integrated security solutions

newmark security PLC

INTERIM REPORT

for the six months ended 31 October 2005

CHAIRMAN'S STATEMENT

The six months have been a period of restructuring and consolidation. As announced in the last annual report and accounts, we have sold NSP Europe Limited and closed down Concept Hardware & Security Solutions Limited which were the two loss making activities. Our remaining businesses have all been profitable in the period and a detailed review of their activities and results is set out in the divisional reviews below.

The overall Group operating profit for the period was £45,000 (2004: £280,000). The operating profit for the six months for continuing operations before goodwill amortisation was £452,000 (2004: £699,000). Both figures exclude the operating losses of discontinued operations of £210,000 and £234,000 respectively. Turnover for the period for continuing operations was £5.8 million (2004: £5.9 million).

The major factor affecting the cash flow and balance sheet during the period has been the payment of the deferred consideration for Custom Micro Products Limited. However the balance sheet also shows other significant changes from the last year end when the stock, debtors and creditors figures were all affected by the timing of major contracts both before and after the year end.

ELECTRONIC DIVISION

Turnover 6 months 31 October 2005: £3,161,000 (2004: £2,998,000)
Operating profit 6 months 31 October 2005 £483,000 (2004: £585,000)

Derek Blethyn, Managing Director of Grosvenor Technology ("Grosvenor") has been appointed as Managing Director of the Electronic Systems Division which includes Grosvenor, Custom Micro Products ("CMP") and Newmark Technology ("NT"). Eric Dew who has been the Engineering Director of Grosvenor for the past eleven years has been appointed as the Technical Director for the Electronic Systems Division to manage and control the product development teams. With clear vision and joint management the synergistic opportunities between the different companies are now set to be maximised.

Trading levels of Grosvenor have been similar to that achieved in the same period last year. Turnover in NT however is down due to the further decline of the C.Cure product range. Turnover of CMP in the 6 months was greater than in the four month period since acquisition last year. However it was below expectations due to an exceptionally high volume of sales to our US distributor at the end of the last financial year resulting in lower levels of sales to that same important customer base in the period under review. There has been a recent uplift in orders from that source in the second half of the year but the decreased average monthly sales has resulted in a fall in operating profit for CMP for the period in question.

We have received a prestigious order for a government body for the next financial year.

The eSeries controllers recently launched by Grosvenor are proving to be significant in the company's success in a new market where very large systems can easily be installed utilising existing pc network wiring and infrastructures. There are many high value tenders outstanding that look likely to convert into orders over the next financial year.

There will be another release of Grosvenor's core software JANUS in the second quarter of 2006 which will include system interfacing to the Bosch VIDOS CCTV system and will also provide interconnectivity with very large databases such as Oracle and Microsoft SQL Server.

NT's Par-Sec asset management system is being updated with a completely new generation of RFID tags and readers currently in development. This will negate the need for readers to be connected via an additional controller as they will connect directly to a PC network in the same way so successfully employed by the eSeries controllers at Grosvenor.

CMP is developing a brand new range of Time & Attendance terminals, the first of which will be launched in the second or third quarter of 2006. The new range will run in parallel with existing products and will address market requirements in reducing costs by utilising the latest technology and will be set to challenge emerging markets such as hosted web/asp systems as opposed to the more traditional on-site installations.

The core systems of Grosvenor, NT and CMP, namely JANUS/N-TEC access control, ParSec asset protection and ViewPoint Time & Attendance have been integrated and are ready to offer as a combined solution to the market place. The recent agreement with Simplex Fire Systems in the Middle East, Africa and Russia whereby N-TEC access control was launched in May 2005 into their distributor chain has already been expanded to take these additional products starting first quarter 2006. These products will be announced at the Intersec exhibition, the largest security exhibition in the Middle East to be hosted in Dubai, January 2006.

ASSET PROTECTION

Turnover 6 months 31 October 2005: £2,664,000 (2004: £2,883,000)
Operating profit 6 months 31 October 2005 £248,000 (2004: £429,000)

The sales for the comparative period last year included an exceptional order from Abbey for counterwork which amounted to £662K of sales in that period, whereas the sales value of such counterwork in the half year under review amounted to only £84K. This shortfall in sales was partly offset by increased sales of cash handling equipment to the Post Office including a contract for the supply of BiDi Safes and Flip Top Tills of £200K. Unfortunately the Post Office cancelled the Horizon project to install RollerCash machines and Flip Top Tills ordered in January 2005 and, although the products are being diverted to the sub-post office network, the majority will be shipped in the second half year.

