

NEWMARK SECURITY PLC

Final results for the year ended 30 April 2008

HIGHLIGHTS

- Revenue from continuing operations up by 11% from £13.4m to £14.9m, with 23% growth in asset protection division. Revenue in the electronic division was only slightly ahead of last year but 2007 had included an exceptional order of £0.5m from BAE.
- Gross margin increase from 43.3% to 44.4% overall.
- Profit from operations for continuing businesses 17% higher, £1.917m compared to £1.632m.
- EPS for continuing businesses increased by 20% (basic and diluted) to 0.30p (2007: 0.25p).
- EPS before interest discount, results of discontinued operations, provision for exchange losses and warrant revaluation increased by 10% to 0.33p (2007:0.30p).
- Total net assets increased by 46%, from £5.210m to £7.624m.
- Cash flow from operating activities increased by 23% from £1.47m to £1.815m.
- Payment of deferred consideration for the 2002 acquisition of Grosvenor Technology made in the year.
- Initiatives already taken relating to new products and trial programmes, together with the probability of two potentially significant commercial agreements mean that the Board believe that there should be further growth this year.
- The Board also believes that should this further growth occur, it should be possible to eliminate the remaining deficit on parent company reserves and commence a progressive dividend policy.

CHAIRMAN'S STATEMENT

Overview

The year has been a period of further growth across all divisions. The merger of Grosvenor Technology Limited ("Grosvenor Technology") and Custom Micro Products Limited ("CMP") was completed on 31 January 2008 with the transfer of the business, assets and liabilities from CMP to Grosvenor Technology. Unfortunately this resulted in a number of redundancies including staff who had been with the Group for a number of years. The cost of the restructuring of £159,000 has been charged to the income statement in the year. Due to the timing of the completion of the merger the cost savings in the current year were not significant but are expected to result in annualised savings of £350,000 in the future.

In addition, the euro denominated loan notes issued by way of deferred consideration for the acquisition of Grosvenor Technology in 2002 were repaid in the year from the Group's own cash resources and new banking facilities including £1.2 million by way of loan repayable over 3 years, and invoice discounting. An exchange loss of £59,000 relating to these loan notes was charged in the accounts.

A favourable settlement was reached with regard to an overseas corporation tax liability which resulted in a substantial credit in the results of discontinued operations in the year. The overseas subsidiary also sold its remaining property and the resulting gain on disposal is also included in discontinued operations.

Turnover for the year from continuing businesses was £14.9 million compared to £13.4 million in the previous year, an increase of 11 per cent. Gross margin for the year from continuing operations was £6.6 million (44.4 per cent. of sales) compared to £5.8 million (43.3 per cent.) for the previous year.

Turnover in the electronic division increased only slightly in the year but the previous year's figures included an exceptional order from BAe for £0.5 million turnover which was highlighted in last year's accounts. Turnover in the asset protection division increased by 23 per cent. in the year.

Earnings per share are shown in the income statement as 0.55p (2007: 0.25p). However, the earnings per share before interest discount adjustments, results of discontinued operations, provision for exchange loss and warrant revaluation are 0.33p (2007: 0.30p) as calculated in note 9 to the accounts.

As a consequence of the increase in turnover, turnover per employee rose to £120,870 from £117,737 in 2007.

Both CMP and Safetell are the leaders in their particular markets whilst Grosvenor Technology is a major force at the upper price end of the access control market. There were no environmental issues having a major impact on the Group in the year.

The Group continues to invest in research and development which will benefit the results in the future.

The Disability Discrimination Act will, we believe, have an increasing impact on the needs of some of our customers when the requirements are realised more fully, and this would benefit Safetell in particular.

The Group's net assets have increased in the year from £5.2 million to £7.6 million.

Key performance indicators

The directors consider the key performance indicators of the Group to be turnover, operating profit and cash flow.

A detailed review of their activities, results and future developments is set out in the divisional results below.

Financial results

The profit from operations for the year was £1,917,000 (2007: £1,632,000).

