integrated security solutions

newmark security PLC

INTERIM REPORT

for the six months ended 31 October 2007

CHAIRMAN'S STATEMENT

The Board is pleased to announce their interim results for the six months ended 31 October 2007. The interim figures have been produced in accordance with International Financial Reporting Standards (IFRS), and the comparative information shown for the six months ended 31 October 2006 has been restated on an IFRS basis as disclosed in the preliminary announcement with the results for the year ended 30 April 2007.

Revenue in the period for continuing businesses of £7,582,000 was 18 per cent. ahead of the corresponding period last year of £6,398,000.

The Group operating profit for the period was £1,253,000 (2006: £907,000) before provision for exchange loss; an improvement of 47 per cent.

Earnings per share were 0.17 pence per share (2006: 0.15 pence). However, as shown in note 4 to the accounts, the earnings per share before interest discount, provision for exchange loss, warrant revaluation and losses of discontinued operations were 0.19 pence (2006: 0.16 pence).

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

ELECTRONIC DIVISION

Revenue 6 months 31 October 2007: £3,935,000 (2006: £3,731,000) Operating profit 6 months 31 October 2007: £1,035,000 (2006: £950,000).

Revenue in the period for the division was 5 per cent. higher than the corresponding period last year. Revenue in Grosvenor Technology was 7 per cent. lower than the same period last year which had included revenue of £0.5 million for a major contract with BAe Systems. Notwithstanding this, there has been an improvement in gross margin from 50 per cent. to 54 per cent. due to a combination of improved manufacturing costs associated with off-shore manufacturing (Hungary), the mix of business and salary savings where staff leavers have not been replaced as a result of the merger of Custom Micro Products and Grosvenor Technology.

The emerging JANUS, Siteguard and N-TEC Enterprise systems and the Admin Manager web application, announced in the last annual report, continue to attract significant interest. The development period was extended to permit enhanced internet security within the initial release. Version 1.0 is due to be completed and released during the first quarter 2008, and we already have an order book in excess of £150,000. Two systems have been installed as working trials and are working very well.

Revenue in Newmark Technology was 65 per cent. higher arising mainly from the sales to Russia through Simplex Fire (part of the Tyco Group) which we had predicted in last year's annual report. Sales to Russia to date have been in English language only but we have now developed a Russian translation of the core N-TEC software and further significant sales to this area are expected in the future.

Revenue in Custom Micro Products rose by 17 per cent. overall from £1,356,000 to £1,582,000 but there was again a major variation in the volumes of sales to our three main geographic destinations. Sales to the US fell slightly with turnover of £390,000 in the first half year compared to £429,000 in the corresponding period last year. Sales to Europe and the UK increased respectively by 49 per cent. from £322,000 to £480,000, and by 14 per cent. from £579,000 to £662,000. Both of these increases are due to a higher level of sales by our agents and distributors. Gross margin percentage has increased with the benefit of the higher volumes compared to the fixed element of salaries included within cost of sales.

The RS21 product is now complete and we are manufacturing for stock ready for an official launch in January 2008. The product has been widely acclaimed by UK and European customers who will be universally opting for it as their standard offering once formally launched. The US market is opting for the IT3100 terminal which is technically more advanced, and trials are currently underway between our US distributors and their customers. Other modules and expansion boards for the RS21 and the IT3100 will continue to be developed to further enhance the products and their features and functions.

As announced previously, Grosvenor and Custom Micro Products have now merged under the name of Grosvenor Technology. The combined business will continue to operate from the two existing facilities but the merger provides cost benefits from the unification of the various departments within the two organisations. These longer term cost benefits will adversely affect the second half figures as the company is incurring restructuring costs in merging the two businesses.

ASSET PROTECTION DIVISION

Revenue 6 months 31 October 2007: £3,647,000 (2006: £2,667,000) Operating profit 6 months 31 October 2007: £546,000 (2006: £183,000)

The increase in revenue has occurred in all the product areas and the service business with improved volume related efficiencies resulting in an improvement in gross margin.

Quotations and orders in the period were 21 per cent. and 37 per cent. more than the same period last year most of which have been fast turn round projects. Although the order backlog is 54 per cent. above last year, a number of finite programmes are coming to their end.

Last year's trend of Eclipse rising screen programmes re-starting for long-term customers has continued and some new customers have been introduced. Branch reconfiguration work for Eclipse sites has seen higher demand than expected.

CounterShield sales were double the figure for the first six months last year and Safetell has nearly £600,000 of outstanding quotes in this area, 45 per cent. more than October 2006, the second year of this level of growth.

