



Today's Research
Tomorrow's Products

INTERIM REPORT 2012

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corporate synopsis

Security Research Group plc ('the Group') comprises Specialist Electronics consisting of Audiotel International Limited and its subsidiary Security Research Limited, Property Information Services Businesses ('PSG') and Moore & Buckle (Flexible Packaging) Limited ('M&B'). Specialist Electronics now dominate the Group's business.

The Group has remained focussed on the fulfilment of the £50 million contract awarded to Security Research Limited by the Ministry of Defence ('MOD'). It is anticipated that this contract will be substantially completed by the financial year end. Resource will then become available for Specialist Electronics to develop new products and markets.

PSG is a major provider of residential property searches and Energy Performance Certificates to the residential and commercial property marketplace in England and Wales. PSG trades both through its expanded wholly owned operation based in Yorkshire and its national network of PSG Brand Franchisees across England and Wales.

M&B provides specialist, bespoke, flexible packaging solutions.

highlights

- Group profit before taxation £8,587,000 (2011: £3,864,000).
- Specialist Electronics operating profit was £8,609,000 (2011: £3,477,000).
- PSG's operating profit was £62,000 (2011: £484,000).
- M&B's operating profit was £146,000 (2011: £135,000).
- Interest bearing assets were £17.8m (2011: £16.3m).
- Further tender offer expected to be made on the basis of the purchase of one share for every five held at 225p per share.

chairman's statement

for the six months ended 30 September 2012

Change of Name

Following the passing of a special resolution at the Group's Annual General meeting on 7 August 2012, the Group's name was changed to Security Research Group plc.

Specialist Electronics

Specialist Electronics dominated the Group's overall trading performance resulting in turnover and profits which have exceeded by a substantial margin the highest levels achieved at any time previously.

During the period Security Research Limited ('SR') has ensured that the equipment supplied under the MOD contract meets the exacting requirements of the customer as to quality, consistency of performance and reliability. SR has been implementing the final stages of the equipment's deployment in close collaboration with the customer.

As the manufacturing requirement winds down in respect of the MOD contract SR has had to carry out a review of its current business in Corby and is currently restructuring this operation which will result in a number of redundancies.

The skills and experience of the expanded design, engineering and manufacturing team have enabled SR to research and develop new products in the fields of security and surveillance which have the prospect of being both innovative and required in the commercial marketplace. These new products will be marketed under the Audiotel Brand.

A major marketing review of the Group and the Specialist Electronics division has been undertaken. The revamp of all Group websites is under way in order for them to become the marketing window and a useful platform for prospective customers to review all of our products. A Global Marketing Plan, with the initial emphasis on North America, is being implemented and is to be backed by increased resources. The new websites will be on display early in the new year.

Audiotel's traditional business has taken a back seat during the fulfilment of the MOD contract however we expect this business to benefit substantially as a consequence of the actions outlined above.

chairman's statement (continued)

for the six months ended 30 September 2012

PSG

PSG's performance was marred by an exceptional legal charge relating to the termination of a franchise. The operating profit for the period was £62,000 (2011: £484,000). House sale volumes have remained static but, through its continued investment in IT, PSG is enabling the franchisees to deliver product to customers more reliably and at a lower cost.

The information PSG can now access, both within the network and in the national housing market, enables accurate monitoring of the performance of the individual franchisees and their respective market shares within their territories.

Enhanced access to market information and more seamless delivery of product will improve future performance.

PSG Energy retains its high quality expertise. It is, however, operating in a low margin field driven by regulation rather than commercial relevance.

M&B

M&B's operating profit of £146,000 (2011: £135,000) was marginally up from the first half of the previous financial year.

Share Tender Offer and Cash

In May this year the Group completed a successful tender offer on the basis of an offer to purchase one share for every fourteen held at 225p per share. The tender offer was oversubscribed with shareholders representing 97% of the issued share capital participating in the offer. Accordingly £4.1 million was distributed to shareholders.

It is intended that a further tender offer will be made shortly on the basis of an offer to purchase one share for every five held at 225p per share. This will result in a further £10.8 million being distributed to shareholders.

More tender offers will be made as and when trading and cash flows permit.

Net cash at 30 September 2012 was £17.8 million.

chairman's statement (continued)

for the six months ended 30 September 2012

Outlook

The near conclusion of the major portion of SR's contract with the MOD has required the total concentration of resource. The order book consequently is comparatively low.

