
Goodwill amortisation not qualifying for tax relief	52	–
Utilisation of tax losses	(45)	(458)
Current taxation for the year	573	–

10 Tax charge on ordinary activities (continued)

The Group has tax losses available to be carried forward for offset against the future taxable profits of certain Group companies amounting to approximately £1.4 million (2003: £1.6 million). These tax losses will reduce the tax charge of future years until the companies concerned achieve sufficient taxable profits to utilise the losses. No deferred tax asset in respect of these losses, which would amount to £0.4 million, has been recognised as there is currently insufficient certainty that the asset will be recovered.

In addition to the above, the Group has capital losses of approximately £17 million (2003: £17 million) available for offset against future taxable gains. No deferred tax asset in respect of these losses, which would amount to £5 million, has been recognised in these financial statements as there is insufficient evidence that the asset will be recovered against future capital gains.

11 Dividends

	2004 £'000	2003 £'000
Proposed dividend of 3.0p per share (2003: 2.0p per share)	346	150

12 Earnings per ordinary share

	2004 p PER SHARE	2003 p PER SHARE
Basic earnings per ordinary share	16.4	17.4
Diluted earnings per ordinary share	16.3	17.0
Underlying earnings per ordinary share	21.2	17.7

The calculation of basic earnings per ordinary share is based on the profit after taxation and minority interests for the year of £1,420,000 (2003: £1,175,000) and on 8,633,489 shares, being the weighted average number of shares in issue and ranking for dividend during the year (2003: 6,766,627).

The calculation of diluted earnings per share is based on the profit after taxation and minority interests for the year of £1,420,000 (2003: £1,175,000) and on 8,694,400 shares, being the weighted average number of shares that would be in issue after conversion of all the dilutive potential ordinary shares into ordinary shares (2003: 6,904,185).

	PROFIT AFTER TAX AND MINORITY INTERESTS £'000	WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES	EARNINGS PER ORDINARY SHARE p PER SHARE
Year ended 31 May 2004			
Basic Earnings per ordinary share	1,420	8,633,489	16.4
Dilutive potential ordinary shares arising from share options	–	60,911	(0.1)
Diluted earnings per ordinary share	1,420	8,694,400	16.3
Year ended 31 May 2003			
Basic Earnings per ordinary share	1,175	6,766,627	17.4
Dilutive potential ordinary shares arising from share options	–	137,558	(0.4)
Diluted earnings per ordinary share	1,175	6,904,185	17.0

The calculation of underlying earnings per ordinary share, which the Directors consider gives a useful additional indication of the underlying performance of the Group, is based on the profit after taxation and minority interests for the year, but before deducting exceptional items and amortisation of goodwill, of £1,834,000 (2003: £1,198,000) and on 8,633,489 shares, being the weighted average number of shares in issue and ranking for dividend during the year (2003: 6,766,627) as set out below:

	PROFIT AFTER TAX AND MINORITY INTERESTS £'000	WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES	EARNINGS PER ORDINARY SHARE p PER SHARE
Year ended 31 May 2004			
Basic earnings per ordinary share	1,420	8,633,489	16.4
Exceptional items	240	–	2.8
Goodwill amortisation	174	–	2.0
Underlying earnings per ordinary share	1,834	8,633,489	21.2
Year ended 31 May 2003			
Basic earnings per ordinary share	1,175	6,766,627	17.4
Exceptional items	–	–	–
Goodwill amortisation	23	–	0.3
Underlying earnings per ordinary share	1,198	6,766,627	17.7

13 Intangible fixed assets

	GOODWILL ARISING ON CONSOLIDATION £'000
Group	
Cost:	
At 1 June 2003	1,263
Additions	6,662
At 31 May 2004	<u>7,925</u>
Amortisation:	
At 1 June 2003	30
Charge for the year	174
At 31 May 2004	<u>204</u>
Net book value:	
At 31 May 2004	<u>7,721</u>
At 31 May 2003	<u>1,233</u>

The additions to goodwill arose on the acquisitions of Coex and Look (see note 30).
Goodwill arising on consolidation is amortised over its estimated useful life of 20 years.

