

Security Research Group plc

("Security Research Group" or the "Company")

Final Results for the year ended 31 March 2014 and notice of AGM

The Directors of Security Research Group are pleased to announce the audited final results for the year ended 31 March 2014. The report and accounts and notice of Annual General Meeting will shortly be posted to shareholders and a copy will be made available on the Company's website (www.srgroupplc.com).

Notice is given to all shareholders that the Annual General Meeting of Security Research Group for 2014 will be held at the offices of the Company, 133 Ebury Street, London SW1W 9QU on 22 August 2014 at 12 noon.

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Chairman's statement

Revenue for the year ended 31 March 2014 was £9,061,054 compared with £29,363,893 in the previous year. Profit for the year, before tax and exceptional items, was £562,236 compared with a profit before tax and exceptional items of £6,682,042 in the previous year.

The results reflect the substantial completion in December 2012 of the one-off £50 million MoD contract and the sea change in global markets for IED detection equipment, which was responsible for a large proportion of the profits last year and enabled us this year to achieve a significant reduction in administrative expenses. In addition inventories and trade and other receivables have increased following the return to our normal sales and customer mix.

Specialist Electronics (Audiotel)

The Specialist Electronics division, post the completion of the £50 million MoD contract, is improving its existing range of products and is developing a range of completely new innovative products aimed at the commercial market.

Revenue for the Specialist Electronics division for the year was £2,760,550, compared with £23,566,245 in the previous year. The operating profit was £26,142 compared with £6,765,220 for the previous year.

Products

A focus on Audiotel's export markets in the latter part of the year reaped benefits with sales to 34 different countries worldwide. Of particular note were:

- China – Sales volumes growing with agents established in Beijing, Shanghai and Guangzhou;
- USA – A first US DOD order for specialist detectors received in Q1 2014 to be trialled at various military locations throughout 2014;
- Egypt – A large order for 12 of our unique NLJD Archways was received in late 2013. The equipment will be installed and commissioned in Government locations in 2014; and
- Australia – A large order for surveillance equipment from the Queensland Police was secured by a new agent.

Good sales were achieved of the SB range of NLJD Detectors (SuperBrooms) and the Scanlock monitoring receivers.

Stealth Evolution surveillance equipment sales continued with purchases by 30 out of the 43 UK police forces and also by the newly formed National Crime Agency (NCA) that replaced SOCA.

A new 24/7 eavesdropping surveillance system, 'e-Shield', was launched in January 2014 and has been trialled at large accountancy and legal firms in London. Audiotel has received both orders and positive feedback from the trials and indications are that future security budgets could well include provisions to purchase these systems as they raise the level of security against the eavesdropping threat way above that achieved by our competitors.

Audiotel is also working with a major global bank to trial a new system called KVM-Shield which provides complete security against the threat of covert installation of keyboard, video, mouse (KVM) devices, key loggers, network interceptors and USB memory devices on their network.

New products in development for launch later in the year include:

- e-TAG, a security system that automatically alarms when the tag leaves a defined area and then locates and tracks the tag, in the local vicinity, to ensure swift recovery; and
- e-SCAN, a powerful personal counter surveillance system.

Property Information Services (PSG)

Revenue for the Property Information Services division for the year was £4,692,537, compared with £4,234,208 in the previous year. The operating profit before exceptional items was £844,679, significantly ahead of £152,244 for the previous year.

PSG has a large, loyal and professional client base that is serviced by a knowledgeable and committed franchise network across England and Wales.

The business experienced growth in revenues and profits during the year, enhanced its cutting edge technology platform, and has set up clear opportunities for additional growth with a robust income stream. It is poised to capitalise on the increasing number of housing transactions.

PSG is one of the top three providers of property information searches, a market currently worth approximately £125 million annually and underpinned by the increasing volume of housing transactions. PSG has an estimated market share in excess of 15%. The business is highly rated by its 2,000 registered legal clients, with regular customer surveys indicating 100% of users would recommend it to others.

An expanding range of property risk information products are being supplied to conveyancing solicitors in England and Wales. These are used by solicitors as part of their professional 'due diligence' for homebuyers and lenders, and the use of searches is embedded in best practice guidelines issued by the Law Society and Council of Mortgage Lenders.

PSG undertakes local sales, marketing and customer service activity and provides other services including the provision of Title Insurance and Energy Performance Certificates (EPCs). Franchisees are required to meet prescribed performance criteria to stay in the network.

