



Security Research Group plc

Annual Report and Accounts 2014

The intelligence to protect

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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.

Chairman's Statement

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.

Jonathan Mervis

Chairman

4 July 2014

Directors, Secretary and Advisors

Directors

Jonathan Philip Mervis
Chairman

John Arthur Warwick FCA
Finance Director

Tweedie McGarth Brown CBE
Deputy Chairman

Bernard Cavan Connor
Chief Executive

John David Gawain Holme FCA
Non-executive Director

All of whose business address is
133 Ebury Street, London SW1W 9QU

Registered office

133 Ebury Street
London SW1W 9QU

Company secretary

John Arthur Warwick FCA

Auditors

Milsted Langdon LLP
Chartered Accountants
Winchester House
Deane Gate Avenue
Taunton
Somerset TA1 2UH

Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Nominated advisor and broker

W H Ireland Limited
24 Martin Lane
London EC4R 0DR

Solicitors to the company

Irwin Mitchell LLP
2 Wellington Place
Leeds LS1 4BZ

Principal bankers

Lloyds Bank plc
Corporate Markets
1st Floor
25 Gresham Street
London EC2V 7HN

Corporate Governance

Being a Company whose shares are admitted to AIM, the Company is not a listed company and therefore is not required to comply with the UK Corporate Governance Code on Corporate Governance. The Board has however adopted the following:

Board committees

The Board has two sub-committees, the Audit Committee and the Remuneration Committee, both of which include the Finance Director.

Audit committee

The Audit Committee is chaired by J D G Holme FCA, with its other member being J A Warwick FCA. Any director may attend by invitation. The external auditors may be invited to attend the meetings and have direct access to members of the Committee. The Audit Committee may examine any matters relating to the financial affairs of the Group including reviews of the annual and interim financial statements, announcements, internal control procedures and accounting policies.

Remuneration committee

The Remuneration Committee, which is chaired by J D G Holme FCA, reviews the performance of the executive directors, considers and approves all Board and senior executive appointments, remuneration and benefits including share options and service contracts. J A Warwick FCA is the other member of the Committee.

Internal financial control

The directors are responsible for the Group's system of internal financial control. A system can only provide reasonable and not absolute assurance regarding:

- the safeguarding of assets against unauthorised use or disposition;
- the minimisation of risk of material loss whilst in pursuit of the Group's business objectives; and
- the maintenance of proper accounting records and the reliability of financial information within the business or for publication.

Due to the size of the Group, a key control procedure during the year was the close day-to-day supervision by the executive directors.

Auditor independence

The Audit Committee reviews the services provided by the external auditors at least on an annual basis. This review includes consideration of the confirmation of independence which the external auditors provide to the Company on an annual basis and of the services which they provide to the Group, in order to ensure that their independence is not compromised.

Relations with shareholders

The directors seek to ensure that all shareholders are kept informed about the Group and its activities. A comprehensive annual report and financial statements and an interim report are sent to shareholders and there is frequent dialogue with institutional investors. The Annual General Meeting provides shareholders with the opportunity to meet and question directors. Details of the resolutions to be proposed at the Annual General Meeting, to be held on 22 August 2014, are set out in the notice of Annual General Meeting which is attached to this report.

Going concern

The directors consider, after making appropriate enquiries, that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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.

Strategic Report

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.

By order of the Board

John Warwick

Company Secretary

4 July 2014

Directors' Report

The directors present herewith their annual report and the audited financial statements for the year ended 31 March 2014.

Dividends

The directors do not recommend payment of a dividend.

Research and development

Audiotel International Limited continues its policy of investment in research and development in order to retain a competitive position in its market.

Cancellation of own shares

During the year the Company cancelled 97,424 shares of 20p each under section 662 of the Companies Act 2006. The shares were issued to a nominee company approximately 10 years ago in consideration for the assignment of an asset to the Company, but have never been claimed. In relation to this transaction a sum of £78,703 was also received by the Company in respect of a previous buy back of shares by the Company.

Directors and their interests

The directors of the Company during the financial year were:

J P Mervis
J A Warwick
T M Brown
B C Connor
J D G Holme

Contracts for directors' services and emoluments

The principal terms of the contracts entered into by directors for the provision of their services are summarised below:

	Effective date of contract	Current annual remuneration £	Notice period	Director's position
J P Mervis	5 January 2006 as subsequently amended	120,000	12 months	Chairman
J A Warwick	5 January 2006 as subsequently amended	120,000	12 months	Finance Director
T M Brown	10 January 2005 as subsequently amended	20,000	3 months	Deputy Chairman
B C Connor	13 March 2012	150,000	12 months	Chief Executive
J D G Holme	4 April 2008 as subsequently amended	20,000	1 month	Non-executive Director

Mr B C Connor is entitled to an annual performance bonus if Group operating profit targets are achieved.

Substantial shareholders

On 25 June 2014 the Company's register of shareholders showed the following interests in 3% or more of the Company's issued share capital:

	20p ordinary shares	%
Hawk Investment Holdings Limited	3,558,329	18.41
J P Mervis	2,795,945	14.47
Artemis Investment Management Limited	1,830,902	9.47
Groundlinks Limited	1,437,882	7.44
Seraffina Holdings Limited	1,367,734	7.08
Retro Grand Limited	1,247,319	6.45
J R Davie	611,714	3.16

Directors' Report

Directors' shareholdings

On 25 June 2014 the directors had the following interests in the Company's issued share capital:

	20p ordinary shares	%
J P Mervis	2,795,945	14.47
B C Connor	449,657	2.33
J D G Holme	261,329	1.35
J A Warwick	255,132	1.32
T M Brown	206,837	1.07

Financial risk management

The principal financial risks to which the Group is exposed relate to liquidity and credit. The policies and strategies for managing these risks are summarised as follows:

(a) liquidity risk

The Group actively maintains sufficient funds for current operations and planned expansions.