14 Tangible fixed assets

	FREEHOLD LAND AND BUILDINGS £'000	SHORT LEASEHOLD IMPROVEMENTS £'000	OTHER ASSETS £'000	TOTAL £'000
Group				
Cost:				
At 1 June 2003	347	147	1,377	1,871
Acquisitions	–	–	570	570
Additions	–	–	349	349
Disposals	–	–	(57)	(57)
At 31 May 2004	<u>347</u>	<u>147</u>	<u>2,239</u>	<u>2,733</u>
Depreciation:				
At 1 June 2003	42	145	1,183	1,370
Acquisitions	–	–	323	323
Charge for the year	7	2	125	134
Disposals	–	–	(50)	(50)
At 31 May 2004	<u>49</u>	<u>147</u>	<u>1,581</u>	<u>1,777</u>
Net book value:				
At 31 May 2004	<u>298</u>	<u>–</u>	<u>658</u>	<u>956</u>
At 31 May 2003	<u>305</u>	<u>2</u>	<u>194</u>	<u>501</u>

Other assets comprise plant, equipment and motor vehicles, and include assets held under finance leases with a net book value of £75,000 (2003: £46,000).

14 Tangible fixed assets (continued)

Company	OTHER ASSETS £'000
Cost:	
At 1 June 2003	4
Additions	85
Intra-Group transfer	56
Disposals	(56)
At 31 May 2004	89
Depreciation:	
At 1 June 2003	2
Intra-Group transfer	49
Charge for the year	4
Disposals	(50)
At 31 May 2004	5
Net book value:	
At 31 May 2004	84
At 31 May 2003	2

15 Investments

Company	TOTAL £'000
Cost less amounts written off:	
At 1 June 2003	6,281
Additions	8,366
At 31 May 2004	14,647

On 6 February 2004 the Company acquired the entire issued ordinary share capital of Coex for an initial consideration of £1,165,000 in cash. A further £200,000 of deferred consideration is payable on 30 September 2004.

On 20 February 2004 the Company acquired the entire issued ordinary share capital of Look for an initial consideration of £6.3 million made up of cash (£4,901,000), loan notes (£350,000) and new Ordinary Shares (£1,060,000). A further £246,000 of deferred consideration is payable in October 2004.

Further details are set out in note 30.

At 31 May 2004 the Company held the following shareholdings in its subsidiaries which had been active during the year:

Subsidiary and activity	CLASS OF SHARE	PERCENTAGE HELD AT 31 MAY 2004
Quadrant Video Systems plc <i>Design, installation and maintenance of CCTV security systems</i>	Ordinary shares	100%
Synectic Systems Limited <i>Design and manufacture of video systems control products and integrated digital CCTV systems</i>	Ordinary shares	100%
Coex Limited <i>Specialist manufacturer of CCTV equipment and systems for extreme or hazardous environments</i>	Ordinary shares	100%
Look Closed Circuit TV Limited* <i>Development and supply of CCTV for bus manufacturers and operators</i>	Ordinary shares	100%
Look CCTV Limited* <i>Development and supply of CCTV for bus manufacturers and operators</i>	Ordinary shares	100%

* On 31 March 2004 the net assets and undertaking of Look Closed Circuit TV Limited were transferred to Look CCTV Limited for a consideration of £6.8 million. Look Closed Circuit TV Limited then became dormant.

16 Stocks

	GROUP	
	2004 £'000	2003 £'000
Raw materials and consumables	1,126	78
Work in progress	308	541
Finished goods for resale	1,122	868
	2,556	1,487
Long-term contract balances	154	280
	2,710	1,767
Long-term contract balances comprise:		
	2004 £'000	2003 £'000
Net costs incurred	165	511
Applicable payments on account	(11)	(231)
	154	280

17 Debtors

	GROUP		COMPANY	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade debtors	5,648	2,607	–	–
Amounts recoverable on contracts	1,776	1,381	–	–
Deferred taxation	79	–	–	–
Other debtors	26	22	37	20
Amounts due from subsidiaries	–	–	3,462	2,068
Prepayments and accrued income	249	190	48	31
Amounts falling due within one year	7,778	4,200	3,547	2,119
Amounts falling due after more than one year				
Other debtors	167	175	167	175
	7,945	4,375	3,714	2,294

