

NEWMARK SECURITY PLC

Final results for the year ended 30 April 2009

HIGHLIGHTS

- **Turnover from continuing operations was £13.0m compared to £14.9m in the previous year (a fall of 13%), with falls in the electronic and asset protection divisions of 12 and 14% respectively**
- **Gross margin remained the same at 44.4% overall.**
- **Profit from operations for continuing businesses was £1.477m compared to £1.917m.**
- **Earnings per share for continuing businesses were 0.25p (2008:0.30p).**

Earnings per share before interest discount, profits/losses of discontinued operations, provision for exchange losses and abortive acquisition costs were 0.26p (2008:0.33p).

- **Total net assets increased by 14%, from £7.624m to £8.715m.**
- **Cash flow from operating activities increased by 23% from £1.815m to £2.234m.**
- **As foreshadowed in last year's Chairman's statement, the Board is pleased to be proposing a modest maiden dividend of 0.025p per share. Subject to profits meeting projections, the aim would be to pursue a progressive dividend policy.**
- **Despite the likelihood of a continuing weak economy, current forecasts suggest that operating profits for the current year should exceed last year. The asset protection division will benefit from a major branch refurbishment programme for an existing client valued at approximately £0.9million which starts in August and will continue until March.**

CHAIRMAN'S STATEMENT

Overview

The trading activities in the year have been achieved against the backdrop of the economic climate and recession that has affected all businesses. This has particularly affected the asset protection division whose products main markets have always been the financial and banking sector. However the results of that division have shown the benefits of building up our service and maintenance division over the years and thus forming a stable base underpinning the results of the division. Within the electronic division, the OEM (time and attendance) business was adversely affected by the problems in the retail sector which has always been the main market for those products. However the access control business managed to increase its turnover in the year despite the economic situation.

Despite the current economic climate we have invested heavily in our exciting new developments in the electronic division which are explained in more detail below and we look forward to the benefits of this expenditure in years to come. The asset protection division has also been designing new products in response to customer demands, whilst also working on ways to reduce the production costs of the existing product range.

We spent a considerable amount of time investigating a possible acquisition which would have been an excellent fit to our existing business. Unfortunately we were unable to conclude the transaction to the satisfaction of both parties due to the economic circumstances and we have written off £57K of costs incurred in performing due diligence and legal work. We are, however, maintaining a good working relationship with that business and it may be possible to conclude the deal in more settled times.

Nick Medlam retired as managing director of Safetell at the end of April after more than 17 years, and the Board would like to express its appreciation for all his efforts in building up that division since Newmark acquired the business in 2000. We are delighted that Nick will not only remain as a non-executive director of the Safetell companies but has also agreed to join the Board of the parent company in the same capacity. The Group will therefore continue to benefit from his knowledge and experience. We are delighted to welcome Mr Anton Pieterse as the new managing director of the

business. He was previously managing director of our South African licensee/distributor and has been working with Nick in the UK since the beginning of January.

Turnover for the year from continuing businesses was £1 2,960K compared to £1 4,867K, a fall of 13 per cent. Gross margin for the year from continuing operations was £5,760K (44.4 per cent. of sales) compared to £6,604K (44.4 per cent.).

Turnover in the electronic division decreased in the year from £7,494K to £6,631 K. Turnover in the asset protection division decreased in the year from £7,373K to £6,329K.

Earnings per share are shown in the income statement as 0.24p (2008: 0.55p), the figure for the previous year included the major impact of items within discontinued operations. However, the earnings per share before interest discount adjustments, profit or losses of discontinued operations, provision for exchange loss and abortive acquisition costs are 0.26p (2008: 0.33p) as calculated in note 9 to the accounts.

As a consequence of the reduction in turnover, turnover per employee fell from £120,870 to £107,942.

The OEM division of Grosvenor and Safetell are the leaders in their particular markets whilst Grosvenor 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 requirements of some of our customers which will benefit the Asset Protection division in particular.

The Group net assets have increased in the year from £7.6 million to £8.7 million.

