integrated security solutions

newmark securityPLC

INTERIM REPORT

for the six months ended 31 October 2013

CHAIRMAN'S STATEMENT

The Board is pleased to announce the Group's interim results for the six months ended 31 October 2013.

The consolidated income statements on page 3 shows an increase in revenue of 8 per cent. from £8,223,000 to £8,878,000. The revenue for the period was above market expectations, due to orders being received, particularly from the Post Office, earlier than anticipated. Profit from operations before exceptional items was £893,000 (2012: £799,000). Exceptional items comprised impairment of development costs as explained below of £826,000.

The company was pleased to announce on 1 November 2013 the acquisition of Gunnebo Security Installations ("GSI"), a division of Gunnebo UK Limited for a cash consideration of £118,000 mainly for the purchase of inventories and tools. The Board welcomes the employees of GSI to the Group and look forward to their contributing to the Group's success in the future.

As recently announced, the trials of our cash in transit box were successful and our client was impressed with its reliability, functionality and the ergonomic design of the box. However, due to their budget cuts, it is unlikely that any substantial order will be received from them in the near future. Furthermore, with developments from our competitors and the earlier than anticipated introduction of polymer notes in the UK requiring further development work, the Board has taken the decision to write off the development costs capitalised to date in relation to this now. The Group will however continue to market the box through existing and new customers.

Loss per share was pence 0.03 pence (2012: earnings per share 0.14 pence). However, the earnings per share before impairment review provision were 0.15 pence (2012: 0.14 pence) as calculated in note 4.

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

Electronic Division

Revenue £3,860,000 (2012: £3,263,000)

Revenue for workforce management from our operation based in the UK was 3 per cent. above last year. Revenue last year benefitted from several major projects, one for a major retailer and another for a supermarket chain. As noted in the last annual report, we had negotiated a second larger contract with the same supermarket which had been awarded with delivery planned in the current year. Unfortunately the customer delayed the project and it is now anticipated that only part of the project will be shipped in the current financial year, with the balance next year. However trading from other sources has been ahead of expectations.

Development of the lower end IT11 terminal was completed in 2013 as planned and is currently being reviewed by our workforce management customer base. This is of particular interest to our new partners in Eastern Europe and we anticipate increasing levels of orders from this development in the years ahead. The IT11 is extending the scope of the workforce management product range into more price sensitive areas as well as finding applications in other markets

Sales from our operation in the USA were 122 per cent. higher than last year and our expectations are now starting to be realised, although later than originally envisaged.

Access control sales were 22 per cent. higher than last year during what is a transition period as the company introduces SATEON to customers and new geographical markets. Margins were however lower due to changes in product mix and increased amortisation as more of the products created from the developmet costs are now available for use.

SATEON version 2.6 was released as planned during 2013 and provides a more comprehensive 'Enterprise level' feature set. These new features enable Grosvenor Technology to compete for larger more complex projects that require advanced features and lead the way for other integration projects required for tenders as and when specifications demand. These include full data integration with third party systems, interfaces to various CCTV systems and links to system control centres.

Version 2.6.1 was also released in 2013 and includes a comprehensive multi-tenancy feature with a sophisticated security model. This was required for the Gherkin Building project, for which SATEON had been selected, and has been very well received by the client. This was a very prestigious project to gain and version 2.6.1 has now been sold to other customers.

SATEON version 2.7 is now being developed with the headline features being a more advanced reporting engine and in depth interfaces with Kone and Otis elevator systems and additional CCTV interfaces.

Asset Protection Division

Revenue £5,018,000 (2012: £4,960,000)

Product Division sales overall were 2 per cent. higher than the same period last year as we continued to receive orders from the Post Office for time delayed cash handling equipment and installations as the programme enters its second year. As always however, revenues generated from our products endured mixed fortunes. Sales of Eclipse Rising Screens were 9 per cent. lower than the corresponding period last year due to delays in receiving orders and are expected to improve in the second half. Eye2Eye sales were 48 per cent. lower after the requirement for security equipment at several railway stations was changed. CounterShield sales were substantially higher than recent years where sales had been adversely affected by public sector budget cuts. Sales of fixed glazing products were 19 per cent. less than last year, however work is in progress for a large order for a foreign embassy in London which should be completed in the second half so that these sales should be ahead of expectations for the year.