	GROUP		COMPANY	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Deferred taxation				
At 1 June 2003	–	–	–	–
Credit to profit and loss account	79	–	–	–
At 31 May 2004	79	–	–	–

The deferred taxation balances arise as follows:

	GROUP		COMPANY	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fixed asset timing differences	30	–	–	–
Other timing differences	7	–	–	–
Tax losses	42	–	–	–
	79	–	–	–

18 Creditors

	GROUP		COMPANY	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year				
Bank overdrafts	–	–	–	42
Payments on account	437	419	–	–
Trade creditors	3,590	3,155	80	37
Amounts owed to subsidiaries	–	–	582	602
Corporation tax	1,093	–	–	–
Other taxation and social security	702	840	15	9
Other creditors	21	21	–	–
Obligations under finance leases	50	25	–	–
Accruals and deferred income	1,082	1,112	155	174
Deferred consideration	446	–	446	–
Dividend payable	346	150	346	150
	7,767	5,722	1,624	1,014

	GROUP		COMPANY	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due after more than one year				
Unsecured loan notes	350	–	350	–
Obligations under finance leases	25	25	–	–
Amounts owed to subsidiaries	–	–	1,480	1,482
	375	25	1,830	1,482

	GROUP		COMPANY	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Borrowings				
Unsecured loan notes	350	–	350	–
Obligations under finance leases	75	50	–	–
Bank overdrafts	–	–	–	42
	425	50	350	42

Total borrowings are repayable as follows:

	GROUP		COMPANY	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Borrowings repayable in:				
One year	50	25	–	42
One to two years	375	25	350	–
	425	50	350	42

Bank overdrafts in 2003 bore interest at a variable rate of 1½% over bank base rate and were secured by charges over the assets of the Group. Finance leases bear interest at fixed rates between 6% and 10% and are secured on the assets concerned.

Unsecured loan notes which were issued as part consideration for the acquisition of Look, are redeemable no earlier than 20 August 2005 and no later than 20 February 2009, and bear interest at a fixed rate of 4% per annum.

19 Provisions for liabilities and charges

	WARRANTY	PROPERTY	OTHER	TOTAL
	£'000	£'000	£'000	£'000
Group				
At 1 June 2003	–	10	38	48
Acquisitions	100	–	–	100
Utilised in year	–	(6)	–	(6)
Credit to profit and loss account	(20)	(1)	(38)	(59)
At 31 May 2004	80	3	–	83

	PROPERTY
	£'000
Company	
At 1 June 2003	10
Utilised in year	(6)
Credit to profit and loss account	(1)
At 31 May 2004	3

It is anticipated that the provision carried forward at 31 May 2004 for the future costs of warranties and empty leasehold properties will be utilised within three years.

20 Called up share capital

The number of authorised, allotted, called up and fully paid shares is as follows:

	NUMBER	2004 £'000	NUMBER	2003 £'000
Ordinary shares of 20p each				
Authorised	13,135,952	2,627	13,135,952	2,627
Allotted, called up and fully paid	11,526,691	2,305	7,477,756	1,496

The following changes in the issued share capital arose during the year:

- 1) On 13 February 2004, 617,567 new Ordinary Shares were issued as a result of share options being exercised.
- 2) Following approval by the Company's shareholders at an extraordinary general meeting on 18 February 2004 the Company issued 3,031,368 new Ordinary Shares at £2.65 each under a placing agreement dated 23 January 2004 (the "Placing Agreement") which generated proceeds of £7.7 million, net of expenses.
- 3) 400,000 new Ordinary Shares were issued on 20 February 2004 as part consideration for Look (see note 30).

