

## PSG SOLUTIONS PLC

### PRELIMINARY RESULTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007

#### Highlights

- Turnover increased by 16.8% to £14.5 million (2006: £12.4 million)
- Profit before taxation increased to £3.8 million including exceptionals (2006: loss of £0.7 million)
- Profit before exceptionals and taxation £3.3million (2006 £1.6million)
- Net Cash of £1.2 million (2006 borrowings of £1.5m)
- 17.1% increase in number of searches conducted equating to 50% of personal search sector

Jonathan Mervis, Chairman said “Though the uncertainty regarding HIPS may partially negate progress in 2008, the Board remains confident that the strategic investment which has been made in staff, marketing, premises and IT will further enhance our unique position in the market. We look forward to seeing the resumption of strong growth.”

#### Chairman’s Statement

It is a pleasure to report a profit before tax of £3,769,432 compared with a loss of £710,617 last year. Net of exceptional gains this year of £480,467 the profit before tax was £3,288,965. Turnover for the year was £14,568,255 compared with £12,907,546 last year.

These results were achieved after substantial increased investment at PSG Franchising Limited (“PSG”) in staff, marketing, larger premises and legal protection for personal search. Substantial ongoing investment is being made to develop the IT systems for delivery of Personal Search, related products and the nascent Home Information Packs (HIPS). All significant costs relating to the above have been charged against profits.

The Group Balance Sheet has strengthened considerably with net cash at year end of £1,242,791 compared to borrowings of £1,463,981 last year.

PSG delivered 328,000 (280,000 last year) personal searches during the year equating to about 25% of home sales and 50% of the personal search sector. Together with its franchisees, PSG is well prepared to provide HIPS, as and when they become mandatory.

PSG has a local presence spread nationally through its 83 franchisees across England and Wales to provide a service to solicitors, estate agents, surveyors and mortgage providers. This “hands on” presence combined with an IT system, that when further developed, will be able to deliver more products on line to captive clients. This platform and the national sales force gives PSG a unique conduit to sell into the conveyancing process.

Audiotel and Moore & Buckle made satisfactory operating profits of £479,292 and £406,633 respectively. Steady progress was made in the disposal in part of the Group’s holdings in some of its investments.

A breakdown of pre-tax profit between the Group’s activities for the years ended 31 March 2007 and 2006 are:

	2007	2006
	£’000	£’000
PSG Franchising	2,995	2,138
Audiotel	479	272
Moore & Buckle	407	412
Paterson Financial Services	<u>315</u>	<u>224</u>
	4,196	3,046
Less		
Head Office costs	(827)	(1,023)
Interest	<u>(80)</u>	<u>(461)</u>

Exceptional gains / (losses)	3,289	1,562
	<u>480</u>	<u>(2,272)</u>
Total pre-tax profit/ (loss)	<u>3,769</u>	<u>(710)</u>

## PSG

PSG is the leading provider of local authority residential property searches in England and Wales.

The success of the business and the potential for maximising profits is geared to the co-operation engendered between PSG as franchisor with its franchisees. The franchisees have in aggregate around 800 employees who give the operation an exceptional capacity nationally to market services and products locally to high street customers. Home selling and conveyancing benefits significantly from a hands on personal touch. PSG's model is exceptional and no competitor has a similar coverage. Most are considerably smaller, and are either regional or rely more heavily on call centres or websites. This makes PSG an attractive conduit to deliver not only its own products but also the products of others into the conveyancing industry.

With or without HIPS their potential advent has afforded the opportunity to the franchisees to expand their solicitor client base and to establish new business relationships with many other high street providers of products and services into the home transfer industry – mainly estate agents.

## The IT Pipeline

The IT pipeline is the major single key development required to lift PSG to another level of performance. An effective IT system enables the franchisor to manage the business performance of the franchisees, plan an effective marketing strategy and easily furnish the customer with what he wants. Progress with the new system has been slow previously. Radical changes in the management of the IT development were adopted in April 2007 and the Board is determined to ensure that there is a system in place to deliver PSG's full potential on the back of its formidable Personal Search business. If franchisee feedback is a reliable indicator their response to the most recent release relating to the new HIPS ordering system was very positive.

