integrated security solutions

newmark security PLC

Annual Report

For the year ended 30 April 2004

INDEX

DIRECTORS, SECRETARY AND ADVISERS

Company number;	3339998
Registered Office:	57 Grosvenor Street London W1K 3JA
Directors:	M Dwek (Chairman) B Beecraft FCA (Finance Director) M Rapoport (Non-Executive Director) A Reid FCA (Non-Executive Director)
Secretary:	B Beecraft FCA
Bankers:	Lloyds TSB PLC 1st Floor Navigation House Walnut Tree Park Walnut Tree Close Guildford Surrey GU1 4TR
Solicitors:	Field Fisher Waterhouse 35 Vine Street London EC3N 2AA
Auditors:	BDO Stoy Hayward LLP Northside House 69 Tweedy Road Bromley Kent BR1 3WA
Nominated Adviser:	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
Broker:	Seymour Pierce Ellis Limited Talisman House Jubilee Walk Three Bridges Crawley West Sussex RH10 1LQ
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

CHAIRMAN'S STATEMENT

Overview

The Group has been very busy in the year with a number of special exercises namely the issue of secured loan notes, sale of Drion Security in Belgium and a capital reduction. Following the year end we also completed the acquisition of Custom Micro Products Limited as described below.

The Group announced in July 2003 that it had agreed terms for the issue of secured loan notes to raise up to £1.5 million. The loan note holders committed to subscribe in cash for £1 million, and on agreement between the parties, the loan note holders can subscribe in cash for up to a further £0.5 million of loan notes. The loan notes bear interest at a rate of 6% per annum payable quarterly in arrears and are repayable three years after the date of the instrument constituting the loan notes with an option for early repayment. As part of the fundraising, the Company issued warrants to the loan note holders to subscribe for ordinary shares of 1p each in the Company at any time between 24 July 2003 and 24 July 2008 at a price of 1p per ordinary share. To date, loan notes totalling £1.3 million have been issued.

As a result of loans advanced to subsidiaries by the Company that had to be subsequently written off, the distributable reserves of the Company were negative and the Company was therefore unable to make dividend payments.

The Board considered options for addressing the Company's distributable reserves position. After full consideration of the options available, the Board sought and obtained approval for the reduction of capital and cancellation of the Company's share premium account.

The Deferred Shares which carried no rights of any real value were cancelled, together with the share premium account. As a consequence, the Company will be more likely to be able to pay dividends out of future profits as and when the Board considers it appropriate to recommend the payment of such dividends.

The financial performance of Drion Security had not met the expectations of the Board over the last two years, with turnover in the last financial year remaining at the same level as the previous year and losses of £624,000 incurred for the year to 30 April 2003. This was largely due to the failure of Drion Security to obtain both a large export order or a breakthrough in the commercial sector. Turnover in its core Belgium banking sector was in line with expectations, but losses had continued in the first six months of the financial year ended 30 April 2004.

In view of these factors, in October 2003 Newmark agreed to the disposal of Drion Security to the former Chief Executive of the Group for a maximum deferred consideration of €500,000, payable in three annual instalments commencing in 2006 dependent upon Drion Security achieving a certain level of profits after tax in each of the financial years ending 30 April 2006, 30 April 2007 and 30 April 2008. In view of the trading performance of Drion Security, no allowance has been made in these accounts for any future receivable.

Financial Results

The operating profit for the year for continuing operations before exceptional items and goodwill amortisation was £356,000 (2003 – loss £410,000), both figures exclude the operating losses before exceptional items of £414,000 and £624,000 respectively of Drion which was sold in the year. The operating profit for the year is after charging £48,000 costs relating to the capital reduction exercise. There are a number of exceptional items in the year relating to the disposal of Drion, and underprovision for costs relating to the sale of businesses in prior years.

Turnover for the year for continuing operations was £9.8 million (2003: £7.1 million). The main commercial factors affecting the results of the divisions are set out below.

Electronic Division

The first full year where Grosvenor Technology and Newmark Technology have traded as partners has seen a marked improvement in profitability for both companies.

Grosvenor Technology continues to develop its core product JANUS access control with the latest release boasting market leading features in both software and hardware.

Newmark Technology has had to work doubly hard this year to achieve its targets due to various supply problems including the manufacturer of our Par-Sec asset management hardware going into liquidation necessitating starting with a new sub-contract manufacturer.

The last quarter of 2004 will see a new version of Siteguard Access. Siteguard is ADT's own brand of JANUS, designed by Grosvenor but manufactured and distributed under licence by Tyco to the ADT group. As in JANUS, this latest version of Siteguard will include a seamless interface to Par-Sec asset management and so promote it into ADT via their 'own brand' access system.

The coming year will also see a new Par-Sec RFID long-range reader that will include an interchangeable frequency module. This will allow the product to be sold into more countries whereas the existing fixed frequency unit can only be sold into the UK and US markets. It will also provide a suitable migration path to a new frequency band in the UK where regulatory changes make this a necessity before January 2007.

The underlying business trends remain very strong for both Newmark and Grosvenor with a continuing steady volume of core business.

During the past year Grosvenor and Newmark have jointly worked to develop new relationships with key national accounts. Both companies can capitalise from jointly being able to offer a wider choice whilst remaining specialists with their chosen products. The outcome of these efforts should materialise with substantial contracts in the coming year.

On the back of other successful installations and because of our extensive experience with access control data-communications, Grosvenor is currently negotiating for various contracts in the Pacific Rim with a value including adjuncts exceeding £1 million over a three year period starting 2005.

Other contracts being sought and due to be placed within the coming year include a major bank looking to upgrade its entire security infrastructure, defence companies and government facilities.

Asset Protection Division

Safetell's trading throughout the year was very much in line with plan and achieved revenue growth of 10% over the previous period. Operating efficiencies resulted in a further 1.2% increase in gross margin percentage. Overheads were contained to the same level as the previous year resulting in a rise in operating profit of 40% compared to the previous year.

The Eclipse rising screen programmes were maintained with long-term customers in retail finance and petrol retailing. The newer screen products of CounterShield and Eye2Eye continued their successful market penetration.

The demand for fixed glass security screens has continued and a third format of FlexiGlaze was in development at the turn of the year and has since been released to the market with three installations completed by the end of August 2004.

The demand for RollerCash and BiDi Safe cash handling equipment is dependent on the roll-out programmes of established customers. The Post Office contract was extended to July 2004 and sales are expected in line with the Post Office suburban network reorganisation. In September 2004 Safetell was awarded the next supply contract for four of the five types of Cash Handling Units for the Post Office. New customers are being introduced to the product range and the OEM supplier is launching a new product (CashCycler) in late 2004. This will move the product range into new applications of teller cash dispensers.

The imminent application of the Disability Discrimination Act in October 2004 continues to fuel demand from public bodies to make reasonable adjustments to their service areas. Police authorities and local governments are proving to be a good source of work for all forms of screens as the best defence against violence in the front office/reception areas. Abbey National commissioned a product design to improve disabled access to their counters. The design was completed in May and the £750,000 programme should be complete by the end of October 2004.

The service and maintenance business increases pro rata to the installed base of primary equipment. During the year a new contract was won to maintain all locks for security doors for HBOS for a three-year period starting in April 2004 for an initial contract value of £750,000. Further lock and door maintenance and other service related work for third party suppliers is also being secured to improve operational efficiency of the service technicians.

Secure Locking Division

NSP Europe has managed to increase turnover, as well as laying many new foundations, resulting in the attainment of significant contracts such as GE. The losses of the company increased in the year but having signed these new distribution agreements towards the end of the period, it is targeted to break even in the current year. The new foundations should lead to significant growth in sales in this financial year.

Our unique standalone commercial locking system which uses 'contact less mifaire technology' has taken some time to develop, and has finally been launched. Since its launch it has been acquired by several large groups and been distributed throughout Europe. It enables effective cashless vending and is a significant advance in card technology.

During this year, the company officially changed its trading name to NSP Europe. This reflects its growing international customer base and the opening of a Paris based office, where the focus is clearly on the substantial French market.

