Quadnetics

innovating
integrating
protecting

Annual Report and Accounts for the
12 months ended 30 November 2011

Stock code: QDG

An Introduction to Quadnetics

Quadnetics Group plc, is a leader in the design, integration and control of advanced surveillance technology, networked security systems and strategic security solutions.

We are a UK company listed on the Alternative Investment Market (AIM) of the London Stock Exchange with 450 employees in the UK, Germany, the United States, the Middle East and the Far East.

We operate in all of the leading critical surveillance markets: urban, offshore and adverse area (oil, gas and chemical), casinos, military, banking, retail, transport (buses and trains) and prisons. We are active in many high security programmes throughout the world.

Quadnetics

Investor Proposition Statement

We deliver advanced security and surveillance networks for the worlds' most technically and environmentally demanding applications.

We are systems designers and integrators with unique technology differentiators.

We sustain our position through significant investment in own IP — both software and hardware.

We focus on key customer sectors:

- Transport
  bus, rail, emergency services, haulage & defence
- Hazardous Area
  oil, gas, petrochemical & utilities
- High Security
  prisons, banks, casinos, government & Critical National Infrastructure

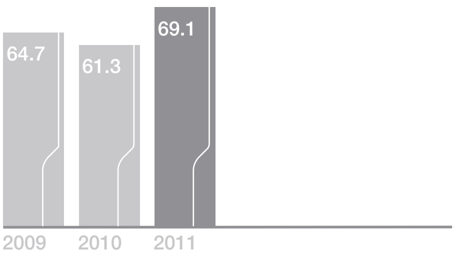
Platform to expand market shares through global geographic presence.

Experienced team with a track record of generating substantial growth.

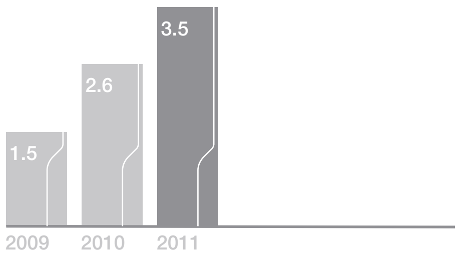
Read more online @
www.quadnetics.com

Financial Highlights

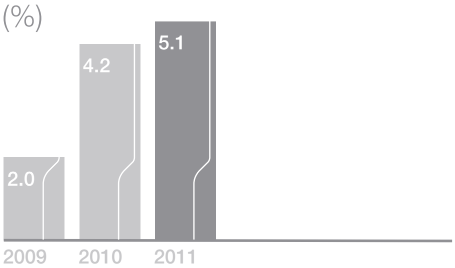
Revenue
(£m)



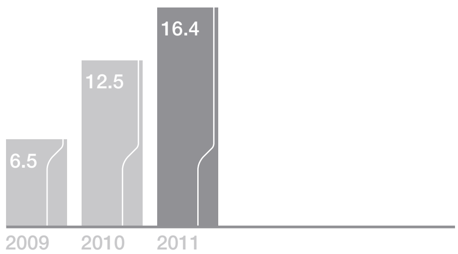
Underlying Profit before Tax*
(£m)



Underlying Operating Margin
(%)



Underlying EPS
(p)**



- Revenue up 13% to £69.1 million (2010†: £61.3 million)
- Profit before tax £2.5 million (2010†: £1.4 million)
- Underlying profit* before tax up 36% to £3.5 million (2010†: £2.6 million)
- Operating margin up to 5.1% (2010†: 4.2%)
- Basic EPS 10.2p (2010†: 6.4p)
- Underlying EPS** up 31% to 16.4p (2010†: 12.5p)
- Recommended final dividend 4.5p per share making 7.0p for the year (2010†: 7.0p)
- Net cash at 30 November 2011: £1.3 million (2010: £3.3 million), after payment of initial consideration for the acquisition of Indanet AG in July 2011
- Like-for-like (excluding Indanet) year end order book up 19% to £32.5 million (2010: £27.3 million)

Operational Highlights

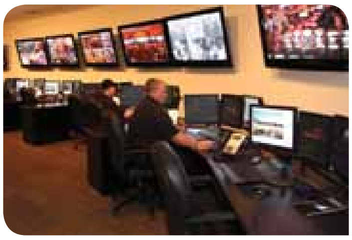
- Increased investment in new product development
- Significant contract wins in all sectors
- Acquisition of Indanet AG, a highly complementary leading German provider of integrated surveillance systems for major transport hubs

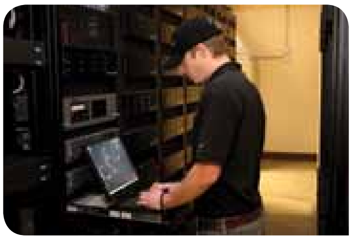
† Data for 2009 and 2010 is based on the unaudited proforma information for the 12 months ended 30 November in the respective year.
* Underlying profit before tax represents profit before tax, non-underlying items (restructuring costs, acquisition expenses, amortisation of intangibles and share based payment charges) and IAS 39 charge on deferred and contingent consideration.
** Underlying earnings per Ordinary share is based on profit after tax but before non-underlying items and IAS 39 charge on deferred and contingent consideration.

Contents

Who We Are

- Quadnetics Group plc is listed on the UK AIM Market
- Revenue of £69 million
- Employ over 450 professionals across three continents
- Leader in the design, integration and control of advanced surveillance technology, networked security systems and strategic security solutions
- We are specialists in Facilities Management (FM) and property services
- We operate in all of the leading control room surveillance markets
- Active in many high security programmes throughout the world
- We protect installations with major oil & gas companies worldwide
- We deliver added value to our customers through our ability to innovate, integrate and protect





What We Do

- We are the largest CCTV provider to councils
- Protect 6 out of 10 City Centres in the UK
- Protect 5 out of 10 London boroughs
- Protect over 17,000 UK buildings
- Service 50,000 helpdesk calls a month
- Manage over £50 million maintenance services per year
- Protect 18,000 transport systems and 10,000 drivers throughout the UK
- Design, build, sell, install and maintain security and surveillance systems from 5 to 45,000 cameras
- Protect 4 out of 5 prisons in the UK
- We are at the heart of energy infrastructure and delivery protection
- Protect the worlds busiest airports and international harbours
- Deliver integrated security systems for oil, gas, marine and hazardous environments
- Monitor onshore and offshore sites across the globe

Read more online @
www.quadnetics.com

Our Business Model and Strategy

Our business model is straightforward. Quadnetics' business is to provide integrated electronic security systems and services to specialist high-end markets.

Our systems are based on core proprietary technology, in particular integration software. This technology is developed for our specific target customer sectors, and provides fundamental differentiation from mainstream suppliers in the wider electronic security market.

Strategic objectives

- To invest to grow our core of specialist hardware and software-based proprietary technology, adapted to the specialist needs of our three principal target customer sectors: transport, oil & gas/marine, and critical security;
- To invest to expand sales globally into the key markets for each of the three target sectors;
- To expand the scope of applications and innovative services provided to customers so that we maximise recurring revenues and market-share, and make it increasingly difficult for generalist suppliers to compete;
- To seek further bolt-on acquisitions to add market share, specialist capabilities and/or geographical position in our target sectors.

Strength through capability

We innovate — we develop specialist application software, control systems and surveillance products that support the needs of our customers. We invest our research and development expertise to understand our clients' unique requirements and deliver innovative solutions that satisfy the need to protect their critical infrastruatures today and in the future.

We integrate — within the security industry, integration and what it means to offer an "integrated" solution continues to evolve, as available technologies and their applications have developed. We aim to be at the forefront of this innovation with our Synectics Technology Centre leading the way. We see integration as more than a technical systems engineering task — we offer business integration to our customers covering the full spectrum from consultancy, through systems design, installation, maintenance, support and complete outsourced managed services.

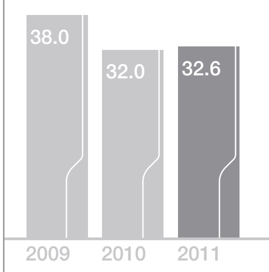
We protect — our technical expertise and specialist knowledge of our niche markets provides our customers with the peace of mind and knowledge that we can offer them the protection their environment demands. The safeguarding of people, property, cash and assets for critical infrastructure environments is our core business.

Group at a Glance

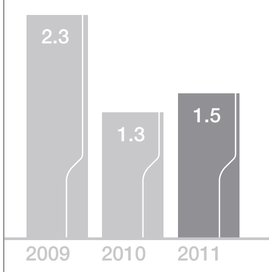
Integration & Managed Services

This division brings together world-class Integration and Facilities Management (FM) services to deliver complex solutions across markets that have a high dependence on security. Our market-leading positions in high security, public space and retail are supported by strong development in the commercial and finance sectors. This success has been achieved through our constant focus on identifying and exceeding extremely stringent customer requirements that are often influenced by a legislative imperative.

Revenue
£m



Operating Profit*
£m



Our main sectors include:
- Government
- High Security
- Banking
- Public space
- Emergency services
- Retail
- Utilities

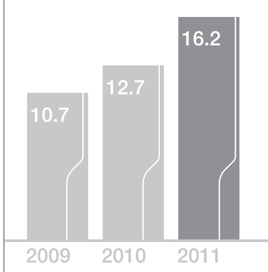
Our customers include:
- Argos
- Goldman Sachs
- HM Prison Service
- Home Retail Group
- Jewson
- Matalan
- Ministry of Justice
- Over 100 UK local authorities
- Police
- WH Smith

* underlying operating profit before non-underlying items

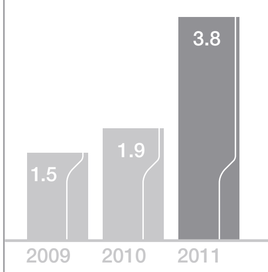
Network Systems

Synectics Network Systems is a global provider of advanced surveillance system control and management solutions for a range of vertical markets and security applications. The systems utilise analogue, hybrid and IP technologies, our Synergy™ award-winning security management platform and enterprise class recording and storage systems, providing bespoke, high-integrity surveillance systems.

Revenue
£m



Operating Profit*
£m



Our main sectors include:
- Banking
- Gaming
- High security
- Government
- Critical National Infrastructure
- Utilities

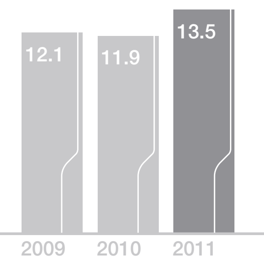
Our customers include:
- Atlantis
- Cheshire West & Chester Unitary Authority
- Durban Metro City Centre
- Genting Group
- Ontario Lottery and Gaming Commission
- Penn Gaming
- Salford City Council
- Thames Barrier
- Transport for London

* underlying operating profit before non-underlying items

Mobile Systems

Synectics Mobile Systems is a leading supplier and service provider of digital CCTV and telematics systems for transport applications including bus, coach and rail. We have over 20 years experience in the development, installation and maintenance of over 20,000 CCTV systems for major transport operators.

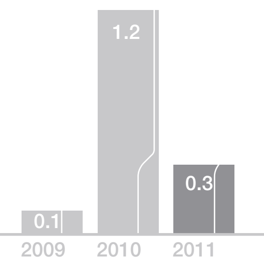
Revenue
£m



Our main sectors include:

- Bus
- Emergency services
- Coach
- Cash in transit
- Rail
- Defence

Operating Profit*
£m



Our customers include:

- Abellio
- Alstom
- Bus Eireann
- BVG — Berlin Public Transport Operator
- Delgro Metroline
- Deutsche Bahn
- Frankfurt VFG
- London United
- Ministries of Defence
- National Express
- Nexus
- Scania
- Stagecoach
- Transdev
- Wrightbus

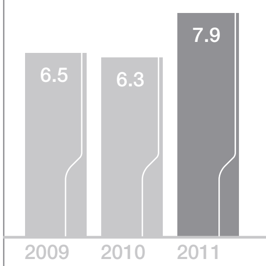
* underlying operating profit before non-underlying items

Industrial Systems

©Roc Oil Company Ltd

Synectics Industrial Systems is a world leader with over 20 years of experience in integrated CCTV systems for oil, gas, marine and hazardous environments as well as industrial and petrochemical applications where environments dictate the need for exceptionally robust solutions.

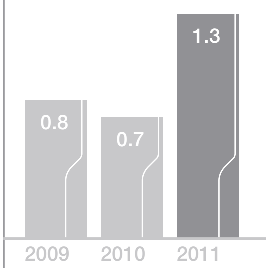
Revenue
£m



Our main sectors include:

- Refineries and terminals
- Pipelines and storage
- Drilling rigs
- LNG and LPG tankers
- Oil tankers
- Cargo vehicles
- Heavy industrial

Operating Profit*
£m



Our customers include:

- Alcatel
- Cegelec
- Daewoo
- HHI
- NesscoInvsat
- Petrofac
- Schlumberger Oil UK
- SNEF
- Thales Group
- Western Advance

* underlying operating profit before non-underlying items

Our Worldwide Operations

Quadnetics is a global business with operations spread strategically throughout the world.

We continue to expand sales and deliver strategic security solutions to meet the specialist needs of customers in our target sectors.

Ontario Lottery & Gaming
Location: Canada

With 21 sites supported by Synectics, Ontario Lottery and Gaming required a number of new security installations delivered in 2010/2011: Fort Erie Race Track; Hiawatha Horse Park; Kawartha Downs; Western Fair Raceway; Windsor Raceway; Woodbine Race Track; Woodstock Raceway.

American Casino Entertainment Properties
Location: Las Vegas, USA

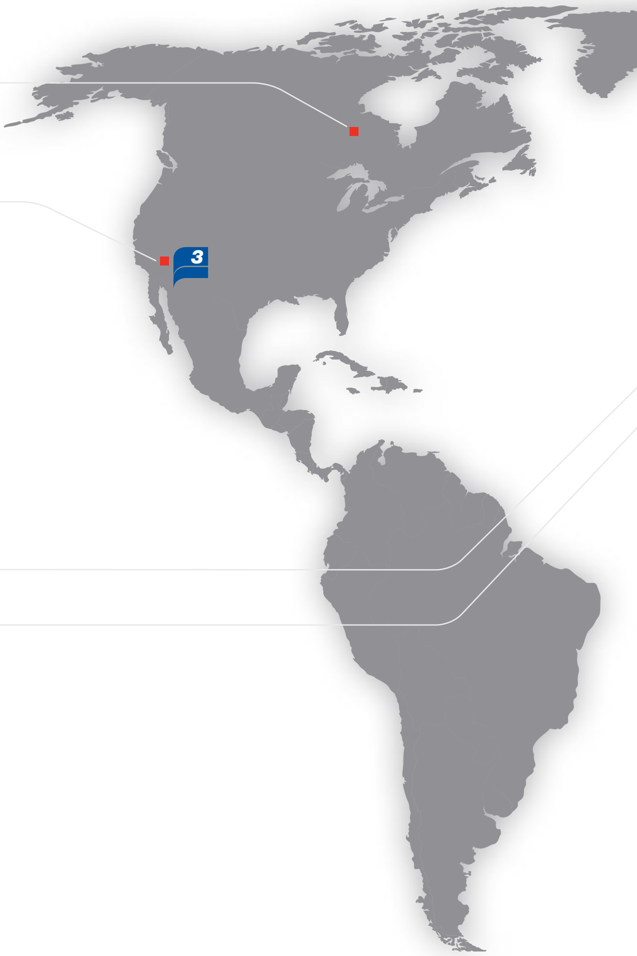
Synectics was selected by Stratosphere Casino in Las Vegas to provide a custom surveillance system powered by Synergy™ – security management software. Synectics' digital recording solution, with its proven track record of 99.999% uptime, provides around-the-clock surveillance of the 80,000 square foot casino, which features more than 50 game tables, 1,200 slot and video poker machines, a poker room, and race and sports book betting.

Berliner Verkehrsbetriebe (BVG) Berlin Public Transport Operator
Location: Berlin

To deliver a mobile video surveillance solution for Berlin Metro. The project involved the delivery and installation of an all Indanets' video equipment for 844 train cars with one recorder per two cars and a minimum of three cameras for each car including a surveillance system.

Stadwerke Munchen GmbH (SWM) Public Utility Munich
Location: Munich

To deliver a digital IP video system for 498 train cars as well as equipment for a demonstration vehicle. The all Indanet-based solution consisted of IP cameras, networked video recorders, separated network attached storage, an evaluation system, power supply by Power-over-Ethernet (PoE), network node and Ethernet cabling.



Doncaster Metropolitan Borough Council
Location: UK

Doncaster Metropolitan Borough Council selected Synectics' security management software — Synergy™ and Modular Digital Recording System as an enhancement to their existing CCTV system. The 200-camera system covers Doncaster Centre and the surrounding area and with the integration of access control and alarms into the Synectics system, the council is using the technology to facilitate cost-savings and generate revenue.

WH Smith
Location: UK

Quadnetics' IMS division works with WH Smith to deliver a help desk and contractor management service for maintenance and security services to over 1,000 stores around the UK. IMS continues to demonstrate flexibility to adapt systems and processes to WH Smith's specific requirements.

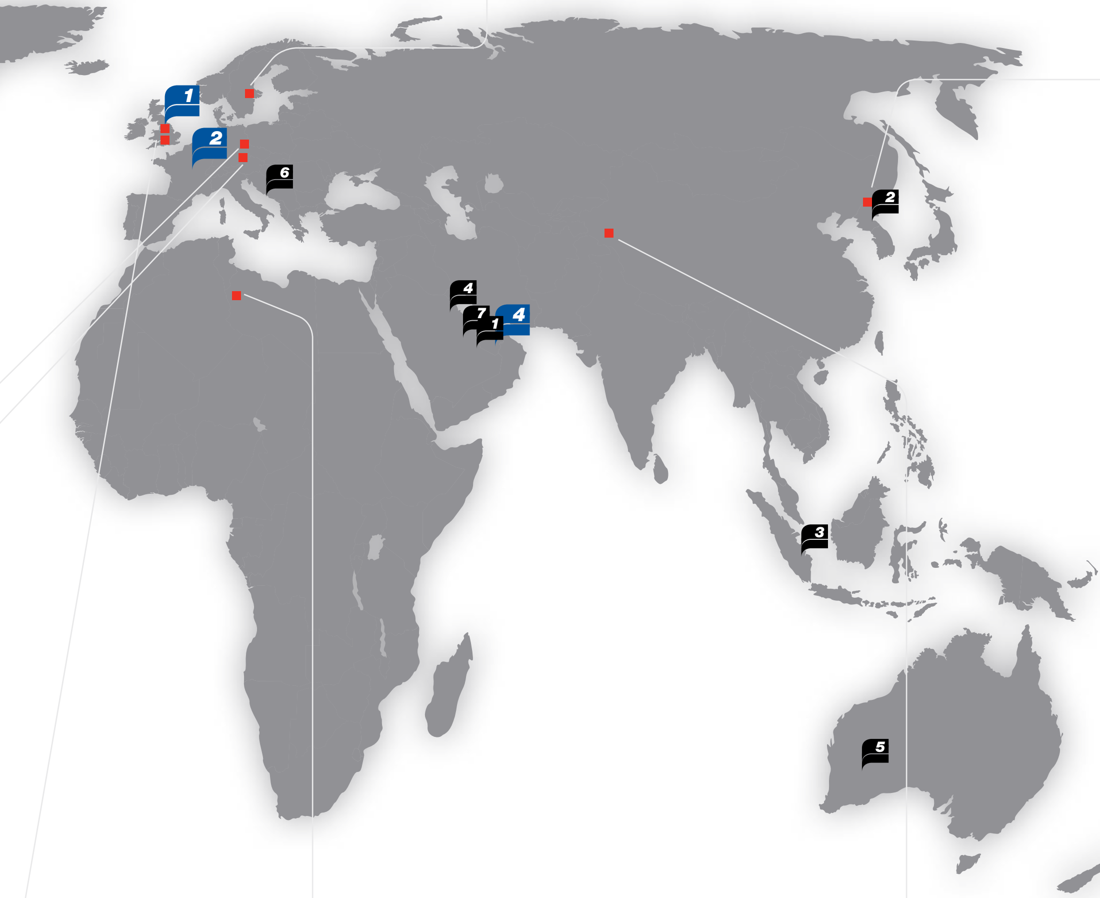
Svenska Spel. Casino Cosmopol (Stockholm)
Location: Sweden

Svenska Spel, the largest gaming operator in Sweden, selected Synectics' security management software – Synergy™, when it consolidated its gaming based surveillance activities into one control room operation. Synectics introduced a unique Remote Evidence Locker system that enables incident information to be communicated to multiple review stations for access by local staff and police.

©Daewoo Shipbuilding and Marine Engineering

KOGAS LNG Carrier Project
Location: Korea

To supply a complete CCTV and control system for the KOGAS LNG Carrier project. Five LNG vessels will be used to bulk ship LNG between Yemen and Russia's Salkhalin-2 project to the KOGAS import terminals at Pyong Taek, Incheon and Tong Yeong. The machinery and equipment installed on the exposed weather deck needed to operate in air temperatures of -25°C, whilst sailing on water covered with 0.6 metres of ice.



Operational locations

1. UK
2. Germany
3. America
4. UAE

Agents

1. UAE
2. Korea
3. Asia
4. Kuwait
5. Western Australia
6. Croatia
7. Qatar

©Anadarko

Page Europa, El Merk
Location: Algeria (Sahara Desert)

To supply a CCTV system for the El Merk project in Algeria. Synectics expertise, knowledge and specialist products ensured the delivery of a complete CCTV system solution that included our COEX™ range of camera stations — specifically designed to be robust enough to operate in extreme conditions — and SynergyPro™ control software.

