Quadnetics

advanced surveillance solutions •••

Quadnetics Group plc
Annual Report and Accounts 2006

Canary Wharf has been supported by Quadnetics companies since 1999.

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Welcome

Quadnetics Group plc is a leader in the development, design, integration and management of advanced surveillance technology and security networks. Our solutions are delivered direct to end-users through Quadrant Security Group, our security services business and our applications software, control systems and imaging products are sold worldwide through resellers, distributors and agents under the Synectics brand.

Services
Quadrant Security Group is one of the largest independent integrated security systems providers in the UK, delivering total security and surveillance solutions from consultancy, systems design, project management, installation and training, through to fully outsourced facilities management, all backed-up by our own 24 hour call centre and nationwide support teams.

Products & Software
Synectics is a rapidly growing surveillance technology business, with operations in the UK and USA. Our award winning products are in use in large numbers of major urban surveillance schemes and other applications. Demand for our technology is increasing from end-users, OEMs and distributors worldwide in response to the need for durable high performance solutions for critical surveillance applications.

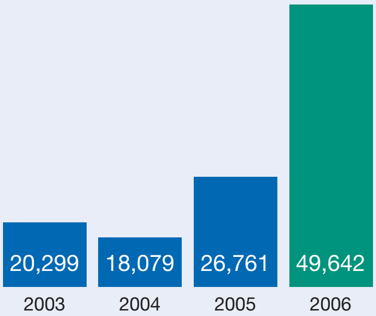
focusing
on the future ●●●

Group Structure

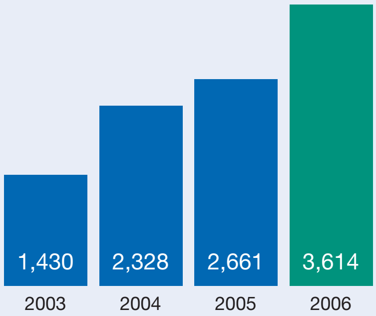
Financial & Operational Highlights

Quadnetics

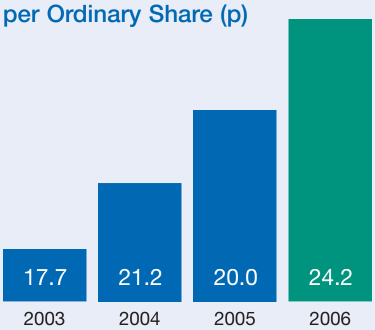
Turnover (£'000)



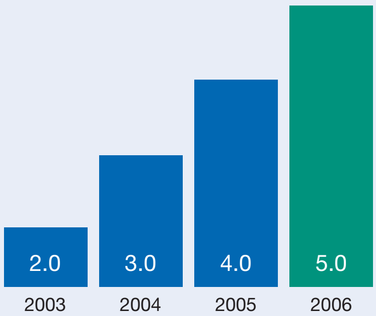
Underlying Profit* (£'000)



Underlying Earnings per Ordinary Share (p)



Dividends per Share (p)



* Underlying profit represents profit before tax, goodwill and exceptional items

- Successful acquisition of Protec plc, creating leading independent CCTV security services provider in the UK
- Consolidation of enlarged Quadnetics Group into two focused electronic security business units with significant scale
- Investment in launch of new US subsidiary for local support of Synectics security systems technology
- Strengthened senior management team and Group infrastructure to support growth
- Turnover £49.6 million (2004/5: £26.8 million), with 7 months contribution from Protec
- Profit before tax, exceptional costs and goodwill amortisation up 36% to £3.6 million; underlying earnings per share up 21% to 24.2p (again benefiting from a reduced tax rate)
- Net cash £8.9 million
- Order books up 30% at year end
- Proposed final dividend 3.5p per share, making 5.0p for the full year (up 25%)
- Overall, a very satisfactory year, which has positioned the Group for further growth in a large and attractive market

Turnover

+85%

to £49.6m
(2005: £26.8m)

Underlying profit*

+36%

to £3.6m
(2005: £2.7m)

Underlying EPS

+21%

to 24.2p
(2005: 20.0p)

Dividends per share

+25%

to 5.0p
(2005: 4.0p)

Chairman's Statement

I am happy to report that the integration of the Protec businesses and the post-acquisition financial performance of the enlarged Group have been fully in line with the Board's expectations

OVERVIEW

In our last interim results statement, I commented that the acquisition of Protec in November 2005 was a crucial development for Quadnetics that would result in a doubling of the Group's sales revenues as well as, more importantly, allowing us to consolidate and integrate our activities into two focused security systems businesses, Quadrant Security Group and Synectic Systems Group, each with scale and significant market presence. I am happy to report that the integration of these businesses and the post-acquisition financial performance of the enlarged Group have been fully in line with the Board's expectations.

RESULTS AND DIVIDEND

In the year to 31 May 2006, Quadnetics produced a profit before tax, exceptional costs and goodwill amortisation of £3.6 million (2004/5: £2.7 million) on consolidated turnover of £49.6 million (2004/5: £26.8 million). These results include seven months contribution from the Protec acquisition. Underlying earnings per share were ahead 21% at 24.2p (2004/5: 20.0p) including the benefit of a reduced tax rate of 8% (2004/5: 13%) stemming mainly from useable tax losses in the acquired Protec businesses.

Since the continuing and acquired businesses have been managed as integrated activities for most of the second half, like-for-like comparisons of performance against the previous year inevitably involve some arbitrary cost allocations. Nevertheless, the broad picture is that the Group's continuing activities produced consolidated turnover growth of around 12%, on which underlying operating profit (that is, operating profit before exceptional items and goodwill amortisation) declined slightly to just under £2.5 million. This broadly static profit figure from continuing activities stems primarily from reduced activity levels and margins in the UK town centre security sector, and the additional costs associated with establishing infrastructure for Synectics to support its growth in North America. These were offset in part by increased turnover and gross margins from Synectics. The performance of the individual business segments is discussed in more detail below.

During the year, exceptional costs of £965,000 were incurred relating to Protec, principally the cost of redundancies and provision for the closure of one operating site following acquisition. A further exceptional cost of £300,000 was provided against a claim for dilapidations relating to a long lease held by a business sold by Quadnetics many years ago.

Net cash on hand at the year end was £8.9 million (2005: £3.6 million). The Board is proposing a final dividend of 3.5p, making a total dividend of 5p for the full year, an increase of 25% on the amount distributed for the prior year.

The North American casino market represents a key market sector for the Group.

David Coghlan
Chairman

Urban surveillance in Liverpool is powered by Synectics technology.

BUSINESS REVIEW

Quadrant Security Group ("QSG"), our security services business, designs, installs and maintains electronic security systems, and provides security monitoring and facilities management services to clients in the local government, retail, transport, police, prisons, petrochemical, large corporate, military and specialist high security sectors. It operates primarily in the UK, Middle East and the Republic of Ireland. QSG has annualised current run-rate sales of around £50 million and is significantly profitable. We believe it is now the UK's largest independent CCTV security company.

On a like-for-like basis, the Quadnetics continuing businesses within QSG increased turnover in the year by 8% to £18.3 million (2004/5: £17.0 million). Underlying operating profit declined to £1.8 million (2004/5: £2.1 million). Part of the profit decline arose from deliberate decisions to improve the quality and growth prospects of the businesses through, for example, long-term contracts with large customers that initially carry lower margins. The major factor, however, was temporarily reduced activity, and consequent tighter margins, in the UK local government CCTV sector. As anticipated in our interim report, this area of business improved in the second half and the positive momentum continues.

The acquired Protec security services activities have performed well since acquisition, particularly in the area of prisons and other government high security applications. Planned integration benefits were successfully realised, most notably in cost reductions from consolidated purchasing. Further benefits are expected to arise in the current year from cross-selling of services in different customer segments, and from the marketing and sales advantages of the business' significantly increased scale.

Synectics is the Group's security surveillance products and software business. Over recent years, Synectics CCTV recording and control systems have evolved to become what we believe is the industry standard for public space CCTV systems in the UK and some overseas markets, particularly South Africa. This strength has led on to success in other market sectors, including police, financial services, casinos, marine and offshore oil and gas. Protec's special projects surveillance business has been integrated into Synectics to capitalise on expansion opportunities in a further attractive market sector that is a natural fit for Synectics' products and systems expertise.

Chairman's Statement

The Group has entered the current financial year with strong order books, increased earnings visibility and a real sense of momentum

The continuing businesses within Synectics grew turnover for the year by 25% to £12.9 million (2004/5: £10.3 million), and gross profit by 34% to £5.5 million (2004/5: £4.1 million). Growth in underlying operating profits, however, was constrained to 15% (£1.4 million in 2005/6 versus £1.2 million in 2004/5), due to the costs of operating the new US subsidiary and of additional research and development expenditure for product enhancements required for the US market.

These investments in North America are now generating the sort of customer response we had hoped for and further substantial orders are expected in the first half of the current year.

Outside North America, Synectics continued to achieve good sales growth during 2005/6 in most of its traditional markets, including the UK, other European countries, South Africa and the Middle East.

GROUP OBJECTIVES

In Quadnetics' last interim statement I set out a summary of our reasons for acquiring Protec and some background to the overall objectives the Board has set for the enlarged Group. Developments since have confirmed the Board's confidence in these objectives, and our assessment of the opportunities and risks that accompany them, so it is worth repeating them here.

Quadnetics' strategy has two principal objectives:

- to maximise the growth opportunities of Synectics' digital CCTV control systems and recording technology/solutions; and
- to become one of the UK's leading electronic security services companies through creating and building on market leadership positions in key vertical customer sectors (and thereby increasing penetration of Synectics products into those sectors).

The acquisition of Protec will enable us substantially to accomplish the second objective. In addition, the creation of the integrated Quadrant Security structure should facilitate solid future profit growth through continuous operational improvements in a single business of market-leading scale. Obviously, there will be challenges to overcome, requiring commitment, skill and clear direction, but the path is reasonably well defined. We believe we now have the management and resource requirements in place to achieve the new goals the Board will be setting for this activity.

Synectics involves a potentially substantial growth opportunity on a global scale and, of course, corresponding risks inherent in any relatively new technology-based business. The essence of Synectics' success to date has been to deliver innovative surveillance systems that provide, in an integrated Synectics control environment, all the benefits of the latest digital CCTV image storage and retrieval technology, while enabling customers an upgrade path that protects their investment in expensive installed CCTV cameras and communications infrastructure.

In the US in particular, the market for large-scale digital CCTV systems is new, rapidly evolving and potentially very large. The market now has the attention of a number of the world's largest electronics and information technology companies, as well as dozens of smaller competitors. The Board believes that, in order to succeed, Synectics must focus rigorously on its specific areas of experience and technical competitive advantage in two sectors: casinos and public space surveillance. Synectics has the advantages of a leading position in its UK home market, technical solutions (especially systems control software) we believe to be as good as anything available, and successful reference sites in some of the largest implementations to date of digital CCTV in casinos in North America. This is an excellent base to build from.

PEOPLE

In the face of potentially disruptive change in most areas, the commitment, enthusiasm and energetic common sense demonstrated during the year by the vast majority of employees in the enlarged Group have been truly heartening. In large measure their efforts have been responsible for the excellent progress the Group has made, and I am delighted to pass on the Board's very sincere thanks.

The Group's senior management has been strengthened by a number of new appointments, coming both from internal promotion and external recruitment. Under our new structure, we believe the team now in place is well capable of leading the Group through the next stage of its development.

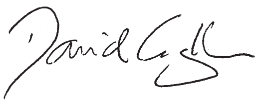
Quadnetics' Board expanded significantly last year. We were joined by Bob Westcott and Dennis Bate as independent non-executive Directors, and by two new executive Directors: David Orme as Operations Director, and Glenn Robinson as Technical and Business Development Director. The diversity of relevant experience and robust viewpoints this group brings to the Board are proving of great benefit to us.

OUTLOOK

Overall, 2005/6 was a very satisfactory year, which has positioned Quadnetics for further growth. Aggregate order books for the continuing and acquired businesses at 31 May 2006 were approximately 30% higher than at the corresponding date a year earlier. The Group has entered its current financial year with confidence and a real sense of momentum.

Quadnetics has created significant opportunities through the combination of strong positions as a service provider in specific customer sectors, and market leading Synectics technology in certain key elements of security systems solutions. We plan to capitalise on these opportunities by increasing product development expenditure for Synectics, both to broaden the product range and to enable it to scale more easily.

With strong order books and increased earnings visibility across our businesses, the Board expects further good progress in financial results for the current year.



David Coghlan
Chairman
21 September 2006

Business Review

Over the last 12 months Quadnetics Group has been transformed

INTRODUCTION

Over the last 12 months Quadnetics Group has been transformed. Sales increased by 85% to £49.6 million in 2005/6 and profit (before tax, exceptional items and goodwill) increased by 36% to £3.6 million. Cash at the year end was £8.9 million. At the end of the financial year we carried forward approximately £20 million of orders and a substantial pipeline of prospects across the board, ranging from short-term product supply opportunities through to multi-year support agreements.

We began the financial year with four businesses operating separately, Quadrant Video Systems, Coex, Look CCTV and Synectic Systems, and had just acquired the assets of AlphaPoint LLC to support our sales into the important North American market.

We acquired Protec in November 2005 in a £10 million all share transaction and implemented an integration, re-branding and restructuring programme which was completed in the second half of 2005/6, to create a step change in our operations and marketing and provide a platform for significant growth.

Protec was identified as an attractive acquisition target to both extend our reach into market segments such as prisons, high security installations, construction and pharmaceuticals, and to provide access to military development projects. Protec's facilities management business was also seen as important to us as it offered a powerful route to market for our products and services in the future, widening our proposition to include consultancy and fully managed services to retail and multi-site customers.

OUR BUSINESSES

Quadnetics is now structured into two business units – Quadrant Security Group (services) and Synectic Systems Group (products and software).

Quadrant Security Group (Quadrant Security) is one of the largest independent integrated security systems businesses in the UK, designing, installing and maintaining electronic security systems and providing security monitoring and facilities management services, to clients in the local government, retail, transport, police, prisons, petrochemical, large corporate, military and specialist high-security sectors. It operates primarily in the UK, the Middle East and the Republic of Ireland. An in-house 24-hour call centre and nationwide network of qualified service engineers provide round the clock on-site customer support.