Service sales continue to be in line with expectations and performance, is broadly comparable with last year. Whilst some of our banking clients have reduced branch numbers we have seen a compensating increase in revenue per branch.

Our efforts to reduce costs, the re-engineering of existing products and focusing on new product development has resulted in increased margins when compared to the corresponding period last year.

The terms of the two large service contracts mentioned in the last annual report are being negotiated and are expected to be renewed. Similarly the support agreement for the equipment installed under the Post Office network transformation programme has been agreed in principle but is still to be finalised. We anticipate all three contracts will be finalised by the financial year end.

The Service Division has a significant share of the rising screen maintenance business. Rising screens have proved extremely reliable to thwart robberies and traditional customers still consider them as their first line security system. As such, the installed base of screens will provide opportunities for Safetell to upgrade these systems to the latest specification and we anticipate this type of work to increase over the coming years.

Balance sheet and cash flow

Cash flow from operating activities increased in the period from £675,000 to £1,869,000 with the benefit of advance payments from customers on certain projects. Overall there was a net cash inflow in the period of £894,000 (2012: outflow £266,000).

Receivables reflect the timing of sales before the period end whilst payables are affected by both the timing of sales and advance payments from customers. Intangible assets were affected by the write off of the cash in transit development costs including the amount capitalised on acquisition of the business.

Board changes

Derek Blethyn resigned as a director of the Company in the period and as managing director of Grosvenor Technology after 24 years. The Board would like to thank Derek for his loyal service and valuable contribution during that period and wish him well for his future endeavours.

OUTLOOK

The Board is delighted to announce recently that, in view of the results for the first half of the year and a healthy order book, full year revenues are expected to be substantially ahead of expectations.

M DWEK

Chairman

29 January 2014

CONSOLIDATED INCOME STATEMENTS
For the six months ended 31 October 2013

	Notes	Unaudited Six months ended 31 October 2013 £'000	Audited Year ended 30 April 2013 £'000	Unaudited Six months ended 31 October 2012 £'000
Revenue		8,878	18,316	8,223
Cost of sales		(5,748)	(10,921)	(4,756)
Gross profit		3,130	7,395	3,467
Administrative expenses – including exceptional items		(3,063)	(7,193)	(2,668)
Profit from operations before exceptional items		893	2,476	799
Exceptional goodwill impairment		–	(1,791)	–
Exceptional development costs impairment		(826)	(483)	–
Profit from operations		67	202	799
Finance costs		(48)	(131)	(65)
Profit before tax		19	71	734
Tax (expense)/credit	2	(141)	69	(96)
(Loss)/profit for the period/year		(122)	140	638
Attributable to:				
– Equity holders of the parent		(122)	140	638
(Loss)/earnings per share				
– Basic (pence)	4	(0.03p)	0.03p	0.14p
– Diluted (pence)		(0.03p)	0.03p	0.14p

All activities relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 October 2013

	Unaudited Six months ended 31 October 2013 £'000	Audited Year ended 30 April 2013 £'000	Unaudited Six months ended 31 October 2013 £'000
(Loss)/profit for the period/year	(122)	140	638
Foreign exchange gains on retranslation of overseas operation	–	7	–
Total comprehensive income for the period/year	(122)	147	638
Attributed to:			
– Equity holders of the parent	(122)	147	638

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 October 2013

	Notes	Unaudited 31 October 2013 £'000	Audited 30 April 2013 £'000	Unaudited 31 October 2012 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		785	809	677
Intangible assets		8,380	9,092	10,970
Total non-current assets		9,165	9,901	11,647
Current assets				
Inventories		1,402	1,344	1,528
Trade and other receivables		3,139	2,588	2,853
Cash and cash equivalents		2,022	1,128	2,704
Total current assets		6,563	5,060	7,085
Total assets		15,728	14,961	18,732
LIABILITIES				
Current liabilities				
Trade and other payables		4,174	3,071	3,465
Other short term borrowings		263	294	3,011
Corporation tax liability		50	50	71
Provisions		129	129	81
Total current liabilities		4,616	3,544	6,628
Non-current liabilities				
Long term borrowings		112	184	231
Provisions		84	84	84
Deferred tax		239	200	349
Total non-current liabilities		435	468	664
Total liabilities		5,051	4,012	7,292
TOTAL NET ASSETS		10,677	10,949	11,440
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	(168)	(168)	(175)
Retained earnings	3	4,998	5,270	5,768
		10,637	10,909	11,400
Minority interest		40	40	40
TOTAL EQUITY		10,677	10,949	11,440

CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2013

	Notes	Unaudited Six months ended 31 October 2013 £'000	Audited Year ended 30 April 2013 £'000	Unaudited Six months ended 31 October 2012 £'000
Cash flow from operating activities				
Net (loss)/profit after tax from ordinary activities		(122)	140	638
Adjustments for: Depreciation and amortisation		1,313	3,185	438
Interest expense		48	131	65
Income tax expense/(credit)		141	(69)	96
Operating profit before changes in working capital and provisions		1,380	3,387	1,237
(Increase) in trade and other receivables		(551)	(215)	(480)
(Increase)/decrease in inventories		(58)	176	(8)
Increase/(decrease) in trade and other payables		1,103	(379)	(64)
Cash generated from operations		1,874	2,969	685
Income taxes paid		(5)	(9)	(10)
Cash flows from operating activities		1,869	2,960	675
Cash flow from investing activities				
Payment for property, plant and equipment		(82)	(249)	(56)
Sale of property, plant and equipment		–	21	–
Research and development expenditure		(541)	(1,239)	(556)
Purchase of shares in subsidiary		–	(50)	–
		(623)	(1,517)	(612)
Cash flow from financing activities				
Repayment of loan notes		–	(105)	(105)
Repayment of bank loans		(74)	(149)	(74)
Repayment of finance lease creditors		(80)	(152)	(85)
Dividend paid		(150)	–	–
Interest paid		(48)	(131)	(65)
		(352)	(537)	(329)
Increase/(decrease) in cash and cash equivalents		894	906	(266)

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The financial information for the six months ended 31 October 2013 and 31 October 2012 does not constitute the Group's statutory financial statements for those periods within the meaning of Section 434(3) of the Companies Act 2006 and has neither been audited or reviewed pursuant to guidance issued by the Auditing Practices Board. The annual financial statements of Newmark Security Plc are prepared in accordance with IFRSs as adopted by the European Union. The principal accounting policies used in preparing the interim results are those that the Group expects to apply in its financial statements for the year ended 30 April 2014 and are unchanged from those disclosed in the Group's Annual Report for the year ended 30 April 2013

The comparative financial information for the year ended 30 April 2013 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2013 have been filed with the Registrar of Companies. The Independent Auditors' Report on that Annual Report and Financial Statement for 2013 was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2)-498(3) of the Companies Act 2006.

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

2. TAXATION

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

3. STATEMENT OF CHANGES IN EQUITY

	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Foreign exchange reserve £'000
At 1 May 2013	502	801	5,270	(168)
Dividends paid	–	–	(150)	–
Total comprehensive income for the period	–	–	(122)	–
As at 31 October 2013	502	801	4,998	(168)

4. (LOSS)/EARNINGS PER SHARE

The (loss)/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 (2012: 450,432,316).

The basic earnings per share before impairment provisions have 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:

	Unaudited Six months ended 31 October 2013 pence	Audited Year ended 30 April 2013 pence	Unaudited Six months ended 31 October 2012 pence
Basic (loss)/earnings per share (pence) – basic	(0.03)	0.03	0.14
Impairment provisions of development costs and goodwill	0.18	0.51	–
Earnings per share before impairment provisions	0.15	0.54	0.14

	Unaudited Six months ended 31 October 2013 £'000	Audited Year ended 30 April 2013 £'000	Unaudited Six months ended 31 October 2012 £'000
Reconciliation of (loss)/earnings			
(Loss)/profit used for calculation of basic (loss)/earnings per share	(122)	140	638
Impairment provisions of development costs and goodwill	826	2,274	–
Earnings before impairment provisions	704	2,414	638

5. DIVIDENDS

No interim dividend is proposed (2012: Nil).