



Quadnetics

Interim Report 2004



THE Chairman's Statement

PETER RAE CHAIRMAN

Highlights

- Profit before tax and goodwill amortisation: £1.2 million (2003: £0.6 million)
- Underlying earnings per share up 18% at 7.7p (2003: 6.5p)
- Interim dividend declared of 1p per share (2003: nil)
- First multi-million dollar North American digital installation close to completion and exceeding expectations
- Relatively subdued UK public space CCTV market expected to revive in the second half and beyond
- Growing proportion of profits derived from proprietary digital systems and control products

Overview

Our key objectives in the current year are the continuing integration of the two successful acquisitions (Look CCTV and Coex) completed last year and most importantly the international launch of our own unique products developed by Synectic Systems. We believe this product set provides a compelling solution to the complex problems of control, management and data storage which derive from large scale networked digital CCTV systems. Previously diverse protocols and standards are converging to the extent that successful products have the potential to become dominant global winners. Our first multi-million dollar installation in North America is now very close to completion, within budget, and is exceeding expectations in terms of performance and functionality. A similar scale system in the UK is to be completed in the second half year. A proportion of the profits arising on these projects will fall into the second half's results. We are now addressing the

worldwide marketing of Synectics products with particular attention being paid to the burgeoning demand from North America. If we are successful, as we fully expect to be, we believe shareholder value will be very considerably enhanced.

Results

In the half year to 30 November 2004 the Group produced a profit before tax and goodwill amortisation of £1,180,000 (2003: £648,000).

After providing for goodwill amortisation of £198,000 (2003: £32,000) and taxation of £286,000 (2003: £162,000) the profit on ordinary activities after taxation attributable to shareholders was £696,000. Turnover for the period was £12,743,000 (2003: £7,050,000).

Underlying earnings per share for the period (excluding goodwill amortisation and exceptional items) were 7.7p (2003: 6.5p).

The Group ended the period with net funds of £3.6 million (31 May 2004: £4.3 million; 30 November 2003: £1.4 million).

Dividend

An interim dividend of 1p per ordinary share will be payable on 4 March 2005 to shareholders on the register at 11 February 2005.

Operational Review

These interim results cover the first complete reporting period with a full contribution from all the four Group subsidiaries: Synectic Systems, Quadrant Video Systems, Look CCTV and Coex. Historically, the Group results have been skewed in favour of the second half and this pattern is expected to continue. However, elements of our business have been slower than we had hoped, particularly the timing of contract awards for Town Centre CCTV system expansion projects. This led to some reduction in activity levels for Quadrant Video Systems during the period, although that business still contributed significant profitability at good margins. Quadrant Video Systems' order book and bid pipeline indicate substantial improvement for the second half.

Since its acquisition in February 2004, Look CCTV has performed very creditably and maintained its strong market leadership position in on-bus CCTV systems. The business has been successfully integrated into Quadnetics Group, with the introduction of more advanced financial and operational control systems, and attainment of its ISO9000 quality accreditation. We have invested in additional sales personnel for wider geographical and customer access, and the business will shortly be relocating to new premises to

accommodate future growth. Although accurate comparative figures are not available for the preceding year, we believe that sales revenues have grown satisfactorily in the first half and although margins have declined slightly with some planned increases in the cost base, they continue to be excellent. We expect further progress.

Coex was also acquired in February last year, and addresses the worldwide market for CCTV for oil and gas, marine and hazardous environments, in which it has earned an excellent reputation. We believe this is fundamentally a growth market, driven by increased specialised security requirements and the advent of digital networked systems that will allow cost reductions through remote monitoring of processes in difficult locations. These trends will be important in providing the opportunity for new Synectics products to be introduced to the market. Coex is being re-organised under a new Managing Director, and is now gathering momentum as it addresses larger and more complex projects.

Development of the first generation of Synectics in-house products for this market is nearing completion. Results in the first half were just below breakeven, and are expected to move ahead from the second half onwards.

