



**Newmark**  
SECURITY PLC

# Interim Report

for the six months ended 31 October 2016





## CHAIRMAN'S STATEMENT

The Board announces the Group's interim results for the six months ended 31 October 2016.

The consolidated income statement shows a reduction in revenue of 25% from £11,180,000 to £8,368,000. This reduction was derived from the anticipated decrease in sales to the Post Office within the asset protection division, together with the cancellation and deferral of orders by customers in that division, partly due to concerns following the result of the Brexit vote. This reduction in revenue flowed through to the results for the period with a loss from operations of £816,000 (2015: profit of £765,000). Loss per share was 0.17 pence (2015: earnings 0.15 pence).

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

### Asset Protection Division

#### **Revenue £4,607,000 (2015: £7,606,000)**

Asset protection revenue was 39.4% lower than the corresponding period last year, mainly as a result of the expected reduced contribution from sales of time-delay cash handling equipment to the Post Office, which saw the sales of cash handling equipment fall 37.3%.

Product Division revenue was 30.5% lower than the corresponding period last year. The lead up to the Brexit vote resulted in many customers putting plans on hold and afterwards there was the cancellation of planned work by several customers, including the government departments that we supply on a regular basis, resulting in reduced orders. Sales were further reduced by the cancellation of a sales order for the supply of time delay cash handling equipment to a longstanding financial institution after they entered negotiations to sell 300 of their high-street branches.

Revenues from Eclipse Rising Screens were affected by reduced spending from two long standing financial institution customers. CounterShield revenue was lower as a result of a planned refurbishment programme for a large Police Force being delayed due to the sale of its headquarters. Sales of Fixed Glazing products were unchanged with increased competition from low cost counter suppliers.

Sales within the service division in the first six months have been challenging with the impact of branch closures that have occurred in the banking sector. Towards the end of the period, we embarked on the installation of our new TC105 rising screen activation system which the Directors expect to provide good revenue streams over the next few years, replacing the now obsolete TC104. Pneumatic upgrades continue as budgeted and as mentioned in previous reports. Action to readdress resources within the division have been taken and overheads were reduced by 7%. The new field management software has now been bedded in and provides invoice capture and cash flow advantages. We continue to explore and develop our other product offerings and to reduce our reliance on rising screen revenue streams in the future.

### Electronic Division

#### **Revenue £3,761,000 (2015: £3,574,000)**

In Access Control ("AC") revenues from SATEON continued the strong growth trend shown in previous periods, increasing 80% compared to the corresponding period last year. Much of this growth came through the upgrade of existing JANUS sites, with many end users keen to continue long-standing relationships with Grosvenor. Notable projects included Greater Manchester Fire Service and a major defence contractor.

JANUS revenues continued to decline in line with expectations as less new projects were completed. JANUS remains the AC platform of choice however for many end users and a major roll-out continued for one of the world's largest data centres.

Significant investment was made during the period developing SATEON version 3.0 software and SATEON Advance hardware, both of which were released at the beginning of the second half of the financial year. V3.0 is the fastest, most intuitive iteration of SATEON Software to date, dramatically increasing the speed of configuring doors and personnel. SATEON Advance hardware represents a major step for both Grosvenor Technology and the AC sector as a whole. Its blade-based architecture allows a modular approach to system design and it is anticipated that this product will become the majority AC revenue generator through the second half of this year and into the next financial year.

In workforce management ("WFM") development resources were focussed on the GT-10 employee terminal, released towards the end of the first half. GT-10 has an Android based operating platform, allowing current and potential software partners to integrate their web-based offerings seamlessly, where they have existing Android based applications. First launched at a US trade show, negotiations have commenced with several potential major WFM software providers in the US, UK, Europe and the Middle East.

In addition to existing WFM markets, GT-10 provides an opportunity to generate revenue in entirely new markets and the firm has begun research into several vertical sectors to investigate the potential return on investment available, particularly those that offer an "as a service" ("aaS") opportunities. Increasing recurring revenue through the provision of both hardware and software on anaaS basis remains a key focus and ambition in both WFM and AC product families.

Sales of existing RS and IT series of WFM terminals continued in line with management's expectations. The Company has recently secured a new £350,000 contract with one of the world's top ten steel producers for the supply of its IT31 WFM terminals. This order will be shipped in two tranches with £200,000 realised in the current financial year and £150,000 in next year.

In North America, business development activities increased to leverage the potential that exists for growing WFM revenues. The Directors consider that the US market remains the region with the greatest growth opportunities for both the existing IT series terminals and the newly launched GT-10. For the first half, WFM revenues grew 11% compared to the corresponding period last year and a number of marketing initiatives are planned for the second half to increase brand awareness through the sales channel and into end-user markets.