Balance sheet and cash flow

The balance sheet varies from last year with the sale of Drion Security, but also by the agreement of a payment schedule for the tax liability arising from the sale of the Vema business and assets in 2002. This liability was previously shown as a current liability, whereas agreement has now been reached for payment over a three year period. Freehold properties on the balance sheet at 30 April 2004 included premises in Belgium (related to the Vema operation) with a net book value of €348,000. This property has been sold since the year end, and the proceeds used to repay the associated mortgage.

The operating cash flow was positive before receipt of the proceeds of the loan notes and payment of costs related to the sale of Drion Security.

Post Balance Sheet Events

Since the year end, the Group has acquired the entire issued share capital of Custom Micro Products Limited ("CMP") for a total consideration of up to £2.885 million.

The initial consideration of £800,000 was satisfied by cash on completion, with two tranches of deferred consideration of £1.4 million and £685,000 respectively, the latter payable on the achievement of profit before tax of £600,000 for the year ending 30 April 2005.

CMP was established in the early 1980s to exploit the market potential for microprocessor-based products. CMP's products are divided into the following core ranges: time and attendance systems, access control products, shop floor data collection terminals, smart card applications, network connectivity products and biometric readers.

CMP recorded turnover of approximately £3.35 million and pre-tax profits of £500,000 as per the unaudited management accounts for the year ended 31 January 2004.

In order to part fund the acquisition of CMP, the Group raised an additional £1,700,000 (before expenses) through a placing of 136,000,000 ordinary shares at 1.25p per share.

Employees

The Board would like to congratulate all employees on their contribution during the year and to welcome the employees of Custom Micro Products to the Group.

The Future

The results of Safetell were ahead of plan for the year under review, whilst Grosvenor Technology and Newmark Technology were in line with expectations. The results of NSP Europe were disappointing with the signing of new distribution agreements taking longer than expected. As stated above, these agreements have now been signed and NSP Europe is projected to break even for the current year. With the continuing profit contributions of Grosvenor, Newmark and Safetell plus a four month contribution from Custom Micro Products, the operating profit for the first six months should be comfortably ahead of the corresponding period last year, and the outlook for the full year is most encouraging.

M DWEK
Chairman

7 October 2004

REPORT OF THE DIRECTORS

The Directors submit their annual report and audited financial statements of the Group for the year ended 30 April 2004.

Principal activities

The Group is principally engaged in the design, manufacture and supply of products and services for the security of assets and personnel. The principal activity of the Company is that of an investment holding company.

Financial results and dividends

The loss on ordinary activities after exceptional items and goodwill amortisation and before interest, tax and minority interest in the year was £1,656,000 (2003: loss £2,725,000).

The operating profit for the year before exceptional items and goodwill amortisation for continuing operations was £356,000 (2003: loss £410,000). Turnover for the year for continuing operations was £9.8 million (2003: £7.1 million). The directors do not recommend the payment of a dividend. A review of the business and future prospects is given in the Chairman's Statement on page 3.

During the year, the Group sold its investment in Drion Security S.A. to the former Chief Executive of the Group for a maximum deferred consideration of €500,000 subject to the level of profits achieved in the future. Any deferred consideration will be payable in three annual instalments commencing in 2006.

Directors

The Directors who served during the year were as follows:

M Dwek
S Rajwan (resigned 27 August 2003)
B Beecraft
M Rapoport
A Reid

Details of the Directors' service contracts are shown in the Remuneration Committee Report on pages 10 and 11.

M Rapoport retires in accordance with the articles of association. M Rapoport being eligible, offers himself for re-election at the next annual general meeting.

Directors' interests

The beneficial and other interests of the Directors in the shares of the Company as at 30 April 2003 (or the date of their appointment to the Board, if later) and 30 April 2004 were as follows:

	Percentage holding at 30 April 2004	30 April 2004	30 April 2003 (or date of appointment if later)
M Dwek[(a)]	10.0%	21,241,667	16,575,000
M Rapoport	5.0%	10,555,000	10,555,000
A Reid[(b)]	16.6%	35,283,237	32,858,238

(a) These shares are held in the name of Arbury Inc., 51 per cent of the equity share capital of which is, at the date of this report, beneficially owned by M Dwek.

(b) These shares are in part held in the name of R.K. Harrison & Co. Limited, a company the issued equity share capital of which is, at the date of this report, owned as to 80.3 per cent by A Reid of which 74.8 per cent is a beneficial holding and 5.5 per cent is a non beneficial holding, and the R.K. Harrison Retirement Benefit Scheme in which A Reid has a beneficial interest.

During the year the Group agreed terms for the issue of secured loan notes to raise up to £1.5 million. The Loan Note Holders committed to subscribe in cash for £1 million, and on agreement between the parties, the Loan Note Holders can subscribe in cash for up to a further £0.5 million of Loan Notes. The Loan Notes bear interest at a rate of 6 per cent per annum payable quarterly in arrears and are repayable three years after the date of the instrument constituting the Loan Notes with an option for early repayment. As part of the fundraising, the Company issued warrants to the Loan Note Holders to subscribe for ordinary shares of 1p each in the Company at any time between 24 July 2003 and 24 July 2008 at a price of 1p per ordinary share. During the year parties related to M Dwek and A Reid subscribed for £880,000 and £220,000 of loan stock respectively. Since the year end A Reid and parties related to M Dwek have acquired a further 18,300,000 and 16,000,000 shares respectively.

The interests of Directors (and related parties) in Share Option Schemes operated by the Company at 30 April 2003 and 2004 were as follows:

	Number of Ordinary Shares under the Approved Scheme 30 April 2004	Number of Ordinary Shares under the Unapproved Scheme 30 April 2004	Number of Ordinary Shares under the Approved Scheme 30 April 2003	Number of Ordinary Shares under the Unapproved Scheme 30 April 2003
M Dwek	–	5,000,000	–	5,000,000
B Beecraft	500,000	1,000,000	500,000	1,000,000

The Directors had no other interests in the shares or share options of the Company or its subsidiaries.

Research and development

The Group is committed to on-going research and development. The strategy is based upon market demand to meet identified security needs in conjunction with a commercial assessment of the short to medium term profitability of each project. The amount of the costs incurred in the year are shown in note 3(b) to the accounts.

Substantial shareholdings

Apart from the Directors' shareholdings detailed above, the Directors have been notified of the following additional shareholdings of 3 per cent or more of the issued ordinary share capital of the Company as at the date of this document:

	Percentage of class	Number of shares
M V. Beheer BV	4.0%	13,447,725
HSBC Global Custody Nominee (UK) Limited	3.3%	11,000,000
Pershing Keen Nominees Limited	3.5%	11,772,500
Mrs G A B Reid	5.1%	17,050,000

Employee involvement

The Group keeps employees informed of matters affecting them and employees have regular opportunities to meet and have discussions with their managers.

Disabled persons

The Group gives sympathetic consideration to the employment of disabled people. Whilst no special facilities are provided for training the disabled, all employees are given equal opportunities for training and promotion, having regard to their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retain them in order that their employment with the Group may continue.

Share option schemes

The Company has two employee share option schemes which enable employees and Executive Directors to be granted options to subscribe for Ordinary Shares. The Approved Scheme has been approved by the Inland Revenue in accordance with Section 185 of, and Schedule 9 to, the Income and Corporation Taxes Act 1988 ("Taxes Act"), the Unapproved Scheme not requiring such approval. The Schemes require that exercise of options be subject to the satisfaction of certain performance criteria.

The Remuneration Committee administers and operates each Scheme. The maximum number of Ordinary Shares in respect of which options may be granted under each Scheme is equivalent to approximately 5 per cent in aggregate of the Company's issued Ordinary share capital. Further details of the share option schemes are in note 16 to the accounts.

Environmental Policy

The Group's environmental policy endeavours to minimise the impact of its activities on the environment through, where possible, the proper conservation of natural resources. The Group recognises its responsibility to continually review and improve its environmental performance and, in doing so, seeks the input of architects, engineers and other professional advisers.