(b) credit risk

Credit risk refers to the risk that a counterparty will default on contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating financial risks from defaults.

The Group's principal financial assets are bank balances, cash and trade receivables. The Group has no significant concentration of credit risk with exposure spread over a large number of customers. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the statement of financial position are net of allowances for doubtful debts, estimated by the Group's management, based on prior experience and their assessment of the current economic environment. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The directors consider that the maximum exposure of the Group to credit risk to be the current assets of the Group excluding inventories.

Directors' indemnities

The Group has taken out third party indemnity insurance for the benefit of the directors during the year which remains in force at the date of this report.

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The directors are required under company legislation to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and the Group's profit or loss for that year. In preparing these financial statements, directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors have reasonable expectations that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The directors are responsible for ensuring that the annual report includes information required by the AIM Rules.

Directors' Report

The directors confirm that:

- So far as each director is aware there is no relevant audit information of which the Company's auditors are unaware; and
- The directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The maintenance and integrity of the corporate and financial information on the Group's website is the responsibility of the directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board's statement on corporate governance is set out on page 5.

A review of the Group's future developments is included in the Chairman's Statement.

Auditors

A resolution proposing that Milsted Langdon LLP be re-appointed as auditors of the Company will be put to the Annual General Meeting.

There is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

John Warwick

Company Secretary

4 July 2014

Independent auditors' report to the members of Security Research Group plc

For the year ended 31 March 2014

We have audited the financial statements of Security Research Group plc for the year ended 31 March 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 9 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Mr Nigel Fry (Senior Statutory Auditor)
For and on behalf of Milsted Langdon LLP
Chartered Accountants and Statutory Auditors
Taunton
4 July 2014

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.

The notes on pages 18 to 34 form part of these financial statements.

statements of changes in equity

For the year ended 31 March 2014

Group	Share capital £	Share premium £	Capital redemption reserve £	Retained earnings £	Total equity £
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 £127,393)	–	–	–	(15,191,577)	(15,191,577)
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	Share capital £	Share premium £	Capital redemption reserve £	Retained earnings £	Total equity £
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

The notes on pages 18 to 34 form part of these financial statements.

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	

Approved by the Board on 4 July 2014.

Jonathan Mervis

Director

John Warwick

Director

The notes on pages 18 to 34 form part of these financial statements.

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	

Approved by the Board on 4 July 2014.

Jonathan Mervis

Director

John Warwick

Director

The notes on pages 18 to 34 form part of these financial statements.

statements 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

The notes on pages 18 to 34 form part of these financial statements.

note to the statements of cash flows

For the year ended 31 March 2014

analysis of net funds

Group	At 1 April 2013 £	Cash flow £	At 31 March 2014 £
Cash and cash equivalents	5,397,860	(1,925,272)	3,472,588
	5,397,860	(1,925,272)	3,472,588

Company	At 1 April 2013 £	Cash flow £	At 31 March 2014 £
Cash and cash equivalents	1,097,303	(949,703)	147,600
	1,097,303	(949,703)	147,600

The notes on pages 18 to 34 form part of these financial statements.

notes to the financial statements

For the year ended 31 March 2014

1. accounting policies

Security Research Group plc, company number 03170812, is domiciled and incorporated in England under the Companies Act 1985.

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRSs), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted for use by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The financial statements have been prepared under the historical cost convention.

There were no new standards or interpretations that have been adopted by the Group in the current period.

There are no interpretations and amendments to existing standards that have been issued but are not yet effective that will have a material impact on the financial statements and have not been early adopted by the Group.

The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The directors have used significant judgements relating to assumptions concerning goodwill, and whether amounts included within accruals and deferred income will be payable.

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows.

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the Group's financial statements:

(a) consolidation

The consolidated financial statements include those of the Company and its subsidiaries from their date of acquisition. All acquisitions of subsidiaries have been accounted for under the acquisition method of accounting.

Under Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement.

(b) revenue

Revenue represents amounts receivable for goods, services and set up costs in respect of installation of production facilities net of VAT and discount and intra-Group transactions.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, it can be reliably measured and the following criteria are met:

(i) sale of goods

Sale of goods are recognised when risks and rewards of ownership of the goods have passed to the customer. Certain income is recognised on a milestone basis subject to meeting the criteria as stated within the relevant contract.

(ii) rendering of services

Rendering of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction.

(iii) set up costs

Set up costs are recognised evenly over the life of the relevant contract.

notes to the financial statements

For the year ended 31 March 2014

1. accounting policies (continued)

(c) property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment costs.

Depreciation is provided to write-off the cost less estimated residual value (based on prices prevailing at the date of acquisition) in annual instalments over the estimated useful economic lives of the assets. The depreciation rates used are as follows:

Freehold buildings	2% straight line
Leasehold property	Straight line over the life of the lease/life of contract
Fixtures, fittings and equipment	15% - 33.3% straight line/life of contract
Motor vehicles	25% - 40% straight line

(d) investments

Investments in subsidiary companies are valued at cost less provision for diminution in value.

(e) goodwill

Goodwill represents the difference between the fair value of the consideration paid on the acquisition of a business and the fair value of the identifiable net assets acquired.

