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integrated security solutions

newmark security PLC

INTERIM REPORT
for the six months ended 31 October 2008

CHAIRMAN'S STATEMENT

The Board is pleased to announce their interim results for the six months ended 31 October 2008.

As predicted at the last annual general meeting, the trading results for the first half of the year were lower than the corresponding period last year which had benefited from very high levels of trading in certain sectors. Revenue in the period for continuing businesses of £6,695,000 was 12 per cent. below the corresponding period last year of £7,582,000. The Group operating profit for the period was £860,000 (2007:£1,194,000) a fall of 28 per cent.

These results have been achieved despite the background of the current economic problems affecting business in this country and around the world. The comparison of our results is always affected by the timing of individual one off contracts and in the first six months of last year there were a number of these which have not been repeated in the period under review.

Earnings per share were 0.13 pence per share (2007: 0.15 pence).

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

ELECTRONIC DIVISION

Turnover 6 months 31 October 2008: £3,337,000 (2007: £3,935,000)
Operating profit 6 months 31 October 2008: £760,000 (2007: £1,035,000).

Grosvenor Technology's integrated access control system sales matched the revenue figures at £2,000,000 for the first six months of last year and there are some large and prestigious orders in the pipeline.

The company has recently been awarded a new contract for our new JANUS Enterprise system for Network Rail. Network Rail runs, maintains and develops Britain's railway tracks, signaling systems, rail bridges, tunnels, level crossings, viaducts and 18 key stations. Network Rail has now put the installation of our hardware to accompany the software out to tender with various installers. This substantial programme should start in 2009 covering all the stations and office premises in the UK.

The company is also starting a trial period of the Enterprise software with a major utility company, and we believe that the customer is firmly committed to our solution. These projects are too diverse to be valued at this time but the combined value of these two projects alone is expected to be in excess of £500,000 over two years. We have also been shortlisted for some very large projects including universities/technical colleges and in the defence industry.

We are pleased to report that Grosvenor Technology has exclusively partnered with BOC Gases, a Linde Group Company operating in 70 countries, to design and manufacture a product called Sentinel. Sentinel is a BOC brand and represents a new era in monitoring medical gases in hospitals and clinics based upon innovative internet technology developed by Grosvenor. Sentinel combines the monitoring of medical gas reservoirs and internet hosting, email and SMS mass notification of system deficiencies and problems. Hospital porters, engineers and suppliers can be notified with an audit trail of events, fixes and engineer responses automatically retained for the hospital. Live trials of the system have been successfully carried out at the Harley Street Clinic in London. The system will be launched in the first quarter 2009 and offered as a rental service from Grosvenor via BOC Gases to their substantial customer base. From marketing undertaken by BOC, this is the first product of its type and it is envisaged that the system will build over a couple of years to sales of up to 150 contracts per year (value approximately £75,000 per annum) in the UK alone with a minimum term of 5years. Subject to successful implementation and roll out in the UK it will be rolled out by BOC in their other territories.

Grosvenor Technology OEM hardware (previously Custom Micro) sales were 31 per cent. down from £1,580,000 in the first six months having been affected by the slowdown in the retail trade. It is difficult to stimulate sales in this area as we are reliant upon our integrator customers to sell their software systems in order to pull through our products but there are some substantial tenders that the company has quoted for which, if secured, would make a significant improvement to the second half performance.

As expected in the last annual report, our USA distributors have started to phase in the OEM, SATEON IT3100 time clock as the successor to the outgoing IT2100 unit. The IT3100 is being built into hosted T&A systems by our USA distributor for distribution throughout North America. The weakening of sterling against the dollar will improve our gross margins in this territory compared to the last two years.

Other new products include the launch of our RS07 OEM access control board in June 2008 which is to be followed by a low-cost T&A terminal to accompany the RS21. The RS09 will be launched in the first quarter 2009 and will replace the outgoing IT900 where manufacturing efficiencies can be passed on to the customer making us more competitive in the market. This unit will be sold into the UK and mainland Europe, where again the strengthening Euro is improving our overall gross margin.

