



INTERIM REPORT
for the six months ended 31 October 2009

CHAIRMAN'S STATEMENT

The Board is pleased to announce the Group's interim results for the six months ended 31 October 2009.

As predicted in the annual report, results for the year to date have exceeded the corresponding period last year despite the continuing economic problems affecting the country. Revenue in the period for continuing businesses of £6,993,000 was 5 per cent. above the corresponding period last year of £6,695,000. The Group operating profit for the period was £906,000 (2008: £860,000) a 5 per cent. improvement. In particular, there was a recovery in the asset protection division which was severely affected by the problems in the financial and banking sectors last year.

Earnings per share were 0.17 pence per share (2008: 0.13 pence per share).

A detailed review of the activities, results and future developments of each division is set out below.

ELECTRONIC DIVISION

Turnover for the six months ended 31 October 2009: £3,400,000 (2008: £3,337,000)

Operating profit for the six months ended 31 October 2009 £804,000 (2008: £760,000)

During the period Grosvenor Technology's ("Grosvenor") OEM data collection products have shown positive signs of recovery from the downturn last year (9.8 per cent. increment on sales of £1,202,000 from £1,095,000). In addition, the Board is delighted to announce that Grosvenor has been awarded significant contracts to supply CUSTOM data collection terminals for two major retail outlets. One of these is for installation into the UK and the second, which is the larger contract of the two, is for installations throughout the EU. The combined value of these two supply-only contracts is approximately €1,250,000 and both are scheduled to commence in 2010.

The CUSTOM RS products continue to perform well in the established OEM markets. The new and more advanced CUSTOM IT products, which have been sold into the USA for nearly two years, have attracted interest in Europe. The larger of the two retail contracts was won using the IT31 terminal.

The major driver for this interest is the new CUSTOM Exchange 'middle-ware' application. CUSTOM Exchange allows an OEM customer to directly interface their software with Grosvenor's IT terminals and tap into the full power of the Linux operating system and its unique feature set, with comparatively little coding or development being required on their part. The user gains other major benefits such as biometric template management, template distribution, and hardware diagnostics and notification that will come in a later release. The first formal release will be first quarter 2010.

Sales in Grosvenor from access control systems were slightly down (£1,923,000 compared to £2,005,000 in the same period last year). Sales in Newmark Technology were slightly up (£275,000 compared to £237,000). There are up and coming projects with Telehouse Europe, BAE Systems, and a number of universities.

The development of SATEON access is in progress and due for release at the end of 2010. This has slipped from the original expectation due to a combination of fast track developments being required for CUSTOM Exchange to secure the large OEM contracts mentioned above, technical issues in using Microsoft Silverlight, and that we now intend to take full advantage of the newly founded ONVIF and PSIA IP video standards which will add a whole new dimension to the SATEON range. ONVIF (Open Network Video Interface Forum – www.onvif.org) is an open industry forum for the development of a global standard for the interface of network video products, and PSIA (Physical Security Interoperability Alliance www.psialliance.org) is a global consortium of nearly fifty physical security manufacturers and systems integrators focused on promoting interoperability of IP-enabled security devices across the security industry.

These new standards allow Grosvenor to develop a new product called SATEON video to control and manage IP video equipment based upon unified and stable platforms rather than individual CCTV manufacturer's protocols, which can be volatile and completely different from one manufacturer to another. SATEON video will be a separate application when IP video management is required without access control, but also an extension to SATEON access where both video and access control are required on the same framework.

The SATEON range of products represents a great opportunity for Grosvenor to enter into these fast growing markets with the latest technology. By having a common SATEON engine rather than integrating separate products, the integration risk is eliminated, installation and commissioning times are reduced, and the installer has new and exciting products to include in their portfolio.

ASSET PROTECTION DIVISION

Turnover for the 6 months ended 31 October 2009: £3,593,000 (2008: £3,358,000)

Operating profit for the 6 months ended 31 October 2009 £389,000 (2008: £346,000)

Turnover was 7 per cent. greater than the corresponding period last year. The increase was mainly due to orders from the Post Office for the supply of Cash Handling Equipment as part of the refurbishment programme of the Crown Offices, and sales of Eclipse rising screens to a major banking client as part of their programme of branch refurbishments and rebranding.

CounterShield sales were the same as last year with increased sales expected in the second half as the Metropolitan Police programme of installations continues. Quotations and orders from other police forces have increased, and outstanding orders are 23 per cent. up from the same date last year.