Goodwill arising on acquisitions is capitalised and subjected to annual impairment reviews. Any excess of goodwill over the value in use of the underlying assets is written off to the income statement. The directors consider that the goodwill has an infinite life.

(f) foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in pounds sterling, which is the functional and presentational currency.

The Group has foreign currency transactions arising from the sales and purchases by an operating subsidiary in a currency other than the subsidiary's functional currency. Under the Group's foreign exchange policy, such transactions are recorded at the rate of exchange prevailing at the transaction date.

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the end of the financial year. All exchange differences are dealt with in the income statement.

(g) leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

(h) deferred tax

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax assets are recognised to the extent that they are considered recoverable in the foreseeable future. Any changes in the deferred tax asset are recognised immediately in the consolidated income statement.

The deferred tax balance has not been discounted.

(i) liquid resources

Liquid resources are defined as short term bank deposits and cash in hand.

(j) development expenditure and web design costs

Development expenditure and web design costs which meet the criteria for capitalisation, shown as other intangible assets, are written off over the period for which they are estimated to benefit future profitability of the Group but for no longer than 3 years, as the directors consider that the development expenditure and web design costs have a finite life.

(k) inventories

Inventories are stated at the lower of cost and net realisable value using the First In First Out (FIFO) cost basis. Costs include all direct costs incurred in bringing the inventories to their present location and condition, including where appropriate, a proportion of manufacturing overheads.

(l) pensions

The pension costs charged represent the contribution payable by the Group in the year.

notes to the financial statements

For the year ended 31 March 2014

1. accounting policies (continued)

(m) share based payments

The Group issues equity-settled share based payments to certain directors. Equity-settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and with a corresponding adjustment to equity.

Fair value is measured by use of the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2. segmental analysis

Business analysis

	Revenue	2014 Internal management charges	External sales	Revenue	2013 Internal management charges	External sales
	£	£	£	£	£	£
Specialist electronics	3,029,150	(268,600)	2,760,550	35,697,295	(12,131,050)	23,566,245
Property information services	4,692,537	–	4,692,537	4,234,208	–	4,234,208
Packaging solutions	1,607,673	–	1,607,673	1,563,440	–	1,563,440
Head office	670,294	(670,000)	294	1,920,000	(1,920,000)	–
	9,999,654	(938,600)	9,061,054	43,414,943	(14,051,050)	29,363,893

	2014 Operating profit/(loss)	Net operating assets/ (liabilities)	2013 Operating profit/(loss)	Net operating assets/ (liabilities)
	£	£	£	£
Specialist electronics	26,142	994,975	6,765,220	(1,512,271)
Property information services	844,679	2,988,777	152,244	2,934,992
Packaging solutions	313,182	1,994,153	301,947	1,964,075
Head office	(638,966)	5,343	(616,395)	(936,463)
	545,037	5,983,248	6,603,016	2,450,333
Exceptional items	1,177,079	–	(1,703,752)	–
	1,722,116	5,983,248	4,899,264	2,450,333
Interest bearing assets		3,472,588		5,397,860
Net assets		9,455,836		7,848,193

Revenue of specialist electronics and packaging solutions is represented by the sale of goods and revenue of property information services is represented by services rendered.

The activities of the Group are the manufacture and sale of specialist electronic equipment, the operation of a property franchising network together with its own large franchise and the manufacture of flexible packaging products.

The specialist electronics business had one customer (2013: one) with revenue in excess of 10% of Group revenue.

notes to the financial statements

For the year ended 31 March 2014

2. segmental analysis (continued)

Net operating assets analysis

	2014			2013		
	Segmental assets £	Segmental liabilities £	Segmental net operating assets/ (liabilities) £	Segmental assets £	Segmental liabilities £	Segmental net operating assets/ (liabilities) £
Specialist electronics	2,418,965	(1,423,990)	994,975	2,117,718	(3,629,989)	(1,512,271)
Property information services	4,601,044	(1,612,267)	2,988,777	4,110,925	(1,175,933)	2,934,992
Packaging solutions	2,143,983	(149,830)	1,994,153	2,237,563	(273,488)	1,964,075
Head office	68,131	(62,788)	5,343	68,542	(1,005,005)	(936,463)
	9,232,123	(3,248,875)	5,983,248	8,534,748	(6,084,415)	2,450,333

Additions to non-current assets and non-cash expenses

	2014			2013		
	Additions to non-current assets £	Depreciation and amortisation £	Impairment £	Additions to non-current assets £	Depreciation and amortisation £	Impairment £
Specialist electronics	385,018	(397,527)	–	536,463	(1,750,440)	–
Property information services	178,019	(131,384)	–	218,334	(159,700)	(1,416,694)
Packaging solutions	16,132	(23,800)	–	2,200	(28,981)	(287,058)
Head office	–	(5,334)	–	3,038	(4,749)	–
	579,169	(558,045)	–	760,035	(1,943,870)	(1,703,752)

All assets are held in the UK.