The recovering housing market, coupled with recent improvements to systems and contracts, means that the business is now set for a sustained period of growth. Housing transactions are still 31% below their long-term average, and 38% off peak. With low central costs and rapidly growing revenues, profits will grow exponentially as house sales return to normal levels.

New franchise contracts have been established which include enforceable performance targets, and new management information systems are enabling the business to work closely with franchisees to improve sales.

The success of the improved online ordering platform has delivered market share and sales growth, and the business is able to launch, up-sell and cross-sell products and services more effectively. Further growth will come from launching franchises to cover the regions where the final 8% of housing transactions are not currently reached.

In the longer term, the business plans to leverage its brand and client base into a wider range of outsourced legal services. With over 2,000 satisfied solicitor firms, most of whom provide a range of legal services in addition to conveyancing, the business has a real opportunity to expand into adjacent legal sectors.

The strategic review is continuing with a further update in due course.

Packaging Solutions (Moore & Buckle)

Revenue of the Packaging Solutions division was £1,607,673, compared with £1,563,440 in the previous year. The operating profit was £313,182 ahead of the £301,947 in the previous year.

We are grateful to the outstanding commitment and loyalty of our employees who have been substantially responsible for this year's achievements.

Strategic Report

The directors present their strategic report for the year ended 31 March 2014.

Strategy and Business Model

The Group has three divisions, Specialist Electronics, Property Information Services and Packaging Solutions.

The Specialist Electronics Division manufactures and sells specialist electronic equipment used in the surveillance and counter-surveillance market. Underpinning this offering is a strong heritage in focused research and product development giving the company technical leadership in its chosen area of operations.

Sales are achieved either directly through its sales team or via its worldwide network of distributors.

The Property Information Services Division is one of the top three providers of property information searches. The division runs a national franchising network together with its own large franchise and also has an energy reports business and a regulated business sourcing financial products.

The clients are conveyancing solicitors, who undertake the legal side of a property transaction.

The Packaging Solutions Division provides flexible packaging solutions to a variety of industry sectors, including the food and pharmaceutical markets.

Business review

The Group's profit before tax for the year was £1,739,315 compared with £4,978,290 in the previous year whilst revenue decreased from £29,363,893 to £9,061,054. Included in the profit is an amount of £1,177,079 in respect of a legal settlement with local authorities regarding overpayments in prior years by the Property Information Services Division's own Franchise.

In the Specialist Electronics Division the operating profit was £26,142 compared with £6,765,220 in the previous year whilst revenue decreased from £23,566,245 to £2,760,550. In the previous year a significant part of the revenue and profits were generated by completing and delivering, on time and on budget, a large contract with the MoD. In the current year no similarly large contract was received.

The Specialist Electronics Division has concentrated its resources on developing new products and markets and placing its emphasis on a global sales drive. A number of innovative devices have been developed having unique selling points. These products are being marketed in the UK and in a number of other selected countries. Although well received by the market place these new products have not as yet achieved any significant sales penetration.

In the Property Information Services Division the operating profit was £844,679 compared with £152,244 in the previous year whilst revenue increased from £4,234,208 to £4,692,537. The division benefitted from an increasing number of housing transactions during the year.

During the year the division enhanced its cutting edge technology platform and there are now clear opportunities for additional growth by capitalising on these enhancements and aided by the increasing number of housing transactions.

It was announced on 6 May 2014 that the Group is to conduct a strategic review of its options concerning the division. The options may include the sale of the division with the distribution of the proceeds to shareholders.

In the Packaging Solutions Division the operating profit was £313,182 compared with £301,947 in the previous year whilst revenue increased from £1,563,440 to £1,607,673.

This division continues to perform profitably in its niche marketplace.

With new products and markets being developed in the Specialist Electronics Division, an increasing number of housing transactions benefiting the Property Information Services Division and the Packaging Solutions Division continuing to maintain its consistent level of performance the future can be viewed with confidence.

Principal risks and uncertainties

Group

Revenue and profits are dependent on the ability to recruit and retain key individuals.

Trading concerns are regularly reviewed with particular reference to sales, customer loss and competition.

Specialist Electronics Division

Revenue is generated from a mix of small and large orders. The timing of the order placement and delivery of larger orders is inherently difficult to predict, potentially causing material fluctuations in actual results compared with expectations.

Property Information Services Division

If the situation in the property market changes it could affect the results of the division, either beneficially or detrimentally.