Eye2Eye sales were 12 per cent. below the figure for the comparative period last year due to changes in the train operating franchises but the level of outstanding quotations and planned installations for the first quarter of 2010 should result in increased orders in the second half.

The programme to refurbish Crown Offices was completed in November 2009 but the supply contract with Post Office was extended for another year to July 2010 and orders are still expected from the sub-post office network. An order for RollerCash from a major banking customer will contribute to sales in the second half of the year and Thomas Cook will trial the RollerCash and Trio foreign exchange software package in five branches.

The Recycler 303 teller cash recycler which will be introduced into the market in 2010 is a fully automated teller cash dispenser that validates bank notes. The detection of counterfeit notes is carried out by reading the magnetic strip in each note, by optical detection of the physical size of the notes and by image scanning of the notes against European Central Bank and Bank of England norms. The equipment has been approved by the European Central Bank.

The Service Division continues to grow with sales and profits up by 8.6 per cent. and 10.2 per cent. respectively. Margins are being retained despite the competitive new markets entered. Volume increases have led to improved utilisation of labour and increases in field resource, improving response times and unit costs. The Division has nearly 100 per cent. contract retention rates and many of these are 2-3 years in length which provides some stability for the company as a whole.

BALANCE SHEET AND CASH FLOW

Overall net current assets have been affected by the increased level of trading in the first half of the year, in particular within the asset protection division which enjoyed high turnover levels in the last two months of the period. This increased the Group's level of investment in trade debtors at the end of the period. Stock levels also increased as the Group was required to maintain holdings of both its new and old product ranges for different customers, but this should reduce again in the second half.

As reported previously Newmark Security has continued with its programme of substantial developments in the electronic division as detailed above which will obviously benefit the Group in the longer term.

ALEXANDER REID

It was with enormous sadness that I reported in October the sudden death of Alex Reid who had been a non-executive director of Newmark Security since its incorporation in 1997. Alex made a tremendous contribution to the growth and success of the Group, and his knowledge and wisdom will be sorely missed. I have passed on our condolences to his family on behalf of all those who knew and respected him in the Group.

OUTLOOK

With the number of projects in hand, the Board believes that the prospects for the second half of the year are encouraging at the present time. The developments outlined above in the electronic division are very exciting for the future.

STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 October 2009

		Unaudited Six months ended 31 October 2009 £'000	Audited Year ended 30 April 2009 £'000	Unaudited Six months ended 31 October 2008 £'000
	Notes			
Revenue		6,993	12,960	6,695
Cost of sales		(3,917)	(7,200)	(3,923)
Gross profit		<u>3,076</u>	<u>5,760</u>	<u>2,772</u>
Abortive acquisition costs		–	(57)	–
Administrative expenses		(2,170)	(4,226)	(1,912)
Profit from operations		<u>906</u>	<u>1,477</u>	<u>860</u>
Finance costs		(23)	(164)	(74)
Profit before tax		<u>883</u>	<u>1,313</u>	<u>786</u>
Tax expense	2	(130)	(175)	(194)
Profit for the year from continuing operations		<u>753</u>	<u>1,138</u>	<u>592</u>
Post-tax loss related to discontinued operations		–	(41)	(12)
Profit and total comprehensive income for the year		<u><u>753</u></u>	<u><u>1,097</u></u>	<u><u>580</u></u>
Attributable to:				
– Equity holders of the parent		<u>753</u>	<u>1,097</u>	<u>580</u>
Earnings per share				
– Basic and diluted (pence)	4	<u>0.17p</u>	<u>0.24p</u>	<u>0.13p</u>
Continuing operations				
– Basic and diluted (pence)		<u>0.17p</u>	<u>0.25p</u>	<u>0.13p</u>
Discontinued operations				
– Basic and diluted (pence)		<u>–</u>	<u>(0.01p)</u>	<u>–</u>

There are no other components of comprehensive income.

