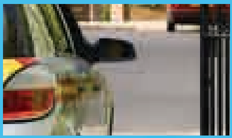
SectorGuard plc

Building security around you

INTERIM REPORT 2007

CORPORATE STATEMENT

SectorGuard is a leading provider of total security solutions ranging from risk assessments to the provision of physical security measures such as security officers, CCTV, access control and asset tagging.

SectorGuard's approach is to listen to our client's needs, carry out a risk assessment and then provide impartial advice, drawing on both our experience and the breadth of services we can provide in order to build a tailor-made security solution for each individual client.

SectorGuard is committed to an aggressive growth strategy combining selected acquisitions with targeted growth. This growth is underpinned by a high degree of client retention secured through our approach to client service.

HIGHLIGHTS

- Gross profit up to £2,005,807 (2006: £1,965,702)
- Gross margin rose from 21.6% to 23.4%
- Net cash inflow from operating activities of £1,366,430 – to be used to finance acquisitions and service debt redemption
- A number of new contracts for both manned guarding services and electronic security systems
- Acquisition of Protector, a specialist cctv system installer
- Continued investment in the development of the Group's infrastructure and systems
- Post period end, acquisition of the assets of Hertfordshire based security systems business – Euro Security Systems

CHAIRMAN'S STATEMENT

I am pleased to report on the six month period ended 31 March 2007 during which we have continued to build on both the Group's business base and its infrastructure. In the period under review we acquired Protector, a specialist cctv system installer, opened new offices in the North West of England to service our broadening client base and invested in systems and personnel across the Group to enable SectorGuard to take better advantage of business opportunities on offer. In addition, we have been awarded a number of new contracts for both manned guarding services and electronic security systems.

FINANCE

The gross profit generated in the period rose to £2,005,807 (2006: £1,965,702) and gross margin rose from 21.6% to 23.4%. The increase in margin is a result of our change in product and service mix in the reporting period and it is expected that this will vary with the incidence of new orders year-on-year. However, we are continuing to maintain our financial strength whilst winning business in an increasingly competitive marketplace. Operating profit before amortisation was £562,755 (2006: £665,945) generating a net cash inflow from operating activities of £1,366,430 in the period, which is being used to finance acquisitions and service debt redemption.

These accounts have been prepared in accordance with FRS 20 "Share-based payment" which requires a charge to be made to the profit and loss account in respect of our share option scheme. The adoption of this accounting standard has reduced our profits for the current period by £19,844 (2006: £14,577) and in accordance with FRS 20 we have restated prior year profits and created a share-based payment reserve with an opening balance of £67,054.

OPERATIONS

During the course of the period we completed the re-branding of the Group's divisions to present SectorGuard as a single source supplier whilst still demonstrating capability and expertise in each of our specialist areas. The first tangible reward for this exercise was the award of the JD Sports contracts for manned guarding, cctv and intruder alarm services to add to our existing contract with them for the supply of electronic article surveillance systems. We strongly believe that this is the way forward for the industry, with suppliers such as SectorGuard being able to implement value added solutions using complementary services and products. Other contracts SectorGuard was awarded in this period include Carillion FM, London Borough of Tower Hamlets, London Metropolitan University, London Borough of Camden and Medical Research Council.

ACQUISITIONS

In February 2007 we completed the acquisition of Protector, a specialist cctv system installer, which added a tier of senior level management to our fire and security systems division and strengthened our sales and engineering teams. The addition of Protector's senior staff to the core team we acquired on the acquisition of SectorAlarm two years ago will facilitate the expansion of the systems divisions of our business, both organically and through further acquisition.

Post period we have acquired the assets of Euro Security Systems ("Euro"), a business that specialises in the installation and maintenance of intruder alarm and cctv systems. This acquisition adds to our client base and extends the geographic spread of our engineering base to allow us to better serve our nationwide contracts. In addition, Una Riley the Managing Director of Euro, a leading figure in the security industry, has joined our senior executive team as Group Head of Communications with a view to further raising SectorGuard's profile with existing clients, prospective clients and the general public.

CURRENT TRADING AND FUTURE OUTLOOK

Since the period end we have continued to grow organically and, as detailed above, have completed the acquisition of Euro. We anticipate that this organic growth coupled with further acquisitions will continue to drive the growth of the business. In anticipation of this growth we are continuing to invest in the development of the Group's infrastructure and systems and expect the full year's results to reflect this investment.

There are a number of anticipated legislative and regulatory challenges to be faced by the security industry following on from the introduction of licensing last year. The next legislative change is the anticipated increase in statutory holiday leave from 20 days to 24 days with effect from 1 October 2007 and the subsequent increase to 28 days two years thereafter. This will inevitably have an inflationary effect on manned guarding contracts as well as lead to an increase in staffing numbers to cover the additional holiday periods. We have established a project team to assist the Group, our employees and our clients in the transition to 24 days holiday.