Synectic Systems Group (Synectics) is recognised as a leader in innovation and design of advanced software and hardware for large scale or complex surveillance applications. Products include image sensors, transmission and environmental technology (as used in advanced imaging systems in long range military surveillance and

Russ Singleton
Chief Executive

Nigel Poultney
Finance Director

Synectics' solutions assist with production process monitoring and health & safety supervision in hazardous petrochemical environments such as the Ras Laffan oil field in the Arabian Gulf.

explosion rated oil, gas, nuclear power and marine applications), CCTV switching, control, encoding, storage servers and evidential image management for advanced urban CCTV systems and casinos. Applications software, middleware and third party integration software provide end-users with a path to migrate to an internet protocol (IP) control and recording platform whilst retaining much of their valuable camera infrastructure.

Offices in Sheffield, California, and a satellite operation in Singapore provide round the clock support to system integrators, value added resellers (VARs) and major end-users.

MARKETS

The global market for complex or high-end security and surveillance applications is growing strongly as analogue technology is being replaced by IP based products and networks, offering new ways of connecting, delivering and managing security and surveillance systems. Advances in wireless transmission technology, such as WIMAX, promise even lower transmission costs to further open up new possibilities for mobile surveillance with extended coverage and performance of CCTV networks in future.

Quadnetics has an enviable track record of incorporating new technologies to deliver world-class security solutions in the UK and North America. We plan to increase sales activity in South America, Continental Europe and in the Asia/Pacific area as these regions begin to adopt urban surveillance programmes.

Quadnetics operates in the following market sectors:

Market sector	UK	North America	Asia & Pacific
Local authority	●	●	●
Financial services	●		
Adverse areas – oil, gas, marine	●		●
Casinos and gaming	●	●	
Corporate	●	●	
Government and high security	●		●
Prisons	●		
Petrochemical	●		●
Transport	●		
MOD	●		
Health	●		
Construction	●		
Retail and multi-site	●		
Pharmaceutical	●		
Services and maintenance support	●	●	●

Recent examples of our activities in some of these market sectors are as follows:

- **Local Authorities and public space**

  Quadrant Security recently completed a major upgrade to the control operations centre for Stevenage, integrating automatic number plate recognition (ANPR) systems and new displays equipment which are managed by Synectics software. The work was completed without disruption to their security operations.

  Newham recently selected Synectics software to run their complex system of approximately 500 cameras, making it one of the largest and most sophisticated CCTV operations centres in the UK.

- **Financial services**

  The Alliance & Leicester building society have trusted Quadrant Security to maintain their systems in over 200 locations throughout the UK for many years.

  Lloyds TSB selected Synectics virtual matrix technology to integrate sophisticated alarm systems over a wide area network for their central management of remote locations throughout the UK.

Business Review

continued

Quadnetics is now a sizeable business in the electronic security and surveillance market with leading positions in a number of important customer segments

Quadrant Security continues to work closely with the Home Office on high security hospitals and prisons.

- Casinos and gaming

  Quadrant Security was chosen by London Clubs to supply a state-of-the-art digital recording and CCTV facility in their flagship venue in Manchester, their largest casino outside London.

  Synectics, through their channel partner, supplied Hyatt Regency casinos in Albania and Greece with high resolution digital recording and control systems. The casino market is an important sector for Synectics, with over 5,000 channels of real-time digital recording systems already installed in casinos throughout the UK, Continental Europe and North America.

- Corporate and commercial

  Quadrant Security has been working with Canary Wharf for almost 10 years providing the majority of the estate security systems. The latest developments have included a new control room bringing together cameras, access control and shop alert systems to the operators' desks. Mobile radio and telephony was incorporated to create one of the most advanced and integrated control room environments in Europe. Quadrant provides three engineers, based permanently at the Wharf, to provide support services to the estate security systems.

- Prisons

  Quadrant Security, working closely with the Home Office under their new partnership agreement, was selected to upgrade three Category 'A' prisons. Quadrant was also selected for the third phase of works at Ashworth Hospital, having previously completed earlier phases for this secure unit. In both cases, Quadrant had specialist design responsibilities which involved numerous evaluation and equipment trials to meet the rigorous requirements of this challenging environment.

- Government and high-security

  Quadrant Security demonstrated their project management capabilities in a national roll-out programme to over 100 secure hostels throughout the UK for the National Probation Service. Quadrant designed their solution after working closely with the client and end-users during the consultation phase, and carried out extensive tests and surveys to select the most appropriate equipment for the CCTV, digital recording, intruder alarm, access control and personal attack systems.

Quadnetics delivers round the clock support through its Bristol communications centre.

- Petrochemical

We are seeing good growth in the petrochemical sector as all parts of this industry review their security requirements. Lyndsey Oil, part of the Total Oil company, situated in North Lincolnshire engaged Quadrant Security to integrate new site security systems over an IP backbone to bring together access control, automatic number plate recognition and digital recording systems. Quadrant has been awarded further contracts to extend and expand the system.

Synectics Industrial Systems has designed a new compact camera station called the 'DROME', for use in the most adverse environmental conditions. The DROME combines 'dome-like' performance, whilst eliminating the problems associated with using a traditional dome camera in arduous environments where the inability to wash/wipe the window and difficulties in achieving clear focus at long range is a major operational limitation. Synectics secured a patent early in 2006 for this novel technology.

Two versions of DROME are produced – an explosion (EX) rated hazardous area (oil and gas) unit and a 'marine' version which is suitable for most arduous environments, and potentially has much broader applications as in coastal surveillance, mining applications and other industrial applications, where it is already generating a lot of interest. The first sales of DROME have already been made to a shipping operator in Singapore.

Our products and software all undergo rigorous testing.

Business Review

continued

Our goal is for both Quadrant Security and Synectics to become the trusted brands in key market segments globally and we strive to become "first choice providers" of reliable security management solutions

Our advanced opto-electronics technology is used in long-range strategic surveillance systems.

- **Adverse area solutions**
  Synectics supplied a turnkey IP surveillance solution to Agip, through our channel partner, for a major new oil-field development in the Caspian Sea. The £1.1 million contract combines hazardous area camera stations, IP video and network video recording. This oil field has substantial reserves and is expected to develop considerably over the next few years. Synectics are currently advising Agip directly regarding the replication of their system design for future tranches as they roll-out.

  Synectics has become established as a supplier to the Korean shipbuilding industry for Liquefied Natural Gas (LNG) tankers, having secured contracts with the three largest shipyards. Following initial orders from Hyundai, a $0.3 million adverse area CCTV system for a Samsung drillship, and contracts totalling $1.6 million from Daewoo for 8 large LNG vessels have been received.

- **MOD**
  By its very nature, much of the work we complete in this area is specialised and is not intended for commercial release. Synectics create high performance surveillance products for use in the most hostile of environments. In the last year

Synectics completed contracts valued at £0.7 million for portable radio surveillance systems, and received further orders valued at £0.6 million for additional systems. A much larger order for transportable surveillance systems was completed earlier in the financial year and further work is well under way at Synectics to develop a wider use for this valuable technology within various agencies.

- Transport

  Look CCTV continues in its market leading position for mobile surveillance working for both bus operators and body builders. Landmark agreements have been reached with Stagecoach and Dublin Bus during the year.

- Construction and retail

  Quadrant Security incorporates a retail industry specialist business that manages over 10,000 sites and over 75 million sq ft of retail space. Our experience in the construction sector enables us to become involved in the early design and build phases of major projects.

- Pharmaceutical

  Quadrant Security has been working with GSK for more than 10 years at their various offices around the UK. Recent contracts include the upgrade of analogue systems and the introduction of digital technology to these sites indicating the level of importance placed by the pharmaceutical sector on the need for physical security. Digital technology allows these clients to put in place a high level of security, whilst maintaining a very flexible approach, to meet their changing internal business structures.

- Maintenance and customer support

  Over the course of the last year we have increased our focus on the end-user and our channel partners and have worked hard to improve our training and systems in order to provide a first class customer service experience. The work so far has resulted in an increase in the number of longer term support and maintenance agreements, increasing recurring revenue by over 60% from £3 million last year to just over £5 million this year. This will remain a significant focus area for all our operations and is a key performance measure across the Group.

Business Review

continued

We have succeeded in meeting our financial goals at the same time as strengthening the business through the acquisition of Protec and continuing investment in Synectics

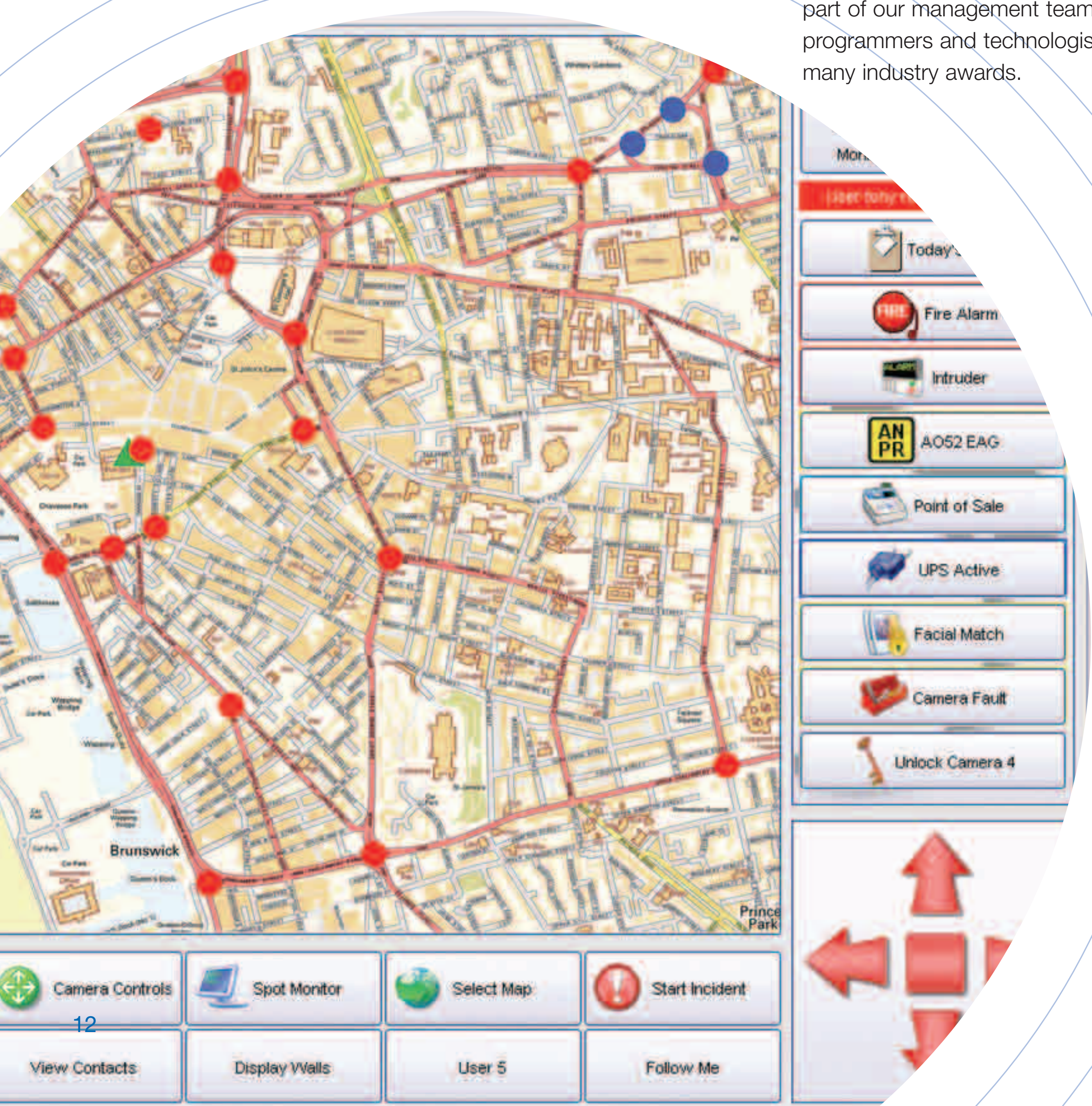
BUSINESS PHILOSOPHY

Quadnetics develops new solutions that are delivered directly to end-users by Quadrant Security, our security services business, or indirectly through resellers, distributors and overseas agents from Synectics, our products business.

We use proven technology where it meets the requirements but, where there is no off the shelf solution to an identified need, we will create one. This customer-led applied development is a core philosophy we have followed from day one. This approach continuously improves security applications that deliver real and lasting competitive advantages for our customers and their businesses.

Our goal is for both Quadrant Security and Synectics to become the trusted brands in key market segments globally and we strive to become "first choice providers" of reliable security management solutions.

We have some of the industry's acknowledged business leaders as part of our management team along with talented designers, programmers and technologists who have enabled us to achieve many industry awards.



Our on-board and platform solutions enhance passenger safety and confidence in a wide range of transport applications.

GROUP RESULTS FOR THE YEAR

The acquisition of Protec plc was declared unconditional on 9 November 2005, and therefore seven months results from the former Protec businesses are included in these financial statements.

PROFIT AND LOSS

Overall sales in the year amounted to £49.6 million with £19.6 million of this figure coming from the newly acquired businesses, in total up 85% on 2004/5 sales of £26.8 million with underlying growth of 12% from the businesses in the Group at the start of the year. Operating profit (before exceptional items and goodwill amortisation) increased from £2.5 million in 2004/5 to £3.5 million in 2005/6 with the increase arising from the acquired businesses as the continuing activities bore the cost of the start up overheads in the United States and increased investment in research and development.

Profit before tax, exceptional items and goodwill for 2005/6 was £3.6 million and compares with £2.7 million last year.

Following the acquisition of Protec and subsequent restructuring, the Group's activities can be represented in two segments, Services and Products. Services includes the UK integration, installation and service businesses managed as Quadrant Security Group, whilst Products includes the Security Networks, Industrial Systems and Surveillance Technology businesses managed as Synectic Systems Group.