The impact on share capital and the share premium account was as follows:

	NUMBER OF SHARES	SHARE PRICE	SHARE CAPITAL £'000	SHARE PREMIUM £'000	TOTAL £'000
Exercise of share options	100,000	42.5p	20	23	43
Exercise of share options	517,567	92.5p	103	375	478
Share placing (gross)	3,031,368	265.0p	606	7,427	8,033
Share placing expenses			–	(327)	(327)
Cash inflow			729	7,498	8,227
Look consideration shares	400,000	265.0p	80	980	1,060
			809	8,478	9,287

21 Options over shares of Quadnetics Group plc

The following movements on options outstanding under the Company's share option schemes arose during the year:

	COMPANY SHARE OPTION SCHEME	EMI SHARE OPTION SCHEME	TOTAL
Outstanding options at 1 June 2003	140,000	607,567	747,567
Granted during the year	–	213,333	213,333
Exercised during the year	(100,000)	(517,567)	(617,567)
Lapsed during the year	(10,000)	(10,000)	(20,000)
Outstanding options at 31 May 2004	30,000	293,333	323,333

Exercise price of outstanding options	82½p	135p–300p
Last date of exercise of outstanding options	8 Oct 2011	4 Mar 2014

No options have been granted or exercised since the year end.

22 Reserves

The movements on reserves during the year were as follows:

Group	SHARE PREMIUM ACCOUNT £'000	OTHER RESERVES £'000	PROFIT AND LOSS ACCOUNT £'000	TOTAL £'000
At 1 June 2003	3,770	835	(644)	3,961
Premium on shares issued during the year, net of issue expenses	8,478	–	–	8,478
Transfer from Special reserve	–	(120)	120	–
Retained profit for the year	–	–	1,074	1,074
At 31 May 2004	12,248	715	550	13,513

Company	SHARE PREMIUM ACCOUNT £'000	OTHER RESERVES £'000	PROFIT AND LOSS ACCOUNT £'000	TOTAL £'000
At 1 June 2003	3,770	835	166	4,771
Premium on shares issued during the year	8,478	–	–	8,478
Transfer from Special reserve	–	(120)	120	–
Retained profit for the year	–	–	711	711
At 31 May 2004	12,248	715	997	13,960

In 2003, following a capital reduction approved by the High Court, an amount of £120,000, which was not required to eliminate the deficit on the Company's profit and loss account at that time, was transferred to a Special reserve in accordance with the undertaking given to the High Court.

However, the balance standing to the credit of this Special reserve could be reduced by the amount of any future sum which would otherwise be credited to share capital, or the share premium account, of the Company. Therefore, following the share placing in February 2004 the balance on the Special reserve has been transferred to the profit and loss account and is now available for distribution.

Cumulative goodwill written off directly to the profit and loss account at 31 May 2004 was £593,000 (2003: £593,000).

The consolidated result attributable to the shareholders of Quadnetics Group plc for the year includes a profit before dividends of £1,057,000 which has been dealt with in the financial statements of the Company. Quadnetics Group plc has taken advantage of the legal dispensation allowing it not to publish a separate profit and loss account.

23 Contingent liabilities

The Company has agreed, in some instances jointly with subsidiary companies, to guarantee borrowings and annual operating lease rentals amounting to £0.3 million at 31 May 2004 (2003: £0.5 million).

24 Related party transactions

- 1) Interest free loans of £167,159, which were made by the Company in 2002 to MG Boddy, G Robinson and GC Wragg, who are all directors of Group subsidiary companies, were outstanding at 31 May 2004. The loans are repayable on the earlier of 26 March 2012 or the sale of Quadnetics' shares acquired in February 2003 as consideration for the purchase by the Company of a minority interest in the Group. £7,749 was repaid during the year ended 31 May 2004. The comparative balance outstanding at 31 May 2003 was £174,908 after repayment of £5,092 in the year then ended.
- 2) At 31 May 2004 AJ Myers, a director of Look CCTV Limited, held £349,650 of unsecured loan notes in the Company which were acquired as part consideration for Look (see note 30). These notes are redeemable no earlier than 20 August 2005 and no later than 20 February 2009, and bear interest at a fixed rate of 4% per annum. Interest accrued at 31 May 2004 amounted to £3,096.

25 Capital commitments

At the year end capital commitments not provided for in these financial statements amounted to £5,000 (2003: £31,000).