©AGIP KCO

Kashagan Field Development Project Thales Italy
Location: Kazakhstan

The Kashagan Field, in the Caspian Sea, is considered the single most important discovery of the past 30 years and is the fifth largest oilfield in the world. Synectics is currently working on further additions to the Experimental Programme, consisting of an additional 160+ COEX™ camera stations and control equipment, all of which will link back to the previously supplied CCTV solutions, ensuring complete command and management by the operator.

Chairman's Statement

David Coghlan

"Quadnetics continued to make solid progress towards its strategic, operational and financial objectives and demand for Synectics' surveillance systems increased significantly"

Introduction

During the last financial year Quadnetics continued to make solid progress towards its strategic, operational and financial objectives. Demand for Synectics' surveillance systems in our targeted critical security and oil & gas sectors increased significantly compared with the prior year, enabling the Group to achieve a good overall performance. The resilience of these results underscores the benefits of our strategy of developing proprietary systems and services specialised for those customer sectors willing and able to pay for high-end surveillance capabilities.

Results

For the year to 30 November 2011, Quadnetics Group recorded consolidated revenue of £69.1 million (2010: £61.3 million)[1]. On a like-for-like basis, excluding the impact of the acquisition of Indanet AG, this represented organic growth of 7.9% over the comparable period last year. The Group made an underlying profit before tax[2] of £3.5 million (2010: £2.6 million) which, adjusted for the acquisition, equated to like-for-like growth of 30%. The underlying operating margin was 5.1% (2010: 4.2%).

Further details on operating performance are set out in the Business Review on pages 10 to 27.

Group profit before tax was £2.5 million (2010: £1.4 million), after charging non-underlying costs of £0.9 million (2010: £1.2 million) including acquisition and restructuring costs (£0.7 million), and share based payments charge (£0.2 million). Underlying basic earnings per share increased by 31% to 16.4p (2010: 12.5p).

Quadnetics had net cash of £1.3 million at 30 November 2011 (2010: £3.3 million). The reduction in net cash was primarily due to the payment of intital consideration for the acquisition of Indanet AG, and to a large delayed customer payment received after the year end. Free cash flow, that is cash generated from operations less capital expenditure, was £2.7 million (2010: £2.1 million), before cash payments in respect of non-underlying items of £0.7 million (2010: £1.5 million).

Dividend

In view of the increasing growth opportunities we see for the Group and our cautious approach to gearing in current credit markets, the Board has decided to recommend an unchanged final dividend of 4.5p payable on 9 May 2012 to shareholders on the register on 16 March 2012. If approved by shareholders, this would bring the total dividend for the year to 7.0p (2010: 7.0p).

Research and Development

Group expenditure on technology development during 2011 totalled £1.8 million (2010: £1.4 million). Of this, £0.8 million was capitalised, and the remaining £1.0 million expensed to the profit and loss account. £0.6 million of previously capitalised development was amortised during the year.

2011 was the first full year of operation of the Synectics Technology Centre, created as a consolidated development unit for the Group as a whole. The benefits of this organisation were borne out by increased focus, efficiency and schedule adherence in development projects undertaken during the year.

People

We have been pleased to welcome a substantial number of new people to the Group over the past year, both from Indanet and from new hires across all divisions, in particular in a number of senior positions to help us achieve and manage the next phase of Quadnetics' growth.

1 Quadnetics' 2009/10 financial year covered 18 months to 30 November 2010. To provide fair comparisons, however, all results for 2009/10 quoted in this statement are proforma unaudited figures for the 12 months ended 30 November 2010.

2 Underlying profit before tax represents profit before tax, non-underlying items (amortisation of acquired intangibles, acquisition expenses, restructuring costs, and share based payments charges) and interest charges on deferred and contingent consideration.

With a large amount of change being implemented over the past two years, our employees have continued to demonstrate extraordinary skill and commitment in delivering superior electronic surveillance systems and services to our customers. On behalf of the Board and shareholders, I gladly record our thanks.

Strategy and Financial Objectives

Quadnetics' strategy and financial objectives were set out in detail in the chairman's statement in both the interim and annual reports last year. They have not changed since.

In summary, we aim to use proprietary technology, particularly software, and market knowledge to create complex surveillance systems, increasingly differentiated to serve the needs of the specialist customer sectors we target – critical infrastructure, transport and hazardous areas.

With the Group's current mix of business, the Board's stated objective is for Quadnetics to achieve an overall underlying operating profit margin of 8–10%, after all R&D and central costs, within a reasonable time frame and given normal economic conditions. In 2011, we increased our performance on this measure to 5.1%, up from 4.2% in the previous year. Against a prevailing market background that was in many parts unhelpful, and combined with respectable organic revenue growth, the Board views that level of progress as satisfactory.

Proposed Name Change

For many years now the Group has been developing the Synectics brand in the electronic surveillance market around the world. The Board believes that this brand has now achieved substantial recognition and that both the operating businesses and the Parent Company would benefit if the quoted entity carried the same name.

We will therefore propose a resolution for consideration by shareholders at our upcoming Annual General Meeting to authorise the Board to change the name of Quadnetics Group plc to Synectics plc.

Outlook

The Group's consolidated order book at 30 November 2011 stood at £35.9 million, or £32.5 million excluding Indanet, a like-for-like increase of 19% compared with the previous year. Trading in the first two months of the year has been encouraging.

On the basis of the existing strong order book and bid pipeline, and on the assumption of no significant worsening in our markets, the Board expects Quadnetics to deliver another good performance in the current financial year.

David Coghlan
Chairman
1 March 2012

Delivering innovative and complex surveillance systems to serve requirements in hazardous areas.

Business Review

John Shepherd, Chief Executive and Nigel Poultney, Finance Director

"We have accelerated our investment in our market leading hardware and in particular our software technology which will be a decisive factor in differentiating our capabilities from the competition."

Quadnetics' business is to provide integrated electronic security systems and services to specialist high-end markets. Our systems are based on core proprietary technology, in particular integration software. This technology is developed for our specific target customer sectors, and provides fundamental differentiation from mainstream suppliers in the wider electronic security market.

We continue to make good progress against our stated targets of growing revenues, operating profit and return on sales. We are pleased to report that this significant improvement in performance has been achieved whilst still being able to increase R&D investment in new systems and products as well as completing two acquisitions in the period. We start 2012 with increased technical capability, geographical and market reach and most importantly a larger order book — all factors which give us confidence that further good progress will be achieved in 2012. Our highly capable and committed workforce can feel justifiably proud of delivering this result and we thank them all on behalf of the executive team.

Integration & Managed Services

Quadnetics' IMS division is one of the leading UK providers of design, integration, turnkey supply, monitoring and management of large-scale electronic security systems. Its main markets are in critical infrastructure, public space and multi-site systems. Its capabilities include a nationwide network of service engineers, UK government security-cleared personnel and facilities, and an in-house 24-hour monitoring centre and help desk. The IMS division supplies proprietary products and technology from other Quadnetics divisions as well as from third parties.

Revenue	£32.6 million (2010*: £32.0 million)
Gross Margin	22.2% (2010: 24.0%)
Operating Profit**	£1.5 million (2010*: £1.3 million)
Operating Margin**	4.5% (2010: 4.2%)

Major Project Wins	Contract Value
Ministry of Justice	£1.8m
Jewson	£1.7m
Nuclear Power	£1.5m
Home Retail Group	£1.0m
North West Local Authority	£1.0m
Police Authority	£0.8m

In the year to 30 November 2011 revenue increased by 2% to £32.6 million and underlying operating profit by 10% to £1.5 million. This result was achieved against a background of continuing market weakness in the UK, in particular in the retail sector, and was in line with expectations for the division set at the beginning of the year. The increased operating margin was primarily a result of reduced overheads following the restructuring and site consolidation within Quadrant Security Group undertaken in 2010.

A pleasing feature of the year was the division's success in winning a number of new pan-European contracts for large financial institutions and multinational companies. This is very much in line with the Group's objective of fostering the standardisation and consolidation of electronic security control across multiple regional or global sites of large organistaions.

The process of positioning the IMS division to win larger-scale contracts, and to increase the proportion of business including in-house systems solutions from Synectics, is proceeding on plan. Considerable further progress on these two objectives is expected in the current financial year, as is continued progress towards the division's medium-term operating margin target of 6–8%.

Market Trends

The UK economy as a whole is still suffering the lasting effects of the financial down-turn and whilst the markets are showing signs of some growth or stabilisation the confidence in spending on capital investments has not yet been re-awakened. In 2011 we have seen customers becoming ever more focused on what their budgets must deliver and we have addressed this need by emphasising the operational efficiency gains which can be achieved from the systems and services we supply. Customers have also been investing in updates to "future-proof" their security systems. Adoption of our state-of-the-art all-digital IP based solutions enables consolidation of resources through amalgamated control rooms with a central operational command. This approach has helped us to win significant new contracts in the banking, utilities, public space and justice sectors.

* All results for 2009/10 are pro forma unaudited figures for the 12 months ended 30 November 2010.

** Before non-underlying items, research & development and Group central costs.

Public Sector

The widespread spending cuts mean that our customers' procurement teams are looking for more cost effective ways to purchase goods and services and are increasingly using framework agreements as their purchasing mechanism of choice. Our inclusion in these frameworks is important to ensure our continued success within this sector. We achieved framework status to deliver CCTV maintenance and servicing for the Eastern Shires Purchasing Organisation (ESPO), which has resulted in significant contract wins. We also achieved framework status through a major partnership with one of Europe's largest independent IT groups, which enables us to supply our electronic security goods and services into other UK Public Sector bodies.

Public Space

In the North West of England we won a landmark project, using Synectics' proprietary hardware and software, to streamline security operations by upgrading and integrating CCTV provision in three town centre locations and consolidating the control into one main management base in Chester.

Police

Our Police sector team secured significant projects for police custody surveillance systems for North Wales Police and Bedfordshire Police as well as supplying solutions to our other police force customers to provide added security for the 2012 Olympic Games.

Commercial

Building on our long-term relationships with Passenger Transport Executive customers such as Centro, Metro, Nexus and the East Coast Mainline Company, we continue to provide surveillance and security solutions to their estates. In particular we are involved in the Nexus station refurbishment programme, which will ultimately result in the upgrade of some 60 light rail stations over the next few years.

integrating **Delivering a consolidated CCTV control centre**

Cheshire West & Chester

Quadrant Security Group (QSG) has helped unitary authority Cheshire West & Chester streamline security operations by upgrading and integrating CCTV provision in three town centre locations, and consolidating control to one main management base in Chester.

When structural changes to the local government system were introduced in 2009, three boroughs were replaced by one unitary authority – Cheshire West & Chester. The merger presented an opportunity to upgrade CCTV provision in the three town/city centres, integrate the systems and maximise efficiencies by converging the three separate control rooms into one.

The solution developed and implemented by QSG met a number of key objectives – enabling the new control centre to fully integrate with historical analogue and more modern digital systems, making use of private leased fibre optics and existing ICT networks. Over the five year term of service, the solution provided by QSG will result in an estimated saving of £70,000 in online charges alone.

"We needed a team that would listen to our findings and use their own knowledge and experience to develop, implement and maintain a bespoke solution in partnership with us. Quadrant Security Group met our requirements and has devised a solution that is already producing cost and time saving benefits for us."

Peter Johnson, CCTV Manager for Cheshire West & Chester

"Being able to access high quality CCTV footage of suspected criminal activity quickly and securely is so important for modern day policing. Through the new Chester control centre we are able to do this without requiring system or personnel downtime."

Graeme Gerrard, Deputy Chief Constable of Cheshire Constabulary and ACPO lead on CCTV

Business Review
continued

IMS successfully secured the majority share of security upgrades for a major UK power provider. This project is an integral part of the protection of the national electricity infrastructure. As the customer is a network provider for the Olympic Games, the necessity to secure their sites is more important than ever. We are working with them to survey and plan the security of 50 sites marked as critical to the games.

Banking is another sector which has seen growth in 2011. We have secured several new lead-in contracts with major retail and investment banks driven by increases in security demands and expansion plans which will be rolled-out nationwide over the next two-three years. We have also won a five-year service and maintenance renewal contract with Swiss Bank UBS, which puts the business in a strong strategic position for supplying the security systems for their significant new building plans scheduled for completion in 2014.

In 2011 we also secured a contract with Procter & Gamble to implement both electronic and physical security across all of their European, Middle Eastern and African operations. This will include multiple sites and cover factory, warehousing and offices.

High Security

The high security sector has once again been one of our most consistently profitable areas during the year despite some major cut backs in spending in Government circles. Some key wins during 2011 have come from The Ministry of Justice (MoJ) for the HM Prison Service, the NHS High Security Hospital Estate and the Nuclear Industry with total order value in excess of £3.3 million.

In 2010 we installed networked CCTV and digital recording systems in two "Category A" establishments for HM Prison Service with cameras covering diverse areas, where it is critical that the images are compliant with demanding MoJ design standards. Two further HM Prison projects included the design and installation of perimeter intruder detection systems using microwave sensors and video analytics. At a third establishment we provided turnstiles and biometric access control for the staff and visitors entrance areas.

For the NHS we have implemented a number of projects for their high security hospital estate including the supply, installation and integration of access control, key vending systems, visitor management systems, CCTV and digital recording systems as well as perimeter security.

Nuclear Power Industry projects have centred on the upgrading of perimeter security systems, CCTV and access control systems, security fencing, electronic controlled gates, barriers and turnstiles. We have also provided solar powered, wireless-linked CCTV solutions for rapid deployment around sites for emergency and temporary CCTV coverage.

All the projects in this sector include after-sales service and maintenance contracts where we provide a range of ongoing support and services including full time on-site engineering support, emergency call-out and routine preventative maintenance visits. These contracts generally vary from one to five years in duration, though in 2011 we secured a six year multi-million pound framework contract with a major national energy supplier. This win is testament to the level of customer focus we have demonstrated during the five year partnership, along with constant improvements and innovations that have been successfully delivered in this extremely challenging and complex high security environment.

Managed Services

We have had further success in the acquisition of fee-for-service contracts in this part of the business with contracts ranging from two to five years totalling £4.4 million won in the period. Success has continued with recognition from within the FM Industry, where for a second year running our subsidiary SSS Management Services has won the PFM Award in the "Partners in Public Access" category with partners, Matalan. We were also finalists at the "BIFM

Technology Awards" in recognition of our new customer focused management database.

Future Trends

We expect the economic recovery will remain slow with customers and suppliers alike pooling resources to provide cost savings and strength in the market place. The trend towards shared security resources and amalgamated control room and surveillance coverage will continue to play to our strengths as the public sector manages a decreasing budget.

The continuing advances in technology and migration towards digital solutions will facilitate increasing levels of integration of security technologies and services. This opens up the expansion of our offering into the IT and communications divisions of major customers. The convergence of security service technologies with FM services is also helping to broaden our market proposition.

We are confident that our continued philosophy of providing the most technically advanced systems and the best possible customer service will help us to retain our key asset customers and already several large projects have been identified for the first half of 2012.

Synectics Network Systems

The SNS division provides specialist video-based electronic surveillance systems and technology globally to end customers with large scale high security requirements, particularly for critical infrastructure protection. It is co-located in our Sheffield facility with the Synectics Technology Centre, which provides R&D and products and systems expertise to each of the other divisions.

Revenue	£16.2 million (2010*: £12.7 million)
Gross Margin	47.8% (2010: 45.5%)
Operating Profit**	£3.8 million (2010*: £1.9 million)
Operating Margin**	23.2% (2010: 15.3%)

Major Project Wins	Contract Value
Penn Gaming	£3.4m
Genting Group	£1.7m
Major UK banks	£1.4m
Major CNI protection	£1.0m
Ontario Lottery and Gaming	£0.8m
Cat A prison	£0.3m
Oman CNI	£0.2m

Synectics Network Systems produced an excellent performance for the year. Revenue rose by 28% to £16.2 million, with a near-doubling of underlying operating profit to £3.8 million, delivering an operating margin of well over 20%. Major sources of growth included a continuation of the strong recovery in the North American gaming market, a significant improvement in results from the Middle East and competitive share gains within relatively subdued markets in the UK and Europe.

innovating Industry recognition for award winning services

Matalan

SSS Management Services secured the prestigious Partners in Public Access Facilities award for 2011. The PFM Awards recognise the most effective partnering relationships within a facilities management context.

SSS Management Services works with Matalan to deliver FM help desk and contractor management services to over 200 stores around the UK. The judges recognised the significant investment and effort made by Matalan and SSS Management Services in re-defining and delivering the service for the Matalan estate.

pfm awards 2011 premises & facilities management
WINNER
Partners in Public Access Facilities

"We are particularly delighted that our partnership with our customers has been recognised by the facilities management industry for the second year running. This was an opportunity for our team to demonstrate the commitment we all make to continually improve the service we offer to the Matalan stores."

Paul Burchfield, Managing Director,
SSS Management Services Limited

Business Review
continued

integrating Investing in Synectics' security management software

Atlantis, The Palm Resort

Synectics' SynergyPro™ control software was selected by the prestigious Atlantis, The Palm resort as part of a phased improvement of its CCTV.

Opened in 2008, Atlantis transports guests into an imaginative world. The Palm resort comprises 17 hectares of water-themed amusements, extensive fresh and salt-water pools and lagoon exhibits, an open-aired marine habitat, luxury boutiques, numerous dining choices, a spa & fitness centre and 5,600m^2 of meeting and function space.

With an existing CCTV network of over 500 cameras, Atlantis was looking to double its on-site coverage to conform to legislation regarding the placement of surveillance cameras.

Security installation specialists, Radclyffe Global Security specified Synectics for the additional camera network.

"Using quality 'best of breed' solutions such as Synectics' Synergy™ security management software, we can be assured of their performance when installed on-site."

Brett Plumbridge, Consultant

"Guest reassurance whilst they enjoy their time at the resort is a priority. The extra cameras and the excellent image quality help ensure that our guests feel safe, wherever they are in the resort."

John Raath, VP Security, Atlantis

As a result of both volume increase and improved average gross margins, SNS exceeded its medium term operating margin target of mid-to-high teens per cent and we now believe that 20% returns are sustainable for this division.

SNS continues to win projects and deliver systems to protect critical, high security assets around the world. It is particularly pleasing that this has been achieved through a healthy mix of upgrades and expansions for existing customers as well as the acquisition of new customers including; the Northern Ireland Prison Service, the Stormont Assembly Building, three out of five of the largest UK retail banks, Cheshire East Council, Sheffield City Centre, Centro and Belfast Harbour in the UK. In the USA we added the Genting Group to our new customer roll call. In the Middle East, we won contracts with NCP car parks UAE, the iconic Atlantis Hotel in Dubai, Oman industrial security systems, Omifco, Duqum Port and high security applications for the Omani Government.

The creation of additional space at our Sheffield UK facility arising from the move of our Synectics Technology Centre (STC) into an adjacent, dedicated facility has enabled SNS to increase its focus on efficient delivery of systems and products with more capable Factory Acceptance Testing (FAT), workshop and engineering facilities. We have further strengthened the management teams in the UK and USA and invested in enhanced processes and systems to deliver an improved customer experience.

Market Trends

UK and Europe

As with IMS, the continuing uncertain economic conditions of 2011 have presented a tough trading environment for SNS. However, by focusing on the key sectors where our deep vertical market customer knowledge allows us to tailor new bespoke system solutions which exactly match their operational needs, we have been able to grow in spite of the general economic conditions. This is especially the case with Critical National Infrastructure (CNI) protection, which has been a key driver of growth for SNS over the last couple of years. We see opportunities in this sector continuing into the new financial year, both in the UK and into mainland Europe and the Middle East.

Whilst the Public Space sector has been hit hard by budget cuts, SNS has been working closely with its customer base to add value to projects such as control room consolidations. Likewise, we have managed to maintain growth in the Banking sector by working closely with a number of key customers, and developed specific products, such as our new E1200 12 channel encoder.

European expansion will be greatly assisted in 2012 by working closely with newly acquired Indanet, with whom SNS has already identified a number of key project opportunities.

protecting A North American Casino Venture

Resorts World, New York

Synectics Network Systems has delivered a complete digital surveillance system for Resorts World's first North American casino venture, Resorts World, New York.

In October 2011, New York City saw the opening of Resorts World Casino, its first legalised gambling "racino". Part of the project included installing a digital recording system as required by the New York State Lottery (NYSL) to protect not only the patrons but also the casino's significant cash assets and expensive materials. Shawn Reader, of Security Surveillance Consultants, Inc. was brought in to oversee the entire procurement and installation process.

Resorts World, New York City is a state-of-the-art facility that will offer patrons 5,000 Video Lottery Terminals (VLTs) and Electronic Table Games (ETGs) spread throughout two levels of gaming. In addition, the casino has 18 food and beverage outlets, including a seven outlet food court, two fine dining restaurants, four VIP lounges, and two bars with views of a circular stage showing a variety of entertainment acts. The third floor has banquet and event space and this new Resorts World property operated by Genting, is looking to become an expansive resort and convention centre facility by 2014. The Genting Group is the world's largest Destination Resort operator with Resorts World branded properties in Malaysia, Singapore, Manila and New York City.

For a casino that sees $150 million a week on average pass through the facility, choosing a state-of-the-art surveillance system was paramount. Synectics' digital recording system was selected.