Overall gross profit fell from 32% to 31% of sales partly as a result of the lower margins within the former Protec companies where the average gross profit percentage is reduced by the impact of the SSS Management Services business which has a business model that operates at lower margins.

Within the continuing businesses overall gross margins increased from 32% to 33% of sales although this arises from a 3% reduction in Services gross margin percentage more than offset by a slightly larger improvement in margins from the Products businesses. The margin reduction in the continuing Services businesses arose from tighter margins in the UK local government CCTV sector combined with the impact of longer term contracts that initially carry lower margins, with large customers of our mobile surveillance business, Look CCTV. Margins in the Products businesses benefited from an increasing software content of Synectics Systems' sales.

Operating expenses (before exceptional items and goodwill) increased from £6.1 million in 2004/5 to £11.7 million in 2005/6 of which £7.5 million related to continuing activities. The principal reasons for the increase in overheads in the continuing activities were increased investment in research and development (£0.3 million) and £0.8 million of overheads incurred by Synectic Systems, Inc. in the US as the operation began to build the team and infrastructure to support increased sales in North America.

The Group incurred £1.3 million of exceptional costs during the year. £1.0 million was incurred as a result of the restructuring of the Group following the acquisition of Protec plc, and principally relates to redundancies, and provision for the cost of rationalisation of properties and equipment. These exceptional amounts are included within operating expenses.

Over and above this the Group has provided £0.3 million in respect of a claim recently received for dilapidations and other costs from the landlord of a property previously leased to Quadnetics, but assigned to a former subsidiary upon its disposal some ten years ago. This company has now gone into administration which entitles the landlord to claim against Quadnetics as former lessee. We are currently taking legal advice and expect to dispute the claim.

Business Review

continued

The West End of London relies on our advanced command and control software.

We now have the scale, financial resources and management team to take the Group forward to the next level

The charge for amortisation of goodwill, which is written off over its estimated useful life of 20 years, has risen in this accounting period from £396,000 to £740,000 as both the goodwill arising on the AlphaPoint acquisition in May 2005 (£1.9 million) and on the Protec acquisition in November 2005 (£8.5 million) are amortised in the year.

The tax charge for 2005/6 was £178,000 and benefited from a deferred tax credit of £500,000 principally from the partial recognition of tax losses within the Protec businesses. Total tax losses available to the Group at 31 May 2006 were £3.1 million of which £1.5 million has so far been taken into the deferred tax asset on the balance sheet. The 2004/5 tax charge also benefited from a reduction to the standard rate through recognition of an exceptional credit of £302,000 as a result of tax relief on share options exercised in previous years. The underlying rate of tax, that is the percentage ratio of the tax charge for the year, after adding back the tax relief arising on the exceptional items in 2005/6 (and excluding the exceptional tax credit in 2004/5) to the underlying profit before exceptional items and goodwill amortisation was 8% (2004/5: 13%).

Profit after tax for the year was £1.4 million compared with £2.2 million in 2004/5.

Basic earnings per share were 10.4p (2004/5: 19.2p). However the underlying earnings per share, based on profit after tax, but before exceptional items (net of any tax effect) and goodwill amortisation was 24.2p, an improvement of 21% on the same measure for 2004/5.

BALANCE SHEET

Most of the significant changes in the balance sheet arise as a result of the Protec acquisition.

Under the terms of the acquisition Protec shareholders received one Quadnetics share for every 43 Protec shares. As a result 3.7 million Quadnetics shares valued at £2.50 each, being the price on 9 November 2005, fell due to be issued to Protec shareholders. The total cost of the acquisition, including £0.6 million of acquisition expenses, was £10.0 million.

Tangible assets increase from £1.3 million to £2.0 million at 31 May 2006 principally as a result of the fixed assets acquired through the Protec acquisition (£1.0 million).

Net current assets increased from £8.9 million at 31 May 2005 to £11.3 million with all the major trading components of this figure increasing significantly as a consequence of trading activity levels within the Group having more than doubled through the Protec acquisition.

Provisions have increased from £1.1 million at 31 May 2005 to £1.8 million at 31 May 2006 and comprise a provision for deferred earn-out consideration of £1.1 million ($2 million) for the AlphaPoint acquisition in the United States, restructuring provisions of £0.2 million and property provisions (including the £0.3 million exceptional item referred to above) of £0.5 million.

Net assets of the Group at 31 May 2006 were £28.5 million (2005: £18.3 million).

Also during the year ended 31 May 2006, 842,000 Ordinary shares were allotted to the Quadnetics Group Employee Share Scheme at a value of £2.0 million with the substantial majority of the funding for subscription for these shares provided as an interest-free loan by the Company. The value of own shares held within the Quadnetics Group Employee Share Scheme has been deducted from other reserves within shareholders' funds.

The Company bought back 37,731 of its own shares in December 2005 at £2.00 each and as a result £77,000 (including costs) has been debited to profit and loss reserves.

CASH

The Group ended the year with bank balances of £8.9 million having generated cash inflows of £5.4 million during the year. The major components of this movement were net cash inflows from operating activities of £3.2 million (2004/5: £1.9 million), and a net cash inflow from Protec at the date of acquisition of £3.6 million (after acquisition expenses).

OUTLOOK

Quadnetics is now a sizeable business in the electronic security and surveillance market with leading positions in a number of important customer segments. We have succeeded in meeting our financial goals at the same time as strengthening the business through the acquisition of Protec and continuing investment in Synectics. We now have the scale, financial resources and management team to take the Group forward to the next level.

Russ Singleton
Chief Executive
21 September 2006

Nigel Poultney
Finance Director

Board of Directors

Non-executive Directors

1 **David Coghlan**
Chairman
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 chairman of Evans & Sutherland Computer Corporation (listed on NASDAQ) and a director of several other companies.

2 **Dennis Bate CBE**
Director
(Appointed 9 November 2005)
has 45 years of experience in the construction industry of which 31 years were spent with Bovis, most latterly as board director responsible for Bovis's operations in the UK and Eastern Europe, and then Bovis Lend Lease operations. He was awarded the CBE for his services within the industry.

3 **Steve Coggins**
Director
joined the Board as a non-executive Director in January 2005. Steve has held various senior roles in both sales and marketing and general management in the information technology arena including Senior Vice-President at both Amdahl (now part of Fujitsu) and at Silicon Graphics. Earlier he spent time at IBM and also in engineering computing in the aircraft industry.

4 **Peter Rae**
Director
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.

5 **Bob Westcott**
Director
(Appointed 9 November 2005)
is an Oxford physics graduate and spent many years with GEC/Marconi developing the technology associated with mobile radar and led the team working on battlefield surveillance devices. He formed Security Design Associates in 1979 and was chairman and sole owner until March 2001 when the business was acquired by Protec plc.

Executive Directors

6 **Russ Singleton**
Chief Executive
is a Chartered Engineer and has a degree in Electrical and Electronic Engineering from Leeds Metropolitan University. He 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.

7 **David Orme**
Group Operations Director
(Appointed 5 August 2005)
has a degree in Management Studies from Leeds University and has worked in a variety of roles within the security services industry over the last 20 years. Most recently, prior to joining the Company, he was Chief Operating Officer of Bell Group plc, a successful quoted electronic security systems supplier.

8 **Nigel Poultney**
Finance Director
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.

9 **Glenn Robinson**
Group Technical and Business Development Director
(Appointed 5 August 2005)
has a degree in Industrial Mathematics from Loughborough University and qualified as a Chartered Accountant in 1992. He joined the Group as Finance Director of Quadrant Video Systems plc in 1997 and most recently, as a director of Synectic Systems Limited, has been responsible for the development and delivery of the company's large-scale digital security systems in the UK and Canada.









1	2	3
4	5	6
7	8	9

Senior Management

Pictured from left to right:
Matt Crowe
David Barrington
Terry Baker
Mike Boddy
John Kirtland
Andrew Prince

Quadrant Security Group

Terry Baker
Chairman, SSS Management Services Limited

has spearheaded the growth and development of SSS Management Services as Managing Director since the company's formation in 1995. Prior to this he worked within the security industry in various senior management roles.

David Barrington
Business Development Director

has an MBA from Putteridge Bury Business School and has held a variety of senior positions for the last 20 years within the electronic security industry. More latterly he was an Executive Director of Photo-Scan plc, a successful quoted security related solutions specialist, and then as Sales & Marketing Director of Siemens Building Technologies following their acquisition of Photo-Scan plc in 2004.

Mike Boddy
Operations Director

has an engineering diploma from Rubery Owen Organisation and was a co-founder member of Midlands Video Systems in 1975. MVS was subsequently acquired by Quadnetics Group and he has been Managing Director of Quadrant Video Systems from 2001 until the formation of Quadrant Security Group.

Matt Crowe
Financial Controller

graduated with an Economics degree from Warwick University in 1993 and qualified as a Chartered Management Accountant in 1996. He then spent 8 years with the pubs and hotels group, J D Wetherspoon plc, before joining Protec plc as Group Financial Controller in 2002.

John Kirtland
Sales & Marketing Director

has 20 years of experience in the Telecoms and IT sectors. After graduation he gained experience in software development, engineering and business consulting roles before moving to General Cable in 1993 where he set up their Business Services operation. In 1995 he joined Anixter, the leading global distributor of network products, where he became Managing Director of their UK network integration business. Moving to Nortel in 1999 he took on the role of Director, EMEA Network Services. He joined Protec plc in December 2002 to lead the Systems Division.

Andrew Prince
Managing Director, Look CCTV

joined Look CCTV in 2001 as the General Manager, progressing through to his current position of Managing Director in August 2005. Previously, he worked within the PSV industry where he had a long-established career of 23 years.

Pictured from left to right:
John Katnic
David Mellers
George Henderson
Peter Hall
Paul Webb
Philip Longley

Synectic Systems Group

Peter Hall
Operations Director, Industrial & Network Systems
has a degree in Accounting & Law from the University of Kent at Canterbury and joined the Group in 2003. He has 30 years experience working in a variety of major manufacturing companies, primarily in the clothing industry.

George Henderson MBE
General Manager, Surveillance Technology
joined Falcon-Protec in May 2004 as Head of Projects, having retired from the Army as a Lt-Colonel in the Royal Electrical and Mechanical Engineers after 39 years service. He spent three years in the Defence Procurement Agency managing a number of high profile projects, and as a result was awarded the MBE in 1998. George became General Manager when Falcon-Protec was taken over by Quadnetics, and he is now responsible for running the day-to-day business of the company and focusing it on output-based solutions.

John Katnic
Chief Operating Officer, Synectic Systems, Inc.
was co-founder of AlphaPoint, a leading US DVR system supplier acquired by Quadnetics in 2005. A graduate from the University of California, Santa Barbara, he has over 25 years experience in corporate sales, marketing, business development and management with several successful high technology and publishing companies.

Philip Longley
Managing Director, Security Networks
is an engineer and one of the original founders of Synectic Systems Limited. He joined the group in 1988 and has been instrumental in Synectics' sales growth and development, becoming Synectics Sales Director in 1996 and Managing Director in 2005.

David Mellers
Financial Controller
who is a Chartered Management Accountant, joined Synectics in 2006, having 20 years financial experience in manufacturing, most recently as Finance Director.

Paul Webb
Managing Director, Industrial & Surveillance Technology
has a degree in Physics from Imperial College, London, and has worked in the CCTV industry since 1988, in engineering, sales & marketing, business development and general management roles. Previously Managing Director of Bewator Limited following a number of years living and working in Asia, Paul joined Quadnetics in 2004 prior to the acquisition of Coex Limited.

Report of the Directors

For the year ended 31 May 2006

The Directors present their report together with the audited financial statements for the year ended 31 May 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was the provision of advanced CCTV and networked video systems and related security management and support services. The principal activity of the Company was to act as a holding company for its trading subsidiaries, and the provision of mobile CCTV surveillance systems through the Look CCTV division.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The consolidated profit and loss account for the year is set out on page 26.

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 through to 5 and the Business Review on pages 6 through to 15.

GROUP RESULTS AND DIVIDEND

The consolidated profit after tax for the year was £1,431,000 (2005: £2,217,000).

The Directors recommend the payment of a final dividend of 3.5p per share (2005: 3.0p per share), totalling £542,000 on 7 December 2006 to shareholders registered on 10 November 2006. Together with the interim dividend of 1.5p per share (2005: 1.0p per share), this brings the full year dividend to 5.0p per share (2005: 4.0p per share) amounting to £764,000 (2005: £467,000).

ACQUISITIONS

On 9 November 2005 the Recommended All Share Offer (the "Offer") made by Brewin Dolphin Securities Limited on behalf of Quadnetics to acquire the entire issued share capital of Protec plc ("Protec") was declared wholly unconditional, and therefore the results of Protec and its subsidiaries have been included in the Group results with effect from that date.

Further details are set out in note 33.

SHARE CAPITAL

The following changes in the Ordinary share capital of the Company have arisen during the year:

(1) The Company allotted 842,000 Ordinary shares to the Quadnetics Group Employee Share Scheme.

(2) On 9 November 2005 the Offer made by Brewin Dolphin Securities Limited on behalf of the Company for Protec was declared wholly unconditional and on 8 February 2006 notice was given to those Protec shareholders who had not accepted the Offer informing them that Quadnetics would compulsorily acquire their Protec shares by applying sections 428 to 430F of the Companies Act 1985. As a result the Company had issued 3,113,150 Ordinary shares to former holders of Protec shares as at 31 May 2006. In addition, at that date, a further 619,711 Ordinary shares remained to be issued to Protec shareholders who had irrevocably accepted the Offer, thus transferring beneficial interest in their Protec shares to the Company, but who had not at that time perfected their acceptance by submitting valid share certificates to the Company's registrars.

(3) On 19 December 2005, the Company purchased 37,731 of its own Ordinary shares at a price of £2.00 each (nominal value 20p each). This represented 0.24% of the Company's called up share capital.

(4) On 13 January 2006 and 9 May 2006, 4,314 Ordinary shares and 68,970 Ordinary shares respectively were issued as a result of former options over Protec shares being exercised.

Further details are set out in note 21.

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 £0.7 million (2005: £0.4 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 2006 were DJ Coghlan, D Bate (appointed 9 November 2005), SW Coggins, DM Orme (appointed 5 August 2005), NC Poultney, PM Rae, G Robinson (appointed 5 August 2005), RC Singleton and RW Westcott (appointed 9 November 2005).