Payment of suppliers

The Group requires its operational management to settle terms of payment with suppliers when agreeing the terms of the transaction to ensure that suppliers are aware of these terms and to abide by them. Trade creditors at the year end were 31 days (2003: 58 days) of average supplies for the period.

Corporate governance

The Company has complied voluntarily throughout the year as far as practicable with the provisions set out in Section 1 of the Principles of Good Governance and Code of Best Practice ("the Combined Code") which embraces the work of the Cadbury, Greenbury and Hampel Committees, and which only applies mandatorily to fully listed companies.

At 30 April 2004, the Board comprised an Executive Chairman, one Executive Director and two Non-Executive Directors.

The Board meets regularly to exercise full and effective control over the Group. The Board has a number of matters reserved for its consideration, with the principal responsibilities being to monitor performance and to ensure that there are proper internal controls in place to agree overall strategy and acquisition policy, to approve major capital expenditure and to review budgets. The Board will also consider reports from senior members of the management team. There was a clear division of responsibilities between the Chairman and Chief Executive while he was on the Board. The Chairman takes responsibility for the conduct of the Group and overall strategy.

Under the Company's Articles of Association, the appointment of all directors must be approved by the shareholders in General Meeting, and additionally one-third of the directors are required to submit themselves for re-election at each Annual General Meeting. Additionally, each director has undertaken to submit themselves for re-election at least every three years. The Board has considered the recommendation to introduce a Nominations Committee. However, it was decided given the small size of the Board, that nominations are to remain a matter reserved for the Board.

Any Director may, in furtherance of his duties, take independent professional advice where necessary, at the expense of the Company. All directors have access to the Company Secretary whose appointment and removal is a matter for the Board as a whole, and who is responsible to the Board as a whole and who is responsible to the Board for ensuring that agreed procedures and applicable rules are observed.

The Company maintains an ongoing dialogue with its institutional shareholders. The Combined Code requires proxy votes to be counted and announced after any vote on a show of hands and this has been implemented by the Company.

The Combined Code requires Directors to review, and report to shareholders on, the Group's system of internal control. In September 1999 guidance to this requirement was provided to Directors by the publication of *Internal Control: Guidance for Directors on the Combined Code ("The Turnbull Report")*.

The Board continues to report on internal financial control in accordance with the guidance on internal control and financial reporting that was issued by the Institute of Chartered Accountants in England and Wales in 1994. The Directors have considered the Turnbull Report but have decided that the cost of implementing the procedures contained therein is disproportionate to expected benefits at this stage of the Group's development.

The Directors acknowledge their responsibility for the Group's systems of internal financial control which are designed to provide reasonable but not absolute assurance that the assets of the Group are safeguarded and that transactions are properly authorised and recorded.

During the year, key controls were:

- day to day supervision of the business by the Executive Directors,
- maintaining a clear organisational structure with defined lines of responsibility,
- production of management information, with comparisons against budget,

- maintaining the quality and integrity of personnel,
- Board approval of all significant capital expenditure, and all acquisitions.

Each Group company is responsible for the preparation of a budget for the following year, which is presented to and required to be agreed by the Board before the beginning of that year. The subsidiary is required to report actual performance against that plan each month.

The Board has established two standing committees, the audit and remuneration committees, comprising the two independent Non-Executive Directors. Each committee has written terms of reference.

The Audit Committee, comprising M Rapoport and A Reid, is responsible for the appointment of external auditors, reviewing the interim and annual financial results, considering matters raised by the auditors and reviewing the internal control systems operated by the Group.

The Remuneration Committee, comprising M Rapoport and A Reid meets at least once a year to review the terms and conditions of employment of Executive Directors including the provision of incentives and performance related benefits. The report of the remuneration committee is set out on pages 10 and 11.

After making enquiries, the Directors believe that the Group has sufficient financial resources to continue in operational existence for the foreseeable future. The accounts have therefore been produced on the going concern basis.

Directors' responsibilities

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

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

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

Auditors

On 31 December 2003, BDO Stoy Hayward, the Company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly, BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

B BEECRAFT
Secretary

7 October 2004

REPORT OF THE REMUNERATION COMMITTEE

Authority

The Remuneration Committee is responsible for approving the remuneration of Executive Directors. The remuneration of Non-Executive Directors is approved by the full Board of the Company.

Membership

The majority membership of the Remuneration Committee is required to comprise independent Non-Executive Directors and at 30 April 2004 comprised only the two existing Non-Executive Directors, Alexander Reid and Michel Rapoport.

Alexander Reid is executive chairman of R.K. Harrison & Company Limited (a shareholder of the Company), a director of Yeoman Investment Trust Plc and a number of unquoted companies. He was formerly a director of the merchant bank Samuel Montagu & Co. Limited and for 15 years was a director of various investee and group companies within Invesco MIM (now Amvescap).

Michel Rapoport was previously President and Chief Executive Officer of Mosler Inc., a manufacturer and integrator of security systems for banking, industrial and commercial organisations. Prior to that he was Vice President of Pitney Bowes International and Chairman of Pitney Bowes France. He is Chairman of Chloralp S.A., a chloralkali manufacturer in Grenoble, France, and President of La Roche Industries Inc., an ammonia distributor based in Atlanta, U.S.A.

Remuneration policy

The Group's policy is to offer remuneration packages which are appropriate to the experience, qualifications and level of responsibility of each Executive Director and are in line with Directors of comparable public companies.

Service and consultancy agreements

The Company entered into a Consultancy Agreement with Arbury Inc., on 1 September 1997 for the services provided to the Company by Mr Dwek. The Agreement may be terminated by either party subject to 12 months' notice being served. Arbury Inc is paid a fee in line with the level of responsibilities of Mr Dwek who is also entitled to the provision of a car for which the Company will meet all running expenses except for lease costs.

The Company entered into a Service Agreement on 5 June 1998 with Mr Beecraft which may be terminated by either party serving six months' notice.

Directors' emoluments

Emoluments of the directors (including pension contributions and benefits in kind) of the Company were as follows:

	Consultancy/ management agreement £000	Termination payments £000	Salary £000	Benefits in kind £000	Fees £000	Total £000	Pension contri- butions £000
Executive Directors							
M Dwek[(a)]	198	–	–	–	–	198	–
S Rajwan[(b)(d)]	–	–	50	6	–	56	8
B Beecraft	–	–	99	–	–	99	–
Non-Executive Directors							
A Reid[(c)]	–	–	–	–	11	11	–
M Rapoport	–	–	–	–	11	11	–
	198	–	149	6	22	375	8
2003	220	78	229	27	14	568	13

The directors' share interests are detailed in the Report of the Directors on page 6.

(a) The Company paid a consultancy fee of £198,433 (2003: £179,821) to Arbury Inc., a company 51 per cent owned by M Dwek which covers salary, pension and car benefits. A consultancy fee of £Nil (2003: £31,895) was paid to Arbury Inc., by Vema NV for services as Chairman of that company. In 2003, Vema paid a fee to Arbury Inc., of £61,904 for the termination of his consultancy contract with that company.

(b) The salary of S Rajwan in 2003 included a special fee of £40,000 for working in Belgium at Drion. The pension contributions in respect of S Rajwan were for a money purchase pension scheme.

(c) Directors' fees in respect of A Reid of £11,250 (2003: £7,500) were paid by the Company to R. K. Harrison & Co. Limited. Vema NV paid fees to R. K. Harrison & Co. Limited of £Nil (2003: £8,045) for services as director of that company. In 2003, Vema paid a fee to R. K. Harrison & Co. Limited, of £16,193 for the termination of his management contract with that company.

(d) The above emoluments exclude the payment of one year's salary (including benefits) and an *ex-gratia* payment of £30,000 to S Rajwan on the termination of his employment with the Group.