The Hong Kong business was monitored closely through the period as revenues fell well short of expectations. As revenues were not forecast to significantly improve over the short to medium term a decision was taken to withdraw from Hong Kong during the period, so the business can redeploy resources into regions of greater potential and lower its total cost base.

#### **Balance sheet and cash flow**

Overall there was a cash outflow in the period of £2,397,000 (2015: inflow: £1,189,000). The outflow reflected the trading result for the period and the payment of the dividend of £469,000, as well as increased stock holding for customer orders delayed until the second half and a lower level of advance payments from customers.

#### **Outlook**

In the electronic division, the previous two years have been a period of material investment into new products and this has resulted in two new products having been launched in the second half of the financial year: SATEON Advance access control system and GT-10 Android based terminal for workforce management. Both have been well received and several potentially high volume, early stage enquiries have been received. SATEON Advance was also short-listed for an award at the prestigious Security and Fire Excellence Awards.

In the asset protection division, business development activities have shifted focus towards the provision of counter-terrorism solutions where the business is well positioned to drive sales and create new opportunities. This strategy will offset any sector specific downturns as the counter-terror market spans multiple sectors. The Group's expertise in ballistic resistant products will be a key advantage in responding to the rapidly increasing demand for physical security from corporates around the world.

As previously reported, the Group has been affected by challenging market conditions and has had to navigate a period of economic uncertainty amongst its customers in the UK. This, together with the anticipated decline in sales to the Post Office, resulted in the expectation that the Group would make a loss in the current financial year.

The Directors have reduced the Group's costs and continue to review its cost structure to improve the financial position going forward. As stated above, a number of new products have now been launched and these have already resulted in some significant interest from customers.

#### **M DWEK**

*Chairman*

31 January 2017

**CONSOLIDATED INCOME STATEMENTS**  
For the six months ended 31 October 2016

		Unaudited Six months ended 31 October 2016 £'000	Audited Year ended 30 April 2016 £'000	Unaudited Six months ended 31 October 2015 £'000
	Notes			
<b>Revenue</b>		8,368	21,823	11,180
Cost of sales		(5,322)	(12,725)	(6,623)
<b>Gross profit</b>		3,046	9,098	4,557
Administrative expenses		(3,862)	(7,900)	(3,792)
<b>(Loss)/profit from operations</b>		(816)	1,198	765
Interest received		4	11	-
Finance costs		(4)	(13)	(4)
		(816)	1,196	761
Tax expense	2	-	31	(82)
<b>(Loss)/profit for the period/year</b>		(816)	1,227	679
Attributable to:				
- Equity holders of the parent		(816)	1,227	679
<b>(Loss)/earnings per share</b>				
- Basic (pence)	3	(0.17p)	0.26p	0.15p
- Diluted (pence)		(0.17p)	0.26p	0.15p

All activities relate to continuing operations.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the six months ended 31 October 2016

	Unaudited Six months ended 31 October 2016 £'000	Audited Year ended 30 April 2016 £'000	Unaudited Six months ended 31 October 2015 £'000
<b>(Loss)/profit for the period/year</b>	(816)	1,227	679
Foreign exchange gains on retranslation of overseas operation	45	9	-
<b>Total comprehensive income for the period/year</b>	<u>(771)</u>	<u>1,236</u>	<u>679</u>
Attributed to:			
- Equity holders of the parent	<u>(771)</u>	<u>1,236</u>	<u>679</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
At 31 October 2016

	Unaudited 31 October 2016 £'000	Audited 30 April 2016 £'000	Unaudited 31 October 2015 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	764	738	694
Intangible assets	8,965	8,859	8,711
<b>Total non-current assets</b>	<u>9,729</u>	<u>9,597</u>	<u>9,405</u>
<b>Current assets</b>			
Inventories	1,775	1,406	1,361
Trade and other receivables	3,575	3,715	3,085
Cash and cash equivalents	1,902	4,299	5,391
<b>Total current assets</b>	<u>7,252</u>	<u>9,420</u>	<u>9,837</u>
<b>Total assets</b>	<u>16,981</u>	<u>19,017</u>	<u>19,242</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	3,074	3,865	4,568
Other short term borrowings	78	99	101
Corporation tax liability	-	1	-
Provisions	106	106	100
<b>Total current liabilities</b>	<u>3,258</u>	<u>4,071</u>	<u>4,769</u>
<b>Non-current liabilities</b>			
Long term borrowings	81	64	61
Provisions	100	100	100
Deferred tax	325	325	412
<b>Total non-current liabilities</b>	<u>506</u>	<u>489</u>	<u>573</u>
<b>Total liabilities</b>	<u>3,764</u>	<u>4,560</u>	<u>5,342</u>
<b>TOTAL NET ASSETS</b>	<u>13,217</u>	<u>14,457</u>	<u>13,900</u>
<b>Capital and reserves attributable to equity holders of the company</b>			
Share capital	4,687	4,687	4,688
Share premium reserve	553	553	553
Merger reserve	801	801	801
Foreign exchange difference reserve	(128)	(173)	(182)
Retained earnings	7,264	8,549	8,000
	<u>13,177</u>	<u>14,417</u>	<u>13,860</u>
<b>Minority interest</b>	<u>40</u>	<u>40</u>	<u>40</u>
<b>TOTAL EQUITY</b>	<u>13,217</u>	<u>14,457</u>	<u>13,900</u>