The driving force behind Synectics being the system of choice for Resorts World, New York was its reliable and flexible Synergy video management platform and user-friendly interface. Synectics' ability to create a cost-effective all HD-IP digital recording solution — the first of its kind in North America, was also a major factor in the decision.

Another factor that influenced the decision to go with Synectics is the ability of Synergy to pull data from other third party systems like point-of-sale or access control. By integrating the video management system to the casino's Micros point-of-sale system, surveillance operators can easily review transactions within the recording platform and provide evidence/verification of suspicious transactions.

Synectics worked closely with the project consultant and end-user to design the network for Resorts World's high definition IP system.

Since the new surveillance system has been installed, there have been a number of incidents where they have been able to detain suspects while still on the property because of the ability to playback video instantaneously. There have also been a number of situations where patrons have slipped and fallen and the recorded video has been instrumental in both resolving the event and giving the risk manager the ability to correct problematic areas in the new casino to avoid similar occurrences in the future.

"The driving force behind Synectics being the system of choice for Resorts World, New York was its reliable and flexible Synergy security management platform and user-friendly interface. Also a major factor in the decision was Synectics' ability to create a cost-effective, all HD-IP digital recording solution — the first of its kind on North America."

John Medolla, Surveillance Director, Resorts World, New York City

Business Review
continued

Middle East

For the first time since the major restructuring of our business in the region, Synectics' Middle East operations moved into profit during 2011 with delivery of several high profile projects. It is now established to take further advantage of the increased requirement for sophisticated security systems across this important region. Recent new wins of high security and governmental projects provide confidence for increased revenues from this market.

USA

For our US business 2011 was the best year on record, for both sales and profit. This excellent achievement is partially due to delayed projects that were finally approved and a healthy mix of new projects from existing and new corporate customers. While the gaming market remained relatively flat for most of our competitors, some of which left the market, the right customers, further states licensing gaming, and favourable timing led to this excellent result.

An important sales success in the year was the high-profile upgrade of a major US city centre surveillance system, as part of the security measures for the up-coming presidential elections. This is the first Synectics city-wide system in the United States and should provide an excellent reference site as more US cities look to install the type of public space surveillance common in the UK, where Synectics is the market leader. In 2011, nearly 50% of gross margin in the US was derived from direct sales which did not involve a reseller or reseller mark-up – a business model which we will build on in 2012.

The current year has begun well for SNS. We do not expect activity in the US gaming market to continue at the exceptional levels of 2011, but otherwise look forward to further progress in what are likely to remain challenging market conditions.

Synectics Mobile Systems

Synectics Mobile Systems (SMS) provides specialist surveillance systems and products for integrated transport and defence customers.

Revenue	£13.5 million[1] (2010*: £11.9 million)
Gross Margin	29.7% (2010: 35.0%)
Operating Profit**	£0.3 million (2010*: £1.2 million)
Operating Margin**	2.1% (2010: 10.1%)

Major Project Wins	Contract Value
Abellio	£0.4m
Wrights	£0.4m
ADL UK	£0.3m
Alstom	£0.3m
Major international bus manufacturer	£0.3m
National Express	£0.3m
Plaxton	£0.3m
Metroline	£0.2m
Scania	£0.2m

Synectic Mobile Systems division had a mixed year. On the negative side, the defence activities recorded a loss for the year as a result of delayed orders principally in the Middle East due to the ongoing political upheavals and slippage of the development timetable for its new product suite, brought in-house from a former partner at the beginning of the year. Action has been taken to address these issues, and we are already seeing improved results. We do not anticipate a continuation of this unacceptable performance in the current year.

[1] Figures for 2011 include the results of Indanet AG from the date of acquisition in July 2011.

Meeting the needs of transport security

Conditions in the UK on-bus surveillance market improved in the second half of last year. This improvement meant that results for SMS's transport activities for the year as a whole were broadly flat compared with the prior year.

Market Trends

Transport

Despite the difficult economic conditions, Synectics Mobile Systems' Transport business has retained its position as one of the UK's leading suppliers, integrators and service support specialists to the transport market and has positioned itself for a good year in 2012 as the market starts to recover.

2011 started more slowly than we had hoped, not helped by the severe winter weather, which meant that the overall result for the year was somewhat disappointing. However we recovered strongly in the second half as the market started to recover. We surpassed our previous record of 123 installations in a single week with a new record of 159 giving us record revenue for a single month in November.

Our loyal customer base continues to support us with over 90% of our revenue coming from repeat business. Through continued development and improvement in all of our products and the growth of our service support network of engineers, which is the largest network of specialist engineers in the UK for mobile CCTV, we also won business with some of the other large operators and vehicle manufacturers such as National Express, First Group, Caetano and CentreBus. Our contract with Stagecoach continues well and since the start of the contract in November 2009 we have installed over 2,000 CCTV systems on vehicles all over the UK and completed over 32,000 scheduled maintenance inspections.

Our recurring revenue is increasing as the number of service contracts we operate in the Bus and Coach, Cash-in-Transit and Rail sectors continues to grow. Customers can clearly see that the return on investment of running vehicles with a fully functioning CCTV system far outweighs the cost of a professional service contract.

In Ireland, we continue to be the leading mobile CCTV supplier with a £0.4 million order for our ultra-rugged T1000 Digital Video Recorder (DVR) systems for Bus Éireann being delivered in the year.

In 2011 we worked closely with Transport for London (TfL) to ensure the T1000 is one of a very limited number of products which meets TfL's highly demanding specification which is a mandatory requirement for mobile recorders fitted to new vehicles operating on routes in the Capital.

Through our centralised Synectics Technology Centre we have further invested in new and enhanced systems to improve our complete product range including:

protecting | **Five year support contract awarded**

Abellio

Synectics Mobile Systems has been awarded a five year contract worth £2.5 million by public transport company, Abellio, to support CCTV systems on over 600 buses across London and Surrey. Synectics' Genius telematics CCTV health checker and large network of support engineers in the Capital were key factors in Abellio's decision.

In addition to maintaining bus CCTV systems at Abellio's six depots, Synectics is also responsible for supporting all the back office equipment needed to review CCTV footage.

Abellio is no stranger to the benefits of the Genius telematics system as a driver training and vehicle monitoring system, having used the technology to systematically reduce traffic incidents, lower vehicle wear and tear, and improve its services to customers since 2009. The system's CCTV health checker monitors each vehicle's CCTV system, and automatically notifies Synectics' helpdesk if a fault has been detected. A repair is then scheduled for the Synectics CCTV engineer's next visit.

"Synectics' Genius system has provided us with a driver management system which has had a positive effect on our business. We have now appointed Synectics to take over the maintenance of all our bus CCTV systems, ensuring the highest levels of CCTV reliability across our fleet and complying with the latest requirements."

Steve Perks, Engineering Director, Abellio

Business Review
continued

- Continued development and improvement of the T1000 mobile DVR and its associated software platform Synergy™ to cement its place as one of the world's most capable mobile recorders. Sales of the T1000 continue to grow and we envisage increased demand due to its performance and reliability when compared to its rivals. The T1000 also received TfL approved product status.

- Significant investment in the development of our telematics system, Genius. This is now installed on over 2,000 vehicles and has proved a popular choice for many London operators. We have installed it on more buses in London (arguably the world's capital for mobile CCTV) than any of our competitors.

During 2011 SMS worked closely with GS Corporate Risk and Backhouse Jones solicitors to offer a market first – a rapid response insurance claims service called "3 Way Fleet" that will significantly reduce insurance premiums through the use of our telematics systems. GS is now actively promoting Synectics' products as part of its strategy to help operators reduce insurance costs.

Despite the difficult start to 2011, the outlook for 2012 is optimistic. The considerable amount of development work and continuous improvements to the service team and products we install has created a good platform for a return to growth in sales and margins.

Defence

As outlined in the 2011 interim report, the lengthening procurement cycles in the global defence market, exacerbated by the disruptions in various Middle Eastern territories, meant that sales and margins in our defence business were well below our expectations. Nevertheless we have made good progress in delivering upgraded surveillance systems for UK security forces for the Olympics as well as securing an order for long range cameras which will be used at the Olympics.

We won and delivered our first significant military order for ultra–rugged VeeCam™ body-worn recorder systems for a European army and successfully delivered a new version that can stream live and recorded video over secure military radio systems. We expect to achieve first sales of streaming VeeCam™ in 2012.

In response to an urgent operational requirement, we started and completed the development of a smaller lightweight but fully-militarised version of our Insight360 DVR, which has now entered operational service. There is considerable global demand for such a product and we will market it prominently in 2012. Our Chili man-portable battlefield radio frequency detection and analysis system was demonstrated successfully at the DSEi defence Expo in September with significant market interest. However, the global slowdown in spending leads us to believe that the timing of orders will remain uncertain. The Persides acquisition is now fully integrated into the new premises of our Tewkesbury based business. We anticipate a modest recovery of our defence activities in 2012 with stronger growth beyond as our new systems gain market acceptance.

Indanet

The most significant event in this division during the year was the acquisition of Indanet AG, a leading German supplier of electronic surveillance systems for major transport hubs. Indanet is a software-intensive business with a close cultural and strategic fit to Synectics. Its customers include the Berlin, Munich and Frankfurt public transport authorities, as well as Deutsche Bahn, the German national railway. In addition to its own growth plans in Germany and other northern and eastern European markets, the management of Indanet see opportunities to lead the sales of Synectics' existing specialised surveillance systems, for applications such as prisons, city centres and critical infrastructure, into those verticals within Indanet's home markets. In the four and a half month period post acquisition, Indanet contributed revenue of £2.9 million and operating profit of £0.2 million.

As set out in the announcement of the acquisiton on 18 July 2011, we plan for Indanet to invest significantly in sales and engineering resources during 2012 to support expected growth from the second half of the current year onwards. These additional costs will mean that Indanet will report a negative contribution in the first half of this year.

With Indanet, the Group's medium term operating margin target for this division remains in the mid-to-high teens per cent, though on a higher and faster-growing revenue base.

Synectics Industrial Systems

Synectics Industrial Systems designs, manufactures and supplies surveillance systems for extreme or hazardous environments. Applications include offshore and onshore oil & gas facilities, ships and industrial process control.

Revenue	£7.9 million (2010*: £6.3 million)
Gross Margin	38.1% (2010: 33.3%)
Operating Profit**	£1.3 million (2010*: £0.7 million)
Operating Margin**	15.8% (2010: 11.9%)

Major Project Wins	Contract Value
Korean Shipyard Contracts	£2.9m
Gorgon Additions (Western Advance)	£0.6m
Majnoon Early Production Facilities (NesscoInvsat)	£0.5m
BAB Thamama (Alcatel–Lucent)	£0.4m
CLOV FPSO (Alcatel–Lucent)	£0.3m
Jasmine & Judy (Page–Europa)	£0.3m

SIS had an excellent year, marked by the successful delivery of its new range of COEX™ 3000 hazardous area camera stations, completion of its largest ever project for phase I of the Gorgon Natural Gas field off Western Australia and by moving into expanded new premises.

Revenue increased by 26% to £7.9 million. Costs were well managed, leading to a 68% increase in underlying operating profit to £1.3 million. The division's operating margin has moved into its medium term target range of mid-to-high teens per cent.

There continues to be significant demand in the sector for the added value complete solutions offered by Synectics including our Synergy™ software based applications. Project visibility tends to be healthy as a result of the lengthy project planning and build times on oil & gas facilities. We continue to develop our relationships and partnerships with major international companies as well as the traditional medium-sized specialist integrators, in a sector that is truly global.

The business has maintained its increased use of proprietary technology during this period, with almost all of the projects delivered now based on the SynergyPro™ security management system, as well as COEX™ camera stations. The business expanded into additional premises at the same location near Brigg in Lincolnshire during 2011 which enabled the construction of a large Factory Acceptance Test (FAT) area, improved facilities to host customers, and an environmental test facility.

Market Trends

Oil & Gas

We are expecting strong growth in this sector over the next few years with spending on exploration and production expected to increase in 2012, largely due to high oil prices and high demand. Our system for Gorgon, the £25 billion offshore natural gas project in Western Australia, was engineered and delivered in 2011. We also received further orders for significant additions to this project during the year, including a complete Synectics solution, comprising COEX™ hazardous area and safe area Tri-Mode PTZ thermal camera stations, SynergyPro™ command and control system and associated server and storage systems. We also completed projects at the Jasmine & Judy fields in the North Sea, which were the first significant deployment of the new COEX™ 3000 camera station, launched at the end of last year. 2011 saw a large number of additions and expansions to systems supplied in previous years, where spending that had been reined in previously was finally approved.

Service business was also strong throughout the period, with commissioning services in demand as a number of large projects went on-stream. We ended the year being selected as the camera supplier of choice for a major project in the Middle East, with an initial order for delivery in 2012 of £1.0 million which we expect to increase significantly.

Marine

The Marine market improved significantly towards the end of 2011, slightly earlier than we had expected and we expect it to be relatively strong in 2012. A new family of Marine-grade camera stations (COEX™ 2000, COEX™ 1000) was launched in late 2011 in time for this market resurgence, and sales of these new products have already been made into Daewoo and Hyundai shipyards. Orders in excess of $4 million were received in 2011, for 46 vessels – all in the second half of the year – up significantly on 2010 levels.

The underlying markets served by SIS remain healthy, especially in Australia and the Middle East. SIS ended last year with a firm order book of £6.2 million, more than double the figure a year earlier, and we anticipate another strong performance in 2012.

In its first full year as a centrally managed Group resource, the Synectics Technology Centre (STC) has made significant progress in its core objectives of providing product development, technology leadership and support to the Group sales divisions. Meeting the support demands of the business units on a project level as well as providing long term product roadmap developments has proved to be a challenging though very rewarding task. The STC has greatly assisted the immediate profitability of the Group as well as creating future revenue streams through implementing the planned schedules for new product developments. During 2012 we will further increase resource to ensure that we remain on track.

The STC developed and introduced a number of new products in 2011, all of which have been delivered to market with increased ease of use, reduced deployment time and lower ongoing support impact compared to earlier Synectics products.

Research & Development

Group expenditure on technology development during 2011 totalled £1.8 million (2010: £1.4 million). Of this, £0.8 million was capitalised, and the remaining £1.0 million expensed to the profit and loss. £0.6 million of previously capitalised development was amortised during the year.

Synectics new family of marine-grade camera stations COEX™ 1000 and COEX™ 2000

Business Review
continued

protecting One of the largest natural gas projects

©Cheveron Australia

Gorgon Project

In October 2010, Synectics Industrial Systems enhanced its reputation in Asia and Australasia by securing a contract to supply a bespoke CCTV and control solution to one of the world's largest natural gas projects – Gorgon.

Located 130km off the North West coast of Australia, the Greater Gorgon Gas Field is the largest single natural gas resource in Australia. The Gorgon project, due to be completed in 2014, will see Gorgon Joint Venture (comprising the Australian subsidiaries of Chevron, Shell and Mobil) develop the area with the construction of a 15 million tonne per annum LNG plant on Barrow Island for international and domestic customers, and a domestic gas plant capable of supplying 300 terrajoules per day to Western Australia.

Synectics is providing a complete bespoke CCTV solution to ensure smooth and efficient monitoring and security for the entire Gorgon site, utilising its COEX™ hazardous area and safe area TriMode PTZ thermal camera stations, COEX™ MEPC DROME camera stations, FEWS and MEWS wash systems; and COEX™ MEDC camera stations. Synectics SynergyPro™ control software will be at the heart of the Gorgon CCTV solution. Offering unique third party system integration capabilities that enables interface with the central fire and security monitoring, process control and network management systems, Synergy will allow Gorgon operators to monitor and control cameras across the entire site, some of which are located some 1,600km from Barrow Island itself. The system also facilitates detailed analytics, enabling users to monitor and report on incidents such as motion and theft detection, tripwire events and loitering. These events are detected via the camera station and the Synergy Analytics Engine (iSynx).

Australia is the new world force in LNG production with annual exports already exceeding the $9.5 billion mark. With the Greater Gorgon field accounting for 25% of Australia's known gas resource, the need to protect it is critical. Synectics' proven track record in meeting the extreme CCTV system demands that accompany such large scale oil and gas plant security meant it was ideally positioned to provide Gorgon with the comprehensive and integrated solution it needed.

"Synectics' proven track record in meeting the extreme CCTV system demands that accompany such large scale oil and gas plant security, both in Australasia and beyond, meant it was ideally positioned to provide Gorgon with the comprehensive and integrated solution it needed."

Paul Webb, Managing Director, Synectics Industrial Systems *e1200 – 12 channel IP video server*

Launched in the latter half of 2011, the e1200 is an easy-to-install, 12 channel H.264 IP video encoder, supporting essential features such as RTSP (Real-Time Streaming Protocol) streaming and SNMP (Simple Network Management Protocol) management. The e1200 has already enjoyed significant deployments around the UK and provides excellent channel density in a small form factor 1RU unit.

ePSN – 16/32 channel enterprise HVR

The ePSN, launched in summer 2011, is the first enterprise product from Synectics to utilise an embedded operating system and a new encoding platform that is to be the basis of our future recording and encoding solutions. Based on H.264 High Profile encoding, the ePSN offers increased image quality in comparison with our legacy H.264 Baseline Profile encoders at a given bitrate for analogue camera sources, along with the ability to simultaneously support Standard Definition, High Definition and megapixel IP cameras from over 25 different vendors. The ePSN works seamlessly with Synectics Synergy™ systems and has already reduced installation and commissioning time by two-thirds compared with our legacy PSN solutions.

Next Generation Platform

Significant work has been undertaken on our next generation codec platform, first deployed on the ePSN. The platform allows future rapid development of alternative form factor/channel density solutions to meet the needs of our chosen market verticals such as CNI, transportation and defence as well as giving many technological advancements such as H.264 SVC support.
A number of further products based on this platform will be introduced during 2012/13.

SynergyPro™

During the year we have made numerous advances in our SynergyPro™ solution. Conformance to the ONVIF open standard was completed and certified, along with major additional capabilities for large-scale distributed alarm collection and management for Alarm Receiving Centre (ARC) type deployments. During 2011 over 20 new third party interfaces were added to the Synergy™ platform including numerous access control systems, audio/radio management systems, as well as one worker and video tracking solutions. These increases see our total non-video third party interfaces exceed 100 and position Synergy™ as one of the most open and comprehensive security management systems on the market.

integrating **Compatibility with third party ONVIF conformant IP cameras and video servers**

Synectics achieves ONVIF conformance

Synetics' Synergy™ security management software, simplicity HVR/NVR and the Primary Storage Node (PSN) range are now fully conformant with the ONVIF core specification 1.02. This guarantees full compatibility with any third party ONVIF conformant IP cameras and video servers.

ONVIF's ultimate aim is to develop an open global standard for IP-based physical security products to make it easier for end users, integrators, consultants and manufacturers to take advantage of the possibilities offered by such solutions. The ONVIF specification is helping to make this goal a reality and is generating increased interest for IP-based physical security products and IP-based security/surveillance solutions.

Business Review
continued

Key Performance Indicators

Measure	Nov 2011	Nov 2010 unaudited	Inc/(dec)	Inc/(dec) %
Revenue (£ million)	**69.1**	61.3	**7.8**	13%
Gross margin %	**31.9%**	32.2%	**(0.3%)**	
Underlying operating profit (£ million) operating profit before non-underlying items*	**3.5**	2.6	**0.9**	39%
Underlying profit before tax (£ million) profit before tax, non-underlying items* and interest charges on deferred and contingent consideration	**3.5**	2.6	**0.9**	36%
Operating margin % ratio of underlying operating profit to revenue	**5.1%**	4.2%	**0.9%**	
Earnings per share (p)	**10.2**	6.4	**3.8**	59%
Underlying earnings per share (p) based on underlying profit before tax	**16.4**	12.5	**3.9**	31%
Order book (£ million)	**35.9**	27.3	**8.6**	31%
Recurring revenue (£ million) contracted sales where a service is delivered over a future time period and revenues are recognised in the relevant future accounting period	**15.4**	15.9	**(0.5)**	(3%)
Free cash flow (£ million) cash flow from operations less capital expenditure, but before any payments in respect of non-recurring items	**2.7**	2.1	**0.6**	27%
Cash conversion % ratio of free cash flow to underlying operating profit	**77.0%**	84.0%	**(7.0%)**	

* Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, restructuring costs and share based payment charges.

Group Results for the Year

Following last year's change in the Company's year-end date to November, this annual report compares results for the 12 months to November 2011 with those for the extended accounting period for the 18 months to 30 November 2010. Therefore in order to provide meaningful comparability of data, unaudited proforma results for the 12 months to 30 November 2010 are also presented on the Income Statement, the Cash Flow Statement and in respect of certain segmental information in note 2.

The analysis provided within this Business Review largely follows this proforma presentation of 12 monthly comparative data to give greater clarity on underlying trends.

The Group made two acquisitions during the year.

Firstly Persides Technology Limited was acquired in December 2010 for £230,000 and absorbed into the Mobile Systems business segment.

In addition Indanet AG was acquired on 15 July 2011 for consideration of up to €10 million, dependent on results. This Company's business has been fully consolidated into these results with effect from that date, also being included in Mobile Systems.

Income Statement

Overall Group revenue for the year to 30 November 2011 amounted to £69.1 million compared with £91.1 million in the previous 18 month period ended 30 November 2010, and £61.3 million in the proforma 12 month period to 30 November 2010, an increase of £7.8 million (13%) on the proforma figures.