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

Financial results

The operating profit for the year was £1,477,000 (2008: £1,917,000).

Turnover for the year for continuing operations was £12,960,000 (2008: £14,867,000). The main commercial factors affecting the results of the divisions are set out below.

Electronic Division

Turnover £6,631,000 (2008: £7,494,000)

Operating profit £1,562,000 (2008:

£1,644,000) Profit before tax £1,516,000

(2008: £1,648,000)

Revenue from OEM hardware, data collection and time & attendance terminals, fell by approximately 30% and is mirrored within the OEM distribution to America where the figures were down from £690K to £471 K (31.8%). This downturn can be directly attributed to the lack of large retail contracts that were being won in the previous year whereas this year the business was being put on-hold by customers because of the recession.

Redevelopment of the inherited OEM Custom Micro hardware is now complete which has rejuvenated the original CUSTOM brand to the universal acclaim of our European partners (RS07, RS09 & RS21 terminals). The advanced Linux based IT3100 terminal that has been selling into the USA is now creating interest in Europe, and some of the more progressive developers are about to start trials. At the request of some of our customers, a Linux touch screen version will be released in the next quarter to complement the IT3100.

Revenue from access control security systems increased by 3% over the year with the second half showing an increase of approximately 10% on the corresponding period. The latter was partly attributed to a Network Rail project (approximately £200K) but mainly due to our JANUS Enterprise system which is unique in the world of access control. Further work from Network Rail is expected in the current year. JANUS Enterprise enabled us to win specific projects like Network Rail, but also offers high value upgrades to existing customers.

JANUS Enterprise is a highly secure web site that allows security operatives to manage large systems without having to install software on their PCs. It has been developed in conjunction with targeted high profile customers and installed as their requested features became available. There will be a major release of this product in August 2009.

In the first quarter of 2010 our JANUS access control software will start to be replaced by our new brand, SATEON. The SATEON Trade Mark is already registered, or is close to being registered in approximately 80 countries including the EU, USA, Russia, GCC countries, and the Madrid Protocol countries. SATEON access control will be launched at the Dubai Intersec exhibition in January 2010 and will of course be fully compatible with JANUS by way of an upgrade path assuring longevity for our existing systems.

SATEON is based on all new technologies (software and hardware) including our Linux controllers which will be at the heart of the system. In addition to access control, over time, SATEON will include other associated systems that can be installed independently or in conjunction with each other and all may be installed as an on-site fixed installation or as a Software as a Service (SaaS) web hosted system.

In the past the company has been mainly limited to English speaking customers because JANUS has been difficult for our developers to translate. SATEON will not only have multiple product streams, all of them will be translatable on the fly by the client, and switchable on demand so that virtually all business languages will be covered even in the first release. In the last six months we have expanded our development teams by 85% so that we can deliver these new and exciting SATEON products. In order that we can take maximum advantage of the new multi-lingual features and the undoubted world interest, in 2010/2011 we will start to open new distribution channels in a phased program around the world.

With our multiple product streams all based on new technologies and capable of being sold anywhere in the world, Grosvenor Technology has the ability to increase its business substantially over a few years.

Asset Protection Division

Turnover £6,329,000 (2008: £7,373,000)
Operating profit £497,000 (2008:
£849,000) Profit before tax £477,000
(2008: £843,000)

Safetell's product sales were 21% below last year due to the effects of the banking crisis and credit crunch. In contrast, and as testimony to the long-term strategic strength of Safetell, service sales were £3,205K (2008: £3,364k) despite the completion of last year's major one-off contract.

Eclipse sales of new screens were reduced by the temporary suspension of all new installations by HBOS but reconfiguration work was 33% above plan. Sales of CounterShield and Eye2Eye were similar to last year but did not achieve the planned increase despite winning a number of new customers.

Cash Handling sales were adversely affected by the slow-down in Post Office installations in the first nine months of the year. The long awaited Crown Office refurbishment programme started with some trial branches in late 2008 and the full programme started in April 2009. Lloyds TSB requested a secure deposit box for the Your Store Design programme that was designed and manufactured with over 50 units produced. The same programme required some RollerCash TRIO units for foreign exchange trading.