Packaging Solutions Division

The business depends on small orders and could be affected by any change in the economic environment.

Key performance indicators (KPIs)

The board monitors progress on the overall Group strategy and the individual strategic elements by reference to KPIs, specifically revenue growth, gross margin, administrative expenses, profit before taxation and working capital levels.

As noted in the business review above, the profit on ordinary activities before taxation in the year was £1,739,315 compared with a profit of £4,978,290 in the previous year, with turnover having reduced from £29,363,893 to £9,061,054. This was mainly due to the large MoD contract with the Specialist Electronics Division having been substantially completed last year.

The average number of employees in the year reduced from 193 to 98, with employment costs reducing from £7,379,355 to £3,667,386, once again primarily due to the reductions in the Specialist Electronics Division.

The number of housing transactions in the year increased from 650,000 to approximately 800,000.

Cash and cash equivalents in the Group reduced from £5,397,860 at 1 April 2013 to £3,472,588 at 31 March 2014.

The environment

The Group regards compliance with relevant environmental laws and the adoption of responsible standards as integral to its business operation. It is also committed to introducing measures to limit any adverse effects its business may have on the environment and will promote continuous improvement in accordance with the best available techniques.

Consolidated income statement for the year ended 31 March 2014

	Note	2014 £	2013 £
Revenue	2	9,061,054	29,363,893
Cost of sales		(4,102,497)	(14,045,747)
Gross profit		4,958,557	15,318,146
Administrative expenses		(4,413,520)	(8,715,130)
Operating profit before exceptional items		545,037	6,603,016
Exceptional administrative credits/(expenses)	3	1,177,079	(1,703,752)
Operating profit	4	1,722,116	4,899,264
Finance costs	8	-	(10,929)
Finance income	9	17,199	89,955
Profit on ordinary activities before taxation		1,739,315	4,978,290
Income tax expense	10	(210,375)	(1,295,735)
Profit on ordinary activities after taxation		1,528,940	3,682,555
Basic earnings per share	12	7.89p	15.89p
Diluted earnings per share	12	7.86p	15.74p

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

Consolidated statement of comprehensive income for the year ended 31 March 2014

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

Statements of changes in equity for the year ended 31 March 2014

Group	Share	Share	Capital	Retained	Total equity
	capital	premium	redemption	earnings	
	£	£	reserve	£	£
At 1 April 2012	5,148,113	437,472	626,313	12,954,841	19,166,739
Issue of new ordinary shares on exercise of options	76,190	114,286	-	-	190,476
Purchase of ordinary share capital (including costs of	-	-	-	(15,191,577)	(15,191,577)

£127,393)					
Cancellation of own shares	(1,339,038)	-	1,339,038	-	-
Total comprehensive income for the year	-	-	-	3,682,555	3,682,555
At 31 March 2013	3,885,265	551,758	1,965,351	1,445,819	7,848,193
Cancellation of own shares	(19,485)	-	19,485	-	-
Receipt in relation to share cancellation	-	-	-	78,703	78,703
Total comprehensive income for the year	-	-	-	1,528,940	1,528,940
At 31 March 2014	3,865,780	551,758	1,984,836	3,053,462	9,455,836

Company	Capital				
	Share	Share	redemption	Retained	Total equity
	Capital	premium	reserve	earnings	
£	£	£	£	£	
At 1 April 2012	5,148,113	437,472	626,313	6,241,625	12,453,523
Issue of new ordinary shares on exercise of options	76,190	114,286	-	-	190,476
Purchase of ordinary share capital (including costs of £127,393)	-	-	-	(15,191,577)	(15,191,577)
Cancellation of own shares	(1,339,038)	-	1,339,038	-	-
Total comprehensive income for the year	-	-	-	9,025,624	9,025,624
At 31 March 2013	3,885,265	551,758	1,965,351	75,672	6,478,046
Cancellation of own shares	(19,485)	-	19,485	-	-
Receipt in relation to share cancellation	-	-	-	78,703	78,703
Total comprehensive loss for the year	-	-	-	(62,530)	(62,530)
At 31 March 2014	3,865,780	551,758	1,984,836	91,845	6,494,219

