



**INTERIM REPORT**  
for the six months ended 31 October 2006



**CHAIRMAN'S STATEMENT**

Turnover in the period for continuing businesses of £6,398,000 was 10 per cent. ahead of the corresponding period last year £5,825,000.

The Group operating profit for the period was £509,000 (2005: £43,000 restated). The Group operating profit before amortisation of goodwill and discontinued operations was £717,000 (2005: £450,000) an improvement of nearly 60 per cent. The Group has changed its accounting policy for share options to comply with Financial Reporting Standard No 20, "Share based payments". The charge included in the profit and loss account for the six months ended 31 October 2006 was £19,000, and the results for the comparative periods have been restated accordingly (six months ended 31 October 2005: £2,000; year ended 30 April 2006: £21,000).

Earnings per share are shown as 0.04 pence per share (2005: loss per share 0.09 pence). However, as shown in note 5 to the accounts, the earnings per share before goodwill amortisation, interest discount and losses of discontinued operations were 0.12 pence (2005: 0.10 pence).

The four year earn out period relating to the acquisition of Grosvenor Technology Limited expired on 31 October 2006, and we are delighted that the vendors have achieved the maximum earn out under the acquisition agreement. Payment is due by way of loan notes, with cash payment at the holders' discretion but at the earliest 1 November 2007. Payment will be made from forecast cash balances and a banking facility.

The £1,500,000 loan notes were settled in the period. The loan note holders exercised their warrants to acquire ordinary shares in the Company, and accordingly 75 million new shares were issued at par. The other £750,000 loan notes were repaid.

The balance sheet reflects the settlement of the loan notes in the period. All the trading companies are affected by the timing of large orders, and trade debtors at the period end reflected high levels of sales in October. Stock levels were also higher than normal due to purchases for orders expected to be shipped in the second half. These last two factors had an adverse impact on the net cash flow from operating activities in the period, but should be reversed out in the second half.

**ELECTRONIC DIVISION**

Turnover 6 months 31 October 2006: £3,731,000 (2005: £3,161,000)

Operating profit 6 months 31 October 2006 £835,000 (2005: £483,000).

Turnover in the period for the division was 18 per cent. higher than the corresponding period last year. Turnover in Grosvenor Technology was 20 per cent. higher, and this resulted in an improvement in gross margin from 50 per cent. to 56 per cent. due to the fixed element of development salaries included within cost of sales. This increase in turnover was assisted by a few large contracts. However, we believe that there are some larger contracts still to come where our JANUS system has been specified. Due to the size and nature of these contracts it is very difficult to determine when some will materialize although they should transpire early to mid 2007.

The larger systems are all using the JANUS eSeries controller that can be connected directly to a network anywhere in the world. The power and flexibility of eSeries allows world-wide corporations to easily expand and maintain their security environment and is the basis of all of the pending large contracts.

UL approvals in the United States for eSeries controllers and JANUS software is taking longer than expected but we believe is on track for ratification in the third quarter of 2007, after which JANUS can be sold into the USA and other markets currently unavailable to us.

Turnover in Newmark Technology was 21 per cent. greater although gross margin fell due to the mix of business. Sales have generally improved across the board with Par-Sec, C-Cure and N-TEC access systems and indications suggest that this will continue into next year as interest remains strong. There is a growing interest from Simplex Fire (part of the Tyco Group) distributors in Russia which we are addressing by translating the core N-TEC software into Russian.

Turnover in Custom Micro Products rose by 15 per cent. overall from £1,176,000 to £1,356,000 but within these figures there was a major change in the volumes of sales to our three main geographic destinations. The recovery in sales to the US has been maintained with turnover of £429,000 in the first half year compared to £111,000 in the corresponding period last year. Unfortunately sales within the UK and sales to Europe have fallen as has happened throughout the industry. The gross margin percentage dropped slightly due to the costs of redeveloping the existing product range, developing new products and changes in sales mix.

Custom Micro is changing its emphasis from manufacturing/assembly to those areas that we do best, design and technology. To eliminate the majority of expensive hand assembly work and offer an improved and versatile product range, we have re-designed all of the existing core products, namely the 2100 and 900 data collection terminals and the 700 series access controller. The new designs offer shared ancillary components, backwards compatibility with outgoing products, improved product specifications and greater reliability. External manufacturing will commence in the first and second quarter 2007 respectively.