Revenue split between segments was as follows:

Revenue	12 months ended 30 Nov 2011 £'000	18 months ended 30 Nov 2010 £'000	Proforma 12 months ended 30 Nov 2010 £'000	Year-on-year £'000	Year-on-year %
Integration & Managed Services	**32,622**	49,439	**32,039**	583	1.8%
Network Systems	**16,230**	17,625	**12,719**	3,511	27.6%
Mobile Systems	**13,461**	17,080	**11,890**	1,571	13.2%
Industrial Systems	**7,943**	9,639	**6,286**	1,657	26.4%
Intra-group sales	**(1,173)**	(2,659)	**(1,654)**	481	–
Total Revenue	**69,083**	91,124	**61,280**	7,803	12.7%

Strongest sales growth was seen in Network Systems where revenue was £3.5 million (28%) higher than in the previous 12 months with good growth in all territories, particularly the North American gaming market.

Industrial Systems also saw substantial growth in the period with strong performance in its oil & gas markets.

Mobile Systems revenue includes £2.9 million of sales generated by Indanet masking relatively flat sales in its transport activities and weak performance in its defence activities where sales halved as a result of project slippages and cancellations.

Consolidated gross margins for 2011 were broadly similar to the previous year at 31.9% (2010: 32.2%) with the analysis by segment as follows:

Gross Margin %	12 months ended 30 Nov 2011	18 months ended 30 Nov 2010	Proforma 12 months ended 30 Nov 2010	Year-on-year inc/(dec) %
Integration & Managed Services	**22.2%**	24.3%	**24.0%**	(1.8%)
Network Systems	**47.8%**	44.8%	**45.5%**	2.3%
Mobile Systems	**29.7%**	33.3%	**35.0%**	(5.3%)
Industrial Systems	**38.1%**	34.0%	**33.3%**	4.8%
Total Group	**31.9%**	31.7%	**32.2%**	(0.3%)

Good margin improvements were seen in Network Systems' and Industrial Systems' sales where increasing Synectics' proprietary content together with operational gearing on increased activity levels have contributed positively.

Reported gross margins in Integration and Managed Services have declined by 1.8% largely as a result of difficult trading conditions for our managed services operations in the retail sector. In addition a change in presentation whereby certain costs previously shown in overheads are now more accurately presented in cost of sales accounts for 0.9% of the reduction in margin.

Business Review
continued

Operating expenses, which include certain non–underlying costs are summarised below:

Operating expenses	12 months ended 30 Nov 2011 £'000	18 months ended 30 Nov 2010 £'000	Proforma 12 months ended 30 Nov 2010 £'000	Year-on-year inc £'000	Year-on-year inc %
Underlying operating expenses	18,480	26,134	17,183	1,297	7.5%
Non-underlying items:					
Acquisition costs	352	–	–		
Restructuring costs	346	1,320	1,050		
Share based payments charge	192	249	169		
Amortisation of acquired intangibles	48	–	–		
	938	1,569	1,219		
Total reported operating expenses	19,418	27,703	18,402	1,016	5.5%

Whilst underlying operating expenses grew by £1.3 million or 7.5% in absolute terms this was slower than the overall growth in sales with operating expenses representing 26.8% of sales in 2011 compared with 28.0% in the 12 months to 30 November 2010 and 28.7% in the 18 months ended 30 November 2010.

Net finance costs in 2011 were £141,000 compared with net finance income of £23,000 in the 12 months to November 2010. The major movement arises from the inclusion in the 2011 results of a £110,000 finance cost of deferred and contingent consideration in relation to Indanet, as required by IAS 39. The accounting standard requires that the fair value of any such consideration is obtained by discounting to a present value the amounts expected to be payable in the future. The resultant increase of £110,000 between the discounted values at acquisition and the period end is reported in finance costs.

Underlying profit before tax (being profit before non–underlying items and the finance cost of deferred and contingent consideration) was £3.5 million in 2011 compared with £2.6 million in the year to 30 November 2010 and £2.7 million in the 18 months ended 30 November 2010.

Underlying profit	12 months ended 30 Nov 2011 £'000	18 months ended 30 Nov 2010 £'000	Proforma 12 months ended 30 Nov 2010 £'000	Year-on-year inc/(dec) £'000	Year-on-year inc/(dec) %
Integration & Managed Services	1,460	2,125	1,333	127	9.5%
Network Systems	3,762	2,220	1,949	1,813	93.0%
Mobile Systems	280	1,319	1,198	(918)	(76.6%)
Industrial Systems	1,258	1,252	747	511	68.4%
Research & Development costs	(1,025)	(1,341)	(656)	(369)	56.3%
Central costs	(2,194)	(2,861)	(2,019)	(175)	8.7%
Underlying operating profit	3,541	2,714	2,552	989	38.8%
Interest and joint venture income	(31)	26	27	(58)	(214.8%)
Underlying profit before tax	3,510	2,740	2,579	931	36.1%

Underlying profit from Network Systems and Industrial Systems increased significantly based on both increased sales, and improved gross margins. However Mobile Systems' result worsened by £0.9 million as a result of the significant reduction in defence sales.

The Group increased its investment in research and development during the year to £1.8 million representing 2.6% of revenue compared with £1.4 million (2.2% of revenue) in the 12 months to 30 November 2010.

The cost of the Group's research and development activities charged to the income statement in the period also increased, to £1.0 million compared with £0.7 million in the previous year, as the amount of cost capitalised increased to £0.7 million reflecting a greater focus on new product development.

Research & Development Expenditure	12 months ended 30 Nov 2011 £'000	18 months ended 30 Nov 2010 £'000	Proforma 12 months ended 30 Nov 2010 £'000	Year-on-year inc/(dec) £'000	Year-on-year inc/(dec) %
Total costs	1,772	2,232	1,355	417	30.8%
Amounts capitalised	(747)	(891)	(699)	(48)	6.9%
Net cost	1,025	1,341	656	369	56.3%

The Group's underlying operating margin (being the ratio of underlying operating profit, as defined above, to revenue) continued to improve to 5.1% in 2011 compared with 3.0% in the 18 month period to 30 November 2010 and 4.2% in the year to 30 November 2010.

Segmental operating margins are set out in the table below, and show progress in all segments except for Mobile Systems where the defence activities were loss-making:

Underlying Operating Margins %	12 months ended 30 Nov 2011	18 months ended 30 Nov 2010	Proforma 12 months ended 30 Nov 2010	Year-on-year inc/(dec)
Integration & Managed Services	4.5%	4.3%	4.2%	0.3%
Network Systems	23.2%	12.6%	15.3%	7.9%
Mobile Systems	2.1%	7.7%	10.1%	(8.0%)
Industrial Systems	15.8%	13.0%	11.9%	3.9%
Total Group	5.1%	3.0%	4.2%	0.9%

The tax charge for 2011 was £874,000 compared with £311,000 for the 18 month period to 30 November 2010 and £366,000 in the year to 30 November 2010. The underlying tax rate (being the percentage ratio of the tax charge for the period, after adding back the tax effect of non–underlying items, to the underlying profit before tax) was 27% compared with 26% in the previous 12 months and 25% in the previous 18 months owing to the impact of higher US tax rates on an increased US proportion of the Group's profits.

At 30 November 2011 the Group had carried forward tax losses of £1.0 million of which £0.3 million have been recognised in the balance sheet as a deferred tax asset of £0.1 million.

Basic earnings per share for 2011 were 10.2p compared with 5.5p in the 18 months ended 30 November 2010 and 6.4p in the year ended 30 November 2010.

The Directors believe that a better measure of performance is the underlying earnings per share which are calculated on the underlying profit as defined above.

Underlying earnings per share improved by 31% to 16.4p against the proforma earnings per share for 2010.

Earnings per share	12 months ended 30 Nov 2011 p	18 months ended 30 Nov 2010 p	Proforma 12 months ended 30 Nov 2010 p	Year-on-year inc/(dec) p	Year-on-year inc/(dec) %
Basic EPS	10.2	5.5	6.4	3.8	59.4%
Underlying EPS	16.4	13.3	12.5	3.9	31.2%

Business Review
continued

Statement of financial position

Non-current assets at 30 November 2011 were £26.8 million compared with £19.0 million at 30 November 2010.

Total capital expenditure in the year amounted to £1.4 million and comprised property, plant and equipment (£0.6 million), development costs (£0.7 million) and software (£0.1 million). This compares with depreciation and amortisation charges of £1.3 million.

In addition assets acquired with Persides and Indanet amounted to £8.1 million in total – goodwill of £7.3 million, property, plant and equipment of £0.1 million and £0.7 million of intangibles.

Working capital levels rose from £10.2 million at 30 November 2010 to £11.5 million at 30 November 2011 consistent with increased activity levels, representing 17% of annual sales for both years, but somewhat higher than expected owing to a large customer payment delayed until after the year end.

Provisions at 30 November 2011 amounted to £6.1 million (2010: £0.1 million) and included £6.0 million in respect of the discounted value of deferred and contingent consideration for Indanet of €8.0 million, which is payable in three instalments between 31 December 2013 and late 2015.

Cash

The Group ended the year with net cash balances of £1.3 million at 30 November 2011 (30 November 2010: £3.3 million) after deducting term loans arising in connection with the acquisition of Indanet of £1.8 million.

The net cash outflow of £0.3 million in the year is summarised in the table below.

Major items include capital expenditure of £1.4 million described above (which was marginally higher than depreciation and amortisation of £1.3 million), dividend payments of £1.1 million and acquisition costs of £2.6 million (including £0.6 million of assumed debt) partly funded by £1.8 million in new loan finance.

Free cash flow, that is cash flow generated from operations less capital expenditure (but excluding any cash flows in respect of non-underlying items) was £2.7 million (12 months to 30 November 2010: £2.1 million) and represents a cash conversion rate of 77% (2010: 84%), being the ratio of free cash flow to underlying operating profit.

Cash Flows	12 months ended 30 Nov 2011 £'000	18 months ended 30 Nov 2010 £'000	Proforma 12 months ended 30 Nov 2010 £'000	Year-on-year inc/(dec) £'000
Underlying operating profit	3,541	2,714	2,552	989
Depreciation and amortisation charges	1,258	1,848	1,220	38
Change in working capital	(704)	(4,198)	(633)	(71)
Cash from operations before non-underlying payments	4,095	364	3,139	956
Non-underlying items	(666)	(2,009)	(1,492)	826
Cash generated from operations	3,429	(1,645)	1,647	1,782
Interest (paid)/received	(22)	31	23	(45)
Tax (paid)/received	(485)	(38)	722	(1,207)
Capital expenditure	(1,372)	(1,565)	(992)	(380)
Acquisitions	(2,555)	(79)	–	(2,555)
New borrowings	1,843	–	–	1,843
Net cash on acquisitions	(712)	(79)	–	(712)
Dividends paid	(1,110)	(1,480)	(1,480)	370
Effect of exchange rate changes	21	14	21	–
Net cash flow	(251)	(4,762)	(59)	(192)
Cash at the beginning of the period	3,349	8,111	3,408	(59)
Cash at the end of the period	3,098	3,349	3,349	(251)
Free cash flow	2,724	(1,201)	2,147	(577)
Cash conversion %	77%	(44%)	84%	(7%)

Key Performance Indicators

The Directors measure the Group's performance, principally using the following financial indicators (as reflected in this Annual Report):

- Sales
- Gross margin %
- Underlying operating profit and underlying profit before tax
- Operating margin %, being the ratio of underlying operating profit to revenue
- Earnings per share
- Underlying earnings per share (based on underlying profit after tax)
- Order book
- Recurring revenue (being contracted sales where a service is delivered over a future time period, and revenues are recognised in the relevant future accounting periods)
- Free cash flow
- Cash conversion %

Principal Risks and Uncertainties

The principal risks facing the Group and the steps to mitigate them include the following:

Price and margin pressure

The electronic industry in general is competitive with continued pressure on sales and margins. The Group's strategy to counteract this is to continue to focus on customer sectors where electronic security systems have a critical cost of failure, or an extreme environmental requirement, rather than the mass volume markets. In addition we will maintain a core of increasingly software–based proprietary technology giving higher margin opportunities, and focus on developing recurring revenues.

Technological risk

As the industry becomes increasingly technical and transitions to digital technology, there is a risk that products become obsolete or irrelevant. Quadnetics has countered this risk through its investment in research and development resources, and a continued focus on customer–led development to ensure that the most appropriate product development paths are followed.

People skills and dependency

As with most businesses, particularly those operating in a technical field, we are dependent on our employees with key managerial, engineering and technical skills. The Group aims to offer appropriate remuneration packages and incentive arrangements, as well as maintaining certain key–man insurance policies, in order to mitigate this risk.

Impact of fluctuating currency exchange rates

The Group faces currency risk which it manages principally through forward exchange contracts. As the Group expands its sales and other activities outside the UK, these policies will be developed to manage the impact of currency variations.

Summary

2011 was another year of good progress towards achieving our strategic goals. We have accelerated our investment in our market leading hardware and in particular our software technology. This will be a decisive factor in differentiating our capabilities from the commodity suppliers in the eyes of our customers. The demand for ever-increasing levels of integration and sophistication in the high-end security systems in our chosen markets means that few companies will have the expertise necessary to compete. We intend to maintain our position as a leader in this field.

John Shepherd
Chief Executive

Nigel Poultney
Finance Director

Directors and Senior Management

Non-executive Directors

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 and/or a director of several other companies.

Dennis Bate CBE
Director
has 52 years of experience in the construction industry, of which 37 years were spent with Bovis, most latterly as Board Director responsible for Bovis' operations in the UK and Eastern Europe, and then Bovis' Lend Lease operations. He was awarded the CBE for his services within the industry.

Steve Coggins
Director
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.

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.

Executive Directors

John Shepherd
Chief Executive
has a degree in Electronic Engineering from the University College of North Wales and is a fellow of the RSA. He is a former Managing Director of Smiths Detection, former CEO of First Technology plc and former non-executive Chairman of FTSA Holdings Ltd.

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.

Executive Management Team

Paul Moonan
Divisional Managing Director, Network Systems, Mobile Systems and Integration & Managed Services
has an MBA from Sheffield Business School and a degree in Business Studies from Bradford University. He joined Quadnetics as Divisional Managing Director in June 2009. Prior to this he had been a Director at Romec, Chubb, Securicor and more recently at G4S where he held the position of Group Managing Director, Security Services.

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

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Report of the Directors

For the 12 months ended 30 November 2011

The Directors present their report and audited financial statements of the Group and the Company for the 12 months ended 30 November 2011.

The Directors' Report comprises the information set out on pages 30 to 36.

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.

Review of business and future developments

The consolidated income statement for the year is set out on page 38.

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 8 and 9 and the Business Review on pages 10 through to 27 and is incorporated into this report by reference.

Group results and dividend

The consolidated profit after tax for the year was £1,588,000 (12 months to 30 November 2010: £994,000).

The Directors recommend the payment of a final dividend of 4.5p per share (2010: 4.5p per share), totalling £791,000 on 9 May 2012 to shareholders registered on 16 March 2012. Together with the first interim dividend of 2.5p per share, this brings the total dividend for the year to 7.0p per share (18 months to 30 November 2010: 9.5p per share) amounting to £1,230,000 (18 months to 30 November 2010: £1,669,000).

Change of name

As noted in the Chairman's Statement, the Directors are proposing to change the name of the Company to Synectics plc. They will therefore be putting a resolution to shareholders at the forthcoming Annual General Meeting to amend the Company's Articles of Association by granting the Directors the power to make such a change. If the Directors do resolve so to change the Company name, an appropriate announcement will be made at that time.

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 total costs of £1,772,000 (18 months to 30 November 2010: £2,232,000), of which £1,025,000 (18 months to 30 November 2010: £1,341,000) has been written off to the income statement.

Directors

The Directors of the Company who served during the 12 months ended 30 November 2011 were DJ Coghlan, D Bate, SW Coggins, NC Poultney, PM Rae and J Shepherd.

In accordance with the Articles of Association of the Company, D Bate and J Shepherd retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re–election at the Annual General Meeting.

Substantial shareholdings

As at 20 February 2012, the Company was aware of the following interests, other than Directors, in excess of 3% of the issued Ordinary share capital of the Company:

	Number of shares	% of total voting rights	Nature of interest
HSBC Global Custody Nominee Limited	3,500,000	19.92	Direct
Quadnetics Employees Benefit Trust	1,994,362	11.35	Direct
Standard Life Investments	1,667,831	9.49	Direct
Ignis Investment Services	1,283,424	7.30	Direct
Schroder Investment Management	775,000	4.41	Indirect
Investec Wealth & Investment	721,520	4.11	Indirect

Directors' interests in the Company

The Directors' interests in the Company's Ordinary share capital at 30 November 2011 which were all beneficial, are shown in the table below:

	30 November 2011 Number of shares	30 November 2010 Number of shares
DJ Coghlan	**2,001,303**	2,001,303
PM Rae	**218,302**	218,302
D Bate	**146,000**	146,000
J Shepherd	**40,000**	40,000
NC Poultney	**13,000**	13,000
SW Coggins	**11,000**	11,000
	2,429,605	2,429,605

Subsequent to the year end SW Coggins acquired a further 2,080 shares on 29 December 2011.

The interests of the Directors in the Company's share schemes, which are not included above, are shown in the Remuneration Report on pages 34 to 36.

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 Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ending 30 November 2012.

At 30 November 2011 the Group had 55 days purchases outstanding in trade payables (30 November 2010: 53 days).

Charitable donations

During the year the Group made charitable donations of £500 (18 months to 30 November 2010: £1,083).

No political donations were made during the year.

Financial instruments

Financial risks include market risk (principally foreign currency risk), credit risk, liquidity risk and interest risk. The Group seeks to minimise the effect of these risks by developing and consistently applying Board approved policies and procedures. Such policies and procedures are regularly reviewed for their appropriateness and effectiveness to deal with the changing nature of financial risks. The Group's principal financial instruments comprise cash held in current accounts, trade receivables, amounts recoverable under contracts, other receivables, trade payables, bank loans and other payables that arise directly from its operations.

Report of the Directors
For the 12 months ended 30 November 2011

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Authorities to allot shares, disapplication of statutory pre–emption rights and to buy the Company's own shares

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

1) An Ordinary Resolution to authorise the Directors to allot Ordinary shares of up to £1,159,604 in nominal value (which represents approximately 33% of the current issued Ordinary share capital of the Company). In accordance with guidelines issued by the Association of British Insurers, this figure comprises one third of the issued Ordinary share capital.

2) A Special Resolution to renew the existing disapplication of the pre–emption provisions of section 561(1) of the Companies Act 2006 so as to give the Directors power to allot shares for cash, 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 £175,697 (which represents approximately 5% of the issued Ordinary share capital of the Company).

3) A Special Resolution to enable the Company to purchase its own shares up to a maximum of 1,756,974 Ordinary shares, representing approximately 10% of the current issued Ordinary share capital of the Company. 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.

4) A Special Resolution to authorise the Board to change the Articles of Association of the Company to provide the Directors with the power to change the Company's name.

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing their Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the Directors are aware, there is no information relevant to the Auditors' preparation of their report that has not been disclosed to the Company's Auditors. Each Director has taken all steps required of a Director to ensure that he is aware of any information relevant to the audit and to establish that all such information has been disclosed to the Auditors.

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. Further information is set out on page 73.

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 two executive and four non–executive Directors. The names, roles and biographical details of the Directors are set out on page 28. 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 met six times during the 12 month period with all Directors in attendance except for one meeting which PM Rae was unable to attend.

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.

D Bate, SW Coggins and PM Rae have been identified as independent non–executive Directors, with PM Rae being the Senior Independent Director. The Board consider them to be independent of Group management and free from any business or other relationships that would materially interfere with the exercise of their independent judgement.

All Directors are subject to re-election every three years. Accordingly, D Bate and J Shepherd 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 and SW Coggins, who are all non-executive Directors, and provides a forum for reporting by the Group's external auditors. The Audit Committee has formal written terms of reference and met twice during the course of the last financial year, with all three members in attendance at one meeting and two members in attendance at the other meeting which PM Rae was unable to attend. Executive Directors do not attend other than by invitation of the Audit Committee.

The Audit Committee's primary task is to review the scope and results of the external audit. It is also responsible for assisting the Board to discharge its duties with regard to the Group's financial affairs and, in liaison with the external auditors, for reviewing the adequacy of the Group's accounting, financial and operational controls. The Audit Committee also ensures that an appropriate relationship between the Group and its external auditors is maintained. The Audit Committee is satisfied that the current provision of non–audit services by the Group's auditors does not impair their independence or objectivity.

Report of the Directors
For the 12 months ended 30 November 2011

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, contract risk appraisal 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. However the Directors have implemented a system of internal control checks which are carried out by head office finance staff to give additional assurance on controls and supplement the work undertaken by external auditors.

REMUNERATION REPORT

The Company's Remuneration Committee comprises PM Rae, D Bate and SW Coggins, who are all non–executive Directors and have no personal or financial interests in the matters to be decided. The objective of the Remuneration 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 Remuneration 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.

The Remuneration Committee has formal written terms of reference and met three times during the course of the last financial year, with all members in attendance, except for one meeting which PM Rae was unable to attend. Executive Directors do not attend other than by invitation of the Remuneration Committee.