This has been a very busy start to the year with the opening of new offices, completion of two acquisitions and commencement of a number of contracts. I look forward to reporting on the full-year's impact at year-end.

David Marks

DAVID MARKS
CHAIRMAN
29 JUNE 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 31 March 2007

	Note	Six months ended 31 Mar 2007 (unaudited) £	Six months ended 31 Mar 2006 (unaudited) As restated £	Year ended 30 Sept 2006 (audited) As restated £
TURNOVER	4	8,559,670	9,104,547	17,781,897
Cost of sales		6,553,863	7,138,845	14,035,107
GROSS PROFIT		2,005,807	1,965,702	3,746,790
Operating expenses before goodwill amortisation		(1,443,052)	(1,299,757)	(2,301,550)
Goodwill amortisation		(220,059)	(206,729)	(409,994)
Operating expenses		(1,663,111)	(1,506,486)	(2,711,544)
OPERATING PROFIT	4	342,696	459,216	1,035,246
Interest receivable		4,929	129	12,143
Interest payable and similar charges		(46,328)	(62,480)	(152,868)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		301,297	396,865	894,521
Tax on profit on ordinary activities	2	(90,390)	(140,404)	(259,776)
PROFIT FOR THE PERIOD		210,907	256,461	634,745
EARNINGS PER SHARE (PENCE)	3			
Basic		0.07	0.08	0.21
Diluted		0.07	0.08	0.21

All the activities of the Group are classed as continuing.

The Group has no recognised gains or losses for the period other than those shown above.

CONSOLIDATED BALANCE SHEET

at 31 March 2007

	Note	As at 31 Mar 2007 (unaudited) £	As at 31 Mar 2006 (unaudited) As restated £	As at 30 Sept 2006 (audited) As restated £
FIXED ASSETS				
Intangible assets		7,436,108	6,932,659	6,741,235
Tangible assets		742,510	476,418	642,716
		8,178,618	7,409,077	7,383,951
CURRENT ASSETS				
Stocks		270,019	194,114	142,279
Debtors		4,115,370	4,918,201	4,543,382
Cash at bank	5	740,477	611,569	303,045
		5,125,866	5,723,884	4,988,706
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		(2,548,061)	(2,948,298)	(2,550,252)
NET CURRENT ASSETS		2,577,805	2,775,586	2,438,454
TOTAL ASSETS LESS CURRENT LIABILITIES		10,756,423	10,184,663	9,822,405
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		(1,648,758)	(936,688)	(666,812)
		9,107,665	9,247,975	9,155,593
PROVISIONS FOR LIABILITIES AND CHARGES		(323,044)	(833,154)	(269,657)
NET ASSETS		8,784,621	8,414,821	8,885,936
CAPITAL AND RESERVES				
Called-up share capital		1,558,542	1,525,625	1,547,726
Share premium account		4,793,981	4,759,505	4,756,463
Merger reserve		332,732	158,395	332,732
Share-based payment reserve	6	86,898	47,044	67,054
Own shares in employee share trust		(241,338)	(80,863)	(201,438)
Profit and loss account	6	2,253,806	2,005,115	2,383,399
SHAREHOLDERS' FUNDS	7	8,784,621	8,414,821	8,885,936

CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 31 March 2007

	Note	Six months ended 31 Mar 2007 (unaudited) £	Six months ended 31 Mar 2006 (unaudited) £	Year ended 30 Sept 2006 (audited) £
Net cash inflow/(outflow) from operating activities	5	1,366,430	(34,613)	541,835
Returns on investments and servicing of finance		(41,399)	(62,351)	(140,725)
Taxation		—	(112,000)	(323,962)
Capital expenditure and financial investment		(1,064,805)	(402,849)	(879,597)
Equity dividends paid		(340,500)	(305,125)	(305,125)
NET CASH OUTFLOW BEFORE FINANCING		(80,274)	(916,938)	(1,107,574)
Financing		517,706	588,073	470,185
INCREASE (DECREASE) IN CASH IN THE PERIOD	5	437,432	(328,865)	(637,389)

NOTES TO THE INTERIM STATEMENT

for the six months ended 31 March 2007

1. FINANCIAL INFORMATION

The interim results for the six months ended 31 March 2007 and six months ended 31 March 2006 are unaudited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. They have been drawn up using accounting policies and principles used in the preparation of the audited annual accounts for the year ended 30 September 2006 with the exception of the introduction of FRS 20 "Share-based payment" which requires a charge to be made to the profit and loss account in respect of equity-settled share-based payment transactions.

In accordance with transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 which had not vested before 1 October 2005.

The Group issues share options to selected employees with the aim of rewarding all staff equally for their loyalty to the Group. Share options are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, which is usually three years. Options are forfeited if the employee leaves before the option vests, and it is assumed that 50% of options will be forfeited.