The new designs will be marketed as the RS Products (Revised Series) and, coupled with outsourced production, will provide a cost saving of 30 per cent. on manufacture. An important focus of the RS range is that standard equipment can be held in-stock and despatched the same day that we receive a customer order.

An early showing of the next generation or 'internet ready' data collection terminals has been made to a select group of customers in the USA and Europe. Interface design work is ongoing with these customers who we expect to place their initial orders during the second or third quarter 2007. The leading edge technology employed within this product will open new avenues for data collection across world markets and is Custom Micro's entry into a rental and recurring revenue model. The initial product will offer a secure internet hosted data solution where a small group of select customers can trial the product using their own server systems. After which, Custom Micro will offer a fully hosted data service to be rented by customers on a month by month basis.

### ASSET PROTECTION DIVISION

Turnover 6 months 31 October 2006: £2,667,000 (2005: £2,664,000)

Operating profit 6 months 31 October 2006 £183,000 (2005: £248,000).

Sales were virtually identical to last year but the product mix was significantly different with higher sales of lower margin work. Quotations and orders are 17 per cent. and 21 per cent. more than the same period last year and that should result in improved sales and profitability for the second half of the year.

Eclipse rising screen programmes have increased for long-term customers with some returning to purchasing mode after years without investment in new branches.

CounterShield sales have been slow in the first half but the programme for the London Metropolitan Police that was expected last year has now started to flow. The public service market for CounterShield is always slow until the second half of their fiscal year and the company has over £400,000 of outstanding quotes in this area, 45 per cent. more than at the same time last year.

RollerCash sales to the Post Office have been slow relative to last year due to uncertainty about government funding for the rural sub-post office network. Lloyds TSB awarded the company a £100,000 contract for trials in 8 branches of their new retail delivery format. If successful and carried forward, this could lead to a significant programme in 2007 and beyond, although the judgement of success will depend on many factors not related to Safetell's product. The final phase of RollerCash sales to Woolwich branches of Barclays, worth approximately £300,000, has been secured and scheduled to be completed before the year end.

Eye2Eye Disability Access counter module sales, although small, were five times last year with a £200,000 (2005: £50,000) backlog of outstanding quotes. New formats of FlexiGlaze screens have been developed for hospital receptions and for petrol stations with successful sales to Manchester City Hospital, Sainsburys and Shell. The latter clients are expected to place repeat orders in the second half.

Service and maintenance revenue in the period was £1,159,000 (2005: £1,011,000). The separate service contracts with HBOS to maintain all locks for security doors and all rising screens have been rolled into a new, single, 5-year contract to run until 2011.

The start of the Abbey contract in January 2006 has been successful with compliments received for customer service. The early months of the contract involved disproportionate expenditure on recruitment and training that depressed margin but that should recover in the second half. New clients have been acquired for security related work, notably Shell for the service and repair of night-pay hatches.

The second half is expected to generate 20 per cent. more sales than in the first half and the added volume will increase labour efficiencies to improve margin.

### CONCLUSION

We are looking forward to the future with some confidence. We expect an improvement in the asset protection division in the second half of the year, whilst the prospects within the Electronic division are exciting. As reported previously there are large contracts where the JANUS software of Grosvenor has been specified, and the asp data collection terminals provide great potential for the future.