Revenue in Newmark Technology was 33 per cent. down from £354,000 for the corresponding period last year. The main sales stream is N-TEC access control to Tyco Fire and Integrated Solutions who export the product for distribution through Middle East, Europe, Africa and Russia. This is still a new developing market for the company and sales are project led. Therefore the level of sales is irregular but we hope to receive orders for some large projects in the second half of this year which will return revenues to similar levels as last year.

ASSET PROTECTION DIVISION

Turnover 6 months 31 October 2008: £3,358,000 (2007: £3,647,000)
Operating profit 6 months 31 October 2008: £355,000 (2007: £546,000)

Turnover was down by less than 5 per cent. compared to the corresponding period last year, after adjusting for £218,000 of revenue last year from a major client for a single programme of service upgrade work. Gross margin has been further affected by an adverse product mix in new sales.

CounterShield and Eye2Eye sales were 23 per cent. below the figure for the same period last year but the level of outstanding quotations has risen to nearly £800,000, demonstrating the continued strong customer interest in these products. The Metropolitan Police programme of installations of CounterShield that was referred to in the last annual report has now been activated with four stations on order and a further sixteen quoted.

RollerCash sales to the Sub-Post Offices are expected to increase now that sub-offices have the revenue certainty of the Post Office Card Account. The programme to refurbish all 393 Crown Offices which was announced in 2007 has been slow to start, with only three offices completed in the period, but is expected to accelerate throughout 2009.

A new application of RollerCash has been developed for Coventry Building Society with 20 units installed in a first phase in 2008 with a similar second phase planned for 2009.

Lloyds TSB requested the design and manufacture of a new product for the safe custody of high value receipts in open-plan branches. That contract, plus the supply of modified flip top tills, generated sales of £224,000 in the period. The future volume for these products in the second half was projected to be the same value again.

The new formats of FlexiGlaze screens developed for petrol stations and other applications continue to be well received with sales 29 per cent. above last year. The petrol retailers are vulnerable to opportunistic robberies that tend to rise in difficult economic conditions and further growth may be expected in this product area.

BALANCE SHEET AND CASH FLOW

The levels of current assets and liabilities have all been affected by the lower level of trading. Particularly in view of the current economic climate, we have made every attempt to reduce stock levels and maintain our tight level of credit control.

CONCLUSION

The forecast for the remainder of the year is difficult to predict in the current climate. However the knowledge of our customers and their requirements indicate many opportunities in the second half. Although the timing of this new business remains uncertain, we anticipate, at the present time, that the result for the full year will be similar to last year. We are delighted with the progress of the developments in the electronic division as outlined above and we believe that, the prospects for the longer term are encouraging.

CONSOLIDATED INCOME STATEMENT
For the six months ended 31 October 2008

	Notes	Unaudited Six months ended 31 October 2008 £'000	Audited Year ended 30 April 2008 £'000	Unaudited Six months ended 31 October 2007 £'000
Revenue		6,695	14,867	7,582
Cost of sales		(3,923)	(8.263)	(4,399)
Gross profit		2,772	6,604	3,183
Provision for exchange loss		–	(59)	(59)
Redundancy and restructuring costs		–	(159)	–
Administrative expenses		(1,912)	(4,469)	(1,930)
Profit from operations		860	1,917	1,194
Finance income		–	36	46
Finance costs		(74)	(212)	(140)
Other finance losses		–	–	(50)
Profit before tax		786	1,741	1,050
Tax expense	2	(194)	(407)	(306)
Profit for the year from continuing operations		592	1,334	744
Post-tax (loss)/profit related to discontinued operations		(12)	1,149	–
Profit for the year		580	2,483	744
Attributable to:				
– Equity holders of the parent		580	2,483	744
Earnings per share				
– Basic and diluted (pence)		0.13p	0.55p	0.15p
Continuing operations				
– Basic and diluted (pence)		0.13p	0.30p	0.15p