Information in a) and b) below forms part of the financial statements.

a) Remuneration

	Salary and fees £'000	Bonuses* £'000	Benefits £'000	12 months to 30 Nov 2011 Total (excl. pension) £'000	18 months to 30 Nov 2010 Total (excl. pension) £'000	12 months to 30 Nov 2011 Pension £'000	18 months to 30 Nov 2010 Pension £'000
Executive Directors							
J Shepherd	240	60	29	**329**	373	**29**	41
NC Poultney	138	31	27	**196**	219	**43**	63
G Robinson (resigned 10 March 2009)	–	–	–	**–**	1	**–**	–
RC Singleton (resigned 6 May 2010)	–	–	–	**–**	405	**–**	44
Non–executive Directors							
DJ Coghlan	75	–	14	**89**	135	**–**	–
PM Rae	25	–	–	**25**	38	**–**	–
SW Coggins	25	–	–	**25**	38	**–**	–
D Bate	25	–	–	**25**	38	**–**	–
Total	528	91	70	**689**	1,247	**72**	148

* Bonuses were paid or accrued in the 12 months ended 30 November 2011 for specific achievement of agreed personal and corporate objectives.

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

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 December 2011 and 1 March 2012.

The following Directors held an interest in the Company's shares at 30 November 2011 through participation in the Quadnetics Group Executive Shared Ownership Plan (the "ExSOP"), which was established on 7 July 2009, as set out below and in note 23.

Under the provisions of the ExSOP, shares (the "ExSOP shares") are jointly owned by nominated senior employees and by an employees share trust 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, provided the Company meets certain performance thresholds linked to the FTSE AIM All Share Total Return Index. No rights under this scheme were exercised by Directors during the year.

Date awarded	7 July 2009		7 March 2011	
	Number of shares	Issue price (p)	Number of shares	Issue price (p)
J Shepherd	370,338	147.5	15,000	173.0
NC Poultney	200,000	147.5	10,000	173.0
DJ Coghlan	93,243	147.5	–	–

The Directors also participate in the Quadnetics Employees' Share Acquisition Plan (the "ESAP") which was adopted on 23 April 2010. Deductions from salary are used to buy Partnership Shares in Quadnetics Group plc at the end of each six month accumulation period. The Trustee will use any dividend income paid on these shares to buy further shares to be held in the scheme as Dividend Shares.

Partnership Shares can be withdrawn from the Scheme by the employee at any time, but withdrawals before the fifth anniversary after purchase are subject to income tax; withdrawals after the fifth anniversary of their purchase date can be made in full and are tax free. Dividend Shares are required to be held in Trust for a period of three years following the purchase date. Employees who leave the Group are required to withdraw all their shares in the Scheme and are subject to the same rules.

Report of the Directors
For the 12 months ended 30 November 2011

The following Directors held an interest in the Company's shares at 30 November 2011 which were acquired by the Scheme Trustee as follows:

	Partnership Shares			Dividend Shares	
Effective date of purchase	14 October 2010 at 147.5p	7 April 2011 at 177.5p	2 November 2011 at 185.5p	25 July 2011 at 200.0p	2 November 2011 at 205.0p
J Shepherd	338	422	405	7	9
N Poultney	338	422	405	7	9

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 December 2010	178.5p
At 30 November 2011	202.0p

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

	Ordinary shares of 20p each
Maximum	207.5p
Minimum	170.0p

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
J Shepherd	12 months

By Order of the Board

Nigel Poultney
Secretary
Quadnetics Group plc
Registered Number: 1740011
1 March 2012

Independent Auditor's Report

To the Members of Quadnetics Group plc

We have audited the financial statements of Quadnetics Group plc for the year ended 30 November 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 32, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 November 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Peter Meehan (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
1 March 2012

Consolidated Income Statement

For the 12 months ended 30 November 2011

	Notes	**12 months ended 30 Nov 2011 £'000**	18 months ended 30 Nov 2010 £'000	12 months ended 30 Nov 2010 £'000 Unaudited proforma information (note 1(a))
Revenue	2	**69,083**	91,124	61,280
Cost of sales		**(47,062)**	(62,276)	(41,545)
Gross profit		**22,021**	28,848	19,735
Operating expenses	3	**(19,418)**	(27,703)	(18,402)
Profit from operations				
Excluding non-underlying items	6	**3,541**	2,714	2,552
Non-underlying items	4	**(938)**	(1,569)	(1,219)
Total profit from operations		**2,603**	1,145	1,333
Finance income	9	**268**	441	295
Finance costs	10	**(409)**	(415)	(272)
Share of results of joint venture		**–**	–	4
Profit before tax				
Excluding non-underlying items and finance cost of deferred and contingent consideration		**3,510**	2,740	2,579
Non-underlying items	4	**(938)**	(1,569)	(1,219)
IAS 39 charge on deferred and contingent consideration	10	**(110)**	–	–
Total profit before tax		**2,462**	1,171	1,360
Income tax expense	11	**(874)**	(311)	(366)
Profit for the year attributable to equity holders of the parent		**1,588**	860	994
Basic earnings per Ordinary share	13	**10.2p**	5.5p	6.4p
Diluted earnings per Ordinary share	13	**10.0p**	5.5p	6.4p

Non-underlying items comprise amortisation of acquired intangibles, acquisition expenses, restructuring costs and share based payments charges. See note 4.

Consolidated Statement of Comprehensive Income

For the 12 months ended 30 November 2011

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Profit for the year	**1,588**	860
Exchange differences on translation of foreign operations	**(21)**	13
Actuarial gains	**114**	104
Effect of not recognising the pension scheme surplus	**(114)**	(104)
Total comprehensive income for the year attributable to equity holders of the parent	**1,567**	873

Consolidated Statement of Financial Position

30 November 2011

	Notes	30 November 2011 £'000	30 November 2010 £'000
Non-current assets			
Property, plant and equipment	14	**1,618**	1,503
Intangible assets	15	**25,189**	17,292
Deferred tax asset	11	**–**	176
		26,807	18,971
Current assets			
Inventories	16	**7,459**	5,897
Trade and other receivables	17	**26,501**	22,511
Cash and cash equivalents	18	**3,098**	3,349
		37,058	31,757
Total assets		**63,865**	50,728
Current liabilities			
Trade and other payables	19	**(22,507)**	(18,256)
Tax liabilities		**(861)**	(535)
Current provisions	21	**(44)**	(112)
		(23,412)	(18,903)
Non-current liabilities			
Loans and borrowings	20	**(1,843)**	–
Non–current provisions	21	**(6,028)**	(25)
Deferred tax liabilities	11	**(133)**	–
		(8,004)	(25)
Total liabilities		**(31,416)**	(18,928)
Net assets		**32,449**	31,800
Equity attributable to equity holders of Parent Company			
Called up share capital	22	**3,514**	3,514
Share premium account		**15,719**	15,719
Merger reserve		**9,565**	9,565
Other reserves		**(3,486)**	(3,486)
Currency translation reserve		**96**	117
Retained earnings		**7,041**	6,371
Total equity		**32,449**	31,800

The financial statements on pages 38 to 74 were approved and authorised for issue by the Board of Directors on 1 March 2012 and were signed on its behalf by:

John Shepherd
Chief Executive

Nigel Poultney
Finance Director

Company Number: 1740011

Consolidated Statement of Changes in Equity

For the 12 months ended 30 November 2011

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Currency translation reserve £'000	Retained earnings £'000	Total £'000
At 1 June 2009	3,382	14,851	9,565	(2,486)	104	6,742	32,158
Issue of shares	132	868	–	(1,000)	–	–	–
Profit after tax for the period	–	–	–	–	–	860	860
Dividends paid (note 12)	–	–	–	–	–	(1,480)	(1,480)
Credit in relation to share based payments	–	–	–	–	–	249	249
Currency translation adjustment	–	–	–	–	13	–	13
At 30 November 2010	3,514	15,719	9,565	(3,486)	117	6,371	31,800
Profit after tax for the year	–	–	–	–	–	1,588	1,588
Dividends paid (note 12)	–	–	–	–	–	(1,110)	(1,110)
Credit in relation to share based payments	–	–	–	–	–	192	192
Currency translation adjustment	–	–	–	–	(21)	–	(21)
At 30 November 2011	**3,514**	**15,719**	**9,565**	**(3,486)**	**96**	**7,041**	**32,449**

Consolidated Cash Flow Statement

For the 12 months ended 30 November 2011

	Notes	**12 months ended 30 Nov 2011 £'000**	18 months ended 30 Nov 2010 £'000	12 months ended 30 Nov 2010 £'000 Unaudited proforma information (note 1(a))
Cash flows from operating activities				
Profit for the year		**1,588**	860	994
Income tax expense		**874**	311	366
Finance income		**(268)**	(441)	(295)
Finance costs		**409**	415	272
Depreciation and amortisation charge		**1,268**	1,846	1,215
(Profit)/loss on disposal of non-current assets		**(10)**	2	5
Share based payments charge		**192**	249	169
Operating cash flows before movement in working capital		**4,053**	3,242	2,726
Increase in inventories		**(871)**	(535)	(473)
(Increase)/decrease in receivables		**(3,175)**	55	(1,791)
Increase/(decrease) in payables and provisions		**3,422**	(4,407)	1,185
Cash generated from operations		**3,429**	(1,645)	1,647
Interest received		**11**	52	33
Tax (paid)/received		**(485)**	(38)	722
Net cash from operating activities		**2,955**	(1,631)	2,402
Cash flows from investing activities				
Purchase of property, plant and equipment		**(566)**	(493)	(244)
Sale of property, plant and equipment		**10**	29	26
Acquisition of subsidiaries		**(2,555)**	–	–
Capitalised development costs		**(747)**	(891)	(699)
Purchased software		**(69)**	(210)	(75)
Deferred consideration on acquisition made in 2005		**–**	(79)	–
Net cash used in investing activities		**(3,927)**	(1,644)	(992)
Cash flows from financing activities				
New borrowings		**1,843**	–	–
Interest paid		**(33)**	(21)	(10)
Dividends paid		**(1,110)**	(1,480)	(1,480)
Net cash used in financing activities		**700**	(1,501)	(1,490)
Effect of exchange rate changes on cash and cash equivalents		**21**	14	21
Net decrease in cash and cash equivalents		**(251)**	(4,762)	(59)
Cash and cash equivalents at the beginning of the year		**3,349**	8,111	3,408
Cash and cash equivalents at the end of the year	18	**3,098**	3,349	3,349

Notes to the Financial Statements

For the 12 months ended 30 November 2011

1 Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the periods presented unless otherwise stated.

a) Basis of preparation

These financial statements have been prepared in accordance with IFRSs as adopted by the EU ("adopted IFRS"), and with those parts of the Companies Act 2006 applicable to companies reporting under adopted IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP; these are presented on pages 75 to 81.

The consolidated financial statements of the Company as at and for the year ended 30 November 2011 comprise the Company and its subsidiaries, and the Group's interest in jointly controlled entities.

These financial statements have been prepared using the historical cost convention except where the measurement of balances at fair value is required as set out below. The following policies are those that the Group considers to be its principal accounting policies in respect of its consolidated results.

Following the change in the Company's year end date to November the comparative figures in this Annual Report are the reported figures for the 18 months to 30 November 2010. Therefore in order to provide meaningful comparability of data unaudited proforma results for the 12 months to 30 November 2010 are also presented on the Income Statement, the Cash Flow Statement and in respect of certain segmental information in note 2.

Standards and Interpretations effective in the current period

The following standards and interpretations have been adopted in the financial statements as they are mandatory for the year ended 30 November 2011:

Endorsed		Effective for periods beginning on or after:
IFRIC 17	Distributions of non–cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRS 3	Business combinations (revised)	1 July 2009
IAS 27	Consolidated and separate financial statements (revised)	1 July 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
IFRS 2	Amendments to clarify scope and accounting for Group settled share based payment transactions in the separate financial statements	1 January 2010

The adoption of IFRS 3: Business Combinations (revised) has resulted in the acquisition costs related to the purchase of Indanet AG and Persides Technology Limited being expensed in the Income Statement in the year and the liability for contingent consideration being measured at fair value in the Statement of Financial Position on acquisition and subsequently re-measured at the year end date. Further details of acquisitions are given in note 31.

The adoption of the other standards and interpretations above has not had a material impact on the Group's financial statements. In addition to the above, amendments to a number of standards, under the annual improvements project to IFRS, which are mandatory for the year ending 30 November 2011, have been adopted in 2011. None of these amendments have had a material impact on the Group's financial statements.

The following standards and interpretations are available for early adoption but have not been applied by the Group in these financial statements:

Endorsed		Effective for periods beginning on or after:
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011
IFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets	1 July 2011

Notes to the Financial Statements
For the 12 months ended 30 November 2011

1 Principal accounting policies (continued)

The Directors anticipate that all of the above Standards and Interpretations will be adopted in the Group's financial statements for the period commencing 1 December 2011 and/or 1 December 2012 as appropriate, and that their adoption will have no material impact on the financial statements of the Group.

The following standards and interpretations are not yet effective and have not been adopted early by the Group:

- Amendment to IAS 12 – Deferred taxes: Recovery of underlying assets
- IFRS 9 – Financial instruments
- IFRS 13 – Fair value measurement
- Amendment IAS 1 – Presentation of other items of comprehensive income
- Amendment IAS 19 – Employee benefits

Except for the amendment to IAS 19 none of these Standards, Interpretations or amendments is expected to impact profit, earnings per share and net assets in future periods.

The amendment to IAS 19 makes significant changes to the recognition and measurement of the deferred pension expense and termination benefits and disclosures of all employee benefits. It is anticipated that the amendment will impact the pension cost recognised in the income statement. The amendment is expected to be effective for the period starting 1 December 2013.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financing arrangements. The Group holds cash balances and is not reliant on debt within its capital structure. There is limited exposure to credit, liquidity and foreign currency risk, as detailed in note 30.

Further information on the Group's business activities, together with the factors likely to affect its future development, performance and position, and on the financial position of the Group, its cash flows and liquidity position, are described in the Business Review on pages 10 to 27.

b) Basis of consolidation

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefit from their activities. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

Inter-Company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full on consolidation.

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control. Joint control exists when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control.

The Group's interest in jointly controlled entities are accounted for using the equity method. Under this method the Group's share of the profits less losses of jointly controlled entities is included in the consolidated income statement and its interest in their net assets is included in investments in jointly controlled entities in the consolidated statement of financial position. Where the share of losses exceeds the interests in the entity, the carrying amount is reduced to nil and recognition of further losses is discontinued. Interest in the entity is the carrying amount of the investment together with any long–term interest that, in substance, forms part of the net investment in the entity.

1 Principal accounting policies (continued)

c) Business combinations and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

Adjustments are made to fair values to bring the accounting policies of acquired businesses into alignment with those of the Group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition income statement. Goodwill is subsequently carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill would not be reversed in a subsequent period.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

d) Revenue

Revenue, which excludes value added tax, is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, which primarily takes place on delivery of the goods.

Installation contract income

Revenue and profits attributable to contracts are included in the income statement as the contracts proceed in proportions relevant to their state of completion, less amounts recognised in previous years.

Contract balances

Contract balances are stated at cost, net of amounts transferred to cost of sales in respect of work recorded as revenue, after deducting foreseeable losses and payments on account not matched with revenue. Provision is made for any losses as soon as they are foreseen. Amounts recoverable on contracts, which are included in receivables, are stated at the net sales value of the work done less payments on account. Excess payments on account are included in current liabilities.

The Group sells certain products bundled with maintenance or other services to be delivered over a predetermined period of time. Where the commerical substance is that the individual components operate independently of each other such that each component represents a separable good or service that can be provided to customers, either on a stand-alone basis or as an optional extra or, alternatively, where one or more of the components may be capable of being provided by another supplier, these are considered as identifiable and separate components to which general revenue recognition criteria can be applied separately. Once the separate components have been identified, the amount received or receivable from the customer is allocated based on the individual component's fair value.

Maintenance contracts

Income receivable from maintenance contracts is recognised in revenue 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 current liabilities as deferred income.

Notes to the Financial Statements

For the 12 months ended 30 November 2011

1 Principal accounting policies (continued)

e) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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 statement of financial position as obligations under finance leases. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income.

Payments made under operating leases are recognised in the income statement on a straight–line basis over the term of the lease.

Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the income statement on a straight-line basis over the lease term.

f) Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in British pounds ("£"), which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non–monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in British pounds using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rates prevailing at the balance sheet date.

g) Retirement benefit 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 income statement as an expense when employees have rendered service entitling them to the contributions.

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 period are included in the income statement as other finance income and charges as appropriate. Actuarial gains and losses are recognised in the Consolidated Statement of Comprehensive Income. Pension scheme liabilities and, to the extent that they are recoverable, pension scheme assets are recognised in the statement of financial position 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 credit 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. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight–line basis over the average period until the benefits become vested.

1 Principal accounting policies (continued)

h) Share based payments

In accordance with IFRS 2, equity-settled share based payments are measured at fair value at the date of grant. The fair value is recognised as an employee expense on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. The fair value of the options granted is calculated using an option pricing model which is based on the Black–Scholes model, taking into account the terms and conditions upon which the options were granted.

For cash-settled share based payment transactions, the fair value of the amount payable to the employee is recognised in the income statement with a corresponding movement in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the income statement.

Transactions of the Company-sponsored Executive Shared Ownership Plan are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular the scheme's purchases of shares in the Company are debited directly to equity, within "Other reserves".

i) Taxation

The income tax expense is the sum of current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements

For the 12 months ended 30 November 2011

1 Principal accounting policies (continued)

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

j) Dividends

Dividends proposed by the Directors and unpaid at the end of the year 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.

k) Property, plant and equipment

All property, plant and equipment assets are stated at cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of fixed assets, other than freehold land which is not depreciated, less their estimated residual values, on a straight–line basis over the estimated useful life, 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%
- Short leasehold improvements – over the term of the lease
- Plant, equipment and motor vehicles – 10% to 33%

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains or losses on disposal are included in the income statement.

l) Research and development costs

Research costs are written off to the income statement as incurred.

Development costs are capitalised and held as "Intangible assets" in the statement of financial position when the costs relate to a clearly defined project; the costs are separately identifiable; the outcome of such a project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability; the aggregate of the deferred costs plus all future expected costs in bringing the product to market is exceeded by the future expected sales revenue; and adequate resources are expected to exist to enable the project to be completed. Amortisation is charged to match revenue generated, over the useful life of the product, from the commencement of commercial sales.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Development expenditure that does not meet these criteria is written off to the income statement as incurred.

m) Other intangible assets

Other intangible assets, such as purchased computer software, are shown at historical cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis from the date they are available for use over the estimated useful lives of the intangible asset. The useful life of purchased software is three to five years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

1 Principal accounting policies (continued)

Impairment of tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, other than goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income.

n) Inventories

Inventories are valued at the lower of cost and net realisable value on a first in first out basis. In the case of finished goods, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, an appropriate allowance is made for obsolete, slow-moving and defective inventories.

o) Provisions

Provisions are recognised in the statement of financial position when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Deferred consideration relating to business combinations

Deferred consideration relating to business combinations is initially measured at fair value at the date of acquisition and at subsequent reporting dates measured in accordance with the appropriate accounting standard.

Restructuring

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will be carried out.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

p) Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. The Group does not apply hedge accounting.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits and bank current accounts, net of bank overdrafts, with an original maturity of three months or less at acquisition.

Notes to the Financial Statements

For the 12 months ended 30 November 2011

1 Principal accounting policies (continued)

Trade and other receivables

Trade receivables are initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost less any impairment loss.

Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost.

q) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

r) Judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management make various judgements that can significantly affect the amounts recognised in the financial statements. The critical judgements are considered to be the following:

Revenue recognition

Following detailed quantification of the Group's assets, liabilities and revenue deriving from contracts, the Directors are satisfied that revenue is recognised when, and to the extent that, the Group obtains the right to consideration, which is derived on a contract-by-contract basis from an assessment of the fair value of the goods or services provided as at the reporting date as a proportion of the total fair value of each contract. Where products and maintenance are bundled in a contract some judgement may be required to identify the separate components which are recognised in accordance with general revenue recognition criteria.

Capitalisation of development costs

It is Group policy to capitalise and amortise development expenditure for the production of new or substantially improved products and processes if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Such expenditure is amortised over the period which the Directors expect to obtain economic benefits. This policy includes judgements regarding the initial recognition of the asset based upon market research and expected future net revenues. It also includes estimations regarding the period of amortisation.

s) Significant estimates

In the application of the Group's accounting policies the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. To date there has been no material impact on the carrying value of assets or liabilities from such estimates.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. The value in use calculation includes estimates about future financial performance and long-term growth rates and requires management to select a suitable discount rate in order to calculate the present value of those cash flows. The key assumptions used in the impairment review are disclosed in note 15 to the financial statements.

Deferred tax

The Group has recognised deferred tax assets in respect of unutilised losses and other temporary differences arising in certain of the Group's businesses. This requires management to make decisions on the recoverability of such deferred tax assets based on future forecasts of taxable profits. If these forecast profits do not materialise, or there are changes in the tax rates or to the period over which the losses or temporary differences might be recognised, the value of the deferred tax asset will need to be revised in a future period. The Group has losses for which no value has been recognised for deferred tax purposes in these financial statements, as future economic benefit of these temporary differences is not probable. If appropriate profits are earned in the future, the temporary difference may result in a benefit to the Group in the form of a reduced tax charge in a future period.

1 Principal accounting policies (continued)

Provisions

Provisions are recognised in the statement of financial position when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. Provisions for restructuring are recognised when the Group has an approved restructuring plan that has either commenced or been announced publicly. Future operating costs are not provided for.

2 Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Chief Executive Officer as he is primarily responsible for the allocation of resources to the segments and the assessment of the performance of each of the segments. Segment information is presented in respect of the Group's strategic operating segments. The operating segment reporting format reflects the differing economic characteristics and nature of the services provided by the Group and is the basis on which strategic operating decisions are made by the CODM.