## Management

In April 2007, Tweedie Brown became the Group Managing Director with additional responsibility across the Group. Bernie Connor managing director of Audiotel, was appointed Director of Group Operations and is now responsible for the day to day operations at PSG. Other key appointments have been an experienced and qualified head of finance the first since PSG was acquired by the Group in 2004, and the third of three new business development/franchise support managers.

The senior management team has been re-structured to enable each executive to assume responsibility and maintain focus on their respective, clearly-defined management roles.

## HIPS

There is a substantial opportunity for PSG through HIPS due to the increased and added value afforded to the HIP and its content. The challenge is for PSG to convert as many searches as possible into PSG delivered HIPS. Whereas currently the customer for Personal Search is exclusively the solicitor, for HIPS the main customer conduit becomes the estate agent. The saga of the ever changing implementation of the HIPS process has been reported fully in the press. At the time of writing, uncertainty still remains as to the content, procedures and timing of implementation of the HIP within the home conveyancing process. PSG's inherent strength, as mentioned, is a 'local presence' backed by a national brand. This USP provides PSG with a distinct advantage against the competition and enables the franchise network to not only market HIPS but also to retain the greatest capacity of the 'traditional' market for Personal Search nationally in volume terms.

These factors will assume greater significance as HIPS is fully implemented. In fact the requirement for Personal Search is forecast to rise by 50% to cater for homes advertised for sale but not sold. PSG has been actively involved in the pilot provision of HIPS and recent experiences have been encouraging where the franchisees have been marketing successfully to new estate agent customers.

Central to the latest version of HIPS is the provision of an Energy Performance Certificate (EPC) by a Domestic Energy Assessor (DEA) which is intended to be provided prior to marketing of a property. The ability to supply both a search and an EPC combined with PSG's marketing strength will be invaluable in securing an attractive HIPS market share. It follows that with DEAs in short supply, PSG has established a joint scheme with its franchisees to put in place a rapid and cost effective route to provide training for DEAs. This initiative is in addition to a number of the franchisees investing significant sums for the training of their own DEAs. If the EPC is fully introduced PSG will benefit considerably.

PSG has made an arrangement with the Ministry of Defence to sponsor HM Forces' personnel as part of their resettlement package to undergo training as Home Inspectors and to be employed by any of the franchisees as demand dictates. Home Inspectors are the regulated providers of the Home Condition Report, originally to be a mandatory prerequisite to a HIP. These reports ceased to be mandatory in July 2006. They always have been however the *raison d'être* of a HIP. Their training incorporates that of a DEA role as well as of Home Inspector. Twenty six Service-Leaver students are on the first course and subsequent courses are already planned. When the HIPS era is properly established these home inspectors will contribute to the PSG HIPS offering.

### **Marketing for Hips**

PSG has used the introduction of HIPS to promote its brand and services to new categories of customers, mainly local estate agents. Assiduous local marketing by hardworking franchisees coupled with national brand awareness is likely to reward the PSG network by attracting significant market shares within their territories when HIPS arrive in full. New marketing and PR support provided by PSG has been used to good effect by many of the franchisees.

### **Protecting PSG's Legal Rights**

On a daily basis PSG's franchises have to contend with Local Authorities illegally restricting free access to the Land Charges and other public registers, whilst at the same time using their own unfettered access to sell their products commercially. Despite such anti-competitive behaviour amounting to an abuse of the Local Authorities' dominant market position, PSG's franchisees have still managed, often in trying circumstances, to produce commendable results. The Company continues to press for fair treatment within the law and has prosecuted its case in the courts as well as with Ministers and officials at the Communities and Local Government Department, the Department for Constitutional Affairs, the Office of Fair Trading and the Department for Trade and Industry. Cases, both nationally and locally, are fought by our legal and lobby advisers, using the very best legal opinion available in Public and Competition Law. PSG recognises the true significance to its business of its rights in law and will never shirk from protecting and enforcing them. Over £1million has been spent in recent years.

### **Paterson Financial Services**

Paterson Financial Services ("PFS") derives most of its income from providing insurance services to PSG and increased its income in line with the growth in personal search. It continues to develop innovative insurance products for example insuring environmental risk and a number of insurances for HIPS. The IT distribution pipeline will over a period enable these products to be delivered seamlessly.