Fixed Glazing installation sales were 18% more than last year, primarily for established petrol retailer customers selecting one or more of the FlexiGlaze products.

Service and maintenance revenue benefited from Safetell's long established client relationships resulting in more work for recently acquired/merged branch networks following some of the banking sector reorganisations. Maintenance of a competitor's rising screens at another major user was won after a long campaign.

New CCTV installation and maintenance work and additional work on locks, cashier equipment and cameras for long-standing Eclipse customers added to regular contract values at marginal cost. A number of covert CCTV installations assisted one client to identify and stop several cases of criminal activity in their branches. The company now fulfils all the conditions for NACOSS Gold standard accreditation for CCTV and the formal application is being processed.

Percentage margin reduced slightly compared to last year but administrative costs were reduced by 4% compared to last year, despite incurring two bad debts.

Sales for 2009-10 are planned to increase by over 10%. A major branch refurbishment programme for an existing client valued at £0.9 million will start in August and will continue until March. The Crown Office refurbishment programme started last year and will continue until May 2010. These two programmes will result in improved sales in the second and third quarters.

CounterShield sales are expected to increase by 23% from last year due to additional sales resource and new product variants introduced in April 2009. Despite budget constraints, sale of Eye2Eye to train operating companies should result in similar sales volumes as last year and orders for Eye2Eye for demountable ticket offices are expected during this year.

The vulnerability of petrol stations to opportunistic robberies in the current economic conditions should result in increased orders for FlexiGlaze screens. Although there is interest in Eclipse rising screens in South Africa, no sales are expected in this period. CounterShield sales in Australia are expected to increase and the first orders were delivered in June.

New products and services are being introduced into the market this year and the internal focus will be on product re-engineering and improved efficiencies to improve gross margin.

Balance sheet and cash flow

Cash flows from operating activities increased from £1.8m to £2.2m in the year, whilst net bank debt fell from £1.4m to £0.3m. The balance on the invoice discount account increased slightly from £692K to £737K.

As with most businesses, we have endeavoured to conserve cash whilst safeguarding our assets in the year. Inventories have been reduced from £1,902K to £1,711K in the year (a reduction of 10%) through reviews of our purchasing policies and other efficiencies. Considerable amounts of time have been spent on credit control to minimize possible losses whilst at the same time maximising sales and not inconveniencing our customers. Despite these efforts we have incurred some losses in the year including some customers that we have known and traded with for many years.

Net assets increased from

£7.6m to £8.7m.

Dividend

As foreshadowed in last year's statement the Board is pleased to be proposing to pay a modest maiden dividend of 0.025p per share costing £113K. This will be paid on 28 September 2009 to shareholders on the register on 28 August 2009. Subject to profits meeting projections the aim would then be to pursue a progressive dividend policy.

Articles of Association

As a consequence of certain provisions of the Companies Act 2006 which have come into force over the last two years, as well as further provisions which will come into force on 1 October 2009, and some related matters, it is proposed to adopt new Articles of Association with effect from 1 October 2009.

The principal alterations to the existing Articles of Association, are set out in a note to the Notice of Annual General Meeting when a resolution to adopt these revised Articles will be proposed. A hard copy of the revised Articles will be available at the AGM, and a hard copy will be sent to shareholders on request.

Employees

The Board would like to welcome the new employees to the Group and to thank all staff for their efforts which are so important to the continuing success and development of the business in which they work.

Summary

In many instances our products form part of large projects and hence the timing of our sales is dependent upon the customer/main contractor. Despite the likelihood of a continuing weak economy current forecasts suggest that operating profits for the current year should exceed last year.