Even with regard to these circumstances the prospects for the Group are decidedly positive. In particular, it has proved very adept in the rapid development, manufacture and delivery, on time and within budget, of a sophisticated complex volume product. The SR/Audiotel team, utilising this experience, are now able to focus wholly on bringing to market new products to a range of customers who can be confident in our ability to deliver.

Presently, throughout the world, hostile threats are both proliferating and changing and require flexibility to deliver an effective antidote. Within the security, surveillance and defence markets, SR/Audiotel have the proven capacity to meet such challenges.

Jonathan Mervis

Chairman

15 November 2012

consolidated income statement

for the six months ended 30 September 2012

	Six months ended 30 September 2012 Unaudited £000	Six months ended 30 September 2011 Unaudited £000	Year ended 31 March 2012 Audited £000
Revenue	25,781	20,808	37,273
Cost of sales	(10,342)	(12,050)	(16,734)
Gross profit	15,439	8,758	20,539
Administrative expenses	(6,900)	(4,913)	(8,547)
Operating profit before exceptional items	8,539	3,845	11,992
Exceptional administrative expenses	–	–	(4,138)
Operating profit	8,539	3,845	7,854
Finance income	48	19	79
Profit on ordinary activities before taxation	8,587	3,864	7,933
Income tax expense	(2,010)	(970)	(2,823)
Profit on ordinary activities after taxation	6,577	2,894	5,110
Basic earnings per share	27.06p	11.09p	19.76p
Diluted earnings per share	26.56p	11.08p	19.57p

The consolidated income statement has been prepared on the basis that all operations are continuing operations.

consolidated statement of comprehensive income

for the six months ended 30 September 2012

The profit on ordinary activities after taxation represents the Group's total comprehensive income for the period.

consolidated statement of changes in equity

for the six months ended 30 September 2012

	Share Capital £000	Share Premium £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
At 1 April 2011	5,507	5	–	10,928	16,440
Issue of new ordinary shares on exercise of options	240	360	–	–	600
Purchase of ordinary share capital for treasury (including costs of £71,000)	–	–	–	(3,083)	(3,083)
Cancellation of own shares	(626)	–	626	–	–
Total comprehensive income for the period	–	–	–	2,894	2,894
At 30 September 2011	5,121	365	626	10,739	16,851
Issue of new ordinary shares on exercise of options	27	73	–	–	100
Total comprehensive income for the period	–	–	–	2,216	2,216
At 31 March 2012	5,148	438	626	12,955	19,167
Purchase of ordinary share capital for treasury (including costs of £47,000)	–	–	–	(4,184)	(4,184)
Cancellation of own shares	(368)	–	368	–	–
Total comprehensive income for the period	–	–	–	6,577	6,577
At 30 September 2012	4,780	438	994	15,348	21,560

consolidated statement of financial position

at 30 September 2012

	30 September 2012 Unaudited £000	30 September 2011 Unaudited £000	31 March 2012 Audited £000
Non-current assets			
Goodwill	4,977	9,115	4,977
Other intangible assets	668	581	688
Property, plant and equipment	743	837	1,581
Deferred tax asset	125	–	125
	6,513	10,533	7,371
Current assets			
Inventories	1,655	2,391	1,313
Trade and other receivables	4,413	1,755	7,223
Cash and cash equivalents	17,822	16,310	17,268
	23,890	20,456	25,804
Current liabilities			
Trade and other payables	(6,681)	(13,053)	(11,171)
Current tax liability	(2,162)	(1,040)	(2,837)
	(8,843)	(14,093)	(14,008)
Net current assets	15,047	6,363	11,796
Total assets less current liabilities	21,560	16,896	19,167
Non-current liabilities			
Deferred tax	–	(45)	–
Net assets	21,560	16,851	19,167
Represented by:			
Capital and reserves attributable to equity holders			
Called up share capital	4,780	5,121	5,148
Share premium account	438	365	438
Capital redemption reserve	994	626	626
Retained earnings	15,348	10,739	12,955
Total equity	21,560	16,851	19,167

consolidated statement of cash flows

for the six months ended 30 September 2012

	Six months ended 30 September 2012 Unaudited £000	Six months ended 30 September 2011 Unaudited £000	Year ended 31 March 2012 Audited £000
Cash flows from operating activities			
Profit before taxation	8,587	3,864	7,933
Adjustments for:			
Depreciation of property, plant and equipment	1,037	115	1,303
Amortisation of goodwill	–	–	4,137
Amortisation of other intangible assets	278	198	367
Profit on disposal of tangible assets	(2)	(1)	(2)
Interest receivable	(49)	(19)	(79)
Decrease/(increase) in receivables	2,810	2,319	(3,149)
Increase in inventories	(342)	(1,241)	(163)
Decrease/(increase) in payables	(4,490)	10,650	8,768
Cash generated from operations	7,829	15,885	19,115
Income tax (paid)/received	(2,685)	62	(164)
Net cash generated from operating activities	5,144	15,947	18,951