CONSOLIDATED PROFIT AND LOSS ACCOUNT  
for the six months ended 31 October 2006

	Notes	Unaudited Six months ended 31 October 2006 Before goodwill and exceptional items £'000	Unaudited Six months ended 31 October 2006 Goodwill and exceptional items £'000	Unaudited Six months ended 31 October 2006 Total £'000	Audited Year ended 30 April 2006 Total (Restated) £'000	Unaudited Six months ended 31 October 2005 Total (Restated) £'000
<b>TURNOVER</b>						
Continuing operations		6,398	-	6,398	11,839	5,825
Discontinued operations		-	-	-	320	323
		6,398	-	6,398	12,159	6,148
Cost of sales		(3,735)	-	(3,735)	(7,317)	(3,759)
<b>Gross profit</b>		<u>2,663</u>	<u>-</u>	<u>2,663</u>	<u>4,842</u>	<u>2,389</u>
Administrative expenses		(1,962)	-	(1,962)	(4,108)	(2,149)
Amortisation of goodwill		-	(192)	(192)	(393)	(197)
Administrative expenses-total		<u>(1,962)</u>	<u>(192)</u>	<u>(2,154)</u>	<u>(4,501)</u>	<u>(2,346)</u>
<b>OPERATING PROFIT/(LOSS)</b>						
Continuing operations		717	(192)	525	551	253
Discontinued operations		(16)	-	(16)	(210)	(210)
		701	(192)	509	341	43
Loss on closure/disposal of subsidiaries		-	-	-	(192)	(149)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION</b>		<u>701</u>	<u>(192)</u>	<u>509</u>	<u>149</u>	<u>(106)</u>
Interest receivable		16	-	16	20	22
Interest-discount charge on deferred consideration		(131)	-	(131)	(251)	(139)
Interest payable		(65)	-	(65)	(300)	(47)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>521</u>	<u>(192)</u>	<u>329</u>	<u>(382)</u>	<u>(270)</u>
Tax on ordinary activities	2	(175)	-	(175)	(58)	(40)
<b>PROFIT/(LOSS) FOR THE YEAR AFTER TAX</b>		<u>346</u>	<u>(192)</u>	<u>154</u>	<u>(440)</u>	<u>(310)</u>
Minority interest		-	-	-	-	-
		<u>346</u>	<u>(192)</u>	<u>154</u>	<u>(440)</u>	<u>(310)</u>
Earnings/(loss) per share – basic and diluted	5			Pence 0.04	Pence (0.11)	Pence (0.09)

CONSOLIDATED BALANCE SHEET  
as at 31 October 2006

	Notes	Unaudited 31 October 2006 £'000	Audited 30 April 2006 (Restated) £'000	Unaudited 31 October 2005 (Restated) £'000
<b>FIXED ASSETS</b>				
Intangible assets		6,247	6,439	6,665
Tangible assets		981	941	872
		<u>7,228</u>	<u>7,380</u>	<u>7,537</u>
<b>CURRENT ASSETS</b>				
Stocks		1,482	1,256	1,330
Debtors		2,889	2,471	1,928
Cash at bank and in hand		1,148	1,373	1,300
		<u>5,519</u>	<u>5,100</u>	<u>4,558</u>
<b>CREDITORS: amounts falling due within one year</b>		<u>(3,487)</u>	<u>(4,664)</u>	<u>(3,019)</u>
<b>NET CURRENT ASSETS</b>		<u>2,032</u>	<u>436</u>	<u>1,539</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>9,260</u>	<u>7,816</u>	<u>9,076</u>
<b>CREDITORS: amounts falling due after more than one year</b>				
Provisions for liabilities and charges		(4,218)	(3,670)	(5,123)
Accruals and deferred income		(194)	(208)	(177)
		<u>(881)</u>	<u>(891)</u>	<u>(764)</u>
<b>NET ASSETS</b>		<u>3,967</u>	<u>3,047</u>	<u>3,012</u>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	3	4,490	3,740	3,617
Share premium	4	493	493	432
Merger reserve	4	801	801	801
Share based compensation reserve	4	40	21	2
Profit and loss reserve	4	(1,921)	(2,072)	(1,903)
		<u>3,903</u>	<u>2,983</u>	<u>2,949</u>
<b>SHAREHOLDERS' FUNDS</b>		<u>3,903</u>	<u>2,983</u>	<u>2,949</u>
Minority interest		64	64	63
		<u>3,967</u>	<u>3,047</u>	<u>3,012</u>