Turnover for the year was £14.9 million (2007: £13.4 million). The main commercial factors affecting the results of the divisions are set out below.

Electronic Division

Turnover £7,494,000 (2007:£7,441,000)

Operating profit £1,644,000 (2007: £1,685,000)

Profit before tax £1,648,000 (2007: £1,706,000)

The electronic division comprises Grosvenor Technology and its wholly owned subsidiary Newmark Technology Limited. Between the two companies we specialise in access control, time & attendance and asset monitoring with varying routes to market.

Newmark Technology is a re-seller of third party security systems and we particularly focus on N-TEC and C.Cure access control systems. Newmark Technology also designs and manufactures Par-Sec long-range RFID asset monitoring tags and readers. Sales of N-TEC access control are made to Tyco Fire and Integrated Solutions who export the product to their operation in the UAE for distribution through Middle East, Europe, Africa and Russia ("MEAR"). Sales of N-Tec and C.Cure are primarily project led, and there were two significant projects in Moscow in the year. Interest in N-TEC remains strong in MEAR and we are promoting further growth in the region by supporting distributors at local trade shows, seminars and targeted training sessions, Par-Sec is a niche product for protecting art galleries, museums and high value artifacts in public locations.

Grosvenor Technology is a technology house where we design and distribute electronic security systems and time and attendance terminals via VAR's and OEM's. JANUS access control is the flagship product and consists of software and hardware and is sold as an all encompassing medium to high-end system.

Interest in 'Enterprise wide' access control systems continues to grow for which we are about to release a new version of the JANUS Enterprise solution. This latest version will incorporate the web browser Admin Manager allowing 'virtual access systems' controllable by log-on, which can regulate a single system or an array of separate JANUS systems across a corporate-wide environment. The product is unique in the world and beta installations have shown it to be extremely secure and resilient with many distinctive features such as virtual access systems within a corporate environment, highly secure web access, and control and management of many thousands of staff via a single web browser interface. The systems internal and internet security have been developed with input from some of our most demanding and exacting end-user clients and will be second to none in this arena. As always, the new product will be translated into the Tyco/ADT licensed version of Siteguard and the N-TEC access product for Tyco Fire and Integrated Systems.

The merger of CMP and Grosvenor Technology is now complete and the combined companies are trading as Grosvenor Technology with offices in Bishop's Stortford, Hertfordshire and Poole in Dorset. Rationalisation has meant the warehouse and accounting functions in Bishop's Stortford have closed down and have been re-located to Poole necessitating some redundancies. This and other changes made in the company's organisation will produce an annual cost saving of £350,000.

Time & Attendance hardware (clocks and terminals) as previously developed by CMP are now developed by Grosvenor Technology and are distributed via OEM software developers who integrate the terminals into their own T&A systems for re-sale into distribution and end-user markets. The recently launched CUSTOM RS21 modular terminal is now the mainstream product and has replaced the outgoing 2100 clock in the UK and mainland Europe. The American market has been slower to migrate and is still using the older 2100 but we expect the USA to move from the 2100 product to the even newer Linux brand SATEON IT3100 clock during 2008.

Asset Protection Division

Turnover £7,373,000 (2007: £5,981,000)

Operating profit £849,000 (2007: £520,000)

Profit before tax £843,000 (2007: £512,000)

Safetell's financial year was characterised by a 24 per cent. increase in traditional Eclipse work, a doubling of Eye2Eye work and a 42 per cent. increase in service work. Total sales increased by 23.5 per cent. with compound sales growth of 12.0 per cent. per annum over the last 5 years.

Last year's trend of long-term customers in retail finance and petrol retailing requiring Eclipse rising screen programmes accelerated, and customers who had completed their branch programmes some years ago renewed purchases for a fresh round of branch refurbishments. Upgrades, refurbishments and reconfigurations of previous installations accounted for 40 per cent. of Eclipse revenue.

The number of CounterShield installations and values were broadly similar to last year. The market for this product is very diverse and there are few opportunities for repeat order programmes for any one client, except for the police forces. A major opportunity with the Metropolitan Police is scheduled for the current year.