The Eye-2-Eye Disability Access counter module business has seen a notable growth in quotations, orders and sales. Sales were double last year at £131,000 and the backlog of quotes at £271,000 and orders at £176,000 indicate that total annual sales will exceed £500,000 (2006: £166,000). Network Rail and seven of the Train Operating Companies are now established customers with repeat order potential for the coming years.

RollerCash sales to the Sub-Post Offices have been slow relative to last year due to continued uncertainty about government funding for the rural network. However, the Post Office franchise agreement with WH Smith has proved successful and boosted sales of TRIO machines so that overall cash handling sales were 20 per cent. more than the first six months last year. The supply contract with Post Office was extended to the end of July 2009. New opportunities for cash handling solutions are being pursued with one of the major retail banks and smaller building societies.

The new formats of FlexiGlaze screens developed last year for petrol stations and other applications are being more widely accepted with sales totalling £163,000 compared to £38,000 in the first half of last year. The petrol retailers are becoming more inclined to invest in physical staff protection to combat a rising level of attacks and further growth is expected in this product area.

The ongoing comprehensive service contracts with Abbey, HBOS, Nationwide and others continue to form the backbone of the service business. Each of these major contracts have been gradually expanded to include tills, cameras, CCTV and locks to provide added value to Safetell, and cost reductions by single sourcing for the customer.

A single programme of service upgrade work worth in excess of £380,000 will be completed by March 2008 for a major client involving access control and lock installation at several hundred sites to improve branch operational efficiencies, £218,000 of this work having been completed in the first half year.

The company achieved Approved Installer status for Mitsubishi Digital Security Systems as a requirement of the Abbey service contract. This status and the related skills and experience have enabled the acquisition of new CCTV work for selected clients in Safetell's market environment.

BALANCE SHEET AND CASH FLOW

Stock holding at the period end includes the impact of the out-sourcing of production within Custom Micro Products and the consequent need to hold finished goods in stock. Stock and trade debtors also reflect the higher level of trading activity in the period.

As part of the settlement of the loan notes related to the acquisition of Grosvenor Technology (as detailed below), the Group has started invoice discounting in certain subsidiary companies to finance the settlement. This was drawn down on 31 October in readiness for the payment of these loan notes and hence affect the cash and other creditors figures.

POST BALANCE SHEET EVENTS

The euro denominated loan notes issued by way of deferred consideration for the acquisition of Grosvenor Technology in 2002 were repaid on 1 November 2007. The loan notes were redeemed from the Group's own cash resources and banking facilities which included £1.2 million by way of a loan repayable over 3 years and invoice discounting. An exchange loss of £59,000 relating to these loan notes was accrued in the accounts for the six months to 31 October 2007.

A favourable settlement has been reached with regard to a disputed overseas corporation tax liability which should result in a release to the profit and loss account of approximately £1.1 million which will be included in the accounts for the second half of the year ended 30 April 2008. The exceptional profit will form part of the results of discontinued operations. In addition, the Group's Dutch subsidiary, Vema NV, has sold its remaining property to realise a gain on disposal of approximately £50,000, which will similarly be included in the results for the second half year.

CONCLUSION

Trading within Custom Micro Products is continuing at the same levels to date in the second half. The Christmas period is traditionally a quiet time for our companies but the expectation is that the last quarter will return to the same level of trading as the first half and therefore the result for the year is expected to be at least in line with market expectations.

CONSOLIDATED INCOME STATEMENT
For the six months ended 31 October 2007

	Notes	Unaudited Six months ended 31 October 2007 £'000	Audited Year ended 30 April 2007 £'000	Unaudited Six months ended 31 October 2006 £'000
Revenue		7,582	13,422	6,398
Cost of sales		(4,399)	(7,605)	(3,620)
Gross profit		3,183	5,817	2,778
Provision for exchange loss		(59)	(111)	—
Administrative expenses		(1,930)	(4,074)	(1,871)
Profit from operations		1,194	1,632	907
Finance income		46	30	16
Finance costs		(140)	(113)	(36)
Other finance losses		(50)	(44)	(17)
Profit before tax		1,050	1,505	870
Tax expense	2	(306)	(368)	(241)
Profit for the year from continuing operations		744	1,137	629
Post-tax loss related to discontinued operations		—	(48)	(30)
Profit for the year		744	1,089	599
Attributable to:				
– Equity holders of the parent		744	1,089	599
Earnings per share				
Continuing operations				
– Basic and diluted (pence)	4	0.17p	0.25p	0.15p
Discontinued operations				
– Basic and diluted (pence)		—	(0.01p)	(0.01p)