REPORT OF THE INDEPENDENT AUDITORS

Independent Auditors' Report to the Shareholders of Newmark Security PLC

We have audited the financial statements of Newmark Security PLC for the year ended 30 April 2004 on pages 13 to 33 which have been prepared under the accounting policies set out on pages 17 and 18.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statement in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Remuneration Report, the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 30 April 2004, and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Chartered Accountants
Registered Auditors

7 October 2004

London

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 30 April 2004

	Notes	2004 Before goodwill and exceptional items £000	2004 Goodwill and exceptional items £000	2004 Total £000	2003 Total £000
Turnover	2				
Continuing operations		9,830	–	9,830	7,089
Discontinued operations		754	–	754	1,304
		10,584	–	10,584	8,393
Cost of sales		(6,479)	–	(6,479)	(5,720)
Gross profit		4,105	–	4,105	2,673
Administrative expenses pre amortisation of goodwill and exceptional items		(4,163)	–	(4,163)	(3,932)
Impairment of goodwill		–	–	–	(806)
Amortisation of goodwill		–	(298)	(298)	(287)
Termination costs		–	(167)	(167)	–
Administrative expenses – total		(4,163)	(465)	(4,628)	(5,025)
Operating profit/(loss)	3				
Continuing operations		356	(298)	58	(645)
Discontinued operations		(414)	(167)	(581)	(1,707)
		(58)	(465)	(523)	(2,352)
Loss on disposal/closure of subsidiary/business and net trading assets	3(c)	–	(1,133)	(1,133)	(373)
Loss on ordinary activities before interest		(58)	(1,598)	(1,656)	(2,725)
Interest receivable		15	–	15	67
Interest – discount charge on deferred consideration	4	(179)	–	(179)	(106)
Interest payable	4	(51)	–	(51)	(34)
Loss on ordinary activities before taxation		(273)	(1,598)	(1,871)	(2,798)
Tax on loss on ordinary activities	6	(146)	–	(146)	–
Loss on ordinary activities after taxation		(419)	(1,598)	(2,017)	(2,798)
Minority interest	18	(27)	–	(27)	78
Loss for the financial year		(446)	(1,598)	(2,044)	(2,720)
Dividends		–	–	–	–
Amount withdrawn from reserves	17	(446)	(1,598)	(2,044)	(2,720)
				pence	pence
Loss per share	7				
– basic and diluted				(1.0p)	(1.6p)
– before exceptional items and goodwill amortisation				(0.2p)	(0.8p)

BALANCE SHEETS
As at 30 April 2004

	Notes	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Fixed assets					
Intangible assets	8	5,287	5,585	–	–
Tangible assets	9	903	1,844	11	19
Investments	10	–	–	15,187	15,214
		6,190	7,429	15,198	15,233
Current assets					
Stocks	11	893	1,239	–	–
Debtors: amounts falling due within one year	12	1,974	2,389	66	71
Debtors: amounts falling due after more than one year	12	–	–	1,242	751
		1,974	2,389	1,308	822
Cash at bank and in hand		1,522	806	104	–
		4,389	4,434	1,412	822
Creditors: amounts falling due within one year	13	(2,911)	(4,706)	(9,747)	(9,728)
Net current asset/(liabilities)		1,478	(272)	(8,335)	(8,906)
Total assets less current liabilities		7,668	7,157	6,863	6,327
Creditors: amounts falling due after more than one year	14	(5,741)	(3,263)	(4,102)	(2,798)
Provisions for liabilities and charges	15	(201)	(217)	–	–
		1,726	3,677	2,761	3,529
Capital and reserves					
Called up share capital	16	2,131	6,963	2,131	6,963
Share premium	17	–	5,151	–	5,151
Merger reserve	17	801	801	801	801
Profit and loss reserve	17	(1,506)	(9,585)	(171)	(9,386)
Equity shareholders' funds		1,426	3,330	2,761	3,529
Minority interests	18	300	347	–	–
		1,726	3,677	2,761	3,529

The financial statements were approved by the Board of Directors on 7 October 2004 and were signed on its behalf by:

M DWEK
Chairman

B BEECRAFT
Finance Director

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 April 2004

	Notes	2004 £000	2003 £000
Net cash inflow/(outflow) from operating activities	19	252	(3,172)
Returns on investments and servicing of finance			
Interest received		15	67
Interest paid		(51)	(34)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(36)	33
Taxation		–	–
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(235)	(349)
Receipts from sale of tangible fixed assets		30	31
Net cash outflow from capital expenditure and financial investment		(205)	(318)
Acquisitions			
Purchase of subsidiary undertakings		–	(3,870)
Net cash acquired on purchase of subsidiary undertakings		–	1,104
Net cash outflow from acquisitions		–	(2,766)
Disposals			
Costs related to sale of subsidiary undertaking, and business and trading assets		(189)	–
Cash disposed of with business		(1)	–
Net cash outflow from disposals		(190)	–
Net cash outflow before financing		(179)	(6,223)
Financing			
New finance loans		1,100	58
Repayment of loans		(176)	(151)
		924	(93)
Expenses paid in connection with share issues		–	(43)
Net cash inflow/(outflow) from financing		924	(136)
Increase/(decrease) in cash	21	745	(6,359)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 30 April 2004

	2004 £000	2003 £000
Loss for the financial year	(2,044)	(2,720)
Exchange difference on translation of net assets and results of subsidiary undertakings	123	(115)
Total recognised gains and losses relating to the year	(1,921)	(2,835)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 30 April 2004

GROUP

	2004 £000	2003 £000
Loss for the financial year	(2,044)	(2,720)
New share capital subscribed (net of issue costs)	17	1,661
Exchange difference on translation of net assets and results of subsidiary undertakings	123	(115)
Net reduction to shareholders' funds	(1,904)	(1,174)
Opening shareholders' funds	3,330	4,504
Closing shareholders' funds	1,426	3,330

COMPANY

	2004 £000	2003 £000
Loss for the financial year	(785)	(5,289)
New share capital subscribed (net of issue costs)	17	1,661
Reduction to shareholders' funds	(768)	(3,628)
Opening shareholders' funds	3,529	7,157
Closing shareholders' funds	2,761	3,529

Notes to the financial statements
For the year ended 30 April 2004

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost convention. The consolidated financial statements include the results of subsidiaries since the date of acquisition. The principal accounting policies which the directors have adopted are set out below.

Basis of preparation

The financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The Group has incurred a loss for the year ended 30 April 2004 of £2,044,000, and had net current assets of £1,478,000 and net assets of £1,726,000 at that date.

In arriving at their conclusion that it was appropriate to adopt the going concern basis the directors have had regard to:

(a) current trading; and

(b) trading and cash flow forecasts.

Turnover

Turnover is stated net of value added tax. Sales of equipment are recognised when the equipment is shipped to the customer or installed. Other sales are either recognised on completion of work, or spread evenly over the term of the contract.

Goodwill

Goodwill represents the difference between the fair value of consideration and the fair value of the separable net tangible assets acquired.

In accordance with Financial Reporting Standard 10 ("FRS 10"), goodwill arising on the acquisition of subsidiaries is capitalised as an intangible asset and amortised over its useful economic life. The Board considers that there should be a presumption that the useful economic life of goodwill does not exceed a specified maximum period, chosen here to be 20 years since after that date continued measurement is less reliable.

Goodwill arising on the acquisition of subsidiaries prior to FRS 10 was written off immediately against reserves. The Group has adopted the transitional arrangement allowed by FRS 10 in that this goodwill remains eliminated against reserves and will be charged to the profit and loss account on the subsequent disposal of the businesses to which it relates.

Impairment of fixed assets and goodwill

The need for any fixed asset impairment write down is assessed by comparing the carrying value of the asset against the higher of realisable value and value in use.

Contingent deferred consideration

Contingent deferred consideration is accounted for in accordance with FRS 7. The fair value of the contingent consideration payable in cash is taken to be the estimated amount of cash value discounted to its present value.

Intellectual property rights and development costs

Intellectual property rights and development costs are written off to the profit and loss account as incurred.

Tangible fixed assets

The Group's tangible fixed assets are stated at cost less depreciation. Provision for depreciation is made in equal annual instalments to write off the cost less estimated residual value of each asset over its estimated useful life as follows:

Freehold land	Nil
Freehold buildings	5% per annum
Plant and machinery	20% per annum
Fixtures and fittings	10% per annum
Motor vehicles	25% per annum
Computer equipment	25% per annum

Leased assets and obligations

Assets acquired under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

Fixed asset investments

Fixed asset investments are recorded at cost less any provision for impairments.