Eye2Eye sales were very encouraging at twice the previous years figure, although less than plan. Six of the 23 train operating companies are now committed customers for the product, and the product is specified in the design manual used by Network Rail. The consultants for the London Olympics 2012 infrastructure are aware of the product and are considering its application for customer information booths and transport links. To meet customer requirements during the year, the product range has been extended with options for protection, height, width, infill panels and staff/public facilities all of which increase its suitability for a wider market.

The Post Office/W H Smith trial last year was followed this year as expected with the full installation programme worth £753,000. Other sales to Post Office of RollerCash and BiDi Safe were less than last year as a result of the political turmoil surrounding the closure of rural post offices. A new application of RollerCash as a "Day Safe" was trialled successfully by a building society customer and an order for 20 units was received in April.

The petrol retailers remain the predominant market sector for fixed glass security screens and the company's various FlexiGlaze products are the preferred solution for Shell, BP and Sainsburys but only where the site risk assessment warrants a screen.

The first Eclipse and RollerCash installations in South Africa were a success. Customer interest is still strong and has been broadened to all the retail finance providers.

In Australia, the licensee for CounterShield has installed 6 units for Caltex with a further 4 shipped in May 2008. The units are shipped in kit form with the screen material produced locally for final assembly.

Service and maintenance revenue benefited from a one-off contract valued at £481,000 to install a special interlock mechanism to allow cash-in-transit personnel to access the back office area. New CCTV installation and maintenance work added £75,000 of revenue. Regular contract work increased by 18 per cent. mainly due to additional work on locks, cashier equipment and cameras for long-standing Eclipse customers. This work is added at marginal cost, without travel overheads, because the work is rarely urgent and can be added when technicians visit branches for the regular maintenance work.

The current year started with a healthy backlog of orders and is planned to increase sales by 8 per cent. with major increases in Eye2Eye for the railways and RollerCash TRIO for the Post Office Crown office programme that has been announced but is not due to start until September 2008. Service revenue growth should replace last year's one-off contract.

Balance sheet and cash flow

The deferred consideration for Grosvenor Technology was paid in cash in the year as outlined above, and this is the reason for the reduction in cash balances, the new bank loan and the inclusion of invoice discounting balances within creditors.

Despite the increase in turnover in the year, we have been able to keep debtors at the same level as last year through our credit control procedures. However, stock has increased significantly across the Group for a variety of reasons. Within the asset protection division, the holding of finished goods which had been imported for shipment in the following months was approximately £100,000 higher than the previous year due to the timing of customer orders. The service and maintenance division has also been expanding its range of security products covered and this has necessitated an increased stock holding of spares at our Dartford warehouse, and in the service vans used by our technicians.

Stocks have also increased in the electronic division with the cessation of our in-house manufacturing of the time and attendance terminals. This has been replaced by manufacturing by a sub-contractor in Hungary which means that we hold more stock for future consumption but there are significant manufacturing cost savings which benefit operating profit. The holding of finished goods obviously has a higher value than the previous holding of components and sub-assemblies.

Margins on access control products have also benefited from reduced manufacturing costs arising from increases in batch sizes. For both Access Control and Time and Attendance products, the improved availability of finished goods for customers has strengthened our market position with the ability to satisfy customer orders more quickly.

Employees

The Board would again like to express its gratitude to all employees for their contribution to the success of the business in which they work.

Summary

The Board is delighted by the continued improvement in the trading performance of the Group. The economic position in the UK is clearly a concern with the possibility of a recession or at best only limited growth for the year. This will inevitably lead to some projects being deferred. However, initiatives already taken relating to new products and trial programmes together with the probability of two potentially significant commercial agreements lead me to believe that there should be further growth this year. Should this occur, I believe that it should be possible to eliminate the remaining deficit on parent company reserves and commence a progressive dividend policy.