The major achievement of this year so far has been the introduction of Synectics' integrated digital CCTV systems to the North American market, through successfully winning and installing what we believe is

the largest such system in the world so far. This casino project is expected to lead to follow-on orders for other casinos in the near future and has raised the international profile of the company considerably. Synectics' sales are on course to grow this financial year by more than 100% compared to 2003/04, with operating profits well ahead of expectations, the majority of which will fall in the second half. We believe Synectics now has the opportunity to establish a significant market position throughout North America, not only in the casino sector, but also in the wider large-scale security field.

Outlook

Whilst the traditional public space CCTV market in the UK remains relatively subdued, some large projects are now coming on stream, and we confidently expect a healthier second half and beyond. More significantly, the proportion of the Group's profits derived from proprietary digital systems and control products is increasing rapidly, with the opportunities for continuing growth very encouraging. We have been actively exploring options that may lead to a significant acceleration of Synectics' growth in the United States market, and we hope to make an announcement on this in the near future.

Peter Rae
Chairman

31 January 2005

Consolidated Profit & Loss Account

FOR THE HALF YEAR ENDED 30 NOVEMBER 2004

	NOTES	UNAUDITED HALF YEAR TO 30 NOV 2004 £'000	UNAUDITED HALF YEAR TO 30 NOV 2003 £'000	AUDITED YEAR TO 31 MAY 2004 £'000
Turnover	1	12,743	7,050	18,079
Cost of sales		(8,700)	(4,606)	(11,570)
Gross profit		4,043	2,444	6,509
Net operating expenses (including exceptional items and goodwill amortisation)		(3,143)	(1,840)	(4,637)
Operating profit		900	604	1,872
Operating profit before exceptional items and goodwill amortisation		1,098	636	2,286
Exceptional items		–	–	(240)
Goodwill amortisation		(198)	(32)	(174)
Net interest receivable		82	12	42
Profit on ordinary activities before taxation		982	616	1,914
Profit before tax, exceptional items and goodwill amortisation		1,180	648	2,328
Exceptional items		–	–	(240)
Goodwill amortisation		(198)	(32)	(174)
Tax charge on ordinary activities	2	(286)	(162)	(494)
Profit on ordinary activities after taxation		696	454	1,420
Dividends	3	(116)	–	(346)
Profit for the period – transferred to reserves		580	454	1,074
Basic earnings per ordinary share	4	6.0p	6.1p	16.4p
Diluted earnings per ordinary share	4	6.0p	5.7p	16.3p
Underlying earnings per ordinary share	4	7.7p	6.5p	21.2p

Consolidated Balance Sheet

30 NOVEMBER 2004

	UNAUDITED 30 NOV 2004 £'000	UNAUDITED 30 NOV 2003 £'000	AUDITED 31 MAY 2004 £'000
Fixed assets			
Intangible assets	7,523	1,201	7,721
Tangible assets	933	526	956
	8,456	1,727	8,677
Current assets			
Stocks	2,407	1,488	2,710
Debtors	8,220	4,636	7,945
Cash at bank and in hand	3,997	1,442	4,711
	14,624	7,566	15,366
Creditors: amounts falling due within one year	(6,569)	(3,306)	(7,767)
Net current assets	8,055	4,260	7,599
Total assets less current liabilities	16,511	5,987	16,276
Creditors: amounts falling due after more than one year	(4)	(24)	(375)
Provisions for liabilities and charges	(84)	(52)	(83)
Net assets	16,423	5,911	15,818
Capital and reserves			
Called up share capital	2,311	1,496	2,305
Share premium account	12,267	3,770	12,248
Other reserves	715	835	715
Profit and loss account	1,130	(190)	550
Equity shareholders' funds	16,423	5,911	15,818