The CODM uses underlying operating profit, as reviewed at monthly Board meetings, as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Underlying operating profit is a consistent measure within the Group.

The Directors believe that the Group's activities can be represented in the segments shown below and that the best measure of performance of those segments is underlying operating profit before research and development and Group central costs (segment result). There has been no aggregation of the operating segments in arriving at these reportable segments.

Revenue	**12 months ended 30 November 2011 £'000**	18 months ended 30 November 2010 £'000	Unaudited proforma (note 1 (a)) 12 months ended 30 November 2010 £'000
Integration & Managed Services	**32,622**	49,439	32,039
Network Systems	**16,230**	17,625	12,719
Mobile Systems	**13,461**	17,080	11,890
Industrial Systems	**7,943**	9,639	6,286
Total segmental revenue	**70,256**	93,783	62,934
Reconciliation to consolidated revenue:			
Intra-group sales	**(1,173)**	(2,659)	(1,654)
	69,083	91,124	61,280

Underlying operating profit	**12 months ended 30 November 2011 £'000**	18 months ended 30 November 2010 £'000	Unaudited proforma (note 1 (a)) 12 months ended 30 November 2010 £'000
Integration & Managed Services	**1,460**	2,125	1,333
Network Systems	**3,762**	2,220	1,949
Mobile Systems	**280**	1,319	1,198
Industrial Systems	**1,258**	1,252	747
Total segmental underlying operating profit	**6,760**	6,916	5,227
Reconciliation to consolidated underlying operating profit:			
Research & Development Costs	**(1,025)**	(1,341)	(656)
Central Costs	**(2,194)**	(2,861)	(2,019)
	3,541	2,714	2,552

Notes to the Financial Statements

For the 12 months ended 30 November 2011

2 Segmental analysis (continued)

Underlying Operating Profit 12 months ended 30 November 2011	**Underlying operating profit* £'000**	Share based payments charge £'000	Acquisition & restructuring costs £'000	Amortisation of acquired intangibles £'000	Total £'000
Integration & Managed Services	**1,460**	(24)	–	–	1,436
Network Systems	**3,762**	(28)	–	–	3,734
Mobile Systems	**280**	(33)	(161)	–	86
Industrial Systems	**1,258**	(16)	–	–	1,242
Total segmental underlying operating profit	**6,760**	(101)	(161)	–	6,498
Reconciliation to consolidated underlying operating profit:					
Research & Development Costs	**(1,025)**	(14)	–	–	(1,039)
Central Costs	**(2,194)**	(77)	(537)	(48)	(2,856)
	3,541	(192)	(698)	(48)	2,603

Underlying Operating Profit 18 months ended 30 November 2010	**Underlying operating profit* £'000**	Share based payments charge £'000	Restructuring costs £'000	Total £'000
Integration & Managed Services	**2,125**	(31)	(974)	1,120
Network Systems	**2,220**	(48)	–	2,172
Mobile Systems	**1,319**	(40)	(58)	1,221
Industrial Systems	**1,252**	(20)	–	1,232
Total semental underlying operating profit	**6,916**	(139)	(1,032)	5,745
Reconciliation to consolidated underlying operating profit:				
Research & Development Costs	**(1,341)**	–	(57)	(1,398)
Central Costs	**(2,861)**	(110)	(231)	(3,202)
	2,714	(249)	(1,320)	1,145

* Underlying operating profit represents operating profit before non-underlying items (amortisation of acquired intangibles, acquisition expenses, restructuring costs, and share based payments charges).

Net Assets

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.

	Assets £'000	Liabilities £'000	**30 November 2011 Net Assets £'000**
Integration & Managed Services	13,622	(10,585)	**3,037**
Network Systems	6,796	(4,837)	**1,959**
Mobile Systems	8,142	(5,288)	**2,854**
Industrial Systems	7,859	(2,987)	**4,872**
Total segmental net assets	36,419	(23,697)	**12,722**
Reconciliation to consolidated net assets:			
Unallocated	27,446	(7,719)	**19,727**
	63,865	(31,416)	**32,449**

2 Segmental analysis (continued)

Net Assets	Assets £'000	Liabilities £'000	30 November 2010 Net Assets £'000
Integration & Managed Services	14,244	(10,449)	3,795
Network Systems	7,554	(4,235)	3,319
Mobile Systems	5,180	(2,218)	2,962
Industrial Systems	4,981	(2,281)	2,700
Total segmental net assets	31,959	(19,183)	12,776
Reconciliation to consolidated net assets:			
Unallocated	18,769	255	19,024
	50,728	(18,928)	31,800

By geographical segment Geographical location of customers:	**Revenue 12 Months ended 30 Nov 2011 £'000**	**Assets 30 Nov 2011 £'000**	**Capital additions 12 months ended 30 Nov 2011 £'000**	Revenue 18 Months ended 30 Nov 2010 £'000	Assets 30 Nov 2010 £'000	Capital additions 18 months ended 30 Nov 2010 £'000
United Kingdom & Europe	**54,291**	**60,524**	**519**	77,149	46,008	400
North America	**8,715**	**3,139**	**47**	7,017	4,206	93
Middle East	**1,574**	**202**	**–**	2,970	493	–
Asia and Pacific	**4,380**	**–**	**–**	1,516	–	–
Rest of World	**123**	**–**	**–**	2,472	21	–
	69,083	**63,865**	**566**	91,124	50,728	493

3 Net operating expenses

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Distribution costs	**260**	464
Administrative expenses (before non-underlying costs)	**18,220**	25,670
Non-underlying costs (note 4)	**938**	1,569
Total administrative expenses	**19,158**	27,239
	19,418	27,703

Notes to the Financial Statements
For the 12 months ended 30 November 2011

4 Non-underlying items

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Acquisition costs	**352**	–
Restructuring costs	**346**	1,320
Share based payments charge	**192**	249
Amortisation of intangible assets acquired as a result of business combinations	**48**	–
	938	1,569

The acquisition expenses relate to the acquisition of Persides Technology Limited in December 2010 and Indanet AG in July 2011. The restructuring costs relate to reorganisation of the Mobile division. The 2010 exceptional costs related to the reorganisation of operations in Watford, Guildford and Tewkesbury in the UK and certain operations in the Middle East.

5 Fees payable to the Company's auditors and its associates

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**35**	34
Fees payable to the Company's auditors and its associates for other services:		
– the audit of the Company's subsidiaries pursuant to legislation	**103**	117
– other services	**101**	101
– tax services	**82**	71
	321	323

Amounts paid to the auditors included above for other services and not expensed through the income statement amounted to £nil (18 months to 30 November 2010: £nil). Amounts paid to the Company's auditor and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed separately and the information is required instead to be disclosed on a consolidated basis.

6 Profit from operations

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Profit from operations is stated after charging:		
Amortisation of intangible assets	**766**	1,071
Depreciation of property, plant & equipment	**502**	775
Research and development expenditure	**1,025**	1,341
Cost of inventories recognised as an expense	**29,948**	40,202
Rental payments under operating leases:		
– plant, machinery and vehicles	**1,114**	1,428
– other	**603**	1,012

7 Directors' and key management personnel remuneration

The Directors consider that the key management personnel of the business comprises of its Board of Directors, whose remuneration is shown on pages 35 and 36 of the Report of the Directors, and members of the Executive Management Team. Details of the remuneration for key management personnel are set out in note 26.

8 Employee information

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

	12 months ended 30 November 2011 Number	18 months ended 30 November 2010 Number
Class of business (see note 2)		
Integration & Managed Services	208	218
Network Systems	58	53
Mobile Systems	70	51
Industrial Systems	60	55
Research & Development	21	22
Central	11	9
	428	408

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Staff costs (for the above persons)		
Wages and salaries	15,741	19,997
Social security costs	1,686	2,293
Pension costs	456	731
Share based payments charge	192	249
	18,075	23,270

9 Finance income

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Bank interest receivable	11	14
Expected return on pension scheme assets	257	394
Interest receivable on tax repayments	–	33
	268	441

10 Finance costs

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Interest payable on bank overdrafts	28	8
Interest payable on bank loans	8	–
Other interest payable	6	13
Interest on pension scheme liabilities	257	394
IAS 39 charge on deferred and contingent consideration	110	–
	409	415

Notes to the Financial Statements

For the 12 months ended 30 November 2011

11 Taxation

Tax charge	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Current taxation:		
UK tax	**84**	267
Overseas tax	**955**	418
Adjustments in respect of prior periods	**(230)**	(617)
Total current tax	**809**	68
Deferred taxation:		
Origination and reversal of temporary differences	**48**	(67)
Adjustments in respect of prior periods	**17**	310
Total deferred tax	**65**	243
	874	311

Reconciliation of tax charge for the year

The corporation tax assessed for the year differs from the standard rate of corporation tax in the UK of 26.67% (18 months ended 30 November 2010: 28%). The differences are explained below:

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Profit on ordinary activities before tax	**2,462**	1,171
Tax on profit on ordinary activities before tax at standard rate of 26.67% (18 months ended 30 November 2010: 28%)	**657**	328
Effects of:		
Expenses not deductible for tax purposes and temporary differences	**308**	157
Overseas profits taxed at higher rate	**252**	103
Tax losses not recognised	**–**	24
Tax losses utilised	**(126)**	–
Rate change on deferred tax balance	**(4)**	6
Adjustment in respect of prior periods	**(213)**	(307)
Total tax charge for the period	**874**	311

Factors that may affect future tax charges

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010 and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax liability accordingly.

The deferred tax liability at 30 November 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

Deferred tax (liability)/asset	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
At start of period	**176**	414
Charge to income statement	**(65)**	(243)
Arising on business combinations	**(249)**	–
Currency translation adjustment	**5**	5
At end of period	**(133)**	176

11 Taxation (continued)

The deferred taxation balances comprise:

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Fixed asset temporary differences	(192)	(105)
Other temporary differences	(8)	88
Tax losses	67	193
	(133)	176

The Group has tax losses available to be carried forward for offset against the future taxable profits of certain Group companies amounting to approximately £1.0 million (30 November 2010: £1.4 million). A deferred tax asset in respect of these losses, amounting to £0.1 million (30 November 2010: £0.2 million), has been recognised at the year end 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 (30 November 2010: £19 million) available for offset against future taxable gains. No deferred tax asset in respect of these losses, which would amount to £5 million, has been recognised in these financial statements as there is insufficient certainty that the asset will be recovered against future capital gains.

12 Dividends

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

	12 months ended 30 November 2011		18 months ended 30 November 2010	
	Pence per share	£'000	Pence per share	£'000
Final dividend paid in respect of prior year but not recognised as liabilities in that year	4.5	791	4.5	791
Interim dividends paid in respect of current year:	2.5	439	2.5	439
	–	–	2.5	439
	7.0	1,230	9.5	1,669
Proposed final dividend for the 12 months ended 30 November 2011 (18 months ended 30 November 2010)	4.5	791	4.5	791

The proposed final dividend for the 12 months ended 30 November 2011 has not been approved by shareholders and as such has not been included as a liability as at 30 November 2011. Subject to approval, this is expected to be paid on 9 May 2012 to shareholders on the register at 16 March 2012. This will give a total dividend for the 12 month period of 7.0p (18 months to 30 November 2010: 9.5p).

13 Earnings per Ordinary share

	12 months ended 30 November 2011 Pence per share	18 months ended 30 November 2010 Pence per share
Basic earnings per Ordinary share	10.2	5.5
Diluted earnings per Ordinary share	10.0	5.5
Underlying basic earnings per Ordinary share	16.4	13.3
Underlying diluted earnings per Ordinary share	16.2	13.2

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For the 12 months ended 30 November 2011

13 Earnings per Ordinary share (continued)

Basic and diluted earnings per Ordinary share

The calculation of basic earnings per Ordinary share is based on the profit after taxation for the year of £1,588,000 (18 months to 30 November 2010: £860,000) and on 15,528,934 shares, being the weighted average number of shares in issue and ranking for dividend during the year (18 months to 30 November 2010: 15,528,934).

The calculation of diluted earnings per Ordinary share is based on the profit after taxation for the year of £1,588,000 (18 months to 30 November 2010: £860,000) and on 15,803,076 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 (18 months to 30 November 2010: 15,612,180).

	Profit after tax £'000	Weighted average number of Ordinary shares	Earnings per Ordinary share p per share
12 months ended 30 November 2011			
Basic earnings per Ordinary share	1,588	15,528,934	10.2
Dilutive potential Ordinary shares arising from share options	–	274,142	(0.2)
Diluted earnings per Ordinary share	1,588	15,803,076	10.0
18 months ended 30 November 2010			
Basic earnings per Ordinary share	860	15,528,934	5.5
Dilutive potential Ordinary shares arising from share options	–	83,246	–
Diluted earnings per Ordinary share	860	15,612,180	5.5

Underlying basic and diluted earnings per Ordinary share

The calculation of underlying basic 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 non-underlying items (net of tax) and IAS 39 charge on deferred and contingent consideration and on 15,528,934 shares, being the weighted average number of shares in issue and ranking for dividend during the year (18 months to 30 November 2010: 15,528,934).

	Profit after tax £'000	Weighted average number of Ordinary shares	Earnings per Ordinary share p per share
12 months ended 30 November 2011			
Basic earnings per Ordinary share	1,588	15,528,934	10.2
Non-underlying items	938	–	6.1
Impact of non-underlying items on tax charge for the year	(82)	–	–
IAS 39 charge on deferred and contingent consideration	110	–	0.1
Underlying basic earnings per Ordinary share	2,554	15,528,934	16.4
18 months ended 30 November 2010			
Basic earnings per Ordinary share	860	15,528,934	5.5
Non-underlying items	1,569	–	10.1
Impact of non-underlying items on tax charge for the period	(370)	–	(2.3)
Underlying basic earnings per Ordinary share	2,059	15,528,934	13.3

The calculation of underlying diluted earnings per Ordinary share is based on the profit after taxation for the year, but before deducting non-underlying items (net of tax) and IAS 39 charge on deferred and contingent consideration and on 15,803,076 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 (18 months to 30 November 2010: 15,612,180).

13 Earnings per Ordinary share (continued)

	Profit after tax £'000	Weighted average number of Ordinary shares	Earnings per Ordinary share p per share
12 months ended 30 November 2011			
Underlying earnings per Ordinary share	2,554	15,528,934	16.4
Dilutive potential Ordinary shares arising from share options	–	274,142	(0.2)
Underlying diluted earnings per Ordinary share	2,554	15,803,076	16.2
18 months ended 30 November 2010			
Underlying earnings per Ordinary share	2,059	15,528,934	13.3
Dilutive potential Ordinary shares arising from share options	–	83,246	(0.1)
Underlying diluted earnings per Ordinary share	2,059	15,612,180	13.2

14 Property, plant and equipment

	Freehold land and buildings £'000	Short leasehold improvements £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost:				
At 1 June 2009	311	979	3,086	4,376
Additions	–	52	441	493
Disposals	–	–	(186)	(186)
Currency translation adjustment	–	–	9	9
At 30 November 2010	311	1,031	3,350	4,692
Additions	–	190	376	566
Disposals	–	–	(52)	(52)
Acquisitions through business combinations	–	–	205	205
Currency translation adjustment	–	–	(45)	(45)
At 30 November 2011	311	1,221	3,834	5,366
Depreciation:				
At 1 June 2009	23	326	2,218	2,567
Charge for the period	10	124	641	775
Disposals	–	–	(158)	(158)
Currency translation adjustment	–	–	5	5
At 30 November 2010	33	450	2,706	3,189
Charge for the year	6	116	380	502
Disposals	–	–	(52)	(52)
Acquisitions through business combinations	–	–	132	132
Currency translation adjustment	–	–	(23)	(23)
At 30 November 2011	39	566	3,143	3,748
Net book value:				
At 30 November 2011	**272**	**655**	**691**	**1,618**
At 30 November 2010	278	581	644	1,503

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For the 12 months ended 30 November 2011

15 Intangible assets

	Goodwill £'000	Acquired intangibles £'000	Capitalised development costs £'000	Purchased software £'000	Total £'000
Cost:					
At 1 June 2009	16,432	–	1,727	717	18,876
Additions	–	–	891	210	1,101
Deferred consideration adjustment (note 21)	(663)	–	–	–	(663)
Currency translation adjustment	22	–	–	–	22
At 30 November 2010	15,791	–	2,618	927	19,336
Additions	–	–	747	69	816
Acquisitions through Business Combination	7,278	754	–	–	8,032
Currency translation adjustment	(177)	(17)	–	25	(169)
At 30 November 2011	22,892	737	3,365	1,021	28,015
Amortisation:					
At 1 June 2009	–	–	464	509	973
Charge for the year	–	–	878	193	1,071
At 30 November 2010	–	–	1,342	702	2,044
Charge for the period	–	48	619	99	766
Currency translation adjustment	–	–	–	16	16
At 30 November 2011	–	48	1,961	817	2,826
Net book value:					
At 30 November 2011	**22,892**	**689**	**1,404**	**204**	**25,189**
At 30 November 2010	15,791	–	1,216	225	17,292

Annual test for impairment of goodwill

During the year, the Group assessed the recoverable amount of goodwill by comparing it to the value in use of the cash–generating units to which it relates. The carrying amount of goodwill was allocated to the cash–generating units as follows:

	30 November 2011 £'000	30 November 2010 £'000
Integration & Managed Services	**4,580**	4,580
Network Systems	**5,704**	2,403
Mobile Systems	**8,408**	4,608
Industrial Systems	**4,200**	4,200
	22,892	15,791

The recoverable amount of the cash–generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets and business plans approved by the Directors covering a three year period. Cash flows beyond that period have been extrapolated using a steady 2.25% per annum growth rate, which the Directors consider to be specific to the business and does not exceed the UK post-war real annual average growth in GDP, and is therefore considered appropriate to apply to each of the cash-generating units.

The key assumptions used in the cash flow projections are as follows:

- No material changes in working capital
- Terminal value applied after 10 years assuming a seven times multiple
- Pre–tax discount rates:

	30 November 2011 %	30 November 2010 %
Integration & Managed Services	**10.4%**	10.6%
Network Systems	**9.9%**	9.9%
Mobile Systems	**9.5%**	9.7%
Industrial Systems	**9.1%**	9.3%

15 Intangible assets (continued)

The discount rates used have been based upon divisional specific risks such as the nature of the markets served, cost profiles and the barriers to entry into each market segment, as well as other macro-economic factors. The Directors believe that, based on sensitivity analysis performed, even in the current economic conditions any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the cash-generating units' carrying amount to exceed the recoverable amount.

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16 Inventories

	30 November 2011 £'000	30 November 2010 £'000
Raw materials and consumables	**4,006**	3,119
Work in progress	**1,385**	938
Finished goods for resale	**2,041**	1,771
	7,432	5,828
Contract balances	**27**	69
	7,459	5,897

	30 November 2011 £'000	30 November 2010 £'000
Contract balances comprise:		
Net costs incurred	**27**	69

17 Trade and other receivables

	30 November 2011 £'000	30 November 2010 £'000
Trade receivables	**16,489**	14,049
Allowance for doubtful debts	**(679)**	(767)
	15,810	13,282
Amounts recoverable on contracts	**9,158**	7,890
Other receivables	**780**	338
Prepayments and accrued income	**753**	1,001
	26,501	22,511

Trade receivables are non–interest bearing and generally have a 30 to 90 day term. At 30 November 2011 the Group had 58 days sales outstanding in trade receivables (30 November 2010: 58 days). Trade receivables includes £250,661 (2010: £58,181) due from redlated parties (note 26).

Due to their short maturities, the fair value of trade and other receivables approximates to their book value.

Movement in allowance for doubtful debts

	30 November 2011 £'000	30 November 2010 £'000
At start of year	**767**	475
Doubtful debts charge recognised in the year	**88**	363
Amounts written off as uncollectable	**(176)**	(71)
At end of period	**679**	767

Notes to the Financial Statements

For the 12 months ended 30 November 2011

17 Trade and other receivables (continued)

As at 30 November 2011, trade receivables of £5,913,000 (30 November 2010: £5,079,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	30 November 2011 £'000	30 November 2010 £'000
Up to three months past due	5,054	3,617
Three to six months past due	591	1,309
Over six months past due	268	153
	5,913	5,079

18 Cash and cash equivalents

	30 November 2011 £'000	30 November 2010 £'000
Cash at bank and in hand	3,098	3,349

The fair value of cash and cash equivalents approximates to their book values.

Cash at bank earns interest based on the daily bank base rate.

19 Trade and other payables

	30 November 2011 £'000	30 November 2010 £'000
Trade payables	8,608	6,185
Other taxation and social security	1,125	1,012
Other payables	229	188
Accruals and deferred income	12,545	10,871
	22,507	18,256

Due to their short maturities, the fair value of trade and other payables approximates to their book value.

20 Loans and borrowings

	30 November 2011 £'000	30 November 2010 £'000
Bank term loan facility	1,715	–
Other loans	128	–
Total loans	1,843	–

The loans are both non-current liabilities. The fair value of financial liabilities is not substantially different from the carrying value. The terms and debt repayment details are as follows:

	Value drawn €'000	Date repayable	Interest rate	Security
Euro €10 million term loan facility	2,000	31 January 2016	EURIBOR + 2.25%	Share pledge
Other €500,000 loan	150	31 May 2015	4%	None

20 Loans and borrowings (continued)

The loans are both related to the acquisition of Indanet AG. The bank term loan can be drawn in three further tranches to coincide with potential deferred and contingent consideration payments as follows:

Maximum amount	Availability
€1,000,000	1–31 December 2013
€2,000,000	1 June 2014–30 November 2014
€5,000,000	1 June 2015–30 November 2015

An initial drawing of €2,000,000 was made on12 November 2011 under the term loan facility.