M DWEK
Chairman

16 July 2008

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CONSOLIDATED INCOME STATEMENT
for the year ended 30 April 2008

	Note	2008 £'000	2007 £'000												
Revenue		14,867	13,422												
Cost of sales		(8,263)	(7,605)												
Gross profit		<u>6,604</u>	<u>5,817</u>												
<table> <tbody> <tr> <td>Administrative expenses pre provision for exchange loss and redundancy and restructuring costs</td> <td></td> <td style="text-align: right;">(4,469)</td> <td style="text-align: right;">(4,074)</td> </tr> <tr> <td>Redundancy and restructuring costs</td> <td></td> <td style="text-align: right;">(159)</td> <td style="text-align: right;">–</td> </tr> <tr> <td>Provision for exchange loss</td> <td></td> <td style="text-align: right;">(59)</td> <td style="text-align: right;">(111)</td> </tr> </tbody> </table>				Administrative expenses pre provision for exchange loss and redundancy and restructuring costs		(4,469)	(4,074)	Redundancy and restructuring costs		(159)	–	Provision for exchange loss		(59)	(111)
Administrative expenses pre provision for exchange loss and redundancy and restructuring costs		(4,469)	(4,074)												
Redundancy and restructuring costs		(159)	–												
Provision for exchange loss		(59)	(111)												
Administrative expenses – total		<u>(4,687)</u>	<u>(4,185)</u>												
Profit from operations		1,917	1,632												
Finance income		36	144												
Finance costs		(212)	(271)												
Profit before tax		<u>1,741</u>	<u>1,505</u>												
Tax expense		(407)	(368)												
Profit for the year from continuing operations		<u>1,334</u>	<u>1,137</u>												
Post-tax profit/(loss) related to discontinued operations		1,149	(48)												
Profit for the year		<u><u>2,483</u></u>	<u><u>1,089</u></u>												
Attributable to:															
– Equity holders of the parent		<u><u>2,483</u></u>	<u><u>1,089</u></u>												
Earnings per share															
– Basic and diluted (pence)	1	<u><u>0.55p</u></u>	<u><u>0.25p</u></u>												
Continuing operations															
– Basic and diluted (pence)	1	<u><u>0.30p</u></u>	<u><u>0.25p</u></u>												

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 30 April 2008

	2008	2007
	£'000	£'000
Profit for the year	2,483	1,089
Foreign exchange (losses)/gains on retranslation of overseas operations	(109)	1
Total recognised income and expense for the year	<u>2,374</u>	<u>1,090</u>
Attributable to:		
– Equity holders of the parent	<u>2,374</u>	<u>1,090</u>

**CONSOLIDATED BALANCE SHEET
at 30 April 2008**

	2008 £'000	2008 £'000	2007 £'000	2007 £'000
ASSETS				
Non-current assets				
Property, plant and equipment	779		880	
Intangible assets	7,528		7,136	
Deferred tax assets	–		37	
Total non-current assets	<u>8,307</u>		<u>8,053</u>	
Current assets				
Inventories	1,902		1,381	
Trade and other receivables	3,191		3,196	
Cash and cash equivalents	87		1,948	
Total current assets	<u>5,180</u>		<u>6,525</u>	
Total assets		13,487		14,578
LIABILITIES				
Current liabilities				
Trade and other payables	3,454		3,173	
Other short term borrowings	809		3,930	
Corporation tax liability	579		1,443	
Provisions	123		113	
Total current liabilities	<u>4,965</u>		<u>8,659</u>	
Non-current liabilities				
Long term borrowings	710		553	
Provisions	140		156	
Deferred tax	48		–	
Total non-current liabilities	<u>898</u>		<u>709</u>	
Total liabilities		<u>5,863</u>		<u>9,368</u>
TOTAL NET ASSETS		<u><u>7,624</u></u>		<u><u>5,210</u></u>
Capital and reserves attributable to equity holders of the company				
Share capital	4,504		4,490	
Share premium reserve	502		493	
Merger reserve	801		801	
Foreign exchange difference reserve	(147)		(38)	
Retained earnings	1,924		(600)	
		7,584		5,146
Minority interest		<u>40</u>		<u>64</u>
TOTAL EQUITY		<u><u>7,624</u></u>		<u><u>5,210</u></u>

The financial statements were approved by the Board of Directors and authorised for issue on 16 July 2008.