Geographical information

The Group operates in four main geographical areas although they are managed on a worldwide basis. Revenue is split as follows:

	2014 £	2013 £
United Kingdom	8,280,122	28,833,233
Asia and Middle East	552,130	226,482
Europe	163,371	241,836
Other	65,431	62,342
	9,061,054	29,363,893

3. exceptional administrative credits/(expenses)

	2014 £	2013 £
Legal settlement with local authorities	1,177,079	–
Goodwill impairment charge – property information services	–	(1,416,694)
Goodwill impairment charge – packaging solutions	–	(287,058)
	1,177,079	(1,703,752)

The amount of £1,177,079 is in respect of a legal settlement with local authorities regarding overpayments in prior years by the Property Information Services Division's own Franchise.

notes to the financial statements

For the year ended 31 March 2014

4. operating profit

	2014	2013
	£	£
Operating profit is stated after charging/(crediting):		
Auditors' remuneration:		
– audit	72,698	92,180
– tax services	4,520	4,500
Depreciation	109,802	1,417,963
Amortisation of other intangible assets	494,351	533,392
Profit on disposal of fixed assets	(46,108)	(7,485)
Loss/(profit) on exchange differences	6,124	(48)
Operating lease rentals:		
– plant and machinery	1,366	15,206
– other assets	234,076	427,101
Exceptional administrative (credits)/expenses – Note 3	(1,177,079)	1,703,752
Research and development	659,675	720,018

Remuneration for audit services payable to Milsted Langdon LLP amounted to £27,000 (2013: £30,000) and tax compliance services fees amounted to £3,000 (2013: £2,000).

The auditors' remuneration for audit services includes £10,468 (2013: £24,665) attributable to the audit of Audiotel International Limited and Security Research Limited; £9,230 (2013: £9,090) attributable to the audit of Rochdale Development Company Limited and Moore & Buckle (Flexible Packaging) Limited; £26,000 (2013: £24,750) attributable to the audit of PSG Franchising Limited, PSG Yorkshire Limited, PSG Energy Limited and PSG Financial Services Limited and £Nil (2013: £3,675) attributable to the audit of Ufford PCC Limited, subsidiaries of Security Research Group plc which are not audited by the Group's principal auditors. The auditors' remuneration for non-audit services includes £1,000 (2013: £2,000) payable to the auditors of Audiotel International Limited and Security Research Limited and £520 (2013: £500) payable to the auditors of Rochdale Development Company Limited and Moore & Buckle (Flexible Packaging) Limited.

5. staff costs

	2014	2013
	£	£
Staff costs are as follows:		
Wages and salaries	3,097,514	6,626,415
Social security costs	344,742	649,224
Pension contributions	225,130	103,716
	3,667,386	7,379,355

The average number of persons employed by the Group including directors was:

	2014	2013
	Number	Number
Administration	20	22
Production	62	153
Research and development	11	12
Sales and marketing	5	6
	98	193

notes to the financial statements

For the year ended 31 March 2014

6. pension costs

The Group operates a defined contribution pension scheme in respect of its directors and employees. The scheme and its assets are held by independent managers. The pension charge represents contributions due from the Group and amounted to £225,130 (2013: £103,716).

7. directors' remuneration

	Salary £	Pension contribution £	Other benefits £	2014 Total £	2013 Total £
Executive directors					
J P Mervis	120,000	–	–	120,000	160,000
J A Warwick	120,000	–	–	120,000	145,000
T M Brown	20,000	1,000	1,231	22,231	47,084
B C Connor	150,000	–	16,611	166,611	715,468
Non-executive directors					
J D G Holme	20,000	–	–	20,000	30,000
	430,000	1,000	17,842	448,842	1,097,552

No share options were exercised by the directors during the year. In the year to 31 March 2013 two directors, J A Warwick and T M Brown, exercised options.

The aggregate gains made by the exercise of share options in the year was £Nil (2013: £276,190).

8. finance costs

	2014 £	2013 £
Interest on late payment of corporation tax	–	(10,929)

9. finance income

	2014 £	2013 £
Bank interest	17,199	89,955

10. income tax expense

	2014 £	2013 £
UK corporation tax at 23% (2013: 24%)	115,382	1,522,909
Under-provision/(over-provision) in prior year	3,696	(40,120)
Current tax expense	119,078	1,482,789
Deferred tax expense/(credit)	91,297	(187,054)
	210,375	1,295,735

notes to the financial statements

For the year ended 31 March 2014

10. income tax expense (continued)

The tax for the year is lower (2013: higher) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	2014 £	2013 £
Profit on ordinary activities before taxation	1,739,315	4,978,290
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23% (2013: 24%)	400,042	1,194,790
Effects of:		
Expenses not deductible for tax purposes	11,194	72,050
Depreciation more than/(less than) capital allowances	21,868	(11,722)
Impairment charge not deductible for tax purposes	–	384,303
Marginal rate relief and lower tax rate in other jurisdictions	(14,480)	(11,748)
Research and development relief	(215,894)	(246,403)
Over-provision/(under-provision) in prior year	3,696	(40,120)
Other tax adjustments	3,949	(45,415)
	210,375	1,295,735

The Group has a carried forward loss for capital gains purposes amounting to £2,716,177 (2013: £2,776,540).

11. (loss)/profit of Parent Company

	2014 £	2013 £
(Loss)/profit on ordinary activities after taxation	(62,530)	9,025,624

12. earnings per share

Basic earnings per share is calculated on the Group profit after tax for the financial year of £1,528,940 (2013: £3,682,555) and on 19,380,415 ordinary shares, being the weighted average number of shares in issue in the year (2013: 23,173,628). Diluted earnings per share is calculated on the Group profit for the financial year and on 19,449,684 ordinary shares, being the weighted average number of shares in issue during the year adjusted to take account of shares under option (2013: 23,401,480).

notes to the financial statements

For the year ended 31 March 2014

13. goodwill

Group	£
Cost	
At 1 April 2012	14,627,755
Additions	–
At 31 March 2013	14,627,755
Additions	–
At 31 March 2014	14,627,755
Impairment	
At 1 April 2012	9,650,861
Charge for year	1,703,752
At 31 March 2013	11,354,613
Charge for year	–
At 31 March 2014	11,354,613
Net book value	
At 31 March 2014	3,273,142
At 31 March 2013	3,273,142

Goodwill acquired through acquisition has been allocated to individual cash generating units ('CGUs') for impairment testing. These are independent income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The carrying value of goodwill is as follows:

	2014 £	2013 £
Specialist electronics	73,142	73,142
Property information services	2,000,000	2,000,000
Packaging solutions	1,200,000	1,200,000
	3,273,142	3,273,142

Cumulative goodwill written off against reserves is £11,354,613 (2013: £11,354,613).