M Dwek
Chairman
20 July 2009

**CONSOLIDATED INCOME STATEMENT
for the year ended 30 April 2009**

| | 2009 | 2008 |
|--|--------------|--------------|
| Note | £'000 | £'000 |
| Continuing operations | | |
| Revenue | 12,960 | 14,867 |
| Cost of sales | (7,200) | (8,263) |
| Gross profit | 5,760 | 6,604 |
| Administrative expenses pre abortive acquisition costs, provision for exchange loss and redundancy and restructuring costs | (4,226) | (4,469) |
| Abortive acquisition costs | (57) | – |
| Redundancy and restructuring costs | | (159) |
| Provision for exchange loss | | (59) |
| Administrative expenses – total | (4,283) | (4,687) |
| Profit from operations | 1,477 | 1,917 |
| Finance income | – | 36 |
| Finance costs | (164) | (212) |
| Profit before tax | 1,313 | 1,741 |
| Tax expense | (175) | (407) |
| Profit for the year from continuing operations | 1,138 | 1,334 |
| Post-tax (loss)/profit related to discontinued operations | (41) | 1,149 |
| Profit for the year | 1,097 | 2,483 |
| Attributable to: | | |
| – Equity holders of the parent | 1,097 | 2,483 |
| Earnings per share | | |
| – Basic and diluted (pence) | 0.24p | 0.55p |
| Continuing operations | | |
| – Basic and diluted (pence) | 0.25p | 0.30p |
| Discontinued operations | | |
| – Basic and diluted (pence) | (0.01p) | 0.25p |

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 30 April 2009**

| | 2009 | 2008 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Profit for the year | 1,097 | 2,483 |
| Foreign exchange losses on retranslation of overseas operations | (27) | (109) |

| | | |
|---|-------|-------|
| Total recognised income and expense for the year | 1,070 | 2,374 |
| Attributable to: | | |
| – Equity holders of the parent | 1,070 | 2,374 |

**CONSOLIDATED BALANCE SHEET
at 30 April 2009**

| Note | 2009 £'000 | 2009 £'000 | 2008 £'000 | 2008 £'000 |
|---|---------------|---------------|---------------|---------------|
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 757 | | 779 | |
| Intangible assets | 8,032 | | 7,528 | |
| Total non-current assets | <u>8,789</u> | | <u>8,307</u> | |
| Current assets | | | | |
| Inventories | 1,704 | | 1,902 | |
| Trade and other receivables | 2,404 | | 3,191 | |
| Cash and cash equivalents | 606 | | 87 | |
| Total current assets | <u>4,714</u> | | <u>5,180</u> | |
| Total assets | | 13,503 | | 13,487 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables | 3,163 | | 3,454 | |
| Other short term borrowings | 607 | | 809 | |
| Corporation tax liability | 296 | | 579 | |
| Provisions | 123 | | 123 | |
| Total current liabilities | <u>4,189</u> | | <u>4,965</u> | |
| Non-current liabilities | | | | |
| Long term borrowings | 309 | | 710 | |
| Provisions | 124 | | 140 | |
| Deferred tax | 166 | | 48 | |
| Total non-current liabilities | <u>599</u> | | <u>898</u> | |
| Total liabilities | | 4,788 | | 5,863 |
| TOTAL NET ASSETS | | <u>8,715</u> | | <u>7,624</u> |
| Capital and reserves attributable to equity holders of the company | | | | |
| Share capital | 4,504 | | 4,504 | |
| Share premium reserve | 502 | | 502 | |
| Merger reserve | 801 | | 801 | |
| Foreign exchange difference reserve | (174) | | (147) | |
| Retained earnings | 3,042 | | 1,924 | |
| | | <u>8,675</u> | | <u>7,584</u> |
| Minority interest | | 40 | | 40 |
| TOTAL EQUITY | | <u>8,715</u> | | <u>7,624</u> |

The financial statements were approved by the Board of Directors and authorised for issue on 20 July 2009.