**CONSOLIDATED CASH FLOW STATEMENTS**  
For the six months ended 31 October 2016

	Unaudited Six months ended 31 October 2016 £'000	Audited Year ended 30 April 2016 £'000	Unaudited Six months ended 31 October 2015 £'000
<b>Cash flow from operating activities</b>			
Net (loss)/profit after tax from ordinary activities	(816)	1,227	679
Adjustments for: Depreciation and amortisation	648	1,201	666
Interest expense	-	2	4
Income tax expense	-	(31)	82
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<b>Operating (loss)/profit before changes in working capital and provisions</b>	(168)	2,399	1,431
Decrease/(increase) in trade and other receivables	163	(706)	45
(Increase)/decrease in inventories	(363)	35	79
(Decrease)/increase in trade and other payables	(780)	(115)	578
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<b>Cash generated from operations</b>	(1,148)	1,613	2,133
Income taxes (paid)/received	-	145	(6)
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<b>Cash flows from operating activities</b>	(1,148)	1,758	2,127
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<b>Cash flow from investing activities</b>			
Payment for property, plant and equipment	(81)	(205)	(65)
Sale of property, plant and equipment	-	43	58
Research and development expenditure	(644)	(945)	(446)
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	(725)	(1,107)	(453)
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<b>Cash flow from financing activities</b>			
Share issues	-	89	90
Repayment of finance lease creditors	(55)	(182)	(110)
Dividend paid	(469)	(460)	(461)
Interest paid	-	(2)	(4)
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	(524)	(555)	(485)
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<b>(Decrease)/increase in cash and cash equivalents</b>	<u>(2,397)</u>	<u>96</u>	<u>1,189</u>



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
At 1 May 2016	4,687	553	801	(173)	8,549	40	14,457
Dividends paid	-	-	-	-	(469)	-	(469)
Total comprehensive income for the period	-	-	-	45	(816)	-	(771)
<b>As at 31 October 2016</b>	<u>4,687</u>	<u>553</u>	<u>801</u>	<u>(128)</u>	<u>7,264</u>	<u>40</u>	<u>13,217</u>
At 1 May 2015	4,602	549	801	(182)	7,782	40	13,592
Share capital issued	86	4	-	-	-	-	90
Dividends paid	-	-	-	-	(461)	-	(461)
Total comprehensive income for the period	-	-	-	-	679	-	679
<b>As at 31 October 2015</b>	<u>4,688</u>	<u>553</u>	<u>801</u>	<u>(182)</u>	<u>8,000</u>	<u>40</u>	<u>13,900</u>

## NOTES TO THE ACCOUNTS

### 1. BASIS OF ACCOUNTS

The financial information for the six months ended 31 October 2016 and 31 October 2015 does not constitute the Group's statutory financial statements for those periods within the meaning of Section 434(3) of the Companies Act 2006 and has neither been audited or reviewed pursuant to guidance issued by the Auditing Practices Board. The annual financial statements of Newmark Security Plc are prepared in accordance with IFRSs as adopted by the European Union. The principal accounting policies used in preparing the interim results are those that the Group expects to apply in its financial statements for the year ended 30 April 2017 and are unchanged from those disclosed in the Group's Annual Report for the year ended 30 April 2016.

The comparative financial information for the year ended 30 April 2016 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2016 have been filed with the Registrar of Companies. The Independent Auditors' Report on that Annual Report and Financial Statement for 2016 was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2)-498(3) of the Companies Act 2006.

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 half-yearly condensed consolidated financial statements.

### 2. TAXATION

The tax charge is affected by the effect of reliefs on research and development expenditure, and the effect of items not deductible for tax purposes.

### 3. 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 468,732,316 shares (2015: 461,646,446).

### 4. DIVIDENDS

No interim dividend is proposed (2015: Nil).