consolidated statement of cash flows (continued)

for the six months ended 30 September 2012

	Six months ended 30 September 2012 Unaudited £000	Six months ended 30 September 2011 Unaudited £000	Year ended 31 March 2012 Audited £000
Cash flows from investing activities			
Purchase of tangible assets	(203)	(84)	(2,052)
Purchase of other intangible assets	(258)	(283)	(559)
Proceeds from sale of tangible assets	6	36	74
Interest received	49	19	79
Net cash used in investing activities	(406)	(312)	(2,458)
Cash flows from financing activities			
Issue of share capital	-	600	700
Purchase of own shares	(4,184)	(3,083)	(3,083)
Net cash used in financing activities	(4,184)	(2,483)	(2,383)
Net increase in cash and cash equivalents	554	13,152	14,110
Cash and cash equivalents at beginning of period	17,268	3,158	3,158
Cash and cash equivalents at end of period	17,822	16,310	17,268

notes to the interim financial statements

for the six months ended 30 September 2012

1. general information

The interim financial statements for the six months ended 30 September 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 14 November 2012.

The Company is a public limited company incorporated in the United Kingdom. The address of its registered office is 133 Ebury Street, London SW1W 9QU.

The Company's ordinary shares are admitted to trading on the AIM market of the London Stock Exchange.

The financial information for the six months ended 30 September 2012 set out in this interim report is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative figures for the year ended 31 March 2012 are extracted from the statutory financial statements which have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

2. basis of preparation

The interim financial statements have been prepared under the historical cost convention and in accordance with applicable International Financial Reporting Standards (IFRSs), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union. The information within these interim financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

3. accounting policies

The principal accounting policies used in preparing the interim financial statements and those the group expects to apply in its financial statements for the year ending 31 March 2013 are unchanged from those disclosed in the statutory financial statements for the year ended 31 March 2012.

notes to the interim financial statements (continued)

for the six months ended 30 September 2012

4. segmental analysis

	Six months ended 30 September 2012 Unaudited £000	Six months ended 30 September 2011 Unaudited £000	Year ended 31 March 2012 Audited £000
Revenue – operating segment			
Specialist electronics	22,801	17,461	31,281
Property information services	2,190	2,628	4,577
Packaging solutions	790	719	1,415
	25,781	20,808	37,273
Revenue – geographical area			
United Kingdom	25,579	20,530	36,717
Asia and Middle East	53	111	214
Europe	115	52	127
Other	34	115	215
	25,781	20,808	37,273

notes to the interim financial statements (continued)

for the six months ended 30 September 2012

4. segmental analysis (continued)

	Six months ended 30 September 2012 Unaudited £000	Six months ended 30 September 2011 Unaudited £000	Year ended 31 March 2012 Audited £000
Operating profit/(loss)			
Specialist electronics	8,609	3,477	11,635
Property information services	62	484	744
Packaging solutions	146	135	273
Head office	(278)	(251)	(660)
Exceptional items	–	–	(4,138)
	8,539	3,845	7,854
Net operating assets			
Specialist electronics	(2,773)	(9,713)	(3,852)
Property information services	4,420	7,598	3,994
Packaging solutions	2,236	2,778	2,214
Head office	(145)	(122)	(458)
	3,738	541	1,898
Interest bearing assets	17,822	16,310	17,269
	21,560	16,851	19,167

notes to the interim financial statements (continued)

for the six months ended 30 September 2012

5. earnings per share

Basic earnings per share calculations have been arrived at by reference to the following profit and weighted average number of shares in issue during the period. The actual number of shares in issue at 30 September 2012 was 23,901,954.

	Six months ended 30 September 2012	Six months ended 30 September 2011	Year ended 31 March 2012
Profit after tax	£6,577,000	£2,894,000	£5,110,000
Weighted average number of shares in issue	24,303,836	26,105,266	25,865,197
Basic earnings per share	27.06p	11.09p	19.76p
Weighted average number of shares in issue adjusted to take account of shares under option	24,767,869	26,127,126	26,113,614
Diluted earnings per share	26.56p	11.08p	19.57p



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