26 Operating lease commitments

The Group is committed to making operating lease payments during the next year as follows:

Operating leases which expire:

	LAND AND BUILDINGS £'000	OTHER £'000	2004 TOTAL £'000	LAND AND BUILDINGS £'000	OTHER £'000	2003 TOTAL £'000
Within one year	60	41	101	55	32	87
Within two to five years	5	225	230	5	293	298
In excess of five years	33	–	33	–	–	–
	98	266	364	60	325	385

27 Reconciliation of operating profit to operating cash flows

	2004 £'000	2003 £'000
Operating profit	1,872	1,416
Depreciation and amortisation	308	165
Profit on sale of fixed assets	(11)	–
(Increase)/decrease in stocks	(137)	206
(Increase)/decrease in debtors	(1,389)	1,154
(Decrease)/increase in creditors and provisions	(639)	778
Net cash inflow from operating activities	4	3,719

Net cash inflow from operating activities includes £583,000 arising from acquisitions (2003: £nil).

28 Analysis of cash flows

	2004 £'000	2003 £'000
Returns from investments and servicing of finance		
Interest received	60	44
Interest paid	(18)	(58)
Net cash inflow/(outflow) from investments and servicing of finance	42	(14)

Net cash inflow from investments and servicing of finance included £1,000 arising from acquisitions (2003: £nil).

	2004 £'000	2003 £'000
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(349)	(110)
Sale of tangible fixed assets	18	22
Net cash outflow for capital expenditure and financial investment	(331)	(88)

Net cash outflow for capital expenditure and financial investment included £48,000 arising from acquisitions (2003: £nil).

	2004 £'000	2003 £'000
Acquisitions and disposals		
Acquisitions (see note 30)	(6,409)	(7)
Disposals – deferred consideration received	–	600
Net cash (outflow)/inflow on acquisitions and disposals	(6,409)	593

28 Analysis of cash flows (continued)

Management of liquid resources

Transfer to bank deposits

2004 £'000	2003 £'000
(2,500)	–

At 31 May 2004 the Group held bank deposits of £2.5 million which matured on 4 June 2004 and therefore are defined as liquid resources.

Financing

Issue of shares, net of expenses

Payment of principal under finance leases

Net cash inflow/(outflow) from financing

2004 £'000	2003 £'000
8,227	21
(35)	(35)
8,192	(14)

Net cash inflows from financing included outflows of £10,000 arising from acquisitions (2003: £nil).

29 Analysis of net funds

	1 JUNE 2003 £'000	CASH FLOW £'000	BANK DEPOSITS £'000	ACQUISITIONS £'000	31 MAY 2004 £'000
Cash	3,376	(1,165)	2,500	–	4,711
Finance leases	(50)	35	–	(60)	(75)
Unsecured loan notes	–	–	–	(350)	(350)
Total net funds	3,326	(1,130)	2,500	(410)	4,286

30 Acquisitions

On 6 February 2004 the Company acquired the entire issued ordinary share capital of Coex for an initial consideration of £1.2 million. A further £0.2 million of deferred consideration is payable on 30 September 2004.

On 20 February 2004 the Company acquired the entire issued ordinary share capital of Look for an initial consideration of £6.3 million. A further £0.2 million of deferred consideration is payable in October 2004.

The consideration and assets acquired are made up as follows:

	COEX £'000	LOOK £'000	TOTAL £'000
Initial consideration:			
Cash	1,165	4,901	6,066
Unsecured loan notes	–	350	350
400,000 ordinary shares of 20p each	–	1,060	1,060
	1,165	6,311	7,476
Deferred consideration payable in cash	200	246	446
Total consideration	1,365	6,557	7,922
Acquisition expenses	162	282	444
Total cost of acquisitions	1,527	6,839	8,366
Assets acquired, at book value and fair value:			
Fixed assets	88	159	247
Stocks	508	298	806
Debtors	814	1,288	2,102
Creditors	(376)	(483)	(859)
Obligations under finance leases	(60)	–	(60)
Corporation tax payable	(70)	(463)	(533)
Provisions	–	(100)	(100)
Bank and cash balances/(overdrafts)	(255)	356	101
	649	1,055	1,704
Goodwill arising	878	5,784	6,662
	1,527	6,839	8,366
Cash outflow on acquisitions during the year was made up as follows:			
Initial consideration in cash	1,165	4,901	6,066
Acquisition expenses	162	282	444
	1,327	5,183	6,510
Overdrafts/(bank and cash balances) acquired	255	(356)	(101)
	1,582	4,827	6,409

30 Acquisitions (continued)

The sale and purchase agreement for Coex provided that deferred consideration of up to £200,000 would be payable in cash based on profit targets for the period from 1 April 2003 to 31 May 2004. These targets have been achieved and therefore additional consideration of £200,000 is payable on 30 September 2004.

