integrated security solutions

newmark security PLC

INTERIM REPORT

for the six months ended 31 October 2012

CHAIRMAN'S STATEMENT

Overview

The Board is pleased to announce the Group's interim results for the six months ended 31 October 2012.

The statement of comprehensive income on page 3 shows an increase in revenue of 32 per cent. from £6,218,000 to £8,223,000.

Earnings per share were 0.14 per share (2011: loss per share 0.02 pence).

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

Electronic Division

Turnover £3,263,000 (2011: £3,009,000)

Revenue from the UK based OEM clocks division was ahead of plan including several large projects, one for a major retailer and another for a supermarket chain but due to their size, were at lower margins. We continue to attract new customers throughout Europe and our efforts to secure new business in this area is starting to pay off with our first two project orders from Poland. A number of new partners in Romania are also showing good interest.

A major requirement for this market is a low-end clock with cut-down functionality compared to our current mid-range clock the IT31. This product is currently in development and due for release Q3 2013. The IT11 clock will be a high volume unit and will underpin our commitment to supplying the entire range of clocks for our partners.

Revenue in the US operation for OEM clocks was 140 per cent. higher than the corresponding period last year. This is still below expectations due to the time taken integrating with new customers. However we have been sufficiently encouraged to employ a technical project manager in Florida to assist new customers with earlier and more in-depth training and support, and provide a permanent in-country technical resource.

SATEON continues to be positively received by installers and end users alike as we push to promote it at home and abroad. The market is gaining awareness and confidence in the SATEON brand and we are building a respectable sales pipeline.

SATEON 2.5 is undergoing final testing for release during the first quarter of 2013 and is a significant milestone in our development. SATEON 2.5 includes a much improved maps module with mapping capabilities for alarm management, CCTV control, and wide-ranging site navigation all within the standard SATEON browser. In addition, for the first time ever, we also have Underwriters Laboratories certification approval for our access control system to enable sales to be made to the US.

SATEON 2.5, also includes an improved integration to a prominent international fire detection panel, where alongside the other new mid to high end features, this will open up completely new markets.

In the UK, we are pleased to report several project gains including a 100 door system for a UK council, an 80 door system for a defense research and development establishment, and a 30 door system for a worldwide brand electronics manufacturer. Internationally, SATEON orders have been received for five regional airports in Libya, a schools project in UAE and smaller systems in both Greece and Croatia.

In addition to these project wins, we have successfully upgraded a number of legacy JANUS systems to SATEON, some of which will also serve as SATEON reference sites with the added benefit of having long-term experience of other Grosvenor Technology products.

As previously reported there is a significant opportunity to offer SATEON as an upgrade to the many hundreds of legacy JANUS and Tyco Siteguard access systems in the UK. SATEON 2.5 will make this an easier choice for the end user particularly if they have JANUS graphics installed where the new SATEON maps module far outweighs the capabilities of a JANUS system. Not only will such upgrades quickly increase the footprint of SATEON in the UK, but should also increase recurring revenue for software support.

SATEON remains a long term project for Grosvenor Technology and future product development is underpinned by an exciting and innovative roadmap. Much of the roadmap is based around integration with third-party databases and other technology products to meet the demands of the Enterprise customer particularly in government, transportation and the education sectors. With the completion of SATEON 2.5 this brand new development phase starts immediately and we intend to continue releasing new versions at approximately 6-month intervals.

Asset Protection Division

Turnover £4,960,000 (2011: £3,209,000)

Safetell's sales were 55 per cent. higher than the corresponding period last year due to large orders received from the Post Office and the supply of Eclipse Rising Screens to two financial institutions who are undertaking refurbishment programmes. The Service Division continued to benefit from long-term service contracts during this period. The gross profit was also substantially higher due to the increased level of sales, and we are also seeing the benefit of the new product development completed last year as this increases the margin of products previously sourced from third parties.

Product Division Sales are 157 per cent. better than the same period last year principally due to the large order received for time delay cash handling equipment from the Post Office in April. All the cash handling equipment was procured, but the anticipated rollout of equipment to the Post Office branches was far less than originally planned.

Orders for the Eclipse Rising Screens increased by 67 per cent. including those from two long standing customers in retail finance that started branch refurbishment programmes. We also received orders for Eclipse Rising Screens from Building Societies opening new branches, a first order for an Eclipse Rising Screen from a financial institution in Ireland that is improving branch security and a first order for a railway station cash desk. The successful installation of the latter in October should result in additional future orders.

Eye2Eye sales increased by 141 per cent. as orders carried over from the previous year were completed. CounterShield sales continue to be disappointing due to public sector budget cuts. The sales of cash management equipment to a large bank have decreased after the client reduced its budget but we have managed to increase the margins after redesigning the products and making efficiency improvements.

The Service Division sales were 11 per cent. lower than the same period last year but operating profits were only 4 per cent. down due to much improved margins which have been achieved by strict labour control and pricing increases where possible.

Beyond that the significant supply contract with the Post Office for cash handling equipment should provide the Service Division with much increased revenues over the next few years once installation has taken place and warranties expired. We continue to seek new banking customers to spread our customer base further.

The development of the new design Cash Transit Case is progressing satisfactorily and the results of the internal destruction tests have been very promising. These tests have assisted the team in making additional improvements to both mechanical and electronic components. The final design will be tested with Loomis before the end of our financial year, and the case will be introduced to G4S and the Post Office early in 2013 with the aim of developing a version to meet their specific needs.

Balance sheet and cash flow

Cash flow from operating activities increased in the period from £457,000 to £675,000 despite an adverse movement in trade debtors due to the quantum of sales and the timing thereof, and the settlement of some one off outstanding creditors from the previous year end.