Goodwill written off during the year amounted to £Nil (2013: £1,416,694) relating to the goodwill of the property information services business and £Nil (2013: £287,058) relating to the packaging solutions business. In the case of property information services this reflected the fact that the level of housing transactions were unlikely to return to their previous levels for some considerable time and in the case of the packaging solutions business this reflected the harsher climate for businesses in general.

Goodwill is reviewed annually or when other events or changes in circumstances indicate that the carrying amount may not be fully recoverable. The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond this five year period are extrapolated for a further 5 years using a growth rate of up to 2.25%, which does not exceed the long term average growth for the United Kingdom, as the directors consider the goodwill to have a value for the foreseeable future. The key assumptions in these calculations are as follows:

- The achievement of budgeted operating profit over the next 5 years (2013: 5 years).
- A growth rate of up to 2.25% for the final 5 years (2013: 2.25%).
- The cash flows were discounted using a pre-tax discount rate of 5.0% (2013: 5.0%).

notes to the financial statements

For the year ended 31 March 2014

13. goodwill (continued)

Sensitivity analysis:

The value in use calculations in respect of the property information services division is dependent on the budgeted number of housing market property transactions being achieved. If a substantial change in the level of housing market property transactions was realised, namely a fall of 76% from those budgeted, and all other variables remained stable the carrying value of the goodwill in relation to the property information services division would not be further impaired.

The budgeted operating profit over the next 5 years assumes that the number of housing transactions increase from the present level of 800,000 per annum. Each 100,000 increase in the level of housing transactions should benefit the operating profit by not less than £250,000.

The value in use calculations in respect of the packaging solutions division is dependent upon the budgeted sales being achieved. If a change in the level of sales was realised, namely a fall of 22% from those budgeted and all other variables remained stable the carrying value of the goodwill in relation to the packaging solutions division would not be further impaired.

14. other intangible assets

Group	Development costs £	Web design costs £	Total £
Cost			
At 1 April 2012	1,258,554	375,141	1,633,695
Additions	361,455	110,851	472,306
Disposals	(221,032)	(82,245)	(303,277)
At 31 March 2013	1,398,977	403,747	1,802,724
Additions	329,837	73,719	403,556
Disposals	(175,464)	(93,634)	(269,098)
At 31 March 2014	1,553,350	383,832	1,937,182
Amortisation			
At 1 April 2012	695,365	249,973	945,338
Charge for year	431,481	101,911	533,392
Disposals	(221,032)	(82,245)	(303,277)
At 31 March 2013	905,814	269,639	1,175,453
Charge for year	396,598	97,753	494,351
Disposals	(175,464)	(93,634)	(269,098)
At 31 March 2014	1,126,948	273,758	1,400,706
Net book value			
At 31 March 2014	426,402	110,074	536,476
At 31 March 2013	493,163	134,108	627,271

The components of other intangible assets are £426,402 in respect of development costs for the specialist electronics division and £110,074 in respect of web design costs for the property information services division. Other intangible assets are amortised on a straight line basis at 33.3% per annum. All other intangible assets are internally generated. In the consolidated income statement the amortisation charge is included within administrative expenses.

notes to the financial statements

For the year ended 31 March 2014

15. property, plant and equipment

Group	Freehold land and buildings £	Leasehold property £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
Cost					
At 1 April 2012	190,474	986,686	2,268,472	235,038	3,680,670
Additions	–	116,713	66,541	104,475	287,729
Disposals	–	–	(10,790)	(88,714)	(99,504)
At 31 March 2013	190,474	1,103,399	2,324,223	250,799	3,868,895
Additions	–	–	39,793	135,820	175,613
Disposals	–	–	(137,701)	(136,599)	(274,300)
At 31 March 2014	190,474	1,103,399	2,226,315	250,020	3,770,208
Depreciation					
At 1 April 2012	31,482	576,363	1,411,072	80,733	2,099,650
Charge for year	4,071	495,736	848,936	69,220	1,417,963
Disposals	–	–	(10,403)	(49,829)	(60,232)
At 31 March 2013	35,553	1,072,099	2,249,605	100,124	3,457,381
Charge for year	4,071	4,039	38,159	63,533	109,802
Disposals	–	–	(137,261)	(99,547)	(236,808)
At 31 March 2014	39,624	1,076,138	2,150,503	64,110	3,330,375
Net book value					
At 31 March 2014	150,850	27,261	75,812	185,910	439,833
At 31 March 2013	154,921	31,300	74,618	150,675	411,514