### **Audiotel**

Audiotel designs and manufactures surveillance and counter surveillance equipment for government agencies and a growing number of commercial clients. Following key organisational changes, Audiotel has streamlined all internal processes and procedures to become a fully integrated business through all its facets, particularly product development, manufacturing and sales. Most of the product and software development is done in house. Audiotel has also substantially reduced its break-even level by decreasing its fixed costs. Turnover this year was £2.7 million with a net operating profit of £479,000. It follows that any incremental increase in sales will greatly enhance profits.

It's full range of Technical Surveillance Countermeasures (TSCM) products contributed to this year's successes culminating in a major order from Indonesia for the SuperBroom non linear junction detectors and the Scanlock M2 scanning receiver which are used to detect covert listening devices, hidden cameras, concealed mobile phones and other hidden electronics even when switched off.

The RoomGuard anti - eavesdropping system was specifically developed to provide 24/7 RF surveillance protection mainly for the corporate and commercial market. There has been slow progress with the deployment of these systems due in part to the resistance of labour intensive sweep teams who may be wary of RoomGuard's threat to themselves. The product however has some notable benefits in that it affords round the clock cover and can be deployed in multiple installations globally that can be monitored centrally by a dedicated security team. Trials are under way with a major global corporate with that objective. CasinoGuard, a system similar in nature to RoomGuard has been developed and deployed in a number of prime London Casinos including The Ritz and The Colony Club. This system is targeted at the early detection of 'Advantage Gaming', a problem that is estimated to involve major losses to casinos running into £200,000 to £300,000 each occurrence.

A new handheld radio transceiver has been developed for eavesdropping surveillance work at a time when law enforcement agencies including counter terrorism units are anticipated to increase demand. The new transceiver is much more compact, performs as well, and is as mobile as a cell phone. Its additional functionality for example enables the embedded sharp end devices (microphones) to be monitored for remaining battery life. A multi lingual

user interface will be user friendly to foreign law enforcement agencies. The new transceiver has software driven innovations to update functionality. A new cradle for the transceiver will enable the global relay of the surveillance data to any location.

One notable success in the year was a two day Distributor Conference held at its base near Corby attended by most of Audiotel's sales agents from around the world. This event enabled network to learn at first hand about existing and new products and proved to be a valuable input for future development and marketing strategies. The company and the delegates that attended both applauded the success of the event and as a result it is hoped that it will become a more regular occurrence.

### **Moore & Buckle**

Moore & Buckle, based at St Helens proved its consistency by producing operating profits of £407,000 on a turnover of £1,309,000. These are exceptional margins which have been produced consistently. They result from the diligent commitment of a loyal and skilled team led by the Managing Director Bruce Pritchard. The high level of service required restricts the growth rate of this business to short run specialist flexible packaging requiring bespoke solutions.

Clean room facilities have been introduced for hygiene approval to supply packaging to the food industry. It is proposed to acquire a local Barrier Foil Packager which will add turnover of around £170,000 and works on similar margins to Moore & Buckle.

Improvements in all aspects of the business are constantly being made which underpin the future reliability of the return.

In view of the above, the Board is comfortable with retaining ownership in the absence an offer to buy out the business from the Group on a reasonable basis.

### **Investments and Subsidiaries**

The Group has disposed of its entire interest in Tomco Energy plc (formerly Netcentric Investments plc) and a 1.62% interest in Energy Technique plc leaving the Group with a 6.6% holding in that company. Avatar Systems Inc., in which the Group owns a 19% interest, made a small acquisition, but has found it difficult to generate overall profit growth. The Group continues to review its options as to the future of its holding with Avatar's management. 1<sup>st</sup> Mortgage Company Limited was liquidated during the year as it had ceased to trade.

### **Exceptional Credits**

As well as the profit on the disposal of Tomco Energy plc of £268,000 and the profit on the disposal of Energy Technique plc totalling £49,000 exceptional credits additionally included a credit of £163,000 in connection with the original acquisition of Moore & Buckle.

### **The Board**

During the year Tweedie Brown moved from Operations Director to Group Managing Director. Bernie Connor was appointed a Director responsible for Group Operations splitting his role between Audiotel and PSG. James Rae a senior executive with the Consensus Group became a Non Executive Director. John Burley has recently given notice that he is resigning as a Non Executive Director from the Board, effective from 18<sup>th</sup> September 2007.