CONSOLIDATED BALANCE SHEET
At 31 October 2008

	Notes	Unaudited 31 October 2008 £'000	Audited 30 April 2008 £'000	Unaudited 31 October 2007 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		802	779	1,000
Intangible assets		7,702	7,528	7,308
Deferred tax assets		–	–	43
Total non-current assets		8,504	8,307	8,351
Current assets				
Inventories		1,696	1,902	1,709
Trade and other receivables		2,814	3,191	3,439
Cash and cash equivalents		558	87	2,977
Total current assets		5,068	5,180	8,125
Total assets		13,572	13,487	16,476
LIABILITIES				
Current liabilities				
Trade and other payables		3,096	3,454	3,969
Other short term borrowings		754	809	4,065
Corporation tax liability		670	579	1,758
Provisions		123	123	113
Total current liabilities		4,643	4,965	9,905
Non-current liabilities				
Long term borrowings		520	710	486
Provisions		132	140	148
Deferred tax		48	48	–
Total non-current liabilities		700	898	634
Total liabilities		5,343	5,863	10,539
TOTAL NET ASSETS		8,229	7,624	5,937
Capital and reserves attributable to equity holders of the company				
Share capital		4,504	4,504	4,490
Share premium reserve	3	502	502	493
Merger reserve	3	801	801	801
Foreign exchange difference reserve	3	(147)	(147)	(74)
Retained earnings	3	2,529	1,924	163
		8,189	7,584	5,873
Minority interest		40	40	64
TOTAL EQUITY		8,229	7,624	5,937

CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2008

	Notes	Unaudited Six months ended 31 October 2008 £'000	Audited Year ended 30 April 2008 £'000	Unaudited Six months ended 31 October 2007 £'000
Cash flow from operating activities				
Net profit after tax from ordinary activities		580	2,483	744
Adjustments for: Depreciation and amortisation		223	345	181
Investment income		–	(36)	(46)
Interest expense		74	115	140
Other finance losses		–	97	109
Income tax expense		194	407	306
Share option charge		25	41	19
Discontinued operations		–	(757)	–
Operating profit before changes in working capital and provisions		1,096	2,695	1,453
Decrease/(increase) in trade and other receivables		377	18	(223)
Decrease/(increase) in inventories		206	(521)	(329)
(Decrease)/Increase in trade and other payables		(360)	114	765
Cash generated from operations		1,319	2,306	1,666
Income taxes paid		(109)	(491)	(29)
Cash flows from operating activities		1,210	1,815	1,637
Cash flow from investing activities				
Payment for property, plant and equipment		(106)	(270)	(153)
Sale of property, plant and equipment		–	235	–
Research and development expenditure		(197)	(368)	(172)
Intangible asset expenditure		(17)	(24)	–
Interest received		–	36	46
		(320)	(391)	(279)
Cash flow from financing activities				
Proceeds from loans		–	1,200	–
Repayment of bank loans		(275)	(438)	(130)
Repayment of finance lease creditors		(70)	(150)	(59)
Repayment loan notes for Grosvenor deferred consideration		–	(3,561)	–
Repayment mortgage loan		–	(221)	–
Interest paid		(74)	(115)	(140)
		(419)	(3,285)	(329)
Increase/(decrease) in cash and cash equivalents		471	(1,861)	1,029

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The unaudited interim figures for the six months ended 31 October 2008 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.

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 2008 are an abridged version of the full accounts, which received an unqualified audit report and have been filed with the Registrar of Companies.

2. TAXATION

The tax charge is affected by the effect 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 2008	502	801	1,924	(147)
Retained profit for the period	–	–	580	–
Share based payments provision	–	–	25	–
As at 31 October 2008	502	801	2,529	(147)

4. EARNINGS PER SHARE

The earnings per share has been calculated based on the weighted average number of shares in issue during the period, which was 450,432,316 shares (2007: 448,957,816).

5. DIVIDENDS

No interim dividend is proposed (2007: Nil).

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