CONSOLIDATED BALANCE SHEET
At 31 October 2009

	Notes	Unaudited 31 October 2009 £'000	Audited 30 April 2009 £'000	Unaudited 31 October 2008 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		798	757	802
Intangible assets		8,394	8,032	7,702
Total non-current assets		<u>9,192</u>	<u>8,789</u>	<u>8,504</u>
Current assets				
Inventories		1,883	1,704	1,696
Trade and other receivables		2,721	2,404	2,814
Cash and cash equivalents		-	606	558
Total current assets		<u>4,604</u>	<u>4,714</u>	<u>5,068</u>
Total assets		<u>13,796</u>	<u>13,503</u>	<u>13,572</u>
LIABILITIES				
Current liabilities				
Trade and other payables		2,808	3,163	3,096
Other short term borrowings		791	607	754
Corporation tax liability		218	296	670
Provisions		123	123	123
Total current liabilities		<u>3,940</u>	<u>4,189</u>	<u>4,643</u>
Non-current liabilities				
Long term borrowings		111	309	520
Provisions		116	124	132
Deferred tax		274	166	48
Total non-current liabilities		<u>501</u>	<u>599</u>	<u>700</u>
Total liabilities		<u>4,441</u>	<u>4,788</u>	<u>5,343</u>
TOTAL NET ASSETS		<u>9,355</u>	<u>8,715</u>	<u>8,229</u>
Capital and reserves attributable to equity holders of the company				
Share capital		4,504	4,504	4,504
Share premium reserve	3	502	502	502
Merger reserve	3	801	801	801
Foreign exchange difference reserve	3	(174)	(174)	(147)
Retained earnings	3	3,682	3,042	2,529
		<u>9,315</u>	<u>8,675</u>	<u>8,189</u>
Minority interest		<u>40</u>	<u>40</u>	<u>40</u>
TOTAL EQUITY		<u>9,355</u>	<u>8,715</u>	<u>8,229</u>

CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2009

	Unaudited Six months ended 31 October 2009 £'000	Audited Year ended 30 April 2009 £'000	Unaudited Six months ended 31 October 2008 £'000
	Notes		
Cash flow from operating activities			
Net profit after tax from ordinary activities	753	1,097	580
Adjustments for: Depreciation and amortisation	269	466	223
Interest expense	23	164	74
Income tax expense	130	175	194
Share option charge	8	21	25
Discontinued operations	—	(16)	—
Operating profit before changes in working capital and provisions	<u>1,183</u>	<u>1,907</u>	<u>1,096</u>
(Increase)/decrease in trade and other receivables	(317)	779	377
(Increase)/decrease in inventories	(179)	198	206
(Decrease) in trade and other payables	(371)	(277)	(360)
Cash generated from operations	<u>316</u>	<u>2,607</u>	<u>1,319</u>
Income taxes paid	(100)	(373)	(109)
Cash flows from operating activities	<u>216</u>	<u>2,234</u>	<u>1,210</u>
Cash flow from investing activities			
Payment for property, plant and equipment	(117)	(204)	(106)
Sale of property, plant and equipment	—	14	—
Research and development expenditure	(452)	(595)	(197)
Intangible asset expenditure	—	(12)	(17)
	<u>(569)</u>	<u>(797)</u>	<u>(320)</u>
Cash flow from financing activities			
Repayment of bank loans	(281)	(614)	(275)
Repayment of finance lease creditors	(67)	(140)	(70)
Dividend paid	(113)	—	—
Interest paid	(23)	(164)	(74)
	<u>(484)</u>	<u>(918)</u>	<u>(419)</u>
(Decrease)/increase in cash and cash equivalents	<u>(837)</u>	<u>519</u>	<u>471</u>

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The unaudited interim figures for the six months ended 31 October 2009 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations issued by the International Accounting Standards Board (IASB) as adopted for use in the European Union (collectively "EU IFRS"). However it should be noted that these interim financial statements are neither required, nor themselves contain sufficient information to comply fully with EU IFRS. The principal accounting policies used in preparing these interim financial statements are those that the Group expects to apply in its financial statements for the year ended 30 April 2010 and which are unchanged from those disclosed in the Group's financial statements for the year ended 30 April 2009, except for the adoption of IAS1 "Presentation of Financial Statements (Revised)" which only deals with the presentation of financial statements and neither impacts results nor net assets.

The results for the year ended 30 April 2009 are an abridged version of the full accounts, which received an unqualified audit report and have been filed with the Registrar of Companies.

2. TAXATION

The tax charge is affected by the effect of reliefs on research and development expenditure, and the use of losses brought forward.

3. STATEMENT OF CHANGES IN EQUITY

	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Foreign exchange reserve £'000
At 1 May 2009	502	801	3,042	(174)
Dividends paid	—	—	(113)	—
Total comprehensive income for the period	—	—	753	—
Share based payments provision	—	—	—	—
As at 31 October 2009	502	801	3,682	(174)

4. EARNINGS PER SHARE

The earnings per share has been calculated based on the weighted average number of shares in issue during the period, which was 450,432,316 shares (2008: 450,432,316).

5. DIVIDENDS

No interim dividend is proposed (2008: Nil).