M Dwek
Director

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 April 2008

	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Cash flow from operating activities				
Net profit after tax	2,483		1,089	
Adjustments for:				
Depreciation	345		348	
Investment income	(36)		(30)	
Interest expense	115		113	
Other finance losses	97		158	
Income tax expense	407		347	
Share option charge	41		38	
Warrant revaluation	–		(114)	
Discontinued operations	(757)		–	
	<hr/>		<hr/>	
Operating cash flows before changes in working capital	2,695		1,949	
Decrease/(increase) in trade and other receivables	18		(798)	
(Increase) in inventories	(521)		(125)	
Increase in trade and other payables	114		654	
	<hr/>		<hr/>	
Cash generated from operations		2,306		1,680
Income taxes paid		(491)		(210)
		<hr/>		<hr/>
Cash flows from operating activities		1,815		1,470
Cash flow from investing activities				
Payments for property, plant & equipment	(270)		(242)	
Sale of property, plant & equipment	235		47	
Research & development expenditure	(368)		(269)	
Intangible asset expenditure	(24)		–	
Interest received	36		30	
	<hr/>		<hr/>	
		(391)		(434)
Cash flow from financing activities				
Proceeds from loan	1,200		750	
Repayment loan notes	–		(750)	
Repayment of bank loans	(438)		(194)	
Repayment of finance lease creditors	(150)		(154)	
Repayment loan notes for Grosvenor deferred consideration	(3,561)		–	
Repayment mortgage loan	(221)		–	
Interest paid	(115)		(113)	
	<hr/>		<hr/>	
		(3,285)		(461)
(Decrease)/increase in cash and cash equivalents		<hr/> <hr/>		<hr/> <hr/>
		(1,861)		575

1. Earnings per share

	2008	2007
	£'000	£'000
Numerator		
Earnings used in basic and diluted EPS	2,483	1,089
	<hr/>	<hr/>
Earnings used in basic and diluted EPS - continuing operations	1,334	1,137
	<hr/>	<hr/>
	No.	No.
Denominator		
Weighted average number of shares used in basic and diluted EPS		
– continuing and discontinued operations	449,089,691	429,437,268
	<hr/>	<hr/>

Employee share options have been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year (i.e. they are out-of-the-money) and therefore would not be advantageous for the holders to exercise those options.

The basic earnings per share before interest discount, results of discontinued operations, provision for exchange losses and warrant revaluation 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:

	2008	2007
	pence	pence
Basic earnings per share (pence) – basic and diluted	0.55	0.25
Discount charge on deferred consideration	0.02	0.04
(Profits)/losses of discontinued operations	(0.25)	0.01
Provision for foreign exchange loss	0.01	0.03
Warrant revaluation	–	(0.03)
	<hr/>	<hr/>
Earnings per share before interest discount, results of discontinued operations, provision for foreign exchange loss and warrant revaluation– basic and diluted	0.33	0.30
	<hr/>	<hr/>
	2008	2007
	£'000	£'000
Reconciliation of earnings		
Profit used for calculation of basic earnings per share	2,483	1,089
Discount charge on deferred consideration	97	158
(Profits)/losses of discontinued operations	(1,149)	48
Provision for foreign exchange loss	59	111
Warrant revaluation	–	(114)
	<hr/>	<hr/>
Earnings before interest discount, results of discontinued operations, provision for foreign exchange loss and warrant revaluation	1,490	1,292
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2. Basis of preparation

The financial information set out above for the years ended 30 April 2008 and 2007 does not constitute the Group's statutory accounts within the meaning of Section 240 of the Companies Act 1985 but is derived from those accounts. Statutory accounts for the year ended 30 April 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts. The auditors' reports were unqualified and did not contain statements under s.237(2) or (3) Companies Act 1985. The results have been prepared using accounting policies consistent with those used in the preparation of the statutory accounts.

3. Dividend

No dividend has been proposed in respect of the year.