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

In addition, D Bate and RW Westcott, who were appointed since the Notice of the last Annual General Meeting was sent to shareholders, will retire from the Board and, being eligible, offer themselves for election at the Annual General Meeting.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that on 13 September 2006 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
Quadnetics Group Employee Share Scheme	1,352,000
Britel Fund Trustees Limited	1,278,346
Giltspur Nominees Limited	955,596
Chase Nominees Limited	901,805
Royal Mail Pension Trustees Limited	868,971
Nortrust Nominees Limited	630,691
Bendery Properties Limited	522,956
Schroder Investment Management Limited	500,000

DIRECTORS' INTERESTS IN THE COMPANY

The Directors' interests in the Company's Ordinary share capital at 31 May 2006, which were unchanged at 13 September 2006 and which were all beneficial, are shown in the table below:

	31 May 2006 Number of shares	31 May 2005 Number of shares
DJ Coghlan	**1,930,875**	1,930,875
RW Westcott (appointed 9 November 2005)	**669,767**	–
RC Singleton	**327,300**	327,300
D Bate (appointed 9 November 2005)	**25,000**	–
PM Rae	**20,000**	35,000
SW Coggins	**6,000**	3,500
NC Poultney	**5,000**	–
DM Orme (appointed 5 August 2005)	**5,000**	–
G Robinson (appointed 5 August 2005)	**–**	55,801
	2,988,942	2,352,476

The interests of the Directors in the Company's share schemes, which are not included above, are shown in the Remuneration Report on pages 23 and 24.

EMPLOYEES

Employment policies throughout the Group have been established to comply with relevant legislation and codes of practice relating to employment, health and safety and equal opportunities. 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 2007.

At 31 May 2006 the Company had 56 days purchases outstanding in trade creditors.

CHARITABLE DONATIONS

During the year the Group made charitable donations in excess of £200 to The Peace Hospice (£238).

FINANCIAL INSTRUMENTS

The Group's operations expose it to a variety of financial risks including foreign exchange rates and credit risk. Further details are set out in note 34.

AUTHORITIES TO BUY THE COMPANY'S OWN SHARES, ALLOT SHARES, DISAPPLY STATUTORY PRE-EMPTION RIGHTS, AND AMEND ARTICLES

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 £1,136,249 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 schemes.

Report of the Directors

For the year ended 31 May 2006

(2) a Special Resolution to enable the Company to purchase its own shares up to a maximum of 1,632,661 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 £163,266.

(4) a Special Resolution to amend the Articles of Association by deleting Article 138 (Indemnity) in its entirety and replacing it with new Article 138 (Indemnity to Directors and other officers) to permit:
   (a) the Company to indemnify every Director, alternate director, auditor, Secretary or other officer of the Company or any associated company (as defined in Section 309A of the Act) against all costs, charges, losses, expenses and liabilities in the execution and discharge of or in connection with his duties or the exercise of his powers, including anything done or omitted to be done or alleged to have been done or omitted to be done;
   (b) the Directors to purchase and maintain at the cost of the Company insurance cover for or for the benefit of every Director, alternate director, auditor, Secretary or other officer of the Company or of any associated company against any liability which may attach to him in respect of any negligence, default, breach of duty or breach of trust by him in relation to the Company (or such associated company) including anything done or omitted to be done or alleged to have been done or omitted to be done; and
   (c) the Company to fund the expenditure of every Director, alternate director or other officer of the Company or of any associated company in defending criminal and civil proceedings and in connection with certain sections of the Act.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

INFORMATION GIVEN TO THE AUDITORS

Each of the Directors has confirmed that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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 4 executive and 5 non-executive Directors. The names, roles and biographical details of the Directors are set out on page 16. The Board 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, which includes major investment decisions, and changes in the composition of the Group. The Board approves the Group's strategy and annual budget, and considers detailed financial and operational reports on the progress of the Group. In relation to non-reserved matters the Board is assisted by a number of committees with delegated authority.

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. Their service is non-pensionable and, except for DJ Coghlan (Chairman), they do not participate in the Company's share schemes.

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

The Audit Committee

The Audit Committee comprises PM Rae, D Bate (appointed 9 November 2005), SW Coggins, and RW Westcott (appointed 9 November 2005), who are all non-executive Directors, and provides a forum for reporting by the Group's external auditors. DJ Coghlan resigned from the Committee on 30 January 2006. 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, D Bate (appointed 9 November 2005), SW Coggins and RW Westcott (appointed 9 November 2005), who are all non-executive Directors and have no personal or financial interests in the matters to be decided. DJ Coghlan resigned from the Committee on 30 January 2006. 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 making awards to other employees under the Group's share option and employee share schemes.

a) Remuneration

	Salary and fees £'000	Bonuses* £'000	Benefits £'000	Subtotal £'000	Pension contributions £'000	**Year to 31 May 2006 Total £'000**	Year to 31 May 2005 Total £'000
Executive Directors							
DM Orme† (appointed 5 August 2005)	83	20	8	111	5	**116**	–
NC Poultney	105	52	15	172	7	**179**	134
G Robinson† (appointed 5 August 2005)	65	20	8	93	7	**100**	–
RC Singleton	145	43	29	217	21	**238**	211
Non-executive Directors							
DJ Coghlan	75	–	–	75	–	**75**	75
PM Rae	25	–	–	25	–	**25**	25
SW Coggins	25	–	–	25	–	**25**	10
D Bate† (appointed 9 November 2005)	15	–	–	15	–	**15**	–
RW Westcott† (appointed 9 November 2005)	13	–	–	13	–	**13**	–
Total	551	135	60	746	40	**786**	455

Report of the Directors

For the year ended 31 May 2006

* Bonuses were paid or accrued in 2005/6 for specific achievement of agreed personal and corporate objectives.
† Amounts shown in respect of DM Orme, G Robinson, D Bate and RW Westcott are for the period from their appointment to 31 May 2006.

Pension contributions shown above reflect pension payments into money purchase schemes. There were no other pension payments or accrued pension benefits arising under money purchase schemes in respect of Directors.

Comparative figures for the year ending 31 May 2005 include pension contributions of £6,000 and £14,000 made for NC Poultney and RC Singleton respectively.

b) Share schemes

The Directors did not have any interests in the Company's share option schemes during the year and no new options were granted to, or exercised by, any Directors between 1 June 2006 and 13 September 2006.

The following Directors hold an interest in the Company's shares through participation in the Quadnetics Group Employee Share Scheme, which was established in June 2005, as set out below and in note 23.

Under the provisions of the Share Scheme the shares are held for the benefit of the executive Directors set out below, on terms similar to a share option scheme whereby the value of the appreciation in the Company's share price above the issue price over a minimum three-year period accrues to the relevant Director provided that the Company meets certain performance thresholds linked to the FTSE AIM All Share Total Return Index.

	Date of award	Number of shares	Issue price (p)
RC Singleton	17 June 2005	300,000	241
NC Poultney	17 June 2005	160,000	241
G Robinson	17 June 2005	160,000	241
DM Orme	23 June 2005	160,000	241

Subsequent to the year end DJ Coghlan was awarded an interest in 120,000 Ordinary shares in the Company which were allotted to the Quadnetics Group Employee Share Scheme on 12 July 2006 at a price of 212.5p per share.

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

	Ordinary shares of 20p each
At 1 June 2005	247.5p
At 31 May 2006	217.5p

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

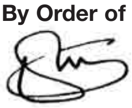
	Ordinary shares of 20p each
Maximum	305p
Minimum	195p

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:

	Notice period
D Bate	3 months
SW Coggins	6 months
NC Poultney	12 months
PM Rae	1 month
RW Westcott	3 months

By Order of the Board



NC Poultney
Secretary
Quadnetics Group plc
Registered Number: 1740011
21 September 2006

Independent Auditors' Report

To the members of Quadnetics Group plc

We have audited the Group and parent company financial statements ('the financial statements') of Quadnetics Group plc for the year ended 31 May 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. The 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 ('United Kingdom Generally Accepted Accounting Practice') are set out in the statement of Directors' responsibilities as contained within the Report of the Directors.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the Chairman's Statement and the Business Review. 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.

We report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information in the Report of the Directors includes that specific information presented in the Business Review that is cross referenced from the Business Review section of the Report of the Directors.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 May 2006 and of the Group's profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Report of the Directors is consistent with the financial statements.

London, UK
21 September 2006

PKF (UK) LLP
Registered Auditors

Consolidated Profit and Loss Account

For the year ended 31 May 2006

	Notes	Before exceptional items and goodwill amortisation £'000	Exceptional items £'000	Goodwill amortisation £'000	**2006 Total £'000**	Restated 2005 Total £'000
Turnover						
Continuing operations		29,987	–	–	**29,987**	26,761
Acquisitions		19,655	–	–	**19,655**	–
Total turnover	2	49,642	–	–	**49,642**	26,761
Cost of sales	3	(34,495)	–	–	**(34,495)**	(18,107)
Gross profit	4	15,147	–	–	**15,147**	8,654
Net operating expenses	5	(11,680)	(965)	(740)	**(13,385)**	(6,528)
Operating profit						
Continuing operations		2,452	(260)	(492)	**1,700**	2,126
Acquisitions		1,015	(705)	(248)	**62**	–
Total operating profit	6	3,467	(965)	(740)	**1,762**	2,126
Exceptional item in respect of a subsidiary disposed of in a previous year	9	–	(300)	–	**(300)**	–
Net interest receivable	10	147	–	–	**147**	139
Profit on ordinary activities before taxation		3,614	(1,265)	(740)	**1,609**	2,265
Tax charge on ordinary activities	11				**(178)**	(48)
Profit for the financial year	24				**1,431**	2,217
Basic earnings per ordinary share	13				**10.4p**	19.2p
Diluted earnings per ordinary share	13				**10.4p**	19.1p

All activities are continuing.

In 2005 net operating expenses included amortisation of goodwill amounting to £396,000 and the tax charge on ordinary activities included an exceptional tax credit of £302,000.

Consolidated Balance Sheet

31 May 2006

	Notes	2006 £'000	Restated 2005 £'000
Fixed assets			
Intangible assets	14	**16,925**	9,183
Tangible assets	15	**2,049**	1,280
		18,974	10,463
Current assets			
Stocks	17	**4,281**	3,040
Debtors	18	**19,904**	9,896
Cash at bank and in hand		**8,940**	3,562
		33,125	16,498
Creditors: amounts falling due within one year	19	**(21,758)**	(7,527)
Net current assets		**11,367**	8,971
Total assets less current liabilities		**30,341**	19,434
Creditors: amounts falling due after more than one year	19	**–**	(3)
Provisions for liabilities and charges	20	**(1,763)**	(1,102)
Net assets		**28,578**	18,329
Capital and reserves			
Called up share capital	21	**3,263**	2,341
Share premium account	24	**13,634**	12,622
Merger reserve	24	**9,565**	–
Other reserves	24	**(1,307)**	715
Profit and loss account	24	**3,423**	2,651
Equity shareholders' funds		**28,578**	18,329

The financial statements on pages 26 to 54 were approved and authorised for issue by the Board of Directors on 21 September 2006 and were signed on its behalf by:

RC Singleton
Director

NC Poultney
Director

Company Balance Sheet

31 May 2006

	Notes	2006 £'000	Restated 2005 £'000
Fixed assets			
Intangible assets	14	**5,017**	5,298
Tangible assets	15	**191**	205
Investments	16	**17,152**	6,465
		22,360	11,968
Current assets			
Stocks	17	**1,199**	574
Debtors	18	**10,860**	6,455
Cash at bank and in hand		**–**	430
		12,059	7,459
Creditors: amounts falling due within one year	19	**(5,397)**	(1,736)
Net current assets		**6,662**	5,723
Total assets less current liabilities		**29,022**	17,691
Creditors: amounts falling due after more than one year	19	**(204)**	(204)
Provisions for liabilities and charges	20	**(303)**	(5)
Net assets		**28,515**	17,482
Capital and reserves			
Called up share capital	21	**3,263**	2,341
Share premium account	24	**13,634**	12,622
Merger reserve	24	**9,565**	–
Other reserves	24	**(1,307)**	715
Profit and loss account	24	**3,360**	1,804
Equity shareholders' funds		**28,515**	17,482

The financial statements on pages 26 to 54 were approved and authorised for issue by the Board of Directors on 21 September 2006 and were signed on its behalf by:

RC Singleton
Director

NC Poultney
Director

Consolidated Cash Flow Statement

For the year ended 31 May 2006

	Notes	2006 £'000	2005 £'000
Net cash inflow from operating activities	29	**3,246**	1,939
Returns on investments and servicing of finance	30	**132**	107
Taxation		**(299)**	(1,398)
Net capital expenditure and financial investment	30	**(238)**	(497)
Acquisitions	30	**3,220**	(867)
Equity dividends paid		**(573)**	(462)
Cash inflow/(outflow) before use of liquid resources and financing		**5,488**	(1,178)
Management of liquid resources	30	**–**	2,500
Financing	30	**(110)**	29
Increase in cash		**5,378**	1,351

Reconciliation of Net Cash Flow to Movements in Net Funds

For the year ended 31 May 2006

		2006 £'000	2005 £'000
Increase in cash in the year		**5,378**	1,351
Decrease in bank deposits		**–**	(2,500)
Decrease in debt and lease financing		**395**	63
Change in net funds resulting from cash flows		**5,773**	(1,086)
Acquisitions		**(53)**	–
Movement in net funds in the year		**5,720**	(1,086)
Opening net funds		**3,200**	4,286
Closing net funds	31	**8,920**	3,200

Statement of Total Recognised Gains and Losses

For the year ended 31 May 2006

	2006 £'000	2005 £'000
Total gains recognised since the last annual report:		
Profit for the financial year	**1,431**	2,217
Other recognised gains and losses relating to the year – currency translation adjustment	**(9)**	–
	1,422	2,217

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 May 2006

	2006 £'000	Restated 2005 £'000
Profit for the financial year	**1,431**	2,217
Dividends	**(573)**	(462)
	858	1,755
Other recognised gains and losses relating to the year – currency translation adjustment	**(9)**	–
Issue of shares	**9,477**	410
Share buy-back	**(77)**	–
Net movement in shareholders' funds	**10,249**	2,165
Opening shareholders' funds (originally £17,978,000 (2005: £15,818,000) before adding prior year adjustment of £351,000 (2005: £346,000)) in respect of dividends (see note 24)	**18,329**	16,164
Closing shareholders' funds	**28,578**	18,329

Notes to the Financial Statements

For the year ended 31 May 2006

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 (except as noted in paragraph (b)), is set out below.

a) Basis of accounting

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

b) Change in accounting policies

During the year the Group has adopted FRS17 'Retirement Benefits' and FRS21 'Events after the Balance Sheet Date'.