The sale and purchase agreement for Look provided that deferred consideration of up to £500,000 would be payable in cash provided that adjusted net asset figures (as defined in the sale and purchase agreement) exceeded £2.435 million at 31 May 2004. The deferred consideration would be reduced by £1 for every £1 shortfall against this target. In the event, and as a result of the exceptional bad debt explained in note 5, the adjusted net assets of Look did not reach the required level for payment of the maximum deferred consideration, and therefore a reduced amount of £246,000 is payable in October 2004.

The unsecured loan notes and new Ordinary shares were issued to AJ Myers, who has continued as Managing Director of Look under a service contract with a notice period of one year. The loan notes may not be redeemed before 20 August 2005 and the entire share consideration must be held for a period of two years and 50% must be held for three years.

The profit and loss accounts of Coex and Look in the period up to acquisition can be summarised as follows:

Accounting period	COEX	LOOK
	10 MONTHS ENDED 31 JANUARY 2004 £'000	12 MONTHS ENDED 31 JANUARY 2004 £'000
Turnover	2,894	5,757
Operating profit	235	1,557
Net interest (payable)/receivable	(4)	4
Profit before taxation	231	1,561
Taxation	(65)	(462)
Profit after taxation	166	1,099
Profit after taxation for the year ended 31 March 2003	104	
Profit after taxation for the year ended 31 January 2003		878

There are no other recognised gains or losses in the above accounting periods for either Coex or Look.

31 Derivatives and other financial instruments

The Group's financial instruments comprise bank and cash balances, borrowings, and various items such as trade debtors and trade creditors which arise directly from its operations.

The Group does not trade in financial instruments and has taken advantage of the exemption to exclude short-term debtors and creditors from the disclosures relating to financial instruments.

At 31 May 2004 the Group had net funds of £4,286,000 comprising £4,315,000 held on bank deposits and £396,000 held in current accounts, offset by £75,000 of finance leases and £350,000 of unsecured loan notes. The bank deposits consisted of £2,500,000 which matured on 4 June 2004 and bore interest of 4.1% and £1,815,000 on overnight deposit which bore interest of 4.0%. The current accounts do not bear interest. At 31 May 2003 the Group had net funds of £3,326,000 which comprised short-term bank deposits, bank current account balances and finance leases. Details of the applicable interest rates and maturity profile of the Group's debt are shown in note 18. The Group's funds did not, at the year ends, carry any significant interest rate risk.

The level of the Group's bank overdraft facilities, which are reviewed annually, vary according to the level of trade debtors within the Group. At 31 May 2004 the Group had undrawn facilities of up to £1.5 million.

The Group has no material assets or liabilities denominated in foreign currency and therefore does not carry any significant currency risk. However, from time to time transactions may arise in currencies other than sterling and in such cases the Group will consider the use of forward exchange contracts to match payments and receipts.

Principal Subsidiaries



Quadrant Video Systems plc

Video Centre

3A Attenborough Lane

Chilwell

Nottingham NG9 5JN

Tel: 0115 925 2521

www.quadrantcctv.com

Design, installation and maintenance of CCTV security systems



Look CCTV Limited

Look House

Aldon Road

Poulton-le-Fylde

Lancashire FY6 8JL

Tel: 01253 891222

www.lookcctv.com

Development and supply of CCTV equipment for bus manufacturers and operators



Synectic Systems Limited

3 Acorn Business Park

Woodseats Close

Sheffield S8 0TB

Tel: 0114 255 2509

www.synectics.co.uk

Design and manufacture of video systems control products and integrated digital CCTV systems



Coex Limited

The Flarepath

Elsham Wold

Brigg

North Lincolnshire DN20 0SP

Tel: 01652 688908

www.coex.ltd.uk

Specialist manufacturer of CCTV equipment and systems for extreme or hazardous environments