Fair value is measured using the Black-Scholes model. A volatility of 50% has been assumed, reflecting the view of management that, as the business grows, the short-term impact of acquisitions on the share price will fall.

The comparative information for the year ended 30 September 2006 does not constitute statutory accounts within the meaning of section 240 of the Companies Act 2005, but it has been derived from the audited financial statements for that year which have been filed with the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2. TAXATION

The tax charge for the period is based on the anticipated effective tax rate for the year to 30 September 2007.

3. EARNINGS PER SHARE

The basic earnings per ordinary share is calculated by dividing profit for the period by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per ordinary share is calculated by dividing profit for the period by the weighted average number of shares outstanding during the period after adjusting both figures for the effect of dilutive potential ordinary shares.

An adjusted earnings per share figure has been calculated in addition to the earnings per share required by FRS 22 "Earnings per share". The directors believe that the presentation of an adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for goodwill amortisation, assists with understanding the underlying performance of the Group.

NOTES TO THE INTERIM STATEMENT

for the six months ended 31 March 2007

3. EARNINGS PER SHARE (CONTINUED)

	Six months ended 31 Mar 2007 No.	Six months ended 31 Mar 2006 (restated) No.	Year ended 30 Sept 2006 (restated) No.
Weighted average number of ordinary shares for the purpose of basic EPS	304,966,077	303,545,861	305,037,999
Effect of dilutive potential ordinary shares: share options	996,228	2,037,939	2,087,084
Weighted average number of ordinary shares for the purpose of diluted EPS	305,962,305	305,583,800	307,125,083
BASIC AND DILUTED EPS			
Profit after taxation	£210,907	£256,461	£634,745
Earnings per share	0.07p	0.08p	0.21p
EPS BEFORE AMORTISATION OF GOODWILL			
Profit after taxation	210,907	256,461	634,745
Adjustment for amortisation of goodwill	154,041	134,374	359,632
Adjusted profit after taxation	£364,948	£390,835	£994,377
Basic earnings per share	0.12p	0.13p	0.33p
Diluted earnings per share	0.12p	0.13p	0.32p

4. SEGMENTAL INFORMATION

	Turnover £	Operating profit £
Security personnel and response services	7,511,687	191,317
Fire and security systems and asset protection	1,047,983	151,379
PERIOD ENDED 31 MARCH 2007	**8,559,670**	**342,696**
Security personnel and response services	8,069,049	308,540
Fire and security systems and asset protection	1,035,498	150,676
Period ended 31 March 2006 (as restated)	9,104,547	459,216
Security personnel and response services	15,458,094	718,726
Fire and security systems and asset protection	2,323,803	316,520
Year ended 30 September 2006 (as restated)	17,781,897	1,035,246

5. CASH FLOW STATEMENT

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	£
Operating profit	342,696
Amortisation	220,059
Depreciation	108,141
Movement in share-based payment reserve	19,844
Profit on disposal of fixed assets	(4,675)
Increase in stocks	(127,740)
Decrease in debtors and prepayments	428,012
Increase in creditors and accruals	380,093
Net cash inflow from operating activities	1,366,430

5. CASH FLOW STATEMENT (CONTINUED)

ANALYSIS OF CHANGES IN NET DEBT

	At 30 Sept 2006 £	Cash flows £	Non-cash movements £	At 31 Mar 2007 £
Net cash: Cash at bank	303,045	437,432	—	**740,477**
Debt due within one year	(521,767)	467,410	—	**(54,357)**
Debt due after one year	(588,113)	(1,011,887)		**(1,600,000)**
Finance lease agreements	(149,108)	35,205	—	**(113,903)**
	(1,258,988)	(509,272)	—	**(1,768,260)**
Net debt	(955,943)	(71,840)	—	**(1,027,783)**

6. PRIOR PERIOD ADJUSTMENTS

The effect of the introduction of FRS 20 (see note 1) on the comparative financial information is as follows:

	At 31 Mar 2006 £	At 30 Sept 2006 £
PROFIT AND LOSS ACCOUNT:		
As previously reported	2,052,159	2,450,453
Effect of FRS 20	(47,044)	(67,054)
As restated	2,005,115	2,383,399
SHARE-BASED PAYMENT RESERVE:		
Effect of FRS 20	47,044	67,054
As restated	47,044	67,054

7. STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£
At 30 September 2006	8,885,936
Profit for the period	210,907
Dividends	(340,500)
Issue of new shares	48,334
Share-based payment reserve	19,844
Increase in own shares in employee share trust	(39,900)
AT 31 MARCH 2007	**8,784,621**

8. INTERIM REPORT

Copies of this Interim Report are being sent to all shareholders and will be available to the public from the Company's Head Office: Hanover House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire EN8 7TF.

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