CONSOLIDATED CASH FLOW STATEMENT  
for the six months ended 31 October 2006

	Unaudited Six months ended 31 October 2006 £'000	Audited Year ended 30 April 2006 £'000	Unaudited Six months ended 31 October 2005 £'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<u>117</u>	<u>850</u>	<u>151</u>
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>			
Interest received	16	20	22
Interest paid	(65)	(101)	(47)
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>	<u>(49)</u>	<u>(81)</u>	<u>(25)</u>
<b>TAXATION</b>	<u>(21)</u>	<u>(423)</u>	<u>(201)</u>
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Purchase of tangible fixed assets	(216)	(469)	(212)
Receipts from sale of tangible fixed assets	-	24	-
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>	<u>(216)</u>	<u>(445)</u>	<u>(212)</u>
<b>ACQUISITIONS</b>			
Purchase of subsidiary undertakings	-	(1,925)	(1,825)
Costs relating to acquisition made in previous year	-	(12)	-
Net cash acquired on purchase of subsidiary undertakings	-	-	-
<b>NET CASH OUTFLOW ON ACQUISITIONS</b>	<u>-</u>	<u>(1,937)</u>	<u>(1,825)</u>
<b>DISPOSALS</b>			
Costs related to closure/sale of subsidiaries	-	(11)	-
Cash disposed of with business	-	(14)	(11)
<b>NET CASH OUTFLOW FROM DISPOSALS</b>	<u>-</u>	<u>(25)</u>	<u>(11)</u>
<b>NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>	<u>(169)</u>	<u>(2,061)</u>	<u>(2,123)</u>
<b>FINANCING</b>			
New finance loans	73	365	247
Repayment of loans	(136)	(106)	(29)
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING</b>	<u>(63)</u>	<u>259</u>	<u>218</u>
<b>(DECREASE) IN CASH</b>	<u>(232)</u>	<u>(1,802)</u>	<u>(1,905)</u>

**NOTES TO THE ACCOUNTS**

**1. BASIS OF ACCOUNTS**

The unaudited interim figures for the six months ended 31 October 2006 have been prepared on a basis consistent with the accounting policies disclosed in the Group's 2006 Report and Accounts with the exception of the introduction of Financial Reporting Standard No. 20, "Share based payments" and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The results for the year ended 30 April 2006 are an abridged version of the full accounts, which received an unqualified audit report and have been filed with the Registrar of Companies.

The Group has changed its accounting policy for share options granted after 7 November 2002 in accordance with Financial Reporting Standard No. 20, "Share based payments". The charge included in the profit and loss account for the six months ended 31 October 2006 was £19,000. The results for the comparable periods have been restated accordingly (six months ended 31 October 2005: £2,000; year ended 30 April 2006: £21,000).

**2. TAXATION**

The tax charge is disproportionate to the profit for the period due to the effect on profits of items not deductible for tax purposes, and the use of losses brought forward.

**3. SHARE CAPITAL**

During the period, the following shares were issued:

	Number of shares	Share capital £'000
Shares in issue at 1 May 2006	373,957,816	3,739,578
Share issues 1p per share	75,000,000	750,000
	448,957,816	4,489,578

The shares issued in the period related to the exercise of warrants by loan note holders to subscribe for ordinary shares of 1p each in the Company.

**4. SHARE PREMIUM AND RESERVES**

	Share premium £'000	Profit and loss reserve (Restated) £'000	Merger reserve £'000	Share based compensation reserve (Restated) £'000	Total share premium and reserves £'000
At 1 May 2006	493	(2,072)	801	21	(757)
Retained profit for the period	-	154	-	19	173
Exchange differences on foreign currency investments	-	(3)	-	-	(3)
As at 31 October 2006	493	(1,921)	801	40	(587)

**5. EARNINGS PER SHARE**

	Pence per share	£'000
Profit after taxation and minority interest	0.04	154
Goodwill amortisation	0.05	192
Discount charge on deferred consideration	0.03	131
Losses of discontinued operations	-	16
Earnings before goodwill amortisation, interest discount, and losses of discontinued operations	0.12	493



The profit per share has been calculated based on the weighted average number of shares in issue during the period, which was 414,311,077 shares (2005: 361,755,016).

	<b>Unaudited Six months ended 31 October 2006 Total Pence</b>	<b>Audited Year ended 30 April 2006 Total Pence</b>	<b>Unaudited Six months ended 31 October 2005 Total Pence</b>
Earnings per share before amortisation of goodwill, losses of discontinued operations, and discount charge on deferred consideration	0.12	0.22	0.10

**6. DIVIDENDS**

No interim dividend is proposed (2005: Nil).

7. A copy of the interim report has been sent to shareholders and copies are available for inspection at the Company's registered office, 57 Grosvenor Street, London W1K 3JA, during normal office hours, Saturdays, Sundays and bank holidays excepted, for one month.