Consolidated statement of financial position as at 31 March 2014

	Note	2014		2013	
		£	£	£	£
Non-current assets					
Goodwill	13		3,273,142		3,273,142
Other intangible assets	14		536,476		627,271
Property, plant and equipment	15		439,833		411,514
Deferred tax asset	20		220,804		312,101
			4,470,255		4,624,028
Current assets					
Inventories	18	1,527,063		1,189,318	
Trade and other receivables	19	2,965,999		2,721,402	
Current tax asset		268,806		-	
Cash and cash equivalents		3,472,588		5,397,860	
		8,234,456		9,308,580	
Current liabilities					
Trade and other payables	21	(2,864,687)		(5,666,328)	
Current tax liability		(384,188)		(418,087)	
		(3,248,875)		(6,084,415)	

Net current assets	4,985,581	3,224,165
Net assets	9,455,836	7,848,193

Represented by:

Capital and reserves attributable to equity holders

Called up share capital	22	3,865,780	3,885,265
Share premium account	22	551,758	551,758
Capital redemption reserve	22	1,984,836	1,965,351
Retained earnings		3,053,462	1,445,819
Total equity		9,455,836	7,848,193

Company statement of financial position as at 31 March 2014

	Note	2014		2013	
		£	£	£	£
Non-current assets					
Property, plant and equipment	15	29,045			34,379
Investments in subsidiaries	16	6,649,322			6,650,322
		6,678,367			6,684,701
Current assets					
Trade and other receivables	19	69,487		43,802	
Cash and cash equivalents		147,600		1,097,303	
		217,087		1,141,105	
Current liabilities					
Trade and other payables	21	(401,235)		(1,292,760)	
Current tax payable		-		(55,000)	
		(401,235)		(1,347,760)	
Net current liabilities			(184,148)		(206,655)
Net assets			6,494,219		6,478,046

Represented by:

Capital and reserves attributable to equity holders

Called up share capital	22	3,865,780	3,885,265
Share premium account	22	551,758	551,758
Capital redemption reserve	22	1,984,836	1,965,351
Retained earnings		91,845	75,672
Total equity		6,494,219	6,478,046

Statement of cash flows for the year ended 31 March 2014

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£

Cash flows from operating activities				
Profit /(loss) before taxation	1,739,315	4,978,290	(62,799)	9,080,624
Adjustments for:				
Depreciation of property, plant and equipment	109,802	1,417,963	5,334	4,749
Amortisation of goodwill/investment write down	-	1,703,752	-	1,703,752
Amortisation of other intangible assets	494,351	533,392	-	-
Profit on disposal of tangible assets	(46,108)	(7,485)	-	-
Profit on dissolution of subsidiary	-	-	(60,656)	-
Interest expense	-	10,929	-	-
Interest receivable	(17,199)	(89,955)	(705)	(9,727)
Dividends receivable	-	-	-	(10,321,530)
Changes in working capital:				
(Increase)/decrease in receivables	(244,597)	4,501,079	(25,685)	(28,330)
(Increase)/decrease in inventories	(337,745)	123,317	-	-
(Decrease)/increase in payables	(2,801,641)	(5,504,824)	(891,525)	444,403
Cash (used in)/generated from operations	(1,103,822)	7,666,458	(1,036,036)	873,941
Interest paid	-	(10,929)	-	-
Income tax paid	(421,783)	(3,901,988)	(54,731)	-
Net cash (used in)/generated from operating activities	(1,525,605)	3,753,541	(1,090,767)	873,941
Cash flows from investing activities				
Purchase of property, plant and equipment	(175,613)	(287,729)	-	(3,038)
Expenditure on other intangible assets	(403,556)	(472,306)	-	-
Proceeds from the sale of property, plant and equipment	83,600	46,757	-	-
Proceeds from dissolution of subsidiary	-	-	61,656	-
Dividends received	-	-	-	10,321,530
Interest received	17,199	89,955	705	9,727
Net cash (used in)/generated from investing activities	(478,370)	(623,323)	62,361	10,328,219
Cash flows from financing activities				
Issue of share capital	-	190,476	-	190,476
Purchase of own shares	-	(15,191,577)	-	(15,191,577)
Received in relation to share cancellation	78,703	-	78,703	-
Net cash generated from/(used in) financing activities	78,703	(15,001,101)	78,703	(15,001,101)
Net decrease in cash and cash equivalents	(1,925,272)	(11,870,883)	(949,703)	(3,798,941)
Cash and cash equivalents at beginning of period	5,397,860	17,268,743	1,097,303	4,896,244
Cash and cash equivalents at end of period	3,472,588	5,397,860	147,600	1,097,303