The Eclipse rising screen programmes were maintained with long-term customers in retail finance and petrol retailing, whilst CounterShield continues to find a wider acceptance with a number of clients, including police forces.

The contract to maintain all locks for security doors for HBOS remains successful and the client has consented to a price revision to reflect the higher than expected demand. The new contracts to maintain rising screen equipment originally supplied by other OEMs have also proved to be successful. Safetell has now achieved its strategic aim of dominating the rising screen service market sector. We have renewed one major maintenance contract in January 2006 which will provide £1.2 million service revenue over two years including £140,000 per annum of additional business.

Gross margin slipped by 1.3 per cent. in the period reflecting competitive pricing of the Post office contracts, changes in product mix, and additional training and support costs with the growth of the service business.

Administration costs increased with some one-off property refurbishment costs, additional property lease costs required by the change in product mix, and the requirement for additional engineering support.

The second half is expected to be similar to the first half with some improvements in the sale of CounterShield and Eye2Eye. The company expects to exceed £2 million service revenue for the first time in the current financial year.

CONCLUSION

Safetell's level of trading performance in the first six months is expected to continue in the second half year, whilst CMP results should be higher in the second half with the higher level of orders from our US distributor.

Whilst Grosvenor has enjoyed considerable success in winning new business, the timing of orders continues to be difficult to predict. One such sizeable contract, which Grosvenor had believed would be in progress in the current financial year, has unfortunately been delayed by the customer and will now fall into the next financial year. Although it is pleasing that the business is not being lost to competitors, nonetheless such a delay will impact our results for the year ended 30 April 2006. The operating profit from continuing operations for the full year before amortisation of goodwill will be approximately £1.0 million.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the six months ended 31 October 2005

	Notes	Unaudited Six months ended 31 October 2005 Before goodwill and exceptional items £'000	Unaudited Six months ended 31 October 2005 Goodwill and exceptional items £'000	Unaudited Six months ended 31 October 2005 Total £'000	Audited Year ended 30 April 2005 Total £'000	Unaudited Six months ended 31 October 2004 Total £'000
TURNOVER						
Continuing operations		5,825	–	5,825	12,348	5,881
Discontinued operations		323	–	323	1,286	748
		6,148	–	6,148	13,634	6,629
Cost of sales		(3,759)	–	(3,759)	(8,150)	(4,044)
Gross profit		2,389	–	2,389	5,484	2,585
Administrative expenses		(2,147)	–	(2,147)	(4,699)	(2,120)
Amortisation of goodwill		–	(197)	(197)	(371)	(185)
Administrative expenses-total		(2,147)	(197)	(2,344)	(5,070)	(2,305)
OPERATING PROFIT/(LOSS)						
Continuing operations		452	(197)	255	1,148	514
Discontinued operations		(210)	–	(210)	(734)	(234)
		242	(197)	45	414	280
Loss on closure/disposal of subsidiaries		–	(149)	(149)	(13)	–
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		242	(346)	(104)	401	280
Interest receivable		22	–	22	52	14
Interest-discount charge on deferred consideration		(139)	–	(139)	(275)	(130)
Interest payable		(47)	–	(47)	(139)	(36)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		78	(346)	(268)	39	128
Tax on ordinary activities	2	(40)	–	(40)	(106)	(100)
PROFIT/(LOSS) FOR THE YEAR AFTER TAX		38	(346)	(308)	(67)	28
Minority interest		–	–	–	–	–
		38	(346)	(308)	(67)	28
		Pence	Pence	Pence	Pence	Pence
Earnings/(loss) per share – basic and diluted	4	0.01	(0.10)	(0.09)	(0.02)	0.01
– Continuing business	4	0.07	(0.06)	0.01	0.14	0.06
– Discontinued business	4	(0.06)	(0.04)	(0.10)	(0.16)	(0.05)