The Company sponsors the Quadrant Group plc Retirement Benefit Scheme which has a defined benefit section. In accordance with FRS17 defined benefit pension scheme liabilities and, to the extent that they are recoverable, pension scheme assets are recognised in the Company's balance sheet. As the defined benefit scheme has a surplus, which cannot be recovered, there has been no overall impact on the balance sheets or the Group's profit and loss account.

In accordance with FRS21 and the Companies Act 1985, dividends are no longer presented on the face of the profit and loss account but are charged directly to reserves when they are paid or approved by shareholders. As a result, comparative figures have been amended to exclude the 2004/5 dividends of £467,000 from the face of the profit and loss account and to make a prior year adjustment of £351,000 to exclude from reserves the proposed 2004/5 final dividend.

c) 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.

d) Turnover

Turnover, which excludes value added tax and trade discounts, represents the 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.

e) 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.

f) Intangible fixed assets

Intangible fixed assets comprise goodwill which represents the excess of the purchase price over the fair value of the net assets purchased at the date of acquisition. Goodwill arising on acquisitions prior to 31 May 1998 was written off directly against reserves, and will be 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.

g) 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.

Notes to the Financial Statements

For the year ended 31 May 2006

h) 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.

i) 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.

j) Research and development expenditure

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

k) 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.

l) Pension costs

Group employees are members of various pension schemes, all of which operate on a money purchase basis. Contributions to these schemes are charged to the profit and loss account as incurred.

The Group also operates a retirement benefit scheme, which has deferred defined benefit members. The expected return on the scheme's assets and the expected increase in the present value of the scheme's liabilities during the year are included in the Profit and Loss account as other finance income or charges as appropriate. Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses. Pension scheme liabilities and, to the extent that they are recoverable, pension scheme assets are recognised in the balance sheet and represent the difference between the market value of the scheme's assets and the present value of the scheme's liabilities, net of deferred taxation.

Pension scheme liabilities are determined on an actuarial basis using the projected unit method and are discounted at a rate using the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

m) Foreign currency

Transactions denominated in foreign currency are translated into sterling at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are re-translated into sterling at rates of exchange ruling at the end of the financial year or, if appropriate, at the forward contract rate. Exchange differences arising on these transactions are taken to the profit and loss account in the year in which they arise.

The results of overseas subsidiaries are translated at the average rate of exchange and their assets and liabilities are translated at rates ruling at the balance sheet date. Exchange differences arising on these translations are taken directly to reserves.

n) Dividends

Dividends proposed by the Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by shareholders at a general meeting of the Company. Interim dividends are recognised when they are paid.

2 SEGMENTAL ANALYSIS

By business segment	Services £'000	Products £'000	Un-allocated* £'000	**2006 Total £'000**	Services £'000	Products £'000	Un-allocated* £'000	2005 Total £'000
Turnover								
– Continuing operations	18,277	12,904	(1,194)	**29,987**	16,957	10,299	(495)	26,761
– Acquisitions	17,964	1,691	–	**19,655**	–	–	–	–
	36,241	14,595	(1,194)	**49,642**	16,957	10,299	(495)	26,761
Operating profit before exceptional restructuring costs and amortisation	3,198	1,466	(1,197)	**3,467**	2,122	1,208	(808)	2,522
Exceptional restructuring costs				**(965)**				–
Goodwill amortisation				**(740)**				(396)
Operating profit after exceptional restructuring costs and amortisation				**1,762**				2,126
Net (liabilities)/assets	(1,410)	4,725	25,263	**28,578**	3,585	1,651	13,093	18,329

The Directors believe that the Group's activities can be represented in two segments, Services and Products. Services includes the UK integration, installation and service businesses managed as Quadrant Security Group, whilst Products includes the Security Networks, Industrial Systems and Surveillance Technology businesses managed as Synectic Systems Group.

* Unallocated amounts in respect of turnover represent intra-group sales, and in respect of operating profit represent central costs. Net assets attributed to each business segment represent the net external operating assets of the respective businesses excluding goodwill, bank balances and debt which are shown as unallocated amounts.

By geographical segment	United Kingdom **2006 £'000**	United Kingdom 2005 £'000	North America **2006 £'000**	North America 2005 £'000	Rest of the World **2006 £'000**	Rest of the World 2005 £'000	Total **2006 £'000**	Total 2005 £'000
Turnover								
Turnover by destination:								
Sales to third parties	**39,954**	22,198	**2,209**	3,049	**7,479**	1,514	**49,642**	26,761
Turnover by origin:								
Total sales	**48,627**	27,256	**2,209**	–	**–**	–	**50,836**	27,256
Intra-group sales	**(1,194)**	(495)	**–**	–	**–**	–	**(1,194)**	(495)
Sales to third parties	**47,433**	26,761	**2,209**	–	**–**	–	**49,642**	26,761
Net assets								
Net assets†	**29,071**	19,449	**(493)**	(1,120)	**–**	–	**28,578**	18,329

† The 2005 figures are restated.

Operating profit has not been analysed by geographical segment as the Directors believe that this is commercially sensitive information.

Notes to the Financial Statements

For the year ended 31 May 2006

3 COST OF SALES

	Continuing operations £'000	Acquisitions £'000	**2006 Total £'000**	2005 Total £'000
Cost of sales	20,065	14,430	**34,495**	18,107

4 GROSS PROFIT

	Continuing operations £'000	Acquisitions £'000	**2006 Total £'000**	2005 Total £'000
Gross profit	9,922	5,225	**15,147**	8,654

5 NET OPERATING EXPENSES

	Before exceptional items and goodwill amortisation £'000	Exceptional items £'000	Goodwill amortisation £'000	**2006 Total £'000**	2005 Total £'000
Distribution costs:					
– Continuing operations	203	–	–	**203**	222
– Acquisitions	21	–	–	**21**	–
	224	–	–	**224**	222
Administrative expenses:					
– Continuing operations	7,267	260	492	**8,019**	6,306
– Acquisitions	4,189	705	248	**5,142**	–
	11,456	965	740	**13,161**	6,306
	11,680	965	740	**13,385**	6,528

Exceptional operating expenses arise in relation to the restructuring of the Group's businesses as a result of the acquisition of Protec plc, and have reduced the tax charge for the year by £98,000.

6 OPERATING PROFIT

Operating profit is stated after charging:

	2006 £'000	2005 £'000
Auditors' remuneration		
– audit fees	**185**	71
– other fees	**47**	51
Amortisation of intangible assets	**740**	396
Depreciation of fixed assets held under finance leases	**24**	24
Depreciation of other fixed assets	**451**	217
Research and development expenditure	**671**	364
Rental payments under operating leases		
– plant, machinery and vehicles	**510**	321
– other	**374**	114

Amounts paid to the auditors for other services and not expensed through the profit and loss account amounted to £119,000 (2005: £3,000).

7 DIRECTORS' REMUNERATION

Directors' remuneration is shown on pages 23 and 24 of the Report of the Directors.

8 EMPLOYEE INFORMATION

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

	Group		Company	
	2006	2005	**2006**	2005
Class of business (see note 2)	**Number**	Number	**Number**	Number
Services	**264**	102	**27**	4
Products	**120**	65	**–**	–
Central	**6**	4	**6**	4
	390	171	**33**	8

	Group		Company	
	2006	2005	**2006**	2005
Staff costs (for the above persons)	**£'000**	£'000	**£'000**	£'000
Wages and salaries	**9,391**	4,752	**1,255**	389
Social security costs	**1,050**	588	**159**	62
Pension costs	**263**	114	**48**	13
	10,704	5,454	**1,462**	464

9 EXCEPTIONAL ITEM

	2006	2005
	£'000	£'000
Provision for property costs of a former subsidiary	**300**	–

The Company has made provision of £300,000 for dilapidations and other costs in relation to its liabilities as a former lessee of a property. The property was, until recently, occupied by a former subsidiary which was sold in 1996 and which has now gone into administration. The provision has had no impact on the tax charge for the year.

10 NET INTEREST RECEIVABLE

	2006	2005
	£'000	£'000
Interest payable on bank loans and overdrafts	**(6)**	(5)
Interest payable on unsecured loan notes	**(2)**	(18)
Interest payable on finance lease arrangements	**(1)**	(3)
Other interest payable	**–**	(4)
	(9)	(30)
Interest receivable and similar income	**156**	169
	147	139

Notes to the Financial Statements

For the year ended 31 May 2006

11 TAX CHARGE ON ORDINARY ACTIVITIES

	2006 £'000	2005 £'000
UK corporation tax on profits for the year	680	594
Adjustments in respect of prior years	(2)	–
Deferred taxation	(500)	(244)
	178	350
Exceptional tax credit	–	(302)
	178	48
Comprising:		
Current taxation:		
UK corporation tax on profits for the year	680	594
Adjustments in respect of prior years	(2)	–
Exceptional tax credit in respect of previous years	–	(302)
Total current tax	678	292
Deferred taxation:		
Origination and reversal of timing differences	(500)	(244)
	178	48

In 2005 the exceptional tax credit arose as a result of tax relief on share options exercised.

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

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	1,609	2,265
Tax on profit on ordinary activities before tax at standard rate of 30%	483	680
Effects of:		
Expenses not deductible for tax purposes and timing differences	245	13
Additional relief for qualifying research and development expenditure	(3)	(5)
Relief for share options exercised	–	(36)
Small companies relief	(3)	(3)
Goodwill amortisation not qualifying for tax relief	180	119
Utilisation of tax losses	(222)	(174)
Adjustment in respect of prior years	(2)	(302)
Current taxation for the year	678	292

The Group has tax losses available to be carried forward for offset against the future taxable profits of certain group companies amounting to approximately £3.1 million (2005: £1.1 million). These tax losses will reduce the corporation tax payable in future years until the companies concerned achieve sufficient taxable profits to utilise the losses. A deferred tax asset in respect of part of these losses, amounting to £0.5 million, has been recognised in the year as the Group believes that there will be future taxable profits against which the losses will be relieved.

In addition to the above, the Group has capital losses of approximately £19 million (2005: £17 million) available for offset against future taxable gains. No deferred tax asset in respect of these losses, which would amount to £6 million, has been recognised in these financial statements as there is insufficient evidence that the asset will be recovered against future capital gains.

12 DIVIDENDS

The following dividends were paid by the Company during the year:

	2006 Pence per share	2006 £'000	2005 Pence per share	2005 £'000
Final dividend for 2004/5 (2003/4)	**3.0**	**351**	3.0	346
Interim dividend for 2005/6 (2004/5)	**1.5**	**222**	1.0	116
	4.5	**573**	4.0	462

The final dividend for the year ended 31 May 2006 had not been approved by shareholders and as such has not been included as a liability as at 31 May 2006. The Directors recommend a final dividend of 3.5p per share amounting to £542,000 and, subject to approval, this is expected to be paid on 7 December 2006 to shareholders on the register at 10 November 2006. This will give a total dividend for the year of 5.0p (2005: 4.0p).

13 EARNINGS PER ORDINARY SHARE

	2006 Pence per share	2005 Pence per share
Basic earnings per ordinary share	**10.4**	19.2
Diluted earnings per ordinary share	**10.4**	19.1
Underlying earnings per ordinary share	**24.2**	20.0
Underlying diluted earnings per ordinary share	**24.2**	19.9

The calculation of basic earnings per ordinary share is based on the profit after taxation for the year of £1,431,000 (2005: £2,217,000) and on 13,781,617 shares, being the weighted average number of shares in issue and ranking for dividend during the year (2005: 11,546,335).

The calculation of diluted earnings per ordinary share is based on the profit after taxation for the year of £1,431,000 (2005: £2,217,000) and on 13,789,163 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 (2005: 11,590,130).

Year ended 31 May 2006	Profit after tax £'000	Weighted average number of ordinary shares	Earnings per ordinary share p per share
Basic earnings per ordinary share	1,431	13,781,617	10.4
Dilutive potential ordinary shares arising from share options	–	7,546	–
Diluted earnings per ordinary share	1,431	13,789,163	10.4
Year ended 31 May 2005			
Basic earnings per ordinary share	2,217	11,546,335	19.2
Dilutive potential ordinary shares arising from share options	–	43,795	(0.1)
Diluted earnings per ordinary share	2,217	11,590,130	19.1

Notes to the Financial Statements

For the year ended 31 May 2006

13 EARNINGS PER ORDINARY SHARE CONTINUED

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 for the year, but before deducting exceptional items (after adjusting for their impact on the tax charge for the year) and amortisation of goodwill, of £3,338,000 (2005: £2,311,000) and on 13,781,617 shares, being the weighted average number of shares in issue and ranking for dividend during the year (2005: 11,546,335).

Year ended 31 May 2006	Profit after tax £'000	Weighted average number of ordinary shares	Earnings per ordinary share p per share
Basic earnings per ordinary share	1,431	13,781,617	10.4
Exceptional items	1,265	–	9.1
Impact of exceptional items on tax charge for the year	(98)	–	(0.7)
Goodwill amortisation	740	–	5.4
Underlying earnings per ordinary share	3,338	13,781,617	24.2
Year ended 31 May 2005			
Basic earnings per ordinary share	2,217	11,546,335	19.2
Exceptional items – tax credit	(302)	–	(2.6)
Goodwill amortisation	396	–	3.4
Underlying earnings per ordinary share	2,311	11,546,335	20.0

The calculation of underlying diluted earnings per ordinary share is based on the profit after taxation for the year, but before deducting exceptional items (after adjusting for their impact on the tax charge for the year) and amortisation of goodwill of £3,338,000 (2005: £2,311,000) and on 13,789,163 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 (2005: 11,590,130).