21 Provisions

	Deferred & contingent consideration £'000	Restructuring £'000	Property £'000	Total £'000
At 1 June 2009	755	776	129	1,660
Utilised in year	(79)	(2,001)	(103)	(2,183)
Charge to income statement	–	1,320	16	1,336
Deferred consideration adjustment	(663)	–	–	(663)
Currency translation adjustment	(13)	–	–	(13)
At 30 November 2010	–	95	42	137
Utilised in year	–	(58)	(16)	(74)
Charge to income statement	–	–	28	28
Acquisition made during year	6,012	–	–	6,012
IAS 39 charge on deferred and contingent consideration	110	–	–	110
Currency translation adjustment	(141)	–	–	(141)
At 30 November 2011	**5,981**	**37**	**54**	**6,072**

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

	30 November 2011 £'000	30 November 2010 £'000
Current	**44**	112
Non–current	**6,028**	25
	6,072	137

It is anticipated that the provisions carried forward at 30 November 2011 will be utilised within the following timescales:

	Number of years
Deferred consideration	four
Restructuring provision	one
Property costs provision for the future costs of empty leasehold properties and dilapidations	seven

On 15 July 2011 Quadnetics Group plc, through its subsidiary Synectic Systems GmbH, agreed to acquire 100% of the issued share capital of Indanet AG ("Indanet"), a leading German provider of integrated surveillance and security management systems to the transport industry, for a maximum total consideration of €10 million. Consideration of €2 million in cash was paid on completion for an initial tranche of shares equivalent to 51% of Indanet's issued share capital. Further consideration of between €1 million and €8 million for the remaining 49% of Indanet will be payable in three tranches between 2013 and 2015, dependent on Indanet's profits for the period from completion to 31 May 2015. For further details see note 31.

Notes to the Financial Statements
For the 12 months ended 30 November 2011

21 Provisions (continued)

In May 2005, the Group acquired the trade and net assets of AlphaPoint LLC, a specialist provider of digital surveillance technology in North America, for a total consideration of up to $3.3 million, made up of $1.3 million in cash and Ordinary shares of the Company, plus a further amount in cash, capped at $2 million, which was dependent on the future profits of the business. Following the conclusion of the earn–out period surplus last year, provisions for deferred consideration of £0.7 million were credited back to goodwill.

The restructuring provision primarily relates to redundancy and related costs and Middle East reorganisation costs which have not been spent in the year. In addition, the Group has a number of properties where the Directors believe that dilapidation costs may be incurred or where the property is sublet and the Directors believe that they may not be able to fully recover future rental costs, and therefore appropriate cost provisions have been made.

22 Called up share capital and reserves

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

	Number	30 November 2011 £'000	Number	30 November 2010 £'000
Ordinary shares of 20p each				
Authorised	**25,000,000**	**5,000**	25,000,000	5,000
Allotted, called up and fully paid	**17,569,744**	**3,514**	17,569,744	3,514

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group. The 2,040,810 shares held under the Group Executive Shared Ownership Plan ("ExSOP") are treated as Treasury Shares and are therefore excluded from the basic earnings per share calculation.

The merger reserve has been created in accordance with sections 612 and 613 of the Companies Act 2006 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 cost of own shares held within the ExSOP of £4,209,207 (30 November 2010: £4,209,207) has been deducted from other reserves. The nominal value of these shares is £408,162 (30 November 2010: £408,162). Other reserves also includes a capital redemption reserve of £8,000 (30 November 2010: £8,000).

23 Options over shares of Quadnetics Group plc

The Group operated five share schemes in the year: the Quadnetics Group EMI Share Option Scheme, the Protec plc EMI Share Option Scheme, the Protec plc AESOP Scheme, The Quadnetics Employees' Share Acquisition Plan ("ESAP") and the Quadnetics Executive Shared Ownership Plan ("ExSOP").

Quadnetics Group EMI Share Option Scheme

The Quadnetics EMI Scheme was adopted on 27 December 2001. It is administered by the Board but is now closed as the size of the Group exceeds the limits imposed by HM Revenue & Customs.

Options outstanding at 30 November 2011 are exercisable as follows, subject to the holder still being employed by the Group at the time of exercise:

Date granted	Exercise dates	Option price	Number of options
11 April 2003	11 April 2005 – 10 April 2013	135.0p	10,000
5 March 2004	5 March 2006 – 4 March 2014	300.0p	100,833
30 September 2004	30 September 2006 – 29 September 2014	280.0p	10,715
Outstanding options at 30 November 2011			**121,548**

Options outstanding at 3 November 2010 wer 171,548 and during the year 50,000 options lapsed in relation to leavers.

23 Options over shares of Quadnetics Group plc (continued)

Protec plc EMI Share Option Scheme

The Protec plc EMI Share Option Scheme was adopted on 9 May 2001. It is administered by the Board but the Scheme was closed to new members on 31 December 2005 following the acquisition of Protec plc by Quadnetics Group plc. 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 in a ratio of 1 Quadnetics share for every 43 Protec shares. As a result, former Protec EMI option holders held options over a further 2,325 Ordinary shares at 30 November 2011, which were exercisable as follows, subject to the holder still being employed by the Group at the time of exercise:

Date granted	Exercise dates	Option price	Number of options
16 April 2002	16 April 2005 – 15 April 2012	163.4p	1,744
18 November 2003	18 November 2006 – 17 November 2013	516.0p	581
Outstanding options at 30 November 2011			**2,325**

Options outstanding at 30 November 2010 were 7,557. Options over 5,232 shares lapsed on 22 May 2011 when the tenth anniversary from the date of grant was passed.

Protec plc AESOP Scheme

The Protec plc AESOP Scheme was adopted on 9 May 2001 but was closed to new members and contributions ceased on 31 December 2005 following the acquisition of Protec plc by Quadnetics Group plc. The holders of shares in the Scheme at the time of the acquisition were able to elect to convert these shares into Ordinary shares of the same value in Quadnetics Group plc in a ratio of 1 Quadnetics share for every 43 Protec shares.

During the year 49,892 shares were withdrawn by employees as the fifth anniversary of the grant date had been reached enabling the shares to be withdrawn penalty free and tax free. The remaining balance of 2,204 shares at 30 November 2011 had a market value of £4,452 (30 November 2010: £93,000).

Quadnetics Employees' Share Acquisition Plan

The Quadnetics Employees' Share Acquisition Plan ("the ESAP") was adopted on 23 April 2010. Deductions from salary are used to buy Partnership Shares in Quadnetics Group plc at the end of each six month accumulation period. The Trustee will use any dividend income paid on these shares to buy further shares to be held in the scheme as Dividend Shares.

Partnership Shares can be withdrawn from the Scheme by the employee at any time, but withdrawals before the fifth anniversary after purchase are subject to income tax; withdrawals after the fifth anniversary of their purchase date can be made in full and are tax free. Dividend Shares are required to be held in Trust for a period of three years following the purchase date. Employees who leave the Group are required to withdraw all of their shares in the Scheme and are subject to the same rules.

The Scheme holds 20,034 Ordinary shares at 30 November 2011, which were acquired by the Scheme Trustee as follows:

Effective date of purchase	Type of shares	Third or Fifth anniversary of the purchase date	Purchase/ base price	**30 November 2011 Number of shares**	30 November 2010 Number of shares
14 October 2010	Partnership	15 October 2015	147.5p	**5,448**	5,786
7 April 2011	Partnership	8 April 2016	177.5p	**7,339**	–
25 July 2011	Dividend	26 July 2014	200.0p	**109**	–
2 November 2011	Partnership	3 November 2016	185.5p	**6,979**	–
2 November 2011	Dividend	3 November 2014	205.0p	**159**	–
Shares held at end of year				**20,034**	5,786

At 30 November 2011 the shares held by the ESAP Scheme had a market value of £40,469 (30 November 2010: £10,328).

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23 Options over shares of Quadnetics Group plc (continued)
Movements during the year were as follows:

	Number of shares
Shares held at 1 December 2010	5,786
Shares acquired during the year	15,015
Withdrawals by employees who left the Group during the year	(767)
Shares held at 30 November 2011	**20,034**

Group Executive Shared Ownership Plan
A new Group Executive Shared Ownership Plan (the "ExSOP") was formed in July 2009. Under the provisions of the ExSOP, shares (the "ExSOP shares") are jointly owned by nominated senior employees and by an employees' share trust, 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, provided the Company meets certain performance thresholds. In summary, none of the awarded ExSOP shares will vest unless the total return (dividends plus share price appreciation) on the Company's shares is better than the performance of the FTSE AIM All Share Total Return Index over the three year period from award. The shares will vest fully if the Company's performance beats the index by more than five percentage points over that period, with pro–rata vesting for out performance up to five percent.

In March 2011, 293,000 shares available in the Trust as a result of employees leaving the Group, were transferred to the corporate Trustee of the Plan at £1.73 each as joint owner together with certain employees being the mid–market price of the Company's Ordinary shares immediately prior to the transfer.

The ExSOP shares awarded under the Plan at 30 November 2011 were as follows:

Date awarded	Exercise Dates	Relevant share price at date of award	Number of shares
7 July 2009	8 July 2012 onwards	147.5p	1,378,959
18 September 2009	19 September 2012 onwards	159.0p	200,000
7 March 2011	8 March 2014 onwards	173.0p	293,000
Balance of shares in respect of leavers			168,851
			2,040,810

24 Share based payment charge
The fair value of services received in return for share options granted or awards made under the Group's share schemes are measured by reference to the fair value of the share options granted or share scheme shares awarded.

For the equity settled options granted during the period, the estimate of the fair value of the services received for accounting purposes is measured based on an adjusted Black–Scholes model using the following assumptions:

	July 2009 awards	September 2009 awards	March 2011 awards
Number of jointly owned shares awarded	1,840,810	200,000	293,000
Share price on date of award	£1.510	£1.605	£1.780
Amount paid by employee for each ExSOP award	0.2p	0.2p	0.2p
Carrying cost	1.75% of the initial market value	1.25% of the initial market value	1.75% of the initial market value
Volatility	35%	35%	35%
Expected dividend yield	0%	0%	4%
Risk free interest rate	2.4%	2.0%	1.91%
Anticipated exercise date	8 July 2012	19 September 2012	8 March 2014
Expected life of ExSOP	3 years	3 years	3 years

24 Share based payment charge (continued)

For the equity settled options granted during prior years, the estimate of the fair value of the services received was measured based on a Black–Scholes option pricing model using the following assumptions:

	31 May 2009
Weighted average share price	207.1p
Exercise price	219.8p
Expected volatility	35%
Option life	3.25 years
Dividend yield	2.86%
Risk free interest rate (based on Government bonds)	4.78%

The expected volatility is wholly based on the historic volatility.

Share options are granted under a service condition and also, for grants to employees under the ExSOP, a performance measure based around the Company's share price relative to the FTSE AIM All Share Total Return Index.

The total charge recognised for the period arising from share based payments are as follows:

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Equity–settled share based payments	**192**	249
Total carrying value of liabilities	**–**	–

25 Contingent liabilities

Certain subsidiary companies have agreed to guarantee a number of bank bonds, issued by Barclays Bank PLC and Lloyds TSB Bank plc, amounting to a total of £1.3 million at 30 November 2011 (30 November 2010: £1.5 million). At 30 November 2011, the Group had placed £nil on deposit (30 November 2010: £nil) as collateral against these guarantees.

26 Related party transactions

1) Sales in the year of £1,005,630 (18 months ended 30 November 2010: £1,319,292) were made to Coex Services Asia Pte Ltd, in which the Group has an investment (original cost: £8,000 now fully written down), but does not exercise any influence. Purchases of £13,821 (18 months ended 30 November 2010: £nil) were made from Coex Services Asia Pte Ltd. The balance owed by Coex Services Asia Pte Ltd at 30 November 2011 was £245,742 (30 November 2010: £58,101).

2) In the period from the date of acquisitions of Indanet to 30 November 2011, Indanet made sales of €76,200 and purchases of €99,955 from companies in which the vendors of Indanet held an interest. The balance owed to Indanet at 30 November 2011 was £4,919.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The principal subsidiaries and divisions within the Group are listed on page 82.

All transactions with related parties were at arm's length.

Notes to the Financial Statements
For the 12 months ended 30 November 2011

26 Related party transactions (continued)
3) Transactions with key mangement personnel

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Salary and fees	959	1,414
Benefits	118	194
Bonus	219	131
Total short-term remuneration	1,296	1,739
Post employment benefits	101	186
Termination benefits	72	200
Share based payments	136	176
	1,605	2,301

27 Capital commitments
At the year end capital commitments not provided for in these financial statements amounted to £nil (30 November 2010: £nil).

28 Operating lease commitments
The Group had total outstanding commitments for future minimum lease payments under non–cancellable operating leases, which fall due as follows:

	30 November 2011 £'000	30 November 2010 £'000
Within one year	1,759	1,207
Within two to five years	4,064	2,714
In excess of five years	1,420	1,809
	7,243	5,730

The Group's lease commitments primarily relate to land and buildings and vehicles.

29 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 sections ceased in 1996 and the liabilities relate only to members with preserved benefits or pensions in payment. A full actuarial valuation was carried out by a qualified independent actuary, independent of the scheme's sponsoring employer, as at 1 July 2010. These results have been updated on an approximate basis to 30 November 2011. The major assumptions used by the actuary are shown below.

The Company has paid contributions of £33,000 in the year.

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

It is the policy of the Company to recognise all actuarial gains and losses in the year in which they occur outside the income statement in the Consolidated Statement of Comprehensive Income.

29 Pension commitments (continued)

Reconciliation of opening and closing balances of the present value of the defined benefit obligations

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Defined benefit obligations at start of year	4,885	4,322
Interest cost	257	416
Actuarial losses	236	493
Benefits paid	(219)	(346)
Defined benefit obligations at end of year	5,159	4,885

Reconciliation of opening and closing balances of the fair value of plan assets

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Fair value of plan assets at start of year	5,029	4,339
Expected return on assets	257	394
Actuarial gains	350	597
Contributions by the Company	33	45
Benefits paid	(219)	(346)
Fair value of plan assets at end of year	5,450	5,029

Total expense recognised in income statement

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Expected return on plan assets	(257)	394
Interest cost	257	(394)
Total expense recognised in income statement	–	–

Gains/(losses) recognised in consolidated statement of comprehensive income

	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 £'000
Difference between expected and actual return on plan assets	350	597
Experience gains and losses arising on the defined benefit obligations	–	124
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligations	(236)	(617)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable)	114	104
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable	(114)	(104)
Total amount recognised in the consolidated statement of comprehensive income	–	–

The cumulative amount of actuarial gains and losses recognised in the consolidated statement of comprehensive income since the adoption of IAS 19 is £nil.

Notes to the Financial Statements
For the 12 months ended 30 November 2011

29 Pension commitments (continued)

Assets

	30 November 2011 Fair value of plan assets £'000	30 November 2010 Fair value of plan assets £'000	31 May 2009 Fair value of plan assets £'000
Equity	19	17	11
Bonds	5,431	5,011	4,321
Cash	–	1	7
Total assets	5,450	5,029	4,339

As at 30 November 2011, the fair value of the assets shown above include holdings of £19,107 in Quadnetics Group plc shares which constitute employer-related investments. There are no further amounts in assets which represent the Company's own financial instruments or any property occupied by, or other assets used by, the Company.

Actual return on plan assets

The actual return on the plan assets over the year ending 30 November 2011 was £607,000.

Principal actuarial assumptions

	30 November 2011 % per annum	30 November 2010 % per annum	31 May 2009 % per annum
Inflation	3.20%	3.60%	3.70%
Inflation (CPI)	2.70%	–	–
Rate of discount	4.90%	5.50%	6.60%
Allowance for pension in payment increases	2.50%	2.50%	2.50%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	–	3.60%	3.70%
Allowance for revaluation of deferred pensions of CPI or 5% pa if less	2.70%	–	–
Allowance for commutation of pension for cash at retirement	–	–	–

The mortality assumptions adopted at 30 November 2011 imply the following life expectancies at age 65:

	Years
Male currently age 45	24.4
Female currently age 45	26.8
Male currently age 65	22.5
Female currently age 65	25.0

Present value of defined benefit obligations, fair value of assets and surplus

	30 November 2011 £'000	30 November 2010 £'000	31 May 2009 £'000
Fair value of plan assets	5,450	5,029	4,339
Present value of defined benefit obligations	5,165	4,885	4,322
Surplus in plan	285	144	17
Unrecognised surplus	(285)	(144)	(17)
Asset/(liability) to be recognised	–	–	–

The IAS 19 valuation surplus has not been recognised as the actuarial scheme funding valuation at 1 July 2010 showed a deficit of £402,000.

Best estimate of contributions to be paid to plan for the year ending 30 November 2012

The Company estimates that £61,000 will be paid to the plan during the year ending 30 November 2012.

29 Pension commitments (continued)

History of experience gains and losses

	30 Nov 2011 £'000	30 Nov 2010 £'000	31 May 2009 £'000	31 May 2008 £'000	31 May 2007 £'000
Fair value of plan assets	**5,450**	5,029	4,339	4,669	4,915
Present value of defined benefit obligations	**5,165**	4,885	4,322	4,377	4,459
Surplus in plan	**285**	144	17	292	456
Experience adjustment on plan assets	**350**	597	(352)	(326)	(303)
Experience adjustment on defined benefit obligations	**–**	124	–	(48)	–

Expected long–term rates of return

The long–term expected rate of return on cash is determined by reference to the rate of return of gilts at the balance sheet dates. The long–term expected return on bonds is determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long–term expected rate of return on equities is based on the rate of return on bonds with an allowance for out–performance.

The expected long–term rates of return applicable for each period are as follows:

	Period commencing 1 December 2010 % per annum	Period commencing 1 June 2009 % per annum
Equity	8.00%	8.00%
Bonds	5.20%	6.20%
Cash	3.90%	4.20%
Overall for scheme	5.21%	6.20%

b) Defined contribution schemes

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 period was £423,000 (18 months ended 30 November 2010: £681,000).

30 Financial instruments

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of cash held in interest bearing current accounts (note 18), loans and borrowings on fixed terms (note 20) and equity attributable to equity holders of the parent, comprising issued capital (note 22), reserves and retained earnings. The Group is not subject to any externally imposed capital requirements. The Group's dividend policy depends on both the earnings profile and investment opportunities together with wider macro-economic factors.

Foreign currency risk

The Group operates internationally giving rise to exposure from changes in foreign exchange rates, with the US dollar and the euro being the main foreign currencies in which the Group operates. The Group's policy is to manage transaction exposure in respect of the Group's UK subsidiaries through the use of forward exchange contracts, which are entered into in respect of forecast foreign currency transactions when the amount and timing of such forecast transactions becomes reasonably certain. At 30 November 2011 the Group had the following commitments in respect of forward exchange contracts:

	2011 $'000	30 Nov 2011 Average rate $:£	2011 €'000	30 Nov 2011 Average rate €:£	2010 $'000	30 Nov 2010 Average rate $:£	2010 €'000	30 Nov 2010 Average rate €:£
Forward sales	**1,745**	**1.58**	**–**	**–**	883	1.53	420	1.21
Forward purchases	**–**	**–**	**–**	**–**	–	–	–	–

The fair value of these forward exchange contracts is not considered to be material. Hedge accounting has not been applied.

$129,000 of the forward sale contracts mature in more than one year with an average exchange rate of 1.60, all other forward contracts mature within the next year.

Notes to the Financial Statements

For the 12 months ended 30 November 2011

30 Financial instruments (continued)

At 30 November 2011, the Group entities based in the UK had the following forecast foreign currency transactions during the next two years which have not been hedged, principally due to either natural hedges being available of receipts against payments or to significant uncertainty over the timing of the transactions:

	30 November 2011 $'000	30 November 2010 $'000
Receipts	1,493	261

The Group is exposed to fluctuations in exchange rates on the translation of profits earned by its US subsidiary. These profits are translated at average exchange rates for the year which is an approximation to rates at the date of transaction. The Group's US subsidiary accounts for approximately 1% (30 November 2010: 1%) of the Group's net assets. Translation exposure in respect of these assets is not hedged.

The Group is also exposed to fluctuations in exchange rates on the translation of profits earned by its German subsidiary. These profits are translated at average exchange rates for the period which is an approximation to rates at the date of transaction. The Group's German subsidiary accounts for approximately 1% (30 November 2010: Nil) of the Group's net assets. Translation exposure in respect of these assets is not hedged.

At 30 November 2011 the Group held cash balances of $2,216,000 (30 November 2010: $1,617,000), €61,000 (30 November 2010: €98,000) and SAR 102,000 (30 November 2010: SAR 58,000).

It is estimated that a 10% fall in the year end US dollar exchange rate would have increased profits by £194,000 (18 months ended 30 November 2010: £42,000) and equity by £25,000 (18 months ended 30 November 2010: £42,000). A 10% fall in the year end euro exchange rate would not have a material impact on either profits or equity.

The table below shows the extent to which the Group had monetary assets and liabilities in currencies other than the local currency of the Company in which they are recorded. Foreign exchange differences on the retranslation of these assets and liabilities are recognised in the Group income statement.