Company	Leasehold property £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 April 2012	59,052	36,503	95,555
Additions	–	3,038	3,038
At 31 March 2013	59,052	39,541	98,593
Additions	–	–	–
At 31 March 2014	59,052	39,541	98,593
Depreciation			
At 1 April 2012	23,714	35,751	59,465
Charge for year	4,039	710	4,749
At 31 March 2013	27,753	36,461	64,214
Charge for year	4,039	1,295	5,334
At 31 March 2014	31,792	37,756	69,548
Net book value			
At 31 March 2014	27,260	1,785	29,045
At 31 March 2013	31,299	3,080	34,379

notes to the financial statements

For the year ended 31 March 2014

16. investments in subsidiaries

Company	£
Cost	
At 1 April 2012	16,500,087
Disposals	–
At 31 March 2013	16,500,087
Disposals	(1,000)
At 31 March 2014	16,499,087
Provision for impairment in value	
At 1 April 2012	8,146,013
Impairment charge	1,703,752
At 31 March 2013	9,849,765
Impairment charge	–
Disposals	–
At 31 March 2014	9,849,765
Net book value	
At 31 March 2014	6,649,322
At 31 March 2013	6,650,322

subsidiaries

	Number of shares	Total £
Audiotel International Limited	69,114	1,432,412
Rochdale Development Company Limited	357,500	1,442,816
PSG Franchising Limited	180	3,774,094
Patersons Financial Services Limited	40,002	–
At 31 March 2014		6,649,322

During the year Ufford PCC Limited was dissolved as it had ceased to trade.

notes to the financial statements

For the year ended 31 March 2014

17. subsidiary undertakings

The Company holds 100% of the share capital and voting rights of the following companies:

Name of subsidiary held directly	Nominal value of issued ordinary share capital £	Date acquired	Principal activity	Country of incorporation
Rochdale Development Company Limited	357,500	15 April 2004	Holding company	England
Audiotel International Limited	69,114	31 January 2003	Specialist electronics	England
PSG Franchising Limited	180	25 June 2004	Property information services	England
Patersons Financial Services Limited	40,002	1 January 2005	Non-trading	England
PSG Financial Services Limited	2	23 August 2005	Insurance services	England
Security Research International Limited	1	19 October 2011	Non-trading	England
PSG Solutions Limited	1	19 April 2005	Non-trading	England

Held indirectly

Moore & Buckle (Flexible Packaging) Limited		15 April 2004	Flexible packaging	England
Audiotel (UK) Limited		31 January 2003	Non-trading	England
Security Research Limited		31 January 2003	Specialist electronics	England
PSG Yorkshire Limited		1 February 2006	Property information services	England
PSG Energy Limited		6 September 2007	Energy surveys	England
Chalenor Legal Services Limited		19 October 2009	Non-trading	England

Moore & Buckle (Flexible Packaging) Limited is a wholly owned subsidiary of Rochdale Development Company Limited. Audiotel (UK) Limited and Security Research Limited are wholly owned subsidiaries of Audiotel International Limited. PSG Yorkshire Limited, PSG Energy Limited and Chalenor Legal Services Limited are wholly owned subsidiaries of PSG Franchising Limited.

During the year Ufford PCC Limited and Yorkshire Home Inspections Limited were both dissolved as they had ceased to trade.

18. inventories

Group	2014 £	2013 £
Raw materials and consumables	944,974	819,078
Work in progress	375,809	225,123
Finished goods and goods for resale	206,280	145,117
	1,527,063	1,189,318

The cost of inventories recognised as an expense during the year was £835,899 (2013: £8,704,788).

The amount of inventories written down to fair value, less costs to sell, recognised as an expense during the year was £Nil (2013: £3,448,800).

notes to the financial statements

For the year ended 31 March 2014

19. trade and other receivables

Group	2014	2013
	£	£
Trade receivables		
Current unimpaired	2,523,331	2,266,292
Overdue unimpaired	210,500	198,074
Less: allowance for doubtful debts	(47,862)	(49,745)
	162,638	148,329
Net trade receivables	2,685,969	2,414,621
Prepayments and accrued income	266,887	227,198
Other receivables	13,143	79,583
	2,965,999	2,721,402

The above debtors fall due within one year.

Current unimpaired trade receivables represent amounts due from customers that are not overdue in accordance with specific credit terms agreed with those customers.

The age profile of trade receivables that are past due but not impaired is as follows:

	2014	2013
	£	£
Up to 60 days	–	–
Between 60 and 90 days	30,381	45,543
Between 90 and 120 days	2,664	–
Over 120 days	129,593	102,786
	162,638	148,329

The allowance for doubtful debts is based upon past default experience. Debts with customers in liquidation or receivership are fully provided against. The movement in the provision during the year was as follows:

	2014	2013
	£	£
Balance at 1 April	49,745	63,621
Net amounts (written off)/written back in year	(19,718)	12,060
Income statement charged/(credited) in year	17,835	(25,936)
Balance at 31 March	47,862	49,745

Company	2014	2013
	£	£
Trade receivables	352	–
Amounts owed by group undertakings	30,401	9,639
Prepayments and accrued income	38,734	34,163
	69,487	43,802

The above debtors fall due within one year.

notes to the financial statements

For the year ended 31 March 2014

20. deferred tax asset/(liability)

Group	2014 £	2013 £
Movement		
At 1 April	312,101	125,047
(Charge)/credit in year	(91,297)	187,054
At 31 March	220,804	312,101
(Charge)/credit in year		
Capital allowances	(91,840)	198,458
Other timing differences	543	(11,404)
	(91,297)	187,054

The deferred tax asset is substantially in respect of capital allowances of the specialist electronics division.

The Group holds losses for capital gains purposes amounting at 31 March 2014 to £2,716,177 (2013: £2,776,540). No deferred tax asset is recognised in respect of these capital losses.