CONSOLIDATED BALANCE SHEET
as at 31 October 2005

	Notes	Unaudited 31 October 2005 £'000	Audited 30 April 2005 £'000	Unaudited 31 October 2004 £'000
FIXED ASSETS				
Intangible assets		6,665	6,820	6,969
Tangible assets		872	803	1,039
		7,537	7,623	8,008
CURRENT ASSETS				
Stocks		1,330	1,664	1,323
Debtors		1,928	2,968	2,722
Cash at bank and in hand		1,300	3,205	2,659
		4,558	7,837	6,704
CREDITORS: amounts falling due within one year		(3,783)	(6,467)	(5,026)
NET CURRENT ASSETS		775	1,370	1,678
TOTAL ASSETS LESS CURRENT LIABILITIES		8,312	8,993	9,686
CREDITORS: amounts falling due after more than one year		(5,123)	(5,488)	(6,031)
Provisions for liabilities and charges		(177)	(185)	(201)
NET ASSETS		3,012	3,320	3,454
CAPITAL AND RESERVES				
Called up share capital		3,617	3,617	3,834
Share premium		432	432	–
Merger reserve		801	801	801
Profit and loss reserve	3	(1,901)	(1,593)	(1,478)
EQUITY SHAREHOLDERS' FUNDS		2,949	3,257	3,157
Minority interest		63	63	297
		3,012	3,320	3,454

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 31 October 2005

	Unaudited Six months ended 31 October 2005 £'000	Audited Year ended 30 April 2005 £'000	Unaudited Six months ended 31 October 2004 £'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	151	786	(149)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received	22	52	14
Interest paid	(47)	(139)	(36)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(25)	(87)	(22)
TAXATION	(201)	(404)	(89)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets	(212)	(277)	(63)
Receipts from sale of tangible fixed assets	–	247	–
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(212)	(30)	(63)
ACQUISITIONS			
Purchase of subsidiary undertakings	(1,825)	(918)	(946)
Net cash acquired on purchase of subsidiary undertakings	–	563	563
NET CASH OUTFLOW ON ACQUISITIONS	(1,825)	(355)	(383)
DISPOSALS			
Costs related to closure/sale of subsidiaries	–	–	–
Cash disposed of with business	(11)	–	–
NET CASH OUTFLOW FROM DISPOSALS	(11)	–	–
NET CASH OUTFLOW BEFORE FINANCING	(2,123)	(90)	(706)
FINANCING			
New finance loans	247	329	150
Repayment of loans	(29)	(209)	(7)
	218	120	143
Issue of shares	–	1,643	1,700
NET CASH INFLOW FROM FINANCING	218	1,763	1,843
(DECREASE)/INCREASE IN CASH	(1,905)	1,673	1,137

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The unaudited interim figures for the six months ended 31 October 2005 have been prepared on a basis consistent with the accounting policies disclosed in the Group's 2005 Report and Accounts, and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The results for the year ended 30 April 2005 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 disproportionate to the profit for the year due to the effect on profits of items not deductible for tax purposes, and the use of losses brought forward.

3. RESERVES

	Profit and loss reserve £'000	Merger reserve £'000	Total other reserve £'000
At 1 May 2005	(1,593)	801	(792)
Retained loss for the period	(308)	–	(308)
As at 31 October 2005	(1,901)	801	(1,100)

4. EARNINGS PER SHARE

	Pence per share	£'000
Loss after taxation and minority interest	(0.09)	(308)
Goodwill amortisation	0.06	197
Discount charge on deferred consideration	0.04	139
Loss on closure/disposal of subsidiaries	0.04	149
Losses of discontinued operations	0.05	179
Earnings before goodwill amortisation, interest discount, loss on closure/disposal of subsidiaries and losses of discontinued operations	0.10	356

The profit per share has been calculated based on the weighted average number of shares in issue during the period, which was 361,755,016 shares (2004: 303,750,433).

	Unaudited Six months ended 31 October 2005 Total Pence	Audited Year ended 30 April 2005 Total Pence	Unaudited Six months ended 31 October 2004 Total Pence
Earnings/(loss) per share before amortisation of goodwill, losses of discontinued operations, loss on closure/disposal of subsidiaries and discount charge on deferred consideration	0.10	0.35	0.07

5. The loan notes of £1.5 million are repayable on 24 July 2006. The Company issued warrants to the loan note holders to subscribe for ordinary shares at a price of 1p per ordinary share. The loan note holders have informed the Company that, at this point in time, they will exercise the option to take up the shares at this price, and accordingly loan notes have been included as £750,000 in creditors amounts falling due within one year, and £750,000 in creditors falling due after more then one year.

6. DIVIDENDS

No interim dividend is proposed (2004: Nil).

7. The company issued shares to the value of £150,000 on 1 November 2005 to Arbury Inc., in consideration for the termination of Mr Dwek's contract as an executive director.

8. A copy of the interim report has been sent to shareholders and copies are available for inspection at the Company's registered office, 57 Grosvenor Street, London W1K 3JA, during normal office hours, Saturdays, Sundays and bank holidays excepted, for one month.

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