Year ended 31 May 2006	Profit after tax £'000	Weighted average number of ordinary shares	Earnings per ordinary share p per share
Underlying earnings per ordinary share	3,338	13,781,617	24.2
Dilutive potential ordinary shares arising from share options	–	7,546	–
Underlying diluted earnings per ordinary share	3,338	13,789,163	24.2
Year ended 31 May 2005			
Underlying earnings per ordinary share	2,311	11,546,335	20.0
Dilutive potential ordinary shares arising from share options	–	43,795	(0.1)
Underlying diluted earnings per ordinary share	2,311	11,590,130	19.9

14 INTANGIBLE FIXED ASSETS

	Group £'000	Company £'000
Cost:		
At 1 June 2005	9,783	5,627
Foreign exchange translation adjustment	(49)	–
Addition	8,527	–
At 31 May 2006	18,261	5,627
Amortisation:		
At 1 June 2005	600	329
Foreign exchange translation adjustment	(4)	–
Charge for the year	740	281
At 31 May 2006	1,336	610
Net book value:		
At 31 May 2006	**16,925**	**5,017**
At 31 May 2005	9,183	5,298

The addition to goodwill in the year arose on the acquisition of Protec plc (see note 33).

Goodwill is amortised over its estimated useful life of 20 years.

15 TANGIBLE FIXED ASSETS

Group	Freehold land and buildings £'000	Short leasehold improvements £'000	Other assets £'000	Total £'000
Cost:				
At 1 June 2005	633	147	2,481	3,261
Acquisitions	–	633	1,705	2,338
Additions	–	5	312	317
Disposals	–	(147)	(1,152)	(1,299)
At 31 May 2006	633	638	3,346	4,617
Depreciation:				
At 1 June 2005	56	147	1,778	1,981
Acquisitions	–	111	1,229	1,340
Charge for the year	12	44	419	475
Disposals	–	(147)	(1,081)	(1,228)
At 31 May 2006	68	155	2,345	2,568
Net book value:				
At 31 May 2006	**565**	**483**	**1,001**	**2,049**
At 31 May 2005	577	–	703	1,280

Other assets comprise plant, equipment and motor vehicles, and include assets held under finance leases with a net book value of £31,000 (2005: £13,000).

Notes to the Financial Statements

For the year ended 31 May 2006

15 TANGIBLE FIXED ASSETS CONTINUED

Company	Other assets £'000
Cost:	
At 1 June 2005	360
Additions	87
Disposals	(45)
At 31 May 2006	402
Depreciation:	
At 1 June 2005	155
Charge for the year	92
Disposals	(36)
At 31 May 2006	211
Net book value:	
At 31 May 2006	**191**
At 31 May 2005	205

16 INVESTMENTS

Company	£'000	Total £'000
Cost at 1 June 2005		14,647
Additions		
– investment in Protec plc (see note 33)	10,027	
– additional investment in Synectic Systems, Inc	160	
– investment in Quadrant Security Group Limited and Synectic Systems Group Limited	500	
		10,687
At 31 May 2006		25,334
Provision for impairment as at 1 June 2005 and 31 May 2006		(8,182)
Net book value:		
At 31 May 2006		**17,152**
At 31 May 2005		6,465

Further details regarding the acquisition of Protec plc are set out in note 33.

At 31 May 2006, as part of the restructuring of the Group's businesses, the trade and assets of Quadrant Video Systems plc, the SDA division of Security Design Associates (1979) Limited, SDA Protec Limited and SDA Protec 2001 Limited were transferred into a newly formed company, Quadrant Security Group Limited. Similarly, the trade and assets of Synectic Systems Limited, Coex Limited and the Falcon division of Security Design Associates (1979) Limited were transferred into a newly formed company, Synectic Systems Group Limited. The Company then subscribed £250,000 for Ordinary shares in each of Quadrant Security Group Limited and Synectic Systems Group Limited.

16 INVESTMENTS CONTINUED

At 31 May 2006 the Company held the following direct shareholdings in its subsidiaries which had been active during the year:

Subsidiary and activity	Class of share	Percentage held at 31 May 2006
Quadrant Video Systems plc ("Quadrant") *Design, installation and maintenance of CCTV security systems*	Ordinary shares	100%
Synectic Systems Limited ("Synectics") *Design and manufacture of video systems control products and integrated digital CCTV systems*	Ordinary shares	100%
Coex Limited ("Coex") *Specialist manufacturer of CCTV equipment and systems for extreme or hazardous environments*	Ordinary shares	100%
Synectic Systems, Inc (incorporated in Delaware, USA) *Design and supply of video systems control products and integrated digital CCTV systems*	Common stock	100%
Protec plc (acquired on 9 November 2005) *Intermediate holding company for the following wholly owned principal subsidiaries:* Security Design Associates (1979) Limited *Design, installation and maintenance of integrated security systems* SDA Protec Limited *Design, installation and maintenance of integrated security systems* SDA Protec (2001) Limited *Design, installation and maintenance of integrated security systems* SSS Management Services Limited *Security management and support services*	Ordinary shares	100%
Quadrant Security Group Limited *Newly created company into which the businesses of Quadrant, the SDA division of Security Design Associates (1979) Limited, SDA Protec Limited and SDA Protec (2001) Limited were transferred on 31 May 2006*	Ordinary shares	100%
Synectic Systems Group Limited *Newly created company into which the businesses of Synectics, Coex and the Falcon division of Security Design Associates (1979) Limited were transferred on 31 May 2006*	Ordinary shares	100%

17 STOCKS

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Raw materials and consumables	**2,055**	1,450	**1,199**	574
Work in progress	**–**	81	**–**	–
Finished goods for resale	**1,853**	1,509	**–**	–
	3,908	3,040	**1,199**	574
Long-term contract balances	**373**	–	**–**	–
	4,281	3,040	**1,199**	574

Notes to the Financial Statements

For the year ended 31 May 2006

17 STOCKS CONTINUED

Long-term contract balances comprise:	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Net costs incurred	**437**	–	**–**	–
Applicable payments on account	**(64)**	–	**–**	–
	373	–	**–**	–

18 DEBTORS

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Trade debtors	**13,257**	4,917	**1,301**	1,173
Amounts recoverable on contracts	**4,597**	4,064	**–**	–
Corporation tax recoverable	**–**	13	**–**	–
Deferred taxation	**815**	323	**27**	298
Other debtors	**430**	162	**39**	36
Amounts due from subsidiaries	**–**	–	**8,968**	4,386
Prepayments and accrued income	**805**	316	**138**	74
Amounts falling due within one year	**19,904**	9,795	**10,473**	5,967
Amounts falling due after more than one year				
Other debtors	**–**	101	**–**	101
Amounts due from subsidiaries	**–**	–	**387**	387
	19,904	9,896	**10,860**	6,455

Deferred taxation	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
At 1 June 2005	**323**	79	**298**	–
Credit/(charge) to profit and loss account	**500**	244	**(271)**	298
Foreign exchange translation adjustment	**(8)**	–	**–**	–
At 31 May 2006	**815**	323	**27**	298

The deferred taxation balances comprise:	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Fixed asset timing differences	**290**	(25)	**11**	(40)
Other timing differences	**28**	15	**1**	5
Tax losses	**497**	333	**15**	333
	815	323	**27**	298

19 CREDITORS

Amounts falling due within one year	Group 2006 £'000	Group Restated 2005 £'000	Company 2006 £'000	Company Restated 2005 £'000
Unsecured loan notes	**–**	350	**–**	350
Bank overdrafts	**–**	–	**994**	–
Payments on account	**1,032**	45	**–**	–
Trade creditors	**10,118**	5,267	**1,049**	785
Amounts owed to subsidiaries	**–**	–	**2,764**	247
Corporation tax	**536**	–	**–**	–
Other taxation and social security	**1,197**	367	**136**	121
Other creditors	**389**	145	**60**	134
Obligations under finance leases	**20**	9	**–**	–
Accruals and deferred income	**8,466**	1,344	**394**	99
	21,758	7,527	**5,397**	1,736

Amounts falling due after more than one year	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Obligations under finance leases	**–**	3	**–**	–
Amounts owed to subsidiaries	**–**	–	**204**	204
	–	3	**204**	204

Borrowings	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Unsecured loan notes	**–**	350	**–**	350
Bank overdrafts	**–**	–	**994**	–
Obligations under finance leases	**20**	12	**–**	–
	20	362	**994**	350

Total borrowings are repayable as follows:

Borrowings repayable in:	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
One year	**20**	359	**994**	350
One to two years	**–**	3	**–**	–
	20	362	**994**	350

Bank overdrafts bear interest at variable rates between 1.4% and 1.5% over bank base rate and are secured by charges over the assets of the Group. Finance leases bear interest at fixed rates between 8% and 11% and are secured on the assets concerned.

Unsecured loan notes which were issued as part consideration for the acquisition of Look, were repaid on 26 August 2005 and were subject to interest at a fixed rate of 4% per annum.

Notes to the Financial Statements

For the year ended 31 May 2006

20 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred consideration £'000	Restructuring £'000	Property £'000	Total £'000
At 1 June 2005	1,097	–	5	1,102
Acquisitions	–	–	153	153
Foreign exchange translation adjustment	(28)	–	–	(28)
Utilised in year	–	–	(39)	(39)
Charge to profit and loss account	–	161	414	575
At 31 May 2006	**1,069**	**161**	**533**	**1,763**

Company	Property £'000
At 1 June 2005	5
Utilised in year	(5)
Charge to profit and loss account	303
At 31 May 2006	**303**

It is anticipated that the provisions carried forward at 31 May 2006 will be utilised within the following timescales:

	Number of years
Deferred contingent consideration in respect of the acquisition of the trade and net assets of AlphaPoint LLC	Four
Restructuring provision as a result of the acquisition of Protec	One
Property costs provision for the future costs of empty leasehold properties and dilapidations	Three

21 CALLED UP SHARE CAPITAL

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

	2006 Number	**2006 £'000**	2005 Number	2005 £'000
Ordinary shares of 20p each				
Authorised	**25,000,000**	**5,000**	13,135,952	2,627
Allotted, called up and fully paid	**15,696,973**	**3,139**	11,706,270	2,341
Shares to be issued	**619,711**	**124**	–	–
	16,316,684	**3,263**	11,706,270	2,341

On 17 October 2005, at an extraordinary general meeting, the authorised share capital of the Company was increased from £2,627,190 to £5,000,000 by the creation of an additional 11,864,048 Ordinary shares of 20p each in the Company, each ranking *pari passu* in all respects with the existing Ordinary shares.

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

(1) During the year the Company made the following allotment of Ordinary shares to the Quadnetics Group Employee Share Scheme for a consideration of £2,030,000 in cash, funded by a loan from the Company (see note 23):

Date	Number of shares
17 June 2005	620,000
23 June 2005	160,000
10 April 2006	62,000
	842,000

21 CALLED UP SHARE CAPITAL CONTINUED

(2) At 31 May 2006 the Company had issued 3,113,150 Ordinary shares to former holders of Protec shares in connection with the acquisition of Protec plc (see note 33). At that date, a further 619,711 Ordinary shares remained to be issued to Protec shareholders who had irrevocably accepted the Offer, thus transferring beneficial interest in their Protec shares to the Company, but who had not at that time perfected their acceptance by submitting valid share certificates to the Company's registrars.

(3) On 19 December 2005, the Company purchased 37,731 of its own Ordinary shares at a price of £2.00 each (nominal value 20p each). This represented 0.24% of the Company's called up share capital.

(4) On 13 January 2006 and 9 May 2006, 4,314 Ordinary shares and 68,970 Ordinary shares respectively were issued as a result of options over Protec shares being converted to options over shares in the Company, and then being exercised.

The impact on Share capital, Share premium account, Merger and Other reserves was as follows:

	Number of shares	Share capital £'000	Share premium £'000	Merger reserve £'000	Other reserves £'000	Total £'000
Issue of shares to employee share scheme	842,000	168	1,862	–	(2,030)	–
Consideration for acquisition of Protec plc						
– Shares issued	3,113,150	623	–	7,160	–	7,783
– Shares to be issued	619,711	124	–	1,425	–	1,549
Share buy-back	37,731	(8)	–	–	8	–
Issue of shares to Protec share option holders	73,284	15	130	–	–	145
Transfer between reserves in respect of previous acquisition		–	(980)	980	–	–
		922	1,012	9,565	(2,022)	9,477

22 OPTIONS OVER SHARES OF QUADNETICS GROUP PLC

There were no movements on options outstanding under the Company's EMI share option scheme during the year.

Outstanding EMI options at 31 May 2006 are exercisable as follows:

Date granted	Exercise dates	Option price	Number of options
11 April 2003	11 April 2005 – 10 April 2013	135.0p	15,000
5 March 2004	5 March 2006 – 4 March 2014	300.0p	213,333
30 September 2004	30 September 2006 – 29 September 2014	280.0p	10,715
Outstanding options at 31 May 2006			239,048

In addition the holders of Protec EMI options at the time of the acquisition were able to elect to convert these options into options of the same value over ordinary shares in Quadnetics Group plc. As a result, former Protec EMI option holders held options over a further 41,275 Ordinary shares at 31 May 2006, exercisable as follows:

Date granted	Exercise dates	Option price	Number of options
23 May 2001	23 May 2004 – 22 May 2011	301.0p	16,278
24 October 2001	24 October 2004 – 23 October 2011	292.4p	3,488
16 April 2002	16 April 2005 – 15 April 2012	163.4p	4,651
10 December 2002	10 December 2005 – 9 December 2012	258.0p	5,814
18 November 2003	18 November 2006 – 17 November 2013	516.0p	9,882
30 April 2004	30 April 2007 – 29 April 2014	430.0p	1,162
			41,275

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For the year ended 31 May 2006

23 EMPLOYEE SHARE SCHEME

During the year the Company allotted 842,000 Ordinary shares to the Quadnetics Group Employee Share Scheme. Under the provisions of the scheme, these shares ('the Scheme Shares') are held for the benefit of nominated employees or executive Directors on terms, similar to a share option scheme, whereby the value of appreciation in the Company's share price over a minimum three-year period accrues to the relevant employee or Director, provided the Company meets certain performance thresholds linked to the FTSE AIM All Share Total Return Index. The substantial majority of the funding for subscription for the Scheme Shares was provided as an interest-free loan by the Company to Synectics Group Limited, a wholly owned subsidiary of the Company and trustee to the scheme, and it is intended that this loan will ultimately be repaid following sale of the Scheme Shares in the market once the three-year qualification requirements and performance criteria have been met. Dividends on the Scheme Shares have been waived.