Stock and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on an average cost basis. The cost of work in progress and finished goods comprises materials, direct labour and attributable production overheads. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax assets are only recognised when that asset is regarded as recoverable. The deferred tax balance has not been discounted.

Foreign currencies

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the year and the balance sheet translated into sterling at the rate of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings are taken to reserves.

All other differences are taken to the profit and loss account.

Pensions

Safetell operates a fully insured money purchase scheme open to all employees and more than half are members. The scheme is funded and its assets are held by an insurance company in a separate trustee administered fund. Both the company and employees make contributions to the fund. Grosvenor operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions to these schemes are charged to the profit and loss account in the year in which they become payable.

The Company also made contributions to a personal money purchase pension scheme in respect of S. Rajwan. Other employees of the Group contribute to state schemes. Contributions are charged to the profit and loss account when paid.

2. Analysis by geographical area

The analysis by geographical area of the Group's turnover, profit/(loss) before taxation and net assets is set out below:

Turnover	2004 By origin £000	2003 By origin £000	2004 By destination £000	2003 By destination £000
UK	9,830	7,059	9,408	6,912
Europe	754	1,334	1,068	1,344
Rest of the World	–	–	108	137
Total	10,584	8,393	10,584	8,393

Profit/(loss) before tax

	2004 Before goodwill and exceptional items £000	2004 Goodwill and exceptional items £000	2004 Total £000	2003 Total £000
UK	161	(298)	(137)	(850)
Europe	(434)	(1,300)	(1,734)	(1,838)
Rest of the World	–	–	–	(110)
	(273)	(1,598)	(1,871)	(2,798)

Net assets

	2004 Net assets £000	2003 Net assets £000
UK	3,129	2,306
Europe	(1,403)	2,141
Rest of the World	–	(770)
	1,726	3,677

3. Operating profit/(loss)

(a) Continuing and discontinued operations

	2004 Continuing operations £000	2004 Discontinued operations £000	2004 Total £000	2003 Continuing operations £000	2003 Discontinued operations £000	2003 Total £000
Sales	9,830	754	10,584	7,089	1,304	8,393
Cost of sales	(5,777)	(702)	(6,479)	(4,518)	(1,202)	(5,720)
Gross profit	4,053	52	4,105	2,571	102	2,673
Administrative expenses pre-amortisation of goodwill and exceptional items	(3,697)	(466)	(4,163)	(2,981)	(951)	(3,932)
Termination costs	–	(167)	(167)	–	–	–
Amortisation of goodwill	(298)	–	(298)	(235)	(52)	(287)
Impairment of goodwill	–	–	–	–	(806)	(806)
Administrative expenses in total	(3,995)	(633)	(4,628)	(3,216)	(1,809)	(5,025)
Operating profit/(loss)	58	(581)	(523)	(645)	(1,707)	(2,352)

The figures shown for discontinued operations in 2003 have been restated to include the results of Drion Security which was sold in October 2003.

(b) Operating profit/(loss) is arrived at after charging the following:

Group	2004 £000	2003 £000
Depreciation of tangible fixed assets	261	219
Amortisation of goodwill	298	287
Impairment of goodwill	–	806
Research and development	341	166
Auditors' remuneration:		
Parent company auditors		
Audit fees	63	32
Non audit fees	11	8
Other auditors		
Audit fees	10	6
Non audit services	–	4
Operating lease rentals:		
Property	151	152
Motor vehicles and computer equipment	104	92

(c) Loss on disposal/closure of subsidiary/business and trading assets

	2004 £000	2003 £000
Net assets of subsidiary disposed of	(979)	–
Cost of disposal	(56)	–
Net loss on disposal (note 23)	(1,035)	–
Under provision for costs of closure/disposal in prior years	(98)	(228)
Costs of closure of operation in year	–	(145)
Loss on disposal/closure of subsidiary/business and net trading assets	(1,133)	(373)

4. Interest payable and similar charges

	2004 £000	2003 £000
Discount charge on deferred consideration	179	106
Loan notes, bank loans, overdrafts and other short term finance	51	34
	230	140

5. Employees and directors

The average numbers employed by the Group (including Executive Directors) within the following categories were:

	Number	Number
Management, sales and administration	67	73
Production	54	60
	121	133

The costs incurred in respect of these employees were:

	£000	£000
Wages and salaries	3,560	3,238
Social security costs	476	537
Other pension costs	112	138
	4,148	3,913

Directors emoluments

	2004 £000	2003 £000
Aggregate emoluments	375	490
Aggregate contributions under money purchase scheme	8	13
Aggregate payments for compensation for loss of office	167	78
Emoluments of highest paid director	198	274
Aggregate contributions under money purchase scheme for highest paid director	–	–
	Number	**Number**
Number of directors receiving benefit under money purchase scheme	1	1

6. Taxation

Taxation is based on the results for the year and comprises:

	2004 £000	2003 £000
UK Corporation taxation	–	–
Overseas taxation	(100)	–
Deferred taxation	–	–
Taxation charge on loss for the year before exceptional items	(100)	–
Underprovision for tax in prior years	(46)	–
	(146)	–

The tax charged for the year is greater than the standard rate of corporation tax in the UK (30 per cent).

The differences are explained below:

	2004 £000	2003 £000
Loss on ordinary activities before taxation	(1,871)	(2,798)
Loss on ordinary activities at the standard rate of UK corporation tax of 30% (2003: 30%)	(561)	(839)
Effects on profits of items not deductible for the tax purposes	267	12
Tax losses carried forward	31	541
Timing differences including capital allowances in excess of depreciation dealt with under deferred tax	3	47
Impairment goodwill amortisation	–	242
Interest discount charge on deferred consideration	54	32
Grossing up of foreign income	2	2
Double tax relief	(7)	(6)
Adjustment to tax charge in respect of previous periods	(46)	–
Higher tax rates on overseas earnings	(56)	(31)
Relief for losses brought forward	(46)	–
Losses not utilised	297	–
Adjustments to tax charge in respect of overseas tax	(100)	–
Other timing differences	16	–
Current tax charge for year	(146)	–

The Group has the following tax losses, subject to agreement by HM Inspector of Taxes, available for offset against future trading profits and capital gains as appropriate:

	2004 £000	2003 £000
Management expenses	524	140
Non-trading deficit	24	4
Trading losses	3,645	3,532
Capital losses	792	792

7. Loss per share

The calculation of the basic loss per ordinary share is based on a loss of £2,044,000 (2003: loss £2,720,000) and the weighted average number of shares in issue during the year of 212,747,204 (2003: 174,364,102). For every £1 of loan note issued, the loan note holder receives a warrant entitling the loan note holder to 50 ordinary shares of 1p each on exercise of the warrant.

The conversion of those warrants into ordinary shares would reduce the net loss per share from continuing operations and therefore under FRS14 they are not deemed dilutive.

The options in issue have no dilutive effect.