Consolidated Cash Flow Statement

FOR THE HALF YEAR ENDED 30 NOVEMBER 2004

	NOTES	UNAUDITED HALF YEAR TO 30 NOV 2004 £'000	UNAUDITED HALF YEAR TO 30 NOV 2003 £'000	AUDITED YEAR TO 31 MAY 2004 £'000
Net cash inflow/(outflow) from operating activities		234	(1,845)	4
Returns on investments and servicing of finance		58	12	42
Taxation		(437)	–	(13)
Net capital expenditure and financial investment		(92)	(78)	(331)
Acquisitions and disposals	5	(446)	–	(6,409)
Equity dividends paid		–	–	(150)
Cash outflow before use of liquid resources and financing		(683)	(1,911)	(6,857)
Management of liquid resources – amounts withdrawn from/(placed on) bank deposit		2,500	–	(2,500)
Financing		(31)	(23)	8,192
Increase/(decrease) in cash		1,786	(1,934)	(1,165)

RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET FUNDS

For the half year ended 30 November 2004

	UNAUDITED HALF YEAR TO 30 NOV 2004 £'000	UNAUDITED HALF YEAR TO 30 NOV 2003 £'000	AUDITED YEAR TO 31 MAY 2004 £'000
Increase/(decrease) in cash in the year	1,786	(1,934)	(1,165)
(Decrease)/increase in bank deposits	(2,500)	–	2,500
Decrease in debt and lease financing	55	23	35
Change in net funds resulting from cash flows	(659)	(1,911)	1,370
Acquisitions	–	–	(410)
Movement in net funds in the year	(659)	(1,911)	960
Opening net funds	4,286	3,326	3,326
Closing net funds	3,627	1,415	4,286

Notes

FOR THE HALF YEAR ENDED 30 NOVEMBER 2004

1. All turnover derives from the Group's continuing activities comprising Quadnetics Group plc, Quadrant Video Systems plc, Synectic Systems Limited, Look CCTV Limited and Coex Limited.
2. The tax charge for the period is based on the estimated rate of corporation tax that is likely to be effective for the full year to 31 May 2005.
3. An interim dividend of 1.0p per share, totalling £116,000, will be paid on 4 March 2005 to shareholders on the register at 11 February 2005.

4. Earnings per share

Basic, diluted and underlying earnings per share have been calculated on the following earnings and numbers of shares:

	EARNINGS			EARNINGS PER SHARE		
	HALF YEAR TO 30 NOV 2004 £'000	HALF YEAR TO 30 NOV 2003 £'000	YEAR TO 31 MAY 2004 £'000	HALF YEAR TO 30 NOV 2004 p	HALF YEAR TO 30 NOV 2003 p	YEAR TO 31 MAY 2004 p
Basic	696	454	1,420	6.0	6.1	16.4
Exceptional item	–	–	240	–	–	2.8
Goodwill amortisation	198	32	174	1.7	0.4	2.0
Underlying	894	486	1,834	7.7	6.5	21.2
Diluted	696	454	1,420	6.0	5.7	16.3
				'000	'000	'000
Weighted average number of ordinary shares – basic calculation				11,527	7,478	8,633
Dilutive potential ordinary shares arising from share options				38	455	61
Weighted average number of ordinary shares – diluted calculation				11,565	7,933	8,694

5. Net outflows on acquisitions and disposals of £446,000 in the half year ended 30 November 2004 arise from payment of deferred consideration for Coex Limited and Look CCTV Limited.
6. The interim accounts and the comparative figures are prepared on the basis of the accounting policies set out in the financial statements of the Group for the year ended 31 May 2004.
7. The half year results have not been audited by the Group's auditors and do not constitute statutory accounts. The comparative figures for the year ended 31 May 2004 have been abridged from the statutory accounts for the year ended on that date. The Auditors' opinion on those accounts was unqualified and did not contain any statements under section 237(2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31 May 2004 have been filed with the Registrar of Companies.
8. 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, North Court House, Morton Bagot, Studley, Warwickshire, B80 7EL.

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 manufactures 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:
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