21. trade and other payables

Group	2014 £	2013 £
Current		
Trade payables	776,009	1,091,331
Other payables	48,609	44,187
Other taxes and social security	267,654	368,097
Accruals and deferred income	1,772,415	4,162,713
	2,864,687	5,666,328

Within accruals and deferred income is an amount of £1m being the director's best estimate of future obligations arising as a result of a past event. At 30 September 2013, as reflected in the interim results for the six months ended on that date, this obligation was estimated to be £1.5m.

Company	2014 £	2013 £
Current		
Trade payables	4,286	20,186
Amounts owed to group undertakings	345,500	349,808
Other taxes and social security	5,851	103,590
Accruals and deferred income	45,598	819,176
	401,235	1,292,760

notes to the financial statements

For the year ended 31 March 2014

22. share capital and reserves

	2014		2013	
	Number	£	Number	£
Authorised				
Ordinary shares of 20p each	35,000,000	7,000,000	35,000,000	7,000,000
Allotted and called up				
Fully paid ordinary shares of 20p each	19,328,900	3,865,780	19,426,324	3,885,265

In the year to 31 March 2014 97,424 ordinary shares of 20p each were cancelled under section 662 of the Companies Act 2006. The shares had been issued to a nominee company approximately 10 years ago in consideration for the assignment of an asset to the Company but have never been claimed. The company also received £78,703 in respect of this cancellation.

In the year to 31 March 2013 380,952 ordinary shares of 20p each with an aggregate nominal value of £76,191 were issued on exercise of share options and 6,695,193 ordinary shares of 20p each with an aggregate nominal value of £1,339,039 were purchased for a total consideration of £15,191,577 and cancelled.

In the year to 31 March 2013 the directors received the following consideration in respect of their shares being purchased by the Company. J P Mervis sold 1,003,993 ordinary shares, receiving consideration of £2,258,984, J A Warwick sold 76,611 ordinary shares receiving £172,374, T M Brown sold 59,183 ordinary shares receiving £133,162, B C Connor sold 161,454 ordinary shares receiving £363,272 and J D G Holme sold 102,569 ordinary shares receiving £230,780.

A description of the nature and purpose of each reserve is set out below:

Share premium account

The share premium account of £551,758 has arisen due to the issue of 350,000 shares at a premium of 1.5p per share, 1,580,952 shares at a premium of 30p per share and 138,888 shares at a premium of 52p per share.

Capital redemption reserve

The capital redemption reserve of £1,984,836 has arisen due to 9,826,756 shares of 20p each having been bought back and cancelled and 97,424 shares of 20p each having been cancelled under section 662 of the Companies Act 2006. The creation of the capital redemption reserve preserves the capital of the Group and Company.

23. share options

At 31 March 2014 share options were held by directors in respect of 460,160 (2013: 460,160) shares analysed as follows:

Name	1 April 2013	Exercised in year	31 March 2014	Option price per share	Exercisable
J A Warwick	159,524	–	159,524	50p	14/02/2008 - 14/02/2016
T M Brown	109,524	–	109,524	50p	14/02/2008 - 14/02/2016
T M Brown	30,000	–	30,000	72p	02/04/2009 - 02/04/2017
B C Connor	161,112	–	161,112	72p	02/04/2009 - 02/04/2017

No options were granted or lapsed during the year.

It is the Board's intention to keep the number of options outstanding at no more than 10% of the issued share capital.

notes to the financial statements

For the year ended 31 March 2014

23. share options (continued)

share based payments

The options for directors were introduced in February 2006 and April 2007. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 8 years following the vesting period. There are no reload features. Exercise of an option is dependent on continued employment. Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The expected dividends factored into the model are £Nil. The fair value per option granted and the assumptions used in the calculation are as follows:

	Grant date 2 April 2007	Grant date 14 February 2006
Share price at grant date	72p	50p
Exercise price	72p	50p
Number of directors	2	2
Share options granted	330,000	1,278,572
Shares options remaining	191,112	269,048
Vesting period	2 years	2 years
Expected volatility	60%	60%
Option life (years)	10	10
Risk free rate	5.37%	4.44%
Fair value per option	26.2p	17.9p

The expected volatility is based on historical volatility over the year preceding the grant of options. The risk free rate of return is the yield on zero-coupon UK government bonds issued consistent with the assumed option life. A reconciliation of option movements over the year to 31 March 2014 is shown below.

	2014 Number of shares	2013 Number of shares
Outstanding at 1 April	460,160	841,112
Granted	–	–
	460,160	841,112
Exercised	–	(380,952)
Outstanding at 31 March	460,160	460,160
Exercisable at 31 March	460,160	460,160

No options were exercised during the year. In the year to 31 March 2013 the weighted average share price at the date of exercise was 122.5p.

The weighted average option price at 31 March 2014 was 59.1p (2013: 59.1p).

The weighted average contract life of the options outstanding at 31 March 2014 was 28 months (2013: 40 months).

notes to the financial statements

For the year ended 31 March 2014

24. financial instruments

capital management

The Group finances its operations through retained earnings and the management of working capital.

financial risk management

The principal financial risks to which the Group is exposed relate to liquidity and credit. The policies and strategies for managing these risks are summarised as follows:

(a) liquidity risk

The Group actively maintains sufficient funds for operations and planned expansions.

(b) credit risk

Credit risk refers to the risk that a counterparty will default on contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating financial risk from defaults.

The Group's principal financial assets are bank balances, cash and trade receivables. The Group has no significant concentration of credit risk with exposure spread over a large number of customers. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the statement of financial position are net of allowances for doubtful debts, estimated by the Group's management, based on prior experience and their assessment of the current economic environment. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The directors consider that the maximum exposure of the Group to credit risk to be the current assets of the Group excluding inventories.