At 31 May 2006 the market value of the shares held by the Scheme, but not yet vested, was £1,831,000.

24 RESERVES

The movements on reserves during the year were as follows:

Group	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 June 2005	12,622	–	715	2,300	15,637
Restatement of dividends	–	–	–	351	351
Restated	12,622	–	715	2,651	15,988
Issue of shares to employee share scheme	1,862	–	(2,030)	–	(168)
Transfer between reserves in respect of previous acquisitions	(980)	980	–	–	–
Acquisition of Protec plc	–	8,585	–	–	8,585
Issue of shares to Protec share option holders	130	–	–	–	130
Profit after tax for the year	–	–	–	1,431	1,431
Dividends paid	–	–	–	(573)	(573)
Share buy-back	–	–	8	(77)	(69)
Foreign exchange translation adjustment	–	–	–	(9)	(9)
At 31 May 2006	**13,634**	**9,565**	**(1,307)**	**3,423**	**25,315**

24 RESERVES CONTINUED

Company	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 June 2005	12,622	–	715	1,453	14,790
Restatement of dividends	–	–	–	351	351
Restated	12,622	–	715	1,804	15,141
Issue of shares to employee share scheme	1,862	–	(2,030)	–	(168)
Transfer between reserves in respect of previous acquisitions	(980)	980	–	–	–
Acquisition of Protec plc	–	8,585	–	–	8,585
Issue of shares to Protec share option holders	130	–	–	–	130
Profit after tax for the year	–	–	–	2,206	2,206
Dividends paid	–	–	–	(573)	(573)
Share buy-back	–	–	8	(77)	(69)
At 31 May 2006	**13,634**	**9,565**	**(1,307)**	**3,360**	**25,252**

Cumulative goodwill written off directly to the profit and loss account at 31 May 2006 was £593,000 (2005: £593,000).

Other reserves includes a capital redemption reserve of £8,000.

The Merger reserve has been created in accordance with s131 of the Companies Act 1985 whereby the premium on Ordinary shares in the Company issued to acquire shares has been credited to the Merger reserve rather than the Share premium account.

The value of own shares held within the Quadnetics Group Employee Share Scheme has been deducted from Other reserves.

The consolidated result attributable to the shareholders of Quadnetics Group plc for the year includes a profit of £2,206,000 (2005: £923,000) 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.

25 CONTINGENT LIABILITIES

The Company has agreed, in some instances jointly with subsidiary companies, to guarantee borrowings, annual operating lease rentals and performance bonds amounting to £0.9 million at 31 May 2006 (2005: £0.1 million).

26 RELATED PARTY TRANSACTIONS

(1) Interest-free loans of £100,602, which were made by the Company in 2002 to MG Boddy, G Robinson and GC Wragg, when they were all directors of Group subsidiary companies, were repaid in the year. The comparative balance outstanding at 31 May 2005 was £100,602 after repayment of £66,557 in the year then ended.

(2) At 1 June 2005, AJ Myers, a director of Look CCTV Limited, held £349,650 of unsecured loan notes in the Company which were acquired in 2004 as part consideration for Look. These notes were repaid on 26 August 2005. Interest of £5,441 (2005: £15,781) was paid during the year at a fixed rate of 4% per annum.

(3) Sales in the year of £6,391 (2005: £183,018) were made to Trafficland, Inc, of which DJ Coghlan is a director and shareholder.

(4) Sales in the year of £690,413 (2005: £289,000) were made to Coex Services Asia Pte Ltd, in which the Group has an investment of £8,000, but does not exercise any influence.

Notes to the Financial Statements

For the year ended 31 May 2006

27 CAPITAL COMMITMENTS

At the year end capital commitments not provided for in these financial statements amounted to £5,000 (2005: £5,000).

28 OPERATING LEASE COMMITMENTS

The Group and Company are committed to making operating lease payments during the next year as follows:

Group **Operating leases which expire:**	Land and buildings £'000	Other £'000	**2006 Total £'000**	Land and buildings £'000	Other £'000	2005 Total £'000
Within one year	29	127	**156**	67	32	99
Within two to five years	153	466	**619**	24	287	311
In excess of five years	259	–	**259**	18	–	18
	441	593	**1,034**	109	319	428

Company **Operating leases which expire:**	Land and buildings £'000	Other £'000	**2006 Total £'000**	Land and buildings £'000	Other £'000	2005 Total £'000
Within one year	–	–	**–**	5	2	7
Within two to five years	27	35	**62**	–	27	27
In excess of five years	19	–	**19**	18	–	18
	46	35	**81**	23	29	52

29 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2006 £'000	2005 £'000
Operating profit	**1,762**	2,126
Depreciation and amortisation	**1,215**	637
Profit on sale of fixed assets	**(8)**	(7)
Increase in stocks	**(1,182)**	(320)
Increase in debtors	**(123)**	(1,469)
Increase in creditors and provisions	**1,582**	972
Net cash inflow from operating activities	**3,246**	1,939

Net cash inflow from operating activities includes £1,587,000 arising from acquisitions (2005: £nil).

30 ANALYSIS OF CASH FLOWS

Returns from investments and servicing of finance	**2006 £'000**	2005 £'000
Interest received	**141**	137
Interest paid	**(9)**	(30)
Net cash inflow from investments and servicing of finance	**132**	107

Net cash inflow from investments and servicing of finance includes £81,000 arising from acquisitions (2005: £nil).

30 ANALYSIS OF CASH FLOWS CONTINUED

Capital expenditure and financial investment	**2006 £'000**	2005 £'000
Purchase of tangible fixed assets	**(317)**	(550)
Sale of tangible fixed assets	**79**	53
Net cash outflow for capital expenditure and financial investment	**(238)**	(497)

Net cash outflow for capital expenditure and financial investment includes £63,000 arising from acquisitions (2005: £nil).

Acquisitions	**2006 £'000**	2005 £'000
Acquisitions (see note 33)	**3,570**	(421)
Deferred consideration on acquisitions made in 2004	**–**	(446)
Repayment of loan notes (issued in respect of acquisitions made in 2004)	**(350)**	–
Net cash inflow/(outflow) on acquisitions	**3,220**	(867)

Management of liquid resources	**2006 £'000**	2005 £'000
Transfer from bank deposits	**–**	2,500

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

Financing	**2006 £'000**	2005 £'000
Issue of shares, net of expenses	**12**	92
Share buy-back	**(77)**	–
Payment of principal under finance leases	**(45)**	(63)
Net cash (outflow)/inflow from financing	**(110)**	29

Net cash outflows from financing includes £33,000 arising from acquisitions (2005: £nil).

31 ANALYSIS OF NET FUNDS

	1 June 2005 £'000	Cash flow £'000	Acquisitions £'000	**31 May 2006 £'000**
Cash	3,562	5,378	–	**8,940**
Finance leases	(12)	45	(53)	**(20)**
Unsecured loan notes	(350)	350	–	**–**
Total net funds	3,200	5,773	(53)	**8,920**

Notes to the Financial Statements

For the year ended 31 May 2006

32 PENSION COMMITMENTS

The Group operates a defined benefit pension scheme and a number of defined contribution schemes.

a) Defined benefit scheme

The Company operates the Quadrant Group plc Retirement Benefit Scheme. This Scheme includes both a defined benefits section in respect of past employees of the Group and a defined contributions section in respect of one current employee. The accrual of benefits in the defined benefit section ceased in 1996 and the section now relates to members whose benefits represent deferred pensions only. The last full actuarial valuation of the defined benefit section was carried out by a qualified independent actuary as at 1 July 2004 which has been updated, on an approximate basis, for the year ends 31 May 2005 and 31 May 2006. The previous actuarial valuation as at 1 July 2001 has been updated, on an approximate basis, for the other year ends included below. No contributions are being made by the Group and this is to continue until reviewed following the triennial valuation of the scheme due as at 1 July 2007.

The disclosures below relate to the defined benefits section, with the contributions to the defined contributions section being disclosed in section (b).

Principal actuarial assumptions

The assets of the scheme are stated at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	31 May 2006 % per annum	31 May 2005 % per annum	31 May 2004 % per annum
Inflation	**3.00**	2.75	3.00
Rate of discount	**5.00**	5.00	5.75
Increases in pensions in payment	**2.50**	2.50	2.50
Revaluation rate for deferred pensioners	**3.00**	2.75	3.00

On the basis of these assumptions the value of the assets and liabilities of the scheme as at 31 May 2006, 31 May 2005 and 31 May 2004 are as set out below. However, as the surplus arising in each of these three years is not recoverable by the Group no assets have been included in the balance sheet of the Company or the Group.

	31 May 2006 £'000	31 May 2005 £'000	31 May 2004 £'000
Assets			
– Equities	**87**	75	70
– Bonds	**4,562**	4,369	3,907
– Cash	**502**	627	557
Total market value of assets	**5,151**	5,071	4,534
Present value of scheme liabilities	**(4,619)**	(4,507)	(3,540)
Surplus in the scheme	**532**	564	994
Amount of surplus not recoverable	**(532)**	(564)	(994)
Net pension asset/(liability)	**–**	–	–

32 PENSION COMMITMENTS CONTINUED

The following long term rates of return on the scheme's assets above, have been used:

	31 May 2006 % per annum	31 May 2005 % per annum	31 May 2004 % per annum
Equities	**8.00**	8.00	8.00
Bonds	**4.50**	4.50	5.00
Cash	**4.00**	4.00	4.00

The following amounts have been included in the financial statements under the headings shown:

	Year ending 31 May 2006 £'000	Year ending 31 May 2005 £'000
Operating profit		
Current service cost	**–**	–
Past service cost	**–**	–
Charge to operating profit	**–**	–
Other financial income		
Interest on pension scheme liabilities	**222**	200
Expected return on pension scheme assets	**(222)**	(200)
Credited to other financial income	**–**	–

As the defined benefits section of the scheme has a surplus which cannot be recovered, the expected return on pension scheme assets has been restricted so that it does not exceed the interest on pension scheme liabilities.

Analysis of the amounts recognised in the statement of total recognised gains and losses	**Year ending 31 May 2006 £'000**	Year ending 31 May 2005 £'000
Difference between expected and actual return on scheme assets	**(2)**	472
Experience gains and losses arising on the scheme liabilities	**–**	(12)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	**(30)**	(890)
Adjustment due to surplus cap	**32**	430
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	**–**	–

Movement in the surplus during the year	**Year ending 31 May 2006 £'000**	Year ending 31 May 2005 £'000
Surplus in scheme at beginning of year	**564**	994
Movement in year:		
Current service cost	**–**	–
Net finance charge	**–**	–
Contributions	**–**	–
Past service costs	**–**	–
Actuarial loss	**(32)**	(430)
Surplus in scheme at end of year	**532**	564

Notes to the Financial Statements

For the year ended 31 May 2006

32 **PENSION COMMITMENTS** CONTINUED

History of experience gains and losses

A history of the amounts recognised in the statement of total recognised gains and losses for the previous five years is as follows:

	Year ending 31 May 2006 £'000	Year ending 31 May 2005 £'000	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000	Year ending 31 May 2002 £'000
Difference between expected and actual return on scheme assets:					
Amount	**(2)**	472	(397)	745	10
Percentage of scheme assets	**(0%)**	9%	(9%)	15%	0%
Experience gains and losses on scheme liabilities:					
Amount	**–**	(12)	–	–	–
Percentage of the present value of the scheme liabilities	**0%**	0%	0%	0%	0%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:					
Amount	**(30)**	(890)	334	(587)	(26)
Percentage of the present value of the scheme liabilities	**(1%)**	(20%)	9%	(15%)	(1%)
Adjustment due to surplus cap:					
Amount	**32**	430	63	(158)	16
Percentage of present value of scheme liabilities	**1%**	10%	2%	(4%)	1%
Total amount recognised in statement of total recognised gains and losses:					
Amount	**–**	–	–	–	–
Percentage of the present value of the scheme liabilities	**0%**	0%	0%	0%	0%

b) Defined contribution schemes

As noted above, the Quadrant Group plc Retirement Benefit Scheme includes a defined contribution section. Contributions made by Quadnetics Group plc to this scheme amount to £7,263 in the year (2005: £6,213).

There are also a number of other defined contribution pension schemes operated by various companies within the Group. The Group's total expense for these other schemes in the year was £255,702 (2005: £107,929). The Company's total expense for these schemes during the year was £40,945 (2005: £6,485).

33 **ACQUISITIONS**

On 9 November 2005 the Recommended All Share Offer (the "Offer") made by Brewin Dolphin Securities Limited on behalf of Quadnetics Group plc to acquire the entire issued share capital of Protec plc ("Protec") was declared wholly unconditional, and therefore the results of Protec and its subsidiaries have been included in the results with effect from that date.

Under the terms of the offer Protec shareholders would receive one new Ordinary share of 20p each in Quadnetics Group plc for every 43 Ordinary shares of 1p each in Protec plc.

On 8 February 2006 notice was given to those Protec shareholders who had not accepted the Offer informing them that Quadnetics would compulsorily acquire their Protec shares by applying sections 428 to 430F of the Companies Act 1985. As a result the Company had issued 3,113,150 Ordinary shares, valued at £2.50 each, to former holders of Protec shares as at 31 May 2006. In addition, at that date, a further 619,711 Ordinary shares remained to be issued to Protec shareholders who had irrevocably accepted the Offer, thus transferring beneficial interest in their Protec shares to the Company, but who had not at that time perfected their acceptance by submitting valid share certificates to the Company's registrars.