The basic loss per share before goodwill amortisation and exceptional items has also been presented since, in the opinion of the directors, this provides shareholders with a more appropriate measure of earnings derived from the Group's businesses. It can be reconciled to basic loss per share as follows:

	2004	2003
Basic loss per share (pence)	(1.0)	(1.6)
Goodwill amortisation and exceptional items per share	0.8	0.8
Loss per share before goodwill amortisation and exceptional items	(0.2)	(0.8)

8. Intangible fixed assets

Group	Goodwill £000
Cost	
At 1 May 2003	6,992
Disposal in the year	(1,032)
At 30 April 2004	5,960
Amortisation	
At 1 May 2003	1,407
Charge for the year	298
Disposal in the year	(1,032)
At 30 April 2004	673
Net book value	
At 30 April 2004	5,287
At 30 April 2003	5,585

9. Tangible fixed assets

Group

	Freehold land and buildings £000	Plant, machinery & motor vehicles £000	Computers, fixtures & fittings £000	Total £000
Cost				
At 1 May 2003	1,575	1,666	421	3,662
Additions	–	183	52	235
Disposals	–	(50)	–	(50)
Disposal of subsidiary (note 23)	(852)	(908)	(149)	(1,909)
Exchange adjustment	(19)	(5)	5	(19)
At 30 April 2004	704	886	329	1,919
Depreciation				
At 1 May 2003	247	1,249	322	1,818
Charge for the year	55	160	46	261
Disposals	–	(30)	–	(30)
Disposal of subsidiary (note 23)	(67)	(854)	(108)	(1,029)
Exchange adjustment	(3)	(4)	3	(4)
At 30 April 2004	232	521	263	1,016
Net book value				
At 30 April 2004	472	365	66	903
At 30 April 2003	1,328	417	99	1,844

Company

	Computers, fixtures & fittings £000	Total £000
Cost		
At 1 May 2003 and 30 April 2004	23	23
Depreciation		
At 1 May 2003	4	4
Charge for the year	8	8
At 30 April 2004	12	12
Net book value		
At 30 April 2004	11	11
At 30 April 2003	19	19

10. Fixed asset investments

Company

Investment in subsidiary companies

Cost	**£000**
At 1 May 2003	15,214
Additions	17
At 30 April 2004	15,231
Provision for impairment	
At 1 May 2003	–
Provision in the year	44
At 30 April 2004	44
Net book value	
At 30 April 2004	15,187
At 30 April 2003	15,214

The provision for impairment was calculated to state the net book value of an investment in a subsidiary company at the commercial valuation of that company.

The details of the Company's subsidiary undertakings (wholly owned unless otherwise stated) which are involved in the supply of access control and other security products, are as follows:

Name	Activity	Country of incorporation	Description of shares held
Newmark Technology Limited	Trading	England & Wales	Ordinary
NSP Europe Limited	Trading	England & Wales	Ordinary
Newmark Technology (C-Cure Division) Limited	Dormant	England & Wales	Ordinary
Vema B.V.	Holding	The Netherlands	Ordinary
Vema N.V.(3) (92% owned)	Property	The Netherlands	Ordinary
Newmark Technology S.A.	Holding	Belgium	Ordinary
Safetell International Limited	Holding	England & Wales	Ordinary and Redeemable Preference
Safetell Limited(1)	Trading	England & Wales	Ordinary
Safetell Security Screens Limited(1)	Trading	England & Wales	Ordinary
Newmark Onroerend Goed B.V.(2)	Property	Belgium	Ordinary
Newmark Technology Inc.	Dormant	USA	Ordinary
Vema U.K. Limited(4)	Finance	England & Wales	Ordinary
Concept Hardware & Security Solutions Limited(5)	Trading	England & Wales	Ordinary
Grosvenor Technology Limited	Trading	England & Wales	Ordinary
Newmark Group Limited	Holding	England & Wales	Ordinary
De Facto 992 Limited	Dormant	England & Wales	Ordinary

The investments in subsidiary companies are held directly by the Company apart from the following:

(1) Owned by Safetell International Limited

(2) Owned by Newmark Technology S.A.

(3) Owned by Vema B.V.

(4) Owned by Vema N.V.

(5) Owned by NSP Europe Limited

11. Stocks

	2004 Group £000	2003 Group £000	2004 Company £000	2003 Company £000
Raw materials	617	472	–	–
Work in progress	88	236	–	–
Finished goods	188	531	–	–
	893	1,239	–	–

12. Debtors

Amounts falling due within one year	2004 Group £000	2003 Group £000	2004 Company £000	2003 Company £000
Trade debtors	1,640	1,818	–	–
Amounts owed by subsidiary undertakings	–	–	61	61
Other debtors	108	312	–	–
Deferred tax asset (Note 15)	–	46	–	–
Prepayments and accrued income	226	213	5	10
	1,974	2,389	66	71
Debtors: amounts falling due after more than one year	–	–	1,242	751
Debtors: total	1,974	2,389	1,308	822

13. Creditors: amounts falling due within one year

	2004 Group £000	2003 Group £000	2004 Company £000	2003 Company £000
Bank loans and overdrafts (note 14)	61	261	–	28
Trade creditors	715	881	–	–
Amounts due to group companies	–	–	9,388	9,534
Corporation tax	397	1,709	–	–
Other taxation and social security	429	499	41	–
Obligations under finance leases and hire purchase contracts	–	14	–	
Other creditors	534	494	307	–
Accruals and deferred income	775	848	11	166
	2,911	4,706	9,747	9,728

Other creditors within the Group includes an amount of £63,108 (2003: £Nil) in respect of a discount company which was secured on trade debtors of subsidiary companies.

14. Creditors: amounts falling due after more than one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Loan notes and bank loans	1,504	421	1,125	–
Corporation tax	1,260	–	–	–
Obligations under finance leases and hire purchase contracts	–	44	–	–
Other creditors	2,977	2,798	2,977	2,798
	5,741	3,263	4,102	2,798

Other creditors are the fair value of the contingent consideration payable in cash related to the acquisition of Grosvenor Technology Limited, which is taken to be the estimated amount of cash value discounted to its present value. Payment is due after the agreement of the accounts for the four years ended 31 October 2006.

Group	2004 Unsecured £000	2004 Secured £000	2003 Unsecured £000	2003 Secured £000
Loans are repayable as follows:				
In one year or less				
Bank loans[(a)]	–	11	–	20
Bank overdrafts	20	–	40	–
Finance leases	–	–	–	14
Shareholders loan[(b)]	–	–	25	–
Bank loan[(c)]	–	–	137	–
Bank loan[(d)]	–	30	–	22
Bank loan[(e)]	–	–	17	–
Total within one year	20	41	219	56
In more than one year but not more than two years				
Bank loans[(a)]	–	9	–	10
Finance leases	–	–	–	14
Bank loan[(c)]	–	–	–	–
Bank loan[(d)]	–	16	–	18
Bank loan[(e)]	–	–	11	–
	–	25	11	42
In more than two year but not more than five years				
Bank loans[(a)]	–	28	–	30
Finance leases	–	–	–	30
Bank loan[(d)]	–	48	–	54
Bank loan[(e)]	–	–	–	–
Loan notes[(f)]	–	1,125	–	–
	–	1,201	–	114
In more than five years				
Bank loans[(a)]	–	174	–	179
Bank loan[(d)]	–	104	–	119
	–	278	–	298
Total after more than one year	–	1,504	11	454

(a) The bank loan is repayable in quarterly instalments over 23 years. Interest is charged at 6.125 per cent over the first 5 years and the loan is secured on the freehold property of Vema N.V.

(b) The shareholders loan was set off against the loan notes issued during the year end.

(c) The bank loan is repayable in quarterly instalments over 1 year. Interest is charged at 5.25 per cent per annum.

(d) The bank loan is repayable in quarterly instalments over 13 years and is secured on the freehold property of Newmark Onroerend Goed B.V. Interest is charged at 7.05 per cent per annum.

(e) The bank loan is repayable in quarterly instalments over 2 years and interest is charged at 4.6 per cent per annum.

(f) The loan notes bear interest at a rate of 6 per cent per annum payable quarterly in arrears and are repayable three years after the date of the instrument constituting the loan notes with an option for early repayment. As part of the fundraising, the Company issued warrants to the loan note holders to subscribe for ordinary shares of 1p each in the Company at any time between 24 July 2003 and 24 July 2008 at a price of 1p per ordinary share. The loan notes are secured by a fixed and floating charge on the assets of the UK subsidiary companies, and are repayable on 24 July 2006.

15. Provisions for liabilities and charges

Group	Rental provision £000	Deferred taxation £000	Other £000	Total £000
At 1 May 2003	152	–	65	217
Released in year	(16)	–	–	(16)
At 30 April 2004	136	–	65	201

The rental provision relates to the excess of Safetell's contractual legal obligation at date of acquisition over the market rental, and will be reversed over the remaining nine years of the lease.

There is no provision in respect of deferred tax at 30 April 2004 (2003: £Nil). A deferred tax asset of £Nil (2003: £46,000) was recorded within debtors in respect of timing differences on capital allowances which was released during the year.