CONSOLIDATED BALANCE SHEET
At 31 October 2007

	Notes	Unaudited 31 October 2007 £'000	Audited 30 April 2007 £'000	Unaudited 31 October 2006 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		1,000	880	981
Intangible assets		7,308	7,136	7,059
Deferred tax assets		43	37	65
Total non-current assets		8,351	8,053	8,105
Current assets				
Inventories		1,709	1,381	1,482
Trade and other receivables		3,439	3,196	2,889
Cash and cash equivalents		2,977	1,948	1,148
Total current assets		8,125	6,525	5,519
Total assets		16,476	14,578	13,624
LIABILITIES				
Current liabilities				
Trade and other payables		3,969	3,173	2,643
Other short term borrowings		4,065	3,930	375
Corporation tax liability		1,758	1,443	1,420
Provisions		113	113	113
Total current liabilities		9,905	8,659	4,551
Non-current liabilities				
Long term borrowings		486	553	718
Provisions		148	156	158
Other creditors		—	—	3,500
Total non-current liabilities		634	709	4,376
Total liabilities		10,539	9,368	8,927
TOTAL NET ASSETS		5,937	5,210	4,697
Capital and reserves attributable to equity holders of the company				
Share capital		4,490	4,490	4,490
Share premium reserve	3	493	493	493
Merger reserve	3	801	801	801
Foreign exchange difference reserve	3	(74)	(38)	(42)
Retained earnings	3	163	(600)	(1,109)
		5,873	5,146	4,633
Minority interest		64	64	64
TOTAL EQUITY		5,937	5,210	4,697

CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2007

	Unaudited Six months ended 31 October 2007 £'000	Audited Year ended 30 April 2007 £'000	Unaudited Six months ended 31 October 2006 £'000
Cash flow from operating activities			
Net profit after tax from ordinary activities	744	1,089	599
Adjustments for:			
Depreciation	181	348	178
Investment income	(46)	(30)	(16)
Interest expense	140	113	36
Other finance losses	109	158	131
Income tax expense	306	347	226
Share option charge	19	38	19
Warrant revaluation	—	(114)	(114)
Operating profit before changes in working capital and provisions	1,453	1,949	1,059
(Increase) in trade and other receivables	(223)	(798)	(560)
(Increase) in inventories	(329)	(125)	(225)
Increase/(decrease) in trade and other payables	765	654	(71)
Cash generated from operations	1,666	1,680	203
Income taxes paid	(29)	(210)	(21)
Cash flows from operating activities	1,637	1,470	182
Cash flow from investing activities			
Payment for property, plant and equipment	(153)	(242)	(143)
Sale of property, plant and equipment	—	47	—
Research and development expenditure	(172)	(269)	(115)
Interest received	46	30	16
	(279)	(434)	(242)
Cash flow from financing activities			
Proceeds from loans	—	750	750
Repayment loan notes	—	(750)	(750)
Repayment of bank loans	(130)	(194)	(62)
Repayment of finance lease creditors	(59)	(154)	(74)
Interest paid	(140)	(113)	(36)
	(329)	(461)	(172)
Increase/(decrease) in cash and cash equivalents	1,029	575	(232)

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The unaudited interim figures for the six months ended 31 October 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 1985 applicable to companies preparing their reports under IFRS. The comparative figures for the six months ended 31 October 2006 have been restated on the same bases.

These figures do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The results for the year ended 30 April 2007 are an abridged version of the full accounts, which received an unqualified audit report and have been filed with the Registrar of Companies, as restated for IFRS.

2. TAXATION

The tax charge is affected by the effect on profits of items not deductible for tax purposes, and the use of losses brought forward.

3. SHARE PREMIUM AND RESERVES

	Share premium £'000	**Merger reserve £'000**	**Retained earnings £'000**	**Foreign exchange reserve £'000**
At 1 May 2007	493	801	(600)	(38)
Retained profit for the period	—	—	744	—
Share based payments provision	—	—	19	—
Exchange differences on foreign currency investments	—	—	—	(36)
As at 31 October 2007	493	801	163	(74)

4. EARNINGS PER SHARE

The earnings per share has been calculated based on the weighted average number of shares in issue during the period, which was 448,957,816 shares (2006: 414,311,077).

The basic earnings per share before discount charge, losses of discontinued operations and provision for exchange losses 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 earnings per share as follows:

	Pence per share	**£'000**
Profit after taxation and minority interest	0.17	744
Discount charge on deferred consideration	0.01	59
Provision for exchange loss	0.01	59
Earnings per share before interest discount and provision for exchange loss	0.19	862

4. EARNINGS PER SHARE (continued)

	Unaudited Six months ended 31 October 2007 Total Pence	Audited Year ended 30 April 2007 Total Pence	Unaudited Six month ended 31 October 2006 Total Pence
Earnings per share before losses of discontinued operations, discount charge, warrant revaluation and provision for exchange loss	0.19	0.30	0.16

5. DIVIDENDS

No interim dividend is proposed (2006: Nil).