33 ACQUISITIONS CONTINUED

The total consideration and assets acquired are made up as follows:

	£'000
3,732,861 ordinary shares of 20p each	9,332
Acquisition expenses	562
Acquisition of Protec share options	133
Total cost of acquisition	10,027

Assets acquired, at book value and fair value:	Book Value £'000	Fair Value Adjustments Other Adjustments £'000	Fair Value £'000
Tangible fixed assets	1,239	(241)	998
Stocks	130	(71)	59
Debtors	9,390	–	9,390
Creditors	(13,673)	969	(12,704)
Corporation tax	5	(174)	(169)
Obligations under finance leases	(53)	–	(53)
Provisions	(153)	–	(153)
Bank and cash balances	4,132	–	4,132
	1,017	483	1,500
Goodwill arising			8,527
			10,027

Fair value adjustments have been made in respect of the write down of stock to its net realisable value, the write down of the carrying value of fixed assets to their value in use, and a re-assessment of the value of accrued costs. Corporation tax balances have been adjusted for the impact of these changes.

Cash inflow arising from the acquisition of Protec plc was made up as follows:

	£'000
Bank and cash balances acquired	4,132
Less acquisition expenses paid in year	(562)
	3,570

The consolidated profit and loss account of Protec plc in the period from 1 July 2005 up to acquisition can be summarised as follows:

	4 months ended 31 October 2005 £'000
Turnover	**10,601**
Operating loss	**(890)**
Exceptional items	**(36)**
Net interest receivable	**21**
Loss before taxation	**(905)**
Taxation	**–**
Loss after taxation	**(905)**

The consolidated loss after taxation of Protec plc for the year ended 30 June 2005 was £2.021 million. There were no recognised gains or losses other than the loss for the period.

Notes to the Financial Statements

For the year ended 31 May 2006

34 FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise bank and cash balances, bank overdrafts, obligations under finance leases and trade debtors and trade creditors that 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.

The Group's operations expose it to a variety of financial risks including the effects of changes in foreign exchange rates, credit risk, liquidity and interest rates as explained below.

Foreign currency risk

The Group is exposed in its trading operations to the risk of changes in foreign currency exchange rates. The main foreign currencies in which the Group operates are the US dollar and the euro. The Group's policy is to manage any material currency risks involved in these transactions through the use of derivatives (principally forward exchange contracts). At 31 May 2006 the Group had commitments in respect of forward exchange contracts for the sale of €0.1 million (2005: US$2.6 million) maturing within the next year. The fair value of these forward exchange contracts is not considered to be materially different to the value determined in the contracts. At 31 May 2006 and 31 May 2005, after taking into account the effects of forward exchange contracts, the Group had no material currency exposure.

Credit risk

The Group is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through its management review processes and credit control procedures.

Liquidity risk

The Group ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium-term capital and funding obligations, and to meet any unforeseen obligations and opportunities.

Interest risk

Interest bearing assets comprise cash and bank deposits which earn interest at a market rate.

At the year end, the Group had net funds of £8,920,000 (2005: £3,200,000) comprising £7,710,000 (2005: £3,020,000) short-term bank deposits and £1,230,000 (2005: £542,000) held in current accounts, offset by £20,000 (2005: £12,000) of finance leases and £nil (2005: £350,000) of unsecured loan notes. The bank deposits bore interest at rates between 3.88% and 4.35% (2005: 4.5%), the current accounts do not bear interest. Details of the applicable interest rates and maturity profile of the Group's debt are shown in note 19. The Group's funds did not, at the year ends, carry any significant interest rate risk.

In addition to the Group's debt, the earliest date of payment of the Group's other financial liability is within one to two years. This financial liability, which is included in provisions as contingent consideration, bears no interest.

The level of the Group's bank overdraft facilities is reviewed annually and at 31 May 2006 the Group had undrawn facilities of up to £2.5 million.

Principal Subsidiaries

Following the restructuring of the Group, more fully described in note 2, the principal subsidiaries and divisions within the Group are as follows:

Quadrant Security Group Limited
Design, installation, maintenance and management of advanced integrated CCTV and security systems

www.qsg.co.uk
Axis 7, Rhodes Way
Radlett Road
Watford
Hertfordshire WD24 4TP
Tel: +44 (0) 1923 211 550

3A Attenborough Lane
Chilwell
Nottingham NG9 5JN
Tel: +44 (0) 115 925 2521

9 Hadrian Court
Team Valley Industrial Estate
Gateshead
Tyne & Wear NE11 0XW
Tel: +44 (0) 191 487 2342

Look CCTV
Development and supply of CCTV systems for bus manufacturers and operators

www.lookcctv.com
Unit 4
Wyrefields
Poulton-le-Fylde
Lancashire FY6 8JX
Tel: +44 (0) 1253 891 222

Look CCTV trades as a division of Quadnetics Group plc

SSS Management Services Limited
Total security outsourcing support and management services to the retail and multi-site markets

www.sss-support.co.uk
Shannon House
245 Coldharbour Lane
Aylesford
Kent ME20 7NS
Tel: +44 (0) 1622 798 200

Synectic Systems Group Limited
Design and development of advanced surveillance technology

www.synx.com
3 Acorn Business Park
Woodseats Close
Sheffield S8 0TB
Tel: +44 (0) 114 255 2509

Synectics – Industrial Systems
Specialist manufacturer of CCTV equipment and systems for extreme or hazardous environments

www.synx.com
The Flarepath
Elsham Wold
Brigg
North Lincolnshire DN20 0SP
Tel: +44 (0) 1652 688 908

Synectics – Security Networks
Developers of integrated software solutions and products for complex security and surveillance networks

www.synx.com
3 Acorn Business Park
Woodseats Close
Sheffield S8 0TB
Tel: +44 (0) 114 255 2509

Synectics – Surveillance Technology
Advanced imaging systems and radio frequency technology for the defence and private sectors

www.synx.com
Unit 32, Alexandra Way
Ashchurch Business Centre
Tewkesbury
Gloucestershire GL20 8NB
Tel: +44 (0) 1684 295 807

Synectic Systems, Inc
Developers of integrated software solutions and products for complex security and surveillance networks

www.synx.com/usa
4180 Via Real, Suite A
Carpinteria
California 93013
USA
Tel: 00 1 805 745 1920

Notice of Meeting

Notice is hereby given that the twenty-third Annual General Meeting of Quadnetics Group plc will be held at the offices of Brewin Dolphin Securities Limited, 12 Smithfield Street, London, EC1A 9BD on 29 November 2006 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. To receive and adopt the Report of the Directors' and Audited Accounts for the year ended 31 May 2006.
2. To declare a final dividend of 3.5p per Ordinary Share.
3. To re-elect as a Director SW Coggins who, being eligible, submits himself for re-election.
4. To re-elect as a Director NC Poultney who, being eligible, submits himself for re-election.
5. To re-elect as a Director PM Rae who, being eligible, submits himself for re-election.
6. To elect as a Director D Bate who was appointed since the Notice of Meeting for the last Annual General Meeting sent to shareholders and who, being eligible, submits himself for election.
7. To elect as a Director RW Westcott who was appointed since the Notice of Meeting for the last Annual General Meeting sent to shareholders and who, being eligible, submits himself for election.
8. To re-appoint PKF (UK) LLP as Auditors to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to set their remuneration.

Special Business

To consider and, if thought fit, to pass the following Resolutions. Resolution 9 will be proposed as an Ordinary Resolution and Resolutions 10, 11 and 12 as Special Resolutions:

9. That, in substitution for the existing general authorities granted at the last Annual General Meeting of the Company, 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 £1,136,249 (being approximately 34% of the issued share capital of the Company) provided that this authority (unless previously revoked or renewed) shall expire on the earlier date of 31 December 2007 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.
10. That, the Company be and is hereby generally and unconditionally authorised pursuant to section 166 of the Act to make one or more 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 1,632,661 (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 31 December 2007; 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.

11. That:

    (1) Conditionally upon the passing of Resolution No. 9 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. 9 as if sub-section (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 sub-paragraph (a) of this proviso) of equity securities up to an aggregate nominal amount of £163,266, being approximately 5% of the Company's issued share capital;

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 31 December 2007; 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. 9" in the first paragraph of this Resolution 11 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.

12. To amend the Articles of Association by deleting Article 138 (Indemnity) in its entirety and replacing it with the following new Article 138 (Indemnity to Directors and other officers):

138 INDEMNITY TO DIRECTORS AND OTHER OFFICERS

138.1 Subject to the provisions of, and so far as may be permitted by, the Statutes but without prejudice to any indemnity to which the person concerned may be otherwise entitled, the Company may indemnify every Director, alternate director, auditor, Secretary or other officer of the Company or of any associated company (for the purposes of this Article 138 defined in s. 309A(6) of the Companies Act 1985) against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or the exercise of his powers or otherwise in relation to or in connection with his duties, powers or office, including any liability which may attach to him in respect of any negligence, default, breach of duty or breach of trust in relation to anything done or omitted to be done or alleged to have been done or omitted to be done by him as a Director, alternate director, auditor, Secretary or other officer of the Company (or such associated company).

138.2 The Directors may purchase and maintain at the cost of the Company insurance cover for or for the benefit of every Director, alternate director, auditor, Secretary or other officer of the Company or of any associated company against any liability which may attach to him in respect of any negligence, default, breach of duty or breach of trust by him in relation to the Company (or such associated company), including anything done or omitted to be done or alleged to have been done or omitted to be done by him as a Director, alternate director, auditor, Secretary or other officer of the Company or any associated company.

138.3 Subject to the provisions of, and so far as may be permitted by, the Statutes, the Company shall be entitled to fund the expenditure of every Director, alternate director or other officer of the Company or of any associated company incurred or to be incurred:

138.3.1 in defending any criminal or civil proceedings; or

138.3.2 in connection with any application under sections 144(3), 144(4) or 727 of the Companies Act 1985.

By Order of the Board

NC Poultney
Secretary
21 September 2006

Registered office
Haydon House
5 Alcester Road, Studley
Warwickshire B80 7AN

Notes:

1. Further to Regulation 41 of the Uncertificated Securities Regulations 2001 only those Shareholders registered in the register of members of the Company as at 10.00 a.m. on 27 November 2006 shall be entitled to attend or vote at this meeting in respect of the number of shares registered in their name at that time. 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 may appoint a proxy (who need not be a member) to attend or vote instead of him. A member submitting a proxy is 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 of authority, must be received at the office of the Registrars of the Company, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR, not less than 48 hours before the time appointed for the holding of the meeting, or any adjournment thereof.

3. Copies of the Directors' service agreements together with the Register of Directors' share interests, will be available for inspection at the Registered office of the Company during normal working business hours on each business day and will be available for inspection on the day of the Annual General Meeting for 15 minutes prior to and during the continuance of the meeting.

4. In the case of joint holdings, the vote of the senior holder shall be accepted to the exclusion of the other joint holders, whether in person or by proxy. For this purpose, seniority shall be deemed by the order of the names of the holders as entered in the Company's register of members in respect of relevant joint holdings.

Quadnetics Group plc

Form of Proxy

For use at the Annual General Meeting to be held on 29 November 2006 commencing at 10.00 am or at any adjournment thereof.

I/We ....

(please complete in block capitals)

of ....

being (a) holder(s) of Ordinary shares in Quadnetics Group plc (the "Company") hereby appoint the Chairman of the meeting (see note 4)

or ....

of ....

as my/our proxy to vote for me/us and on my/our behalf in the manner indicated below at the Annual General Meeting of the Company to be held on 29 November 2006 at 10.00 am or at any adjournment thereof in connection with the resolutions set out in the Notice of Meeting.

RESOLUTIONS

ORDINARY BUSINESS	FOR	DISCRET-IONARY (see note 3)	AGAINST	VOTE WITHHELD (see note 6)
1. To receive and adopt the Report and Accounts				
2. To declare a final dividend				
3. To re-elect SW Coggins as a Director				
4. To re-elect NC Poultney as a Director				
5. To re-elect PM Rae as a Director				
6. To elect D Bate as a Director				
7. To elect RW Westcott as a Director				
8. To reappoint the Auditors and to authorise the Directors to set their remuneration				
SPECIAL BUSINESS				
9. To authorise the Directors to allot shares				
10. To authorise the Company to purchase its own shares				
11. To authorise the Directors to allot shares and to disapply statutory rights of pre-emption				
12. To amend the Articles of Association by deleting Article 138 (Indemnity) in its entirety and replacing it with new Article 138 (Indemnity to Directors and other officers)				

Dated this .... day of 2006

Signature(s) ....

NOTES

1. Completed forms of proxy must be lodged with the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR, not later than 48 hours before the time fixed for the meeting. The completion and return of the form of proxy will not, however, preclude a member from attending and voting at the Annual General Meeting should they so wish.
2. In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which names stand in the Register of Members in respect of the joint holding.
3. Please indicate how you wish your votes to be cast by inserting a cross in the relevant box. If you select "discretionary" or fail to select any of the given options, the proxy can vote as he chooses or can decide not to vote at all. The proxy will act at his own discretion in relation to any other business arising at the meeting, including any resolution to adjourn the meeting. This proxy will only be used in the event of a poll being directed or demanded.
4. If you wish to appoint some person other than the Chairman as proxy please insert his/her name and address, initial the insertion and strike out the words "the Chairman of the meeting". A proxy need not be a member of the Company.
5. In the case of a corporation this form should be executed signed as a deed or signed on its behalf by an attorney or a duly authorised officer. In the case of an individual this form should be signed by that individual or by his attorney.
6. The "vote withheld" option is provided to enable you to abstain on any particular resolution. However, it should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "for" and "against" a resolution.
7. Any alterations to this Form of Proxy should be initialled.

Second fold

BUSINESS REPLY SERVICE
Licence No. MB122

1

Capita Registrars
Proxy Department
The Registry
34 Beckenham Road
BECKENHAM
Kent
BR3 4BR

First fold

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and tuck in flap opposite

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NC Poultney
Quadnetics Group plc
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Studley
Warwickshire B80 7AN
Tel: +44 (0) 1527 850 080
e-mail: secretary@quadnetics.com

Bankers
Barclays Bank PLC
15 Colmore Row
Birmingham B3 2EP

Stockbrokers
Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds LS1 4LX

Auditors
PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Registrars and Transfer Office
Capita Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Corporate Communications
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Design and print by Jonesandpalmer www.jonesandpalmer.co.uk

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