	Functional currency of Group operation			
	30 November 2011		30 November 2010	
	Sterling £'000	USD £'000	Sterling £'000	USD £'000
GPB	–	51	–	51
US dollars	1,248	–	1,267	–
Euros	(4)	–	96	–
Canadian dollars	5	24	–	48
UAE Dirhams	160	–	–	–
Total	1,409	75	1,363	99

Credit risk

Credit risk refers to the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations, resulting in financial loss to the Group, and arises principally from the Group's receivables from customers and interest bearing current accounts. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit using information supplied by independent rating agencies where available. The Group also uses other publicly available information and its own trading records to rate major customers. The credit risk on current accounts is limited because the counterparties are banks with high credit–ratings assigned by international credit–rating agencies.

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated Statement of Financial Position.

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient cash to meet its financial obligations as they fall due. 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.

30 Financial instruments (continued)

At the period end, the Group had net funds of:

	30 November 2011 £'000	30 November 2010 £'000
Current accounts	**3,098**	3,349
Loans and borrowings (note 20)	**(1,843)**	–
	1,255	3,349

The level of the Group's bank overdraft facilities is reviewed annually and at 30 November 2011 the Group had undrawn overdraft facilities of up to £4 million, on which interest would be payable at the rate of bank base rate + 2%.

All financial liabilities of the Group, principally comprising of trade creditors, falling due for payment within 12 months of the balance sheet date (30 November 2010: 12 months) and bank loans which fall due for payment within two to five years of the balance sheet date.

Due to the significant amount of cash held in current accounts, taken together with the undrawn bank overdraft facility, the Group's exposure to liquidity risk at 30 November 2011 and 30 November 2010 was negligible.

Interest risk

Interest bearing assets comprise cash held in current accounts, earning interest at bank base rate. During the year these bank deposits bore interest at base rate of 0.5% (2010: 0.5% and 0.6% against base rate of 0.5%). The Group benchmarks the rates being obtained in order to maximise its returns, within the credit risk framework referred to above.

The Group's short-term financial liabilities are all non-interest bearing. The interest rates for bank loans are set out in note 20.

The Group's funds did not carry any significant interest rate risk at 30 November 2011 and 30 November 2010.

A 0.5% fall in interest rates would have reduced profit for the period and equity by £7,000 (2010: £7,000).

31 Acquisitions

Acquisition of Persides Technology Limited

On 22 December 2010 Synectic Systems Group Limited ("SSGL") acquired the entire issued share capital of Persides Technology Limited ("PTL") for a total consideration of £230,000 in cash and the trade and assets of PTL were hived up to SSGL at fair value.

PTL specialises in advanced battlefield electronic monitoring systems (EMS) and ruggedized hand-held digital video systems (VEEcam®) for use in extreme environments, and was a technology partner to the Group's defence business, playing an important role in the development of Synectics' latest generation radio frequency detection system, Chili.

Recognised amounts of identifiable assets acquired and liabilities assumed	Book value £'000	Fair value £'000
Identifiable assets		
Property, plant and equipment	11	11
Trade and other receivables	72	72
Inventory	6	6
Identifiable liabilities		
Trade and other payables	(52)	(52)
Net identifiable assets	**37**	**37**
Goodwill		**193**
Total consideration		**230**
Net cash outflow arising on acquisition		
Cash consideration		**230**

The fair value of the financial assets includes trade receivables with a fair value of £72,000.

Acquisition related costs (included in non–underlying operating expenses) amounted to £19,000.

It is not possible to separate out the revenue and profit of PTL since acquisition as the business activities were hived into Synectics Mobile Systems on the acquisition date and these activities have not been separately recorded.

Notes to the Financial Statements
For the 12 months ended 30 November 2011

31 Acquisitions (continued)

Acquisition of Indanet AG

On 15 July 2011 Quadnetics Group plc, through its subsidiary Synectic Systems GmbH, agreed to acquire 100% of the issued share capital of Indanet AG ("Indanet"), a leading German provider of integrated surveillance and security management systems to the transport industry, for a maximum total consideration of €10 million. Consideration of €2 million in cash was paid on completion for an initial tranche of shares equivalent to 51% of Indanet's issued share capital. Further consideration of between €1 million and €8 million for the remaining 49% of Indanet will be payable in three tranches between 2013 and 2015, dependent on Indanet's profits for the period from completion to 31 May 2015.

The anticipated acquisition method has been applied in accounting for this acquisition.

Indanet's technology and market positions are highly complementary to those of Quadnetics' Mobile Systems and Network Systems divisions, and the acquisition is expected to accelerate significantly the Group's expansion into specialist transpost surveillance markets in Northern, Central and Eastern Europe in particular. It should also provide enhanced opportunities for the sales of Synectics' high security surveillance systems into these regions.

Recognised amounts of identifiable assets acquired and liabilities assumed	Book value £'000	Provisional fair value £'000
Identifiable assets		
Property, plant and equipment	62	62
Trade and other receivables	729	729
Inventory	687	687
Identifiable intangible assets	–	754
Identifiable liabilities		
Overdraft	(573)	(573)
Trade and other payables	(731)	(731)
Deferred tax	–	(249)
Net identifiable assets	**174**	**679**
Goodwill		**7,085**
Total consideration		**7,764**
Satisfied by:		
Cash		1,752
Deferred consideration		785
Contingent consideration arrangement		5,227
Total consideration transferred		**7,764**
Net cash outflow arising on acquisition		
Cash consideration		1,752
Add: bank overdraft		573
		2,325

The fair values shown above are provisional and may be amended if information not currently available comes to light.

The fair value of the financial assets includes trade receivables with a fair value of £644,000.

The fair value adjustment in relation to intangible assets recognises customer relationships (£231,000) and software (£523,000) in accordance with IFRS 3.

The goodwill of £7,085,000 arising from the acquisition consist of the assembled workforce and increased geographical presence in Europe together with software development opportunities.

The deferred consideration arrangement requires a further €1,000,000 to be paid on 31 December 2013. The contingent consideration arrangement of up to €7,000,000 is dependent on Indanet's profits for the period from completion to 31 May 2015, and is payable in two tranches in 2014 and 2015. A maximum of €3.5 million of this further consideration may be paid at Quadnetics' option, in new Quadnetics ordinary shares with the remainder in cash.

Acquisition related costs (included in non–underlying operating expenses) amounted to £333,000.

Indanet AG contributed £2.9 million revenue and £0.2 million operating profit to the Group's profit for the period between the date of acquisition and the balance sheet date.

Company Balance Sheet
30 November 2011

	Notes	30 November 2011 £'000	30 November 2010 £'000
Fixed assets			
Plant, equipment and motor vehicles	5	**59**	53
Investments in subsidiary undertakings	6	**19,140**	18,715
		19,199	18,768
Current assets			
Debtors	7	**24,945**	24,464
Creditors: amounts falling due within one year	8	**(5,298)**	(5,851)
Net current assets		**19,647**	18,613
Total assets less current liabilities		**38,846**	37,381
Creditors: amounts falling due after more than one year	8	**(6,064)**	(6,064)
Loans and borrowings	9	**(1,717)**	–
Provisions for liabilities and charges	10	**(29)**	(16)
Non-current liabilities		**(7,810)**	(6,080)
Net assets		**31,036**	31,301
Capital and reserves			
Called up share capital	11	**3,514**	3,514
Share premium account	12	**15,719**	15,719
Merger reserve	12	**9,565**	9,565
Other reserves	12	**(2,096)**	(2,118)
Profit and loss account	12	**4,334**	4,621
Equity shareholders' funds		**31,036**	31,301

The final statements on pages 75 to 81 were approved and authorised for issue by the Board of Directors on 1 March 2012 and were signed on its behalf by:

J Shepherd
Director

NC Poultney
Director

Company Number: 1740011

Notes to the Company Financial Statements

For the 12 months ended 30 November 2011

The principal activity of the Company was to act as a holding company for its trading subsidiaries.

1 Principal accounting policies

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

a) Basis of accounting

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

b) Turnover

Turnover, which excludes value added tax and trade discounts, represents the value of goods and services supplied during the year.

c) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets purchased at the date of acquisition, and is capitalised as a fixed asset and amortised on a straight–line basis over its estimated useful life of up to 20 years.

d) 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 10% – 33%.

e) Leased assets

Rentals payable under operating leases are written off to the profit and loss account on a straight–line basis over the term of the lease.

f) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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.

g) Pension costs

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

The Company 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 period 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.

1 Principal accounting policies (continued)

h) 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 retranslated into sterling at rates of exchange ruling at the end of the financial period or, if appropriate, at the forward contract rate. Exchange differences arising on these transactions are taken to the profit and loss account in the period in which they arise.

i) Dividends

Dividends proposed by the Directors and unpaid at the end of the year 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.

j) Employee share schemes

Transactions of the Company–sponsored ExSOP are treated as being those of the Company and are therefore reflected in the Parent Company financial statements. In particular the scheme's purchase of shares in the Company are debited directly to equity.

2 Directors' remuneration

Directors' remuneration is shown on pages 35 and 36 of the Report of the Directors.

3 Employee information

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

Class of business	30 November 2011 Number	30 November 2010 Number
Central	11	9

Staff costs (for the above persons)	30 November 2011 £'000	30 November 2010 £'000
Wages and salaries	886	1,514
Social security costs	167	222
Pension costs	180	296
Share based payments charge	77	110
	1,310	2,142

4 Dividends

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

	12 months ended 30 November 2011 Pence per share	12 months ended 30 November 2011 £'000	18 months ended 30 November 2010 Pence per share	18 months ended 30 November 2010 £'000
Final dividend paid in respect of prior year but not recognised as liabilities in that year	4.5	791	4.5	791
Interim dividends paid in respect of current year:	2.5	439	2.5	439
	–	–	2.5	439
	7.0	1,230	9.5	1,669
Proposed final dividend for the 12 months ended 30 November 2011 (18 months ended 30 November 2010)	4.5	791	4.5	791

The proposed final dividend for the 12 months ended 30 November 2011 has not been approved by shareholders and as such has not been included as a liability as at 30 November 2011. Subject to approval, this is expected to be paid on 9 May 2012 to shareholders on the register at 16 March 2012. This will give a total dividend for the period of 7.0p (18 months to 30 November 2010: 9.5p).

Notes to the Company Financial Statements
For the 12 months ended 30 November 2011

5 Plant, equipment and motor vehicles

	£'000
Cost:	
At 1 December 2010	236
Additions	39
Disposals	(52)
At 30 November 2011	223
Depreciation:	
At 1 December 2010	183
Charge for the year	33
Disposals	(52)
At 30 November 2011	164
Net book value:	
At 30 November 2011	**59**
At 30 November 2010	53

6 Investments in subsidiary undertakings

	£'000
Cost at 1 December 2010	26,897
Additions:	
– Share based payments charge in respect of employees of subsidiary undertakings	115
– Acquisition expenses	310
At 30 November 2011	27,322
Provision for impairment as at 1 December 2010 and 30 November 2011	(8,182)
Net book value:	
At 30 November 2011	**19,140**
At 30 November 2010	18,715

At 30 November 2011 the Company held the following direct shareholdings in its subsidiaries which had been active during the year:

Subsidiary and activity	Class of share	Country of Incorporation	**Percentage held at 30 Nov 2011**
Synectic Systems Group Limited *Design and manufacture of video systems control products, integrated digital CCTV systems and CCTV equipment and systems for extreme or hazardous environments*	Ordinary shares	UK	**100%**
Quadrant Security Group Limited *Design, installation and maintenance of CCTV security systems and integrated security systems*	Ordinary shares	UK	**100%**
SSS Management Services Limited *Security management and support services*	Ordinary shares	UK	**100%**
Synectic Systems, Inc. *Design and supply of video systems control products and integrated digital CCTV systems*	Common stock	USA	**100%**
Synectic Systems GmbH *German holding company*	Ordinary shares	Germany	**100%**

Details of the principal subsidiaries are shown on page 82.

7 Debtors

	30 November 2011 £'000	30 November 2010 £'000
Amounts falling due within one year		
Trade debtors	**3**	–
Deferred taxation	**24**	34
Other debtors	**216**	56
Amounts due from subsidiaries	**24,405**	23,856
Corporation tax receivable	**253**	478
Prepayments and accrued income	**44**	40
	24,945	24,464

	30 November 2011 £'000	30 November 2010 £'000
Deferred taxation		
At 1 December 2010	**34**	49
Charge to profit and loss account	**(10)**	(7)
Transfer from subsidiary Company	**–**	(8)
At 30 November 2011	**24**	34

The deferred taxation balances comprise:

	30 November 2011 £'000	30 November 2010 £'000
Fixed asset timing differences	**22**	29
Other timing differences	**2**	–
Tax losses	**–**	5
	24	34

8 Creditors

	30 November 2011 £'000	30 November 2010 £'000
Amounts falling due within one year		
Bank overdrafts	**4,679**	5,202
Trade creditors	**187**	101
Amounts owed to subsidiaries	**18**	363
Other taxation and social security	**50**	45
Other creditors	**5**	5
Accruals and deferred income	**359**	135
	5,298	5,851
Amounts falling due after more than one year		
Amounts owed to subsidiaries	**6,064**	6,064
	11,362	11,915

The bank overdrafts are part of a Group offset arrangement and the overall bank balances were positive at 30 November 2011.

Notes to the Company Financial Statements
For the 12 months ended 30 November 2011

9 Loans and borrowings

	30 November 2011 £'000	30 November 2010 £'000
Euro €10 million term loan facility	1,717	–

The loan is a non-current liability, the terms and debt repayment details are as follows:

	Value drawn €'000	Date repayable	Interest rate	Security
Euro €10 million term loan facility	2,000	31 January 2016	EURIBOR + 2.25%	Share pledge over Indanet AG shares

The loan is related to the acquisition of Indanet AG and can be drawn in three further tranches to coincide with potential deferred and contingent consideration payments as follows:

Maximum amount	Availability
€1,000,000	1–31 December 2013
€2,000,000	1 June 2014–30 November 2014
€5,000,000	1 June 2015–30 November 2015

An initial drawing of €2,000,000 was made on 12 November 2011 under the facility.

10 Provisions

	Property £'000
At 1 December 2010	16
Utilised in year	(16)
Charge to profit and loss account	29
At 30 November 2011	**29**

The Company has a property which it currently sublets, where the Directors believe that they may not be able to fully recover future rental costs, and therefore appropriate cost provisions have been made. The provision carried forward at 30 November 2011 will be utilised over the remainder of the lease period which runs to 6 November 2014.

11 Called up share capital

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

	30 November 2011 Number	30 November 2011 £'000	30 November 2010 Number	30 November 2010 £'000
Ordinary shares of 20p each				
Authorised	25,000,000	5,000	25,000,000	5,000
Allotted, called up and fully paid	17,569,744	3,514	17,569,744	3,514

For details of options over shares of Quadnetics Group plc and the ExSOP, see note 23 of the Group financial statements.

12 Profit and loss account

The movements on equity shareholders' funds during the year were as follows:

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 December 2010	3,514	15,719	9,565	(2,118)	4,621	31,301
Profit after tax for the year	–	–	–	–	751	751
Dividends paid (note 4)	–	–	–	–	(1,230)	(1,230)
Credit in relation to share based payments	–	–	–	–	192	192
Repayments of loan re ExSOP	–	–	–	22	–	22
At 30 November 2011	**3,514**	**15,719**	**9,565**	**(2,096)**	**4,334**	**31,036**

Cumulative goodwill written off directly to the profit and loss account at 30 November 2011 was £593,000 (30 November 2010: £593,000).

The consolidated result attributable to the shareholders of Quadnetics Group plc for the year includes a profit of £751,000 (18 months ended 30 November 2010: £1,509,000) which has been dealt with in the financial statements of the Company. Quadnetics Group plc has taken advantage of the legal dispensation under section 408 of the Companies Act 2006 allowing it not to publish a separate profit and loss account.

13 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 £1.3 million at 30 November 2011 (30 November 2010: £1.5 million).

14 Capital commitments

At 30 November 2011 capital commitments not provided for in these financial statements amounted to £nil (30 November 2010: £nil).

15 Operating lease commitments

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

	Land and buildings £'000	**Other £'000**	**30 November 2011 Total £'000**	Land and buildings £'000	Other £'000	30 November 2010 Total £'000
Operating leases which expire:						
Within one year	**–**	**3**	**3**	–	–	–
Within two to five years	**38**	**5**	**43**	–	7	7
In excess of five years	**–**	**–**	**–**	27	–	27
	38	**8**	**46**	27	7	34

16 Pension commitments

Employees of the Company are members of the defined contribution section of a defined benefit pension scheme (the Quadrant Group plc Retirement Benefit Scheme) and two defined contribution schemes operated by the Group. For further details of the Quadrant Group plc Retirement Benefit Scheme, see note 29 of the Group financial statements.

Defined contribution schemes

Contributions made by the Company to the defined contribution section of the Quadrant Group plc Retirement Benefit Scheme amount to £43,000 in the year (18 months ended 30 November 2010: £63,000).

In addition, the Company's total expense for other defined contribution pension schemes during the year was £138,000 (18 months ended 30 November 2010: £242,000).

Principal Subsidiaries

The principal subsidiaries and divisions within the Group during the year were as follows:

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

www.qsg.co.uk

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

Axis 6, Rhodes Way
Radlett Road
Watford
Hertfordshire WD24 4YW
Tel: +44 (0) 1923 211550

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

SSS Management Services Limited
Total security outsourcing support and management services to retail and multi–site customers

www.sss–support.co.uk

Shannon House
245 Coldharbour Lane
Aylesford
Kent ME20 7NS
Tel: +44 (0) 1622 798200

Synectic Systems Group Limited
Design and development of advanced surveillance technology, operating through the three divisions shown below:

www.synx.com
Synectics House
3–4 Broadfield Close
Sheffield S8 0XN
Tel: +44 (0) 114 255 2509

Synectics Network Systems
Developers of integrated software solutions and products for complex security and surveillance networks

www.synx.com

Synectics House
3–4 Broadfield Close
Sheffield S8 0XN
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 688908

Synectics Mobile Systems
Development and supply of CCTV systems for bus manufacturers and operators

www.synx.com

Unit 4
Wyrefields
Poulton–le–Fylde
Lancashire FY6 8JX
Tel: +44 (0) 1253 891222

Advanced imaging systems and radio frequency technology for the defence and private sectors

www.synx.com

Black Barn
The Mythe Business Centre
Tewkesbury
Gloucestershire GL20 6EA
Tel: +44 (0) 1684 295807

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

www.synx.com

4180 Via Real, Suite A
Carpinteria
California 93013
USA
Tel: 00 1 805 745 1920

Indanet AG
Provider of integrated surveilance and security managment systems to the European transport industry.

www.indanet.de

Machtlfinger Straße 13
81379 München
Tel: +49 89 748862-0

Notice of Meeting

Notice is hereby given that an Annual General Meeting of Quadnetics Group plc will be held at Westhouse Security Limited, One Angel Court, London, EC2R 7HJ on 2 May 2012 at 11.00 a.m. 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 12 months ended 30 November 2011.
2. To declare a final dividend for the 12 months ended 30 November 2011 of 4.5p per Ordinary share to be paid on 9 May 2012 to members whose names appear on the register of members at the close of business on 16 March 2012.
3. To re-elect as a Director D Bate who, being eligible, submits himself for re-election.
4. To re-elect as a Director J Shepherd who, being eligible, submits himself for re-election.
5. To reappoint KPMG Audit Plc 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 6 will be proposed as an Ordinary Resolution and Resolutions 7, 8 and 9 as Special Resolutions:

6. That, in substitution for the existing general authorities granted at the last Annual General Meeting of the Company, in accordance with section 551 of the Companies Act 2006 ("the Act"), the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £1,159,604 (being approximately 33% of the present issued share capital of the Company) provided that this authority (unless previously revoked or renewed) shall expire on 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 such shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares and grant rights to subscribe or convert securities into shares in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

7. That,
   (1) Conditionally upon the passing of Resolution 6 and in substitution for all existing powers, in accordance with section 570 of the Act, the Directors be and are hereby given power to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by Resolution 6 and be empowered pursuant to section 573 of the Act to sell Ordinary shares (as defined in section 560 of the Act) held by the Company as treasury shares (as defined in section 724 of the Act) for cash as if section 561(1) of the Act did not apply to any such allotment or sale provided that this power shall be limited to allotment of equity securities and the sale of treasury shares:
   a) in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer 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; and
   b) (otherwise than pursuant to sub-paragraph (a) of this proviso) up to an aggregate nominal amount of £175,697, being approximately 5% of the Company's present issued share capital

   and the power hereby granted shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution save that 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 or treasury shares to be sold after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

8. That, the Company be and is hereby generally and unconditionally authorised pursuant to section 701 of the Act to make one or more market purchases (as defined in section 693(4) 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 1,756,974 (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% above the average middle market quotations for an Ordinary share of the Company as derived from the AIM Appendix to 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;

Notice of Meeting

(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 2013 provided that the Company may make a contract to purchase its Ordinary shares under the authority hereby granted prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its Ordinary shares in pursuance of such contract.

9. That, the Company's Articles of Association be amended by the addition of the following article as a new article 188: "The Company may change its name by a resolution of the Directors passed in accordance with these Articles of Association."

By Order of the Board

Registered office

NC Poultney
Secretary
1 March 2012

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 6.00 p.m. on 30 April 2012 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. Any member entitled to attend and vote at the Annual General Meeting may (unless they have, pursuant to article 89 of the Company's Articles of Association, nominated someone else to enjoy such a right, in which case only the person so nominated may exercise the right) appoint a proxy (who need not be a member) to attend or vote instead of him. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. 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, PXS, 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 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.

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Studley, Warwickshire,
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