Notice of Meeting

Notice is hereby given that the twenty-first Annual General Meeting of Quadnetics Group plc will be held at the offices of Brewin Dolphin Securities Limited, 5 Giltspur Street, London EC1A 9BD on 7 December 2004 at 10.00 am for the following purposes:

Ordinary Business

To consider and, if thought fit, to pass the following Resolutions as Ordinary Resolutions:

1. Resolution No. 1 – To receive and adopt the Directors' Report and Audited Accounts for the year ended 31 May 2004.
2. Resolution No. 2 – To declare a final dividend of 3.0p per Ordinary Share.
3. Resolution No. 3 – To re-elect as a Director NC Poultney who, being eligible, submits himself for re-election.
4. Resolution No. 4 – To re-elect as a Director PM Rae who, being eligible, submits himself for re-election.
5. Resolution No. 5 – To reappoint PKF as Auditors to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to set their remuneration.
6. Resolution No. 6 – That, in substitution for all existing authorities, in accordance with Section 80 of the Companies Act 1985 ("the Act"), the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (as defined in Section 80 of the Act) up to an aggregate nominal amount of £832,113 provided that this authority (unless previously revoked or renewed) shall expire on the earlier date of 6 March 2006 and the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
7. To transact any other ordinary business of the Company.

Special Business

To consider and, if thought fit, to pass the following Resolutions as Special Resolutions:

8. Resolution No. 7 – That, the Company be and is hereby generally and unconditionally authorised pursuant to section 166 of the Act to make market purchases (as defined in Section 163(3) of the Act) of its Ordinary Shares of 20p each on such terms and in such manner as the Directors shall determine, provided that:
 - (1) the maximum number of Ordinary Shares hereby authorised to be acquired is 1,152,669 (representing 10% of the present issued Ordinary Share Capital of the Company);
 - (2) the minimum price which may be paid for such shares is 20p per share (exclusive of all expenses);
 - (3) the maximum price which may be paid for such shares is, in respect of a share contracted to be purchased on any day, an amount (exclusive of expenses) equal to 5 per cent above the average middle market quotations for an Ordinary Share of the Company as derived from the Daily Official List of the London Stock Exchange on the five dealing days immediately preceding the day on which the share is contracted to be purchased;
 - (4) the power hereby granted shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or, if earlier, on 6 March 2006; and
 - (5) the Company may make a contract to purchase its Ordinary Shares under the authority hereby granted prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its Ordinary Shares in pursuance of such contract.
9. Resolution No. 8 – That:
 - (1) Conditionally upon the passing of Resolution No. 6 and in substitution for all existing powers, in accordance with Section 95 of the Act, the Directors be and are hereby given power to allot equity securities pursuant to the authorities conferred by Resolution No. 6 as if subsection (1) of Section 89 of the Act did not apply to any such allotment PROVIDED THAT:

- a) the power hereby granted shall be limited to the allotment of equity securities in connection with or pursuant to an offer by way of rights issue in favour of the existing holders of Ordinary Shares in the capital of the Company and other persons entitled to participate therein in proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the numbers of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal problems under the laws of any territory or the requirements of any recognised regulatory body or stock exchange;
 - b) the power hereby granted shall be limited to the allotment (otherwise than pursuant to subparagraph (a) of this proviso) of equity securities up to an aggregate nominal amount of £115,266;
 - c) the power hereby granted shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or, if earlier, on 6 March 2006; and
 - d) the power hereby granted shall apply in relation to a sale of shares which is an allotment of equity securities by virtue of section 94 (3A) of the Act as if the words "pursuant to the authorities conferred by Resolution No. 6" in the first paragraph of this Resolution 8 were omitted.
- (2) The said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.
- (3) Words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meaning herein.