There was a net outflow of cash in the period of £266,000 which included the repayment of the loan notes taken out in the previous financial year.

Inventories were maintained at the same level as the last year end, whilst trade debtors reflected the timing of sales in the period. Creditors reduced overall despite the higher volume of trading due to the payment of certain creditors from last year end as referred to above.

OUTLOOK

The Board is delighted with the recovery in trading profits in the period and anticipates that the results for the full year will be materially above market expectations. The Board expects that it will recommend the payment of a dividend for the full year.

M DWEK

Chairman

29 January 2013

STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 October 2012

	Notes	Unaudited Six months ended 31 October 2012 £'000	Audited Year ended 30 April 2012 £'000	Unaudited Six months ended 31 October 2011 £'000
Revenue		8,223	13,094	6,218
Cost of sales		(4,756)	(7,826)	(3,759)
Gross profit		3,467	5,268	2,459
Administrative expenses pre legal costs		(2,668)	(4,903)	(2,437)
Legal costs		–	(176)	(40)
Administrative expenses – total		(2,668)	(5,079)	(2,477)
Profit/(loss) from operations		799	189	(18)
Finance costs		(65)	(127)	(58)
Profit/(loss) before tax		734	62	(76)
Tax (expense)/credit	2	(96)	115	–
Profit/(loss) and total comprehensive income for the year		638	177	(76)
Attributable to:				
– Equity holders of the parent		638	177	(76)
Earnings/(loss) per share				
– Basic (pence)	4	0.14	0.04	(0.02)
– Diluted (pence)		0.14	0.04	(0.02)

All activities relate to continuing operations.

There are no other components of comprehensive income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 October 2012

	Notes	Unaudited 31 October 2012 £'000	Audited 30 April 2012 £'000	Unaudited 31 October 2011 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		677	709	683
Intangible assets		10,970	10,699	10,531
Total non-current assets		11,647	11,408	11,214
Current assets				
Inventories		1,528	1,520	1,703
Trade and other receivables		2,853	2,373	2,786
Cash and cash equivalents		2,704	2,100	–
Total current assets		7,085	5,993	4,489
Total assets		18,732	17,401	15,703
LIABILITIES				
Current liabilities				
Trade and other payables		3,465	3,535	3,057
Other short term borrowings		3,011	2,147	1,095
Corporation tax liability		71	4	–
Provisions		81	81	109
Total current liabilities		6,628	5,767	4,261
Non-current liabilities				
Long term borrowings		231	424	355
Provisions		84	84	84
Deferred tax		349	324	454
Total non-current liabilities		664	832	893
Total liabilities		7,292	6,599	5,154
TOTAL NET ASSETS		11,440	10,802	10,549
Capital and reserves attributable to equity holders of the company				
Share capital		4,504	4,504	4,504
Share premium reserve	3	502	502	502
Merger reserve	3	801	801	801
Foreign exchange difference reserve	3	(175)	(175)	(175)
Retained earnings	3	5,768	5,130	4,877
		11,400	10,762	10,509
Minority interest		40	40	40
TOTAL EQUITY		11,440	10,802	10,549

CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2012

	Notes	Unaudited Six months ended 31 October 2012 £'000	Audited Year ended 30 April 2012 £'000	Unaudited Six months ended 31 October 2011 £'000
Cash flow from operating activities				
Net profit/(loss) after tax from ordinary activities		638	177	(76)
Adjustments for: Depreciation and amortisation		438	913	397
Interest expense		65	127	58
Income tax expense		96	(115)	–
Operating profit before changes in working capital and provisions		1,237	1,102	379
(Increase)/decrease in trade and other receivables		(480)	403	3
(Increase) in inventories		(8)	(51)	(234)
(Decrease)/increase in trade and other payables		(64)	568	210
Cash generated from operations		685	2,022	358
Income taxes (paid)/received		(10)	92	99
Cash flows from operating activities		675	2,114	457
Cash flow from investing activities				
Payment for property, plant and equipment		(56)	(136)	(76)
Sale of property, plant and equipment		–	1	–
Research and development expenditure		(556)	(1,131)	(605)
		(612)	(1,266)	(681)
Cash flow from financing activities				
Proceeds loan notes		–	105	–
Repayment loan notes		(105)	–	–
Repayment of bank loans		(74)	(96)	(24)
Repayment of finance lease creditors		(85)	(134)	(69)
Dividend paid		–	(125)	(125)
Interest paid		(65)	(127)	(58)
		(329)	(377)	(276)
(Decrease)/increase in cash and cash equivalents		(266)	471	(500)

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

These condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2012 Annual Report. The financial information for the half years ended 31 October 2012 and 31 October 2011 does not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006 and has neither been audited or reviewed pursuant to guidance issued by the Auditing Practices Board.

The annual financial statements of Newmark Security Plc are prepared in accordance with IFRSs as adopted by the European Union. The comparative financial information for the year ended 30 April 2012 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2012 have been filed with the Registrar of Companies. The Independent Auditors' Report on that Annual Report and Financial Statement for 2012 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half-yearly condensed consolidated financial statements.

2. TAXATION

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

3. STATEMENT OF CHANGES IN EQUITY

	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Foreign exchange reserve £'000
At 1 May 2012	502	801	5,130	(175)
Total comprehensive income for the period	–	–	638	–
As at 31 October 2012	502	801	5,768	(175)

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 (2011: 450,432,316).

5. DIVIDENDS

No interim dividend is proposed (2011: Nil).