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 April 2009

| | Note | 2009 £'000 | 2009 £'000 | 2008 £'000 | 2008 £'000 |
|--|------|---------------|---------------|---------------|---------------|
| Cash flow from operating activities | | | | | |
| Net profit after tax | | 1,097 | | 2,483 | |
| Adjustments for: | | | | | |
| Depreciation and amortisation | | 466 | | 345 | |
| Investment income | | – | | (36) | |
| Interest expense | | 164 | | 115 | |
| Other finance losses | | – | | 97 | |
| Income tax expense | | 175 | | 407 | |
| Share option charge | | 21 | | 41 | |
| Discontinued operations | | (16) | | (757) | |
| Operating cash flows before changes in working capital | | 1,907 | | 2,695 | |
| Decrease in trade and other receivables | | 779 | | 18 | |
| Decrease/(increase) in inventories | | 198 | | (521) | |
| (Decrease)/increase in trade and other payables | | (277) | | 114 | |
| Cash generated from operations | | | 2,607 | | 2,306 |
| Income taxes paid | | | (373) | | (491) |
| Cash flows from operating activities | | | 2,234 | | 1,815 |
| Cash flow from investing activities | | | | | |
| Payments for property, plant & equipment | | (204) | | (270) | |
| Sale of property, plant & equipment | | 14 | | 235 | |
| Research & development expenditure | | (595) | | (368) | |
| Intangible asset expenditure | | (12) | | (24) | |
| Interest received | | | | 36 | |
| | | | (797) | | (391) |
| Cash flow from financing activities | | | | | |
| Proceeds from loan | | – | | 1,200 | |
| Repayment of bank loans | | (614) | | (438) | |
| Repayment of finance lease creditors | | (140) | | (150) | |
| Repayment loan notes for Grosvenor deferred consideration | | – | | (3,561) | |
| Repayment mortgage loan | | – | | (221) | |
| Interest paid | | (164) | | (115) | |
| | | | (918) | | (3,285) |
| Increase/(decrease) in cash and cash equivalents | | | 519 | | (1,861) |
| Earnings per share | | | | | |
| | | | 2009 £'000 | | 2008 £'000 |
| <i>Numerator</i> | | | | | |
| Earnings used in basic and diluted EPS | | | 1,097 | | 2,483 |
| Earnings used in basic and diluted EPS – continuing operations | | | 1,138 | | 1,334 |
| | | | No. | | No. |

Denominator

| | | |
|---|-------------|-------------|
| Weighted average number of shares used in basic and diluted EPS | | |
| - continuing and discontinued operations | 450,432,316 | 449,089,691 |

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. Further information concerning share options is set out in note 27. The basic earnings per share before interest discount, results 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:

| | 2009 pence | 2008 pence |
|---|---------------|---------------|
| Basic earnings per share (pence) – basic and diluted | 0.24 | 0.55 |
| Discount charge on deferred consideration | – | 0.02 |
| Abortive acquisition costs | 0.01 | – |
| Provision for foreign exchange loss | – | 0.01 |
| Earnings per share before interest discount, provision for foreign exchange loss and abortive acquisition costs | 0.25 | 0.58 |
| Losses/(profits) of discontinued operations | 0.01 | (0.25) |
| <u>Earnings per share before interest discount, results of discontinued operations,</u> | | |
| provision for foreign exchange loss and abortive acquisition costs – basic and diluted | 0.26 | 0.33 |

| | 2009 £'000 | 2008 £'000 |
|---|---------------|---------------|
| Reconciliation of earnings | | |
| Profit used for calculation of basic earnings per share | 1,097 | 2,483 |
| Discount charge on deferred consideration | – | 97 |
| Provision for foreign exchange loss | – | 59 |
| Abortive acquisition costs | 57 | – |
| Earnings before interest discount, provision for foreign exchange loss and abortive acquisition costs | 1,154 | 2,639 |
| Losses/(profits) of discontinued operations | 41 | (1,149) |
| <u>Earnings before interest discount, results of discontinued operations,</u> | | |
| provision for foreign exchange loss and abortive acquisition costs | 1,195 | 1,490 |

Basis of preparation

The financial information set out above for the years ended 30 April 2009 and 2008 does not constitute the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006 but is derived from those accounts. Statutory accounts for the year ended 30 April 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts. The Independent Auditors' Reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. The results have been prepared using accounting policies consistent with those used in the preparation of the statutory accounts.

Dividend

The directors are proposing a dividend of £113,000 (2008:£Nil).