By Order of the Board

NC Poultney

Secretary

27 September 2004

North Court House

Morton Bagot, Studley

Warwickshire B80 7EL

Notes:

1. To have the right to attend or vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend or vote may cast), a person must be entered on the register of members of the Company by no later than 10.00 am on 5 December 2004 being 48 hours before the time fixed for the meeting. Changes to entries on the register after this time will be disregarded in determining the rights of any person to attend or vote at the meeting.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote on a poll instead of him. A proxy need not also be a member. Members submitting a proxy are not precluded from attending the meeting and voting if they wish to do so. To be effective, proxy forms and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be received at the office of the Registrars of the Company not less than 48 hours before the time fixed for the meeting. A proxy form is enclosed.
3. Copies of the Directors' service agreements together with the register of Directors' shareholdings and other interests are available for inspection at the Registered Office of the Company during normal working business hours on each business day and will also be available for inspection on the day of the Annual General Meeting at the place of the meeting for 15 minutes prior to and during the continuance of the meeting.

Business and Customers



The client list of Quadnetics' Group companies is as varied as it is long.

Large or small, simple or complex, Quadrant Video Systems (QVS) has the expertise, experience and resources to address all matters of electronic security, for any kind of organisation. Problem solving is QVS's speciality, be it a question of security or process control surveillance, or access control. This, coupled with QVS's distinct ability to understand a client's needs and foster long-term relationships, ensures that time after time, satisfied customers keep returning to QVS.

Synectic Systems' CCTV control and digital recording equipment is installed and specified throughout a diverse and prestigious client base. Featuring security industry award-winning products, many with unrivalled performance, Synectics' equipment and systems span the world, supporting a broad range of customer applications.

Look CCTV is the UK's leading supplier of CCTV systems for buses and coaches with most major UK bus operators and builders on its customer list.

Coex specialises in the manufacture of CCTV systems to meet the specific demands for robust, corrosion-free high quality products for use in hazardous areas or extreme environments with 80% of sales going to overseas applications.

Opposite, top: Quadrant Video Systems CCTV installations at Stevenage town centre and Dudley Hospital.

Opposite, bottom: Look CCTV provides onboard vehicle CCTV surveillance and recording systems for the majority of UK bus operators.

Quadnetics in Focus



Quadrant Video Systems

All customers are individual, with problems and demands that are unique to their own field of business. Aided by heavy investment in developing and fine-tuning its key operational aspects of project management, support structure and ongoing customer care, Quadrant Video Systems' dedicated team of specifiers, technical sales engineers and designers have an industry acknowledged reputation for providing customers with a host of first-class, tailor-made fixed and mobile vehicle security surveillance, and access control solutions.

Coex

Established in 1985, Coex is a world leader in the field of visual communication systems, with an extensive track record in fulfilling a crucial role in safety and surveillance. Coex manufacture an extensive range of high-quality CCTV products for hazardous, marine and extreme environment applications. The company designs, engineers and installs CCTV systems for surveillance applications including the monitoring of industrial processes, hazardous area offshore oil and gas rig monitoring, marine CCTV and port surveillance.

Look CCTV

Look CCTV specialises in the supply of CCTV systems for buses and coaches and has consistently led the market through its product innovation. Look pioneered the use of ruggedised digital recording systems for buses and coaches, designed to produce high-quality digital imaging with long recording times, and was the first company to develop a vandal-resistant polycarbonate dome to protect onboard CCTV cameras.

Look has now developed wireless technology to enable bus operators to capture all the images from a bus CCTV system, download CCTV diagnostics, check camera views, GPS data and records of low bridge alarms within seconds as a bus enters the garage.



Synectics

Synectics' reputation as the UK's highly innovative and leading manufacturer of advanced CCTV

systems control and digital recording equipment, has been further strengthened with its SynergyMobile™ hand-held CCTV monitoring system winning a prestigious Security Industry Award for product innovation.

Synectics' SynergyMobile™ delivers a major technological weapon to help combat urban crime. Its ability to deliver high-resolution colour images to police officers in the field provides a massive leap forward, relaying CCTV surveillance pictures to where they can be vitally effective. This product joins Synectics' range of advanced CCTV surveillance equipment that provides customers with a host of powerful analogue, digital and IP surveillance control and recording solutions.

For more information about Quadnetics Group please contact us at:
North Court House, Morton Bagot, Studley, Warwickshire, B80 7EL, England.

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or visit our website: www.quadnetics.com

Registered Number: 1740011

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