Other provisions relate predominantly to maintenance costs arising in respect of safety regulatory requirements, and are expected to reverse within one to two years of the balance sheet date.

16. Share capital

	2004 £	2003 £
Authorised:		
1,015,164,192 (2003: 1,015,164,192) Ordinary shares of 1p each	10,151,642	10,151,642
Nil (2003: 121,208,952) Deferred shares of 4p each	–	4,848,358
	£10,151,642	£15,000,000
Allotted, called up and fully paid:		
213,083,766 (2003: 211,523,766) Ordinary shares of 1p each	2,130,838	2,115,238
Nil (2003: 121,208,952) Deferred shares of 4p each	–	4,848,358
	£2,130,838	£6,963,596

At an extraordinary general meeting in the year, approval was given for the reduction of capital by cancelling all the deferred shares and the share premium account. This reduction in capital was subsequently approved by the courts. The balances from the above were transferred to the profit and loss account.

The total number of share options outstanding under the Approved and Unapproved Share Option Schemes were:

Date of grant	Subscription price payable	2004 Approved	2004 Unapproved	2003 Approved	2003 Unapproved
October 1997	14.5p	28,000	28,000	448,000	1,708,000
January 1999	8.25p	250,000	250,000	250,000	250,000
December 2001	5p	125,000	125,000	125,000	125,000
September 2002	2p	125,000	6,075,000	125,000	7,575,000
Total		528,000	6,478,000	948,000	9,658,000

The options may be exercised within 10 years from the date of issue.

17. Share premium and reserves

Group	Share premium account £000	Merger reserve £000	Profit and loss account £000
Accumulated reserves at 1 May 2003	5,151	801	(9,585)
Retained loss for the year	–	–	(2,044)
Capital reduction (note 16)	(5,151)	–	10,000
Exchange differences on foreign currency investments	–	–	123
Accumulated reserves at 30 April 2004	–	801	(1,506)

The cumulative amount of goodwill eliminated against reserves is £4,079,000 (2003: £4,079,000). This goodwill will be charged in the profit and loss account on any eventual disposal of the businesses to which it related.

Company	Share premium account £000	Merger reserve £000	Profit and loss account £000
Accumulated reserves at 1 May 2003	5,151	801	(9,386)
Capital reduction	(5,151)	–	10,000
Retained loss for the year	–	–	(785)
Accumulated reserves at 30 April 2004	–	801	(171)

Loss attributable to the members of the parent company

As permitted by section 230 of the Companies Act 1985, the parent company has not presented its own profit and loss account. The loss on ordinary activities after tax dealt with in the financial statements of the parent company for the year was £785,000 (2003: loss £5,289,000).

18. Minority interests

	2004 £000	2003 £000
At 1 May	347	2,030
Minority interest purchased back in year	(17)	(1,710)
Share of profits/(loss) in year	27	(78)
Exchange differences	(57)	105
At 30 April	300	347

19. Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	2004 £000	2003 £000
Operating loss	(523)	(2,352)
Depreciation, amortisation and impairment of goodwill	559	1,312
Decrease/(increase) in stocks	69	(194)
Decrease in debtors	–	537
Increase/(decrease) in creditors and provisions	147	(2,475)
Net cash inflow/(outflow) from operating activities	252	(3,172)

20. Reconciliation of net cash flows to movement in net (debt)/funds

	2004 £000	2003 £000
Increase/(decrease) in cash	745	(6,359)
(Increase)/decrease in debt in the year from cash flows	(924)	93
(Decrease) in net (debt)/funds resulting from cash flows	(179)	(6,266)
Cash and debt disposed of on sale of Drion	51	–
Exchange adjustments	19	–
Movement in net (debt)/funds	(109)	(6,266)

21. Analysis of changes in net (debt)/funds

	April 2003 £000	Cash flow £000	Disposed of with subsidiary £000	Exchange adjustments £000	April 2004 £000
Cash at bank and in hand	806	719	–	(3)	1,522
Overdrafts	(71)	26	–	–	(45)
	735	745	–	(3)	1,477
Debt due after one year	(465)	(1,068)	14	15	(1,504)
Debt due within one year	(204)	144	37	7	(16)
	(669)	(924)	51	22	(1,520)
Net funds	66	(179)	51	19	(43)

22. Financial instruments

The Group's financial instruments comprise borrowings, cash resources, and various items, such as trade debtors, trade creditors, etc, that arise directly from its operations. The main purpose of these financials instruments is to raise finance for the Group's operations.

It is, and has been throughout the year, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged during the year and are summarised below.

Interest rate risk

The Group finances its operations through a mixture of retained profits, bank borrowings and loan notes. The Group borrows at fixed rates of interest on long term loans to secure the Group's exposure to interest rate fluctuations. At the year end, 100 per cent (2003: 100 per cent) of the Group's borrowings were at fixed rates with Nil per cent of these borrowings comprising liabilities on which no interest is paid.

Liquidity risks

Short-term flexibility in borrowings is achieved by overdraft facilities in the UK.

A long term loan existed in the Netherlands at the date of acquisition of Vema, secured on the freehold property.

At the year end, 18 per cent (2003: 40 per cent) of the Group's borrowings were due to mature in more than five years.

Foreign currency risk

The sales of the UK companies are predominantly priced and invoiced in sterling, whilst the Belgian company invoiced its customers exclusively in Euros.

Interest rate risk of financial assets and financial liabilities

The interest rate profile of the Group's financial assets at 30 April 2004 was:

Currency	Total £000	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets on which no interest is received £000
Sterling	1,522	1,522	–	–

The interest rate profile of the Group's financial assets at 30 April 2003 was:

Currency	Total £000	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets on which no interest is received £000
Sterling	705	705	–	–
Euros	98	98	–	–
Dollars	3	3	–	–
	806	806	–	–

The interest rate profile of the Group's financial liabilities at 30 April 2004 was:

Currency	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest has been paid £000
Sterling	1,145	20	1,125	–
Euros	420	–	420	–
	1,565	20	1,545	–

The interest rate profile of the Group's financial liabilities at 30 April 2003 was:

Currency	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest has been paid £000
Euros	682	–	682	–
	682	–	682	–

	Fixed rate financial liabilities		Fixed rate financial liabilities	
Currency	Weighted average interest rate 2004 %	Weighted average period for which rate is fixed 2004 Years	Weighted average interest rate 2003 %	Weighted average period for which rate is fixed 2003 Years
Sterling	6.0	2.7	–	–
Euros	6.6	18.3	6.1	12.9
Total	6.2	6.6	6.1	12.9

Currency exposures

Gains and losses from the Group's net investment overseas are recognised in the statement of total recognised gains and losses.

The table below shows the Group's currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating unit involved.

As at 30 April 2004, these exposures were as follows:

			Net foreign currency monetary assets/ (liabilities) in £000
Functional currency of Group operation	**Euros**	**US dollars**	**Total**
Sterling	(171)	(25)	(196)
Total	(171)	(25)	(196)
As at 30 April 2003:			
Sterling	(32)	(34)	(66)
Total	(32)	(34)	(66)

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities was as follows:

	2004 £000	**2003 £000**
In one year or less or on demand	86	275
In more than one year but not more than two years	1,278	53
In more than one year but not more than five years	28	114
In more than five years	173	298
	1,565	740

Borrowing facilities

The Group has no undrawn committed borrowing facilities. The facilities available in respect of which all conditions precedent had been met were as follows:

Fair values of financial liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial liabilities:

	Book values 2004 £000	**Fair values 2004 £000**	**Book values 2003 £000**	**Fair values 2003 £000**
Short-term financial liabilities and current portion of long-term liabilities	61	60	275	270
Long term borrowings	1,504	1,324	465	404

The fair values shown above have been calculated by discounting cash flows at prevailing interest rates. The fair values of all other monetary assets and liabilities is equal to their book values.

23. Disposal

On 30 October 2003, the Group disposed of its investment in Drion Security S.A.