At 31 March 2014 the Group had financial assets as follows:

	2014	2013
	£	£
Cash at bank	3,472,588	5,397,860

The rate of interest receivable on financial assets is variable.

fair values of financial assets

The fair value is an amount at which a financial instrument could be exchanged in an arms length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest.

The fair value of cash deposits approximates to the carrying amount because of the short maturity of these instruments.

25. financial commitments

The Group leases various properties and other items under non-cancellable operating lease agreements. The total future minimum lease payments under non-cancellable operating leases are as follows:

Group	2014		2013	
	Land and buildings £	Other £	Land and buildings £	Other £
Within one year	236,916	5,526	214,416	5,526
In the second to fifth year	583,770	5,955	435,020	8,478
After five years	135,000	–	243,000	–
	955,686	11,481	892,436	14,004

The main leases are in respect of the leasing of land and buildings from which the Group's operations are carried out. One lease has a rent review every 5 years and the review is imminent. Otherwise there are no renewal or purchase options and no escalation clauses or restrictions apply.

notice of annual general meeting

For 2014

Notice is given to all shareholders that the Annual General Meeting of Security Research Group plc (“the Company”) for 2014 will be held at the offices of the Company, 133 Ebury Street, London SW1W 9QU on 22 August 2014 at 12 noon for the transaction of the following business. Resolutions 1 to 5 inclusive will be proposed as ordinary resolutions and resolutions 6 and 7 will be proposed as special resolutions:

ordinary business

1. To receive the Company’s financial statements for the financial year ended 31 March 2014 together with the strategic report, the directors’ report and the auditors’ report on those financial statements.
2. To re-appoint B C Connor as director of the Company, who retires under Article 93 at the Annual General Meeting.
3. To re-appoint T M Brown as director of the Company, who retires under Article 93 at the Annual General Meeting.
4. To re-appoint Milsted Langdon LLP, Chartered Accountants and Registered Auditors, as auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the directors to determine the auditors’ remuneration.

special business

5. That the directors be generally and unconditionally authorised, pursuant to Section 551 of the Companies Act 2006 (“the Act”), to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £3,134,220 provided that:
 - 5.1 this authority shall expire 15 months from the date of this resolution or at the Company’s next Annual General Meeting, if earlier; and
 - 5.2 that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement notwithstanding that the authority conferred hereby has expired and that this authority shall be in substitution of all previous authorities conferred upon the directors pursuant to the said Section 551.
6. That, subject to the passing of resolution 5 above, the directors be and they are hereby empowered pursuant to Section 570 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash pursuant to the general authority granted in resolution 5 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - 6.1 the allotment of equity securities in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer to the holders of ordinary shares and other persons entitled to participate therein in proportion to their respective holdings, subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory authority or any stock exchange in any territory;
 - 6.2 the allotment (otherwise than pursuant to 6.1 above) of equity securities up to an aggregate nominal amount of £773,156 (being approximately 20% of the issued ordinary share capital of the Company);and such power shall expire 15 months from the date of this resolution or at the Company’s next Annual General Meeting, if earlier, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.
7. That, subject to passing the above resolutions 5 and 6 above, the Company be generally and unconditionally authorised for the purpose of Section 701 of the Companies Act 2006 to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of ordinary shares of 20p each in the capital of the Company (‘Ordinary Shares’) on such terms and in such manner as the directors of the Company may from time to time determine provided that:
 - 7.1 The maximum number of Ordinary Shares hereby authorised to be purchased is 7,731,560 (representing 40% of the Company’s issued Ordinary Share capital);
 - 7.2 The amount paid for each such share shall not be more than 5% above the average of the middle market quotation for Ordinary Shares as derived from the AIM Appendix to the Daily Official List of the London Stock Exchange plc for the 10 Business Days immediately preceding the date on which the contract for purchase is made, and in any event not less than 20p per Ordinary Share; and
 - 7.3 The authority herein contained shall expire in 15 months or at the conclusion of the next Annual General Meeting if earlier provided that the Company may before such expiry make a contract for the purchase of Ordinary Shares under the authority which would or might be executed wholly or partly after the expiry of this authority and may make purchases of Ordinary Shares in pursuance of such contract as if the authority hereby conferred had not expired.

By order of the Board

John Warwick
Company Secretary
4 July 2014
133 Ebury Street
London
SW1W 9QU

notice of annual general meeting

For 2014

Notes:

1. A member entitled to attend and vote at the meeting convened by the notice set out above may appoint a proxy to exercise all or any of his rights to attend, speak and vote instead of him. A proxy need not be a member of the Company. A member may appoint more than one proxy if each proxy is appointed to exercise the rights attaching to different shares held by the member. To appoint more than one proxy, please contact the Company's Registrars, Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF.
2. A form of proxy is provided. To be effective, the form of proxy must be received at the office of Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF not less than 48 hours before the time fixed for the Annual General Meeting. Completion of the form of proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.
3. The register of interests of the directors and their families in the share capital of the Company and copies of contracts of service of directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the meeting.
4. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 48 hours before the date of the meeting, or, if the meeting is adjourned, shareholders entered on the Company's register of members not less than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.
5. As at 25 June 2014, the Company's issued share capital comprised 19,328,900 ordinary shares of 20p each. Each ordinary share carries the right to one vote at a general meeting of the Company.



UK made, trusted the world over



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The intelligence to protect