Net assets disposed of:

	£000
Tangible fixed assets	880
Stocks	277
Debtors	367
Cash	1
Creditors	(708)
Debt	(51)
Waiver Group loan	213
	979
Professional costs	56
Loss on disposal	1,035

The company was sold to the former Chief Executive of the Group for a maximum deferred consideration of €500,000, payable in three annual instalments commencing in 2006, depending upon Drion Security achieving a certain level of profits after tax in each of the three financial years to 30 April 2008. In view of the uncertainty, no allowance has been made in these accounts for any future recovery.

24. Other financial commitments

At 30 April 2004, the Company had annual commitments under non-cancellable operating leases as follows:

	2004 £000	2003 £000
Plant and equipment		
in one year or less	7	4
in more then one year but not more than two years	25	20
in more than two year but not more than five years	68	21
in more than five years	–	–
Property leases		
in one year or less	–	40
in more than one year but not more than two years	20	32
in more than two years but not more than five years	–	20
in more than five years	144	79

25. Related party transactions

(a) A Reid is a director of the Company and has a controlling interest in R.K. Harrison & Co. Limited. R.K. Harrison & Co. Limited received director's fees of £11,250 from the Company during the year (2003: £7,500) in respect of Mr. Reid. Vema NV paid fees of £Nil (2003: £8,045) to R. K. Harrison & Co. Limited for services as director of that company. In 2003 Vema paid a fee to R. K. Harrison & Co. Limited of £16,193 for the termination of his management contract with that company.

(b) M Dwek is a director of the Company and owns 51 per cent of the share capital of Arbury Inc., which received consultancy fees from the Company of £198,433 (2003: £179,821) in the year. A consultancy fee of £Nil (2003: £31,985) was paid to Arbury Inc. by Vema NV for services as Chairman of that Company. In 2003 Vema paid a fee to Arbury Inc., of £61,904 for the termination of his consultancy contract with that company.

(c) Amounts totalling £Nil (2003: £2,700) were paid on an arm's length basis during the year to a company of which B Beecraft is a director, in respect of consultancy and other accountancy services. The amounts outstanding at 30 April 2004 was £Nil (2003: £Nil).

These amounts are included in directors emoluments.

26. Post balance sheet events

Since the year end, the Group has acquired the entire issued share capital of Custom Micro Products Limited ("CMP"), for a total consideration of up to £2.885 million.

The initial consideration of £800,000 was satisfied by cash on completion, with two tranches of deferred consideration of £1.4 million and £685,000 respectively, the latter payable on the achievement of profit before tax of £600,000 for the year ending 30 April 2005.

In order to part fund the acquisition of CMP, the Group raised an additional £1,700,000 (before expenses) through a placing of 136,000,000 ordinary shares at 1.25p per share.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting of the above named Company will be held at 57 Grosvenor Street, London W1K 3JA on 18 November 2004 at 11 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the financial statements and reports of the Directors and auditors for the financial period ended 30 April 2004.

2. To re-appoint M. Rapoport as a director of the Company, who retires and offers himself for re-appointment.

3. To re-appoint BDO Stoy Hayward LLP as the auditors of the Company until the next Annual General Meeting and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

4. That the Directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (as defined in that section) up to a maximum aggregate nominal amount of £1,745,419; and this authority will (unless renewed) expire at the conclusion of the next Annual General Meeting of the Company but the Company may, before this authority expires, make an offer or agreement which would or might require relevant securities to be allotted after the authority expires and the Directors may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired.

To consider and, if thought fit, to pass the following Resolution as a Special Resolution:

5. That the Directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by Resolution 4 above as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

(a) the allotment of equity securities in connection with an issue in favour of the holders of ordinary shares of the Company in proportion (as nearly as may be) to their respective holdings of ordinary shares, subject only to exclusions or other arrangements which the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange in any territory; and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £872,709,

and the power hereby granted shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry but otherwise in accordance with the foregoing provisions of this power in which case the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the Board
B G Beecraft
Company Secretary

7 October 2004
Registered Office
57 Grosvenor Street
London W1K 3JA

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be effective, completed forms of proxy and the power of attorney or other authority (if any) under which they are signed or a copy of that power or authority certified notarially or in accordance with the Powers of Attorney Act 1971 must be lodged in accordance with the instructions printed thereon, not later than 48 hours before the time appointed for the meeting or any adjourned meeting.
3. The following documents are available for inspection at the company's registered office during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) until 17 November 2004 and will also be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and until the conclusion of the meeting:
   (a) a register in which are recorded details of all transactions in the shares of the company in respect of all Directors and their families;
   (b) a copy of every service contract between the company and any Director of the company.

4. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person should he wish to do so.

5. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the register of members of the Company 48 hours before the time of the meeting shall be entitled to attend and vote at this meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote at this meeting.

6. In the case of joint holder, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

7. Directors authority to allot shares

   Under Section 80 of the Companies Act 1985, the Directors may not exercise any powers of the Company to allot relevant securities (as defined in that section), unless authorised to do so by the Company in general meeting or by its articles. Resolution 4 authorises allotment sufficient to cover the existing warrants and options granted by the Company and allotment of up to an amount approximately equal to (but not exceeding) one third of the issued share capital of the Company for the period to the conclusion of the Annual General Meeting in 2004 or until such time as the authority is revoked, carried or renewed whichever is earlier. It replaces all previous authorities and is in line with the institutional guidelines followed by other publicly listed companies.

   Partial exclusion of pre-emption rights:

   Section 89 of the Companies Act 1985 requires that a public company allotting shares of cash must first offer them to existing shareholders following a statutory procedure which is both costly and cumbersome, Resolution 5 enables the Directors to allot sufficient shares to cover the existing warrants and options of the Company and to allot shares up to an aggregate nominate amount of twenty five per cent of the ordinary share capital of the Company in issue. It replaces all previous such powers.

   The taking of powers of this sort is reasonably standard practice for public companies and the Directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility. Unless previously revoked or varied the disapplication will expire on the conclusion of the next Annual General Meeting of the Company or 15 months from the date of the passing of this resolution whichever is earlier.

THIS PAGE INTENTIONALLY BLANK

NEWMARK SECURITY PLC

Proxy for Annual General Meeting

I/We the undersigned, being (a) Member(s) of the Company, HEREBY APPOINT the Chairman of the

Meeting or ....

(Note 1) as my/our Proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 57 Grosvenor Street, London W1K 3JA on 18 November 2004 at 11.00 a.m. and at any adjournment thereof.

(Note 2)	For	Against
ORDINARY RESOLUTIONS		
1. To receive and adopt the financial statements and reports of the directors and auditors for the financial period ended 30 April 2004.		
2. To re-appoint M. Rapoport as a director of the Company.		
3. To re-appoint BDO Stoy Hayward LLP as the auditors of the Company and authorise the Directors to fix their remuneration.		
4. To approve the granting of authority pursuant to Section 80 of the Companies Act 1985 to allot relevant securities.		
SPECIAL RESOLUTIONS		
5. To approve the granting of authority under Section 95 of the Companies Act 1985 to allot equity securities.		

Dated this ....day of..2004

Signature...

Full name(s) in which shares are registered...

....

PLEASE USE BLOCK LETTERS

Notes:

1. If any other proxy is desired strike out "the Chairman of the Meeting or" and insert the name or names preferred. Any alterations to this form must be initialled. A proxy need not be a member of the Company.
2. Please indicate with an "X" in the relevant box marked "For" or "Against" how you wish the proxy to vote on the resolutions. When no "X" is inserted the proxy will at his or her discretion vote as he or she thinks fit or abstain from voting.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the common seal or under the hand of an officer or attorney so authorised.
4. In the case of joint holders of a share the vote of the first-named holder on the Register of Members (whether voting in person or by proxy) will be accepted to the exclusion of the votes of the other joint holders in respect of the joint holding.
5. This form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, should be returned so as to reach the Company Registrar, Capita Registrars, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and, in default, the instrument of proxy shall not be treated as valid.
6. Completion and return of this form of proxy will not preclude members from attending and voting in person at the meeting should they subsequently decide to do so. Pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, members will be entitled to attend and vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment thereof.

Printed by greenaways, a member of the ormolu group. E151380