### **Employees**

At PSG the year has been dominated by the on/off implementation of HIPS and the development of the IT system which has taxed the ingenuity and resource of employees and the Franchisees for which we are grateful. The management and employees at Audiotel and Moore & Buckle have delivered commendable trading performances and demonstrated outstanding commitment.

### **Outlook**

The Group has strengthened its position substantially, turning round a pre tax loss of £710,617 to a pre tax profit in excess of £3.7 million.

Continued growth in the Personal Search Market through the PSG Franchisee Network (with or without HIPS) will provide the platform to market new products and services to its existing customer base.



<b>Fixed assets</b>		
Intangible assets	12,905,478	12,871,450
Tangible assets	524,353	613,324
Investments	210,381	375,000
	<b>13,640,212</b>	<b>13,859,774</b>
<b>Current assets</b>		
Stocks	584,431	676,799
Debtors	3,779,631	2,804,025
Cash at bank and in hand	3,431,401	1,666,429
	<b>7,795,463</b>	<b>5,147,253</b>
<b>Creditors:</b> amounts falling due within one year	<b>(4,406,862)</b>	<b>(4,148,197)</b>
<b>Net current assets</b>	<b>3,388,601</b>	<b>999,056</b>
Total assets less current liabilities	<b>17,028,813</b>	<b>14,858,830</b>
<b>Creditors:</b> amounts falling due after more than one year	<b>(1,633,310)</b>	<b>(2,600,697)</b>
<b>Net assets</b>	<b>15,395,503</b>	<b>12,258,133</b>
Represented by:		
Capital and reserves		
Called up share capital	5,436,648	5,356,648
Share premium account	8,529,769	8,449,769
Profit and loss account	1,429,086	(1,548,284)
<b>Shareholders' funds</b>	<b>15,395,503</b>	<b>12,258,133</b>

<b>group cash flow statement</b>	<b>2007</b>		<b>2006</b>
<b>For the year ended 31 March 2007</b>	<b>£</b>	<b>£</b>	<b>£</b>
Net cash inflow from operating activities		<b>3,418,736</b>	1,677,309
Returns on investments and servicing of finance			
Bank interest received	80,701		10,398
Bank interest paid	(156,798)		(463,761)
Interest element of finance lease payments	(3,502)		(7,649)
		<b>(79,599)</b>	(461,012)
Taxation			
Corporation tax paid		<b>(182,861)</b>	(228,817)
Capital expenditure and financial investment			
Payments to acquire tangible assets	(130,959)		(141,057)
Receipts on disposal of tangible assets	57,281		9,000
Payments to acquire investments	—		(573,188)
Receipts on disposal of investments	481,565		248,918
		<b>407,887</b>	(456,327)
Acquisitions and disposals			
Payments to acquire goodwill of business	(50,000)		-
Payments to acquire subsidiary undertaking	—		(147,377)
Cash acquired in subsidiary undertakings	—		15,779
Deferred consideration	(952,436)		(1,271,171)
		<b>(1,002,436)</b>	(1,402,769)
Net cash inflow/ (outflow) before financing		<b>2,561,727</b>	(871,616)
Financing			
Issue of share capital	-		5,128,968
Capital element of finance lease contracts	(33,482)		(69,780)
Bank loan repaid	(748,318)		(3,080,795)
Purchase of own shares	(14,955)		—
		<b>(796,755)</b>	1,978,393
<b>Increase in cash for the period</b>		<b>1,764,972</b>	<b>1,106,777</b>

Reconciliation of net cash flow to movement in net funds/(debt)		
Increase in cash for the year	<b>1,764,972</b>	1,106,777
Movement in bank loans	<b>908,318</b>	3,080,795
Decrease in finance leases	<b>33,482</b>	69,780
Movement in net funds/(debt)	<b>2,706,772</b>	4,257,352
Net debt at 1 April 2006	<b>(1,463,981)</b>	(5,721,333)
Net funds/(debt) at 31 March 2007	<b>1,242,791</b>	(1,463,981)

**reconciliation of operating profit/ (loss) to net cash inflow from operating activities**

	2007	2006
	£	£
Operating profit/ (loss)	<b>3,849,031</b>	(249,605)
Depreciation	<b>150,237</b>	156,856
Loss on disposal of tangible fixed assets	<b>12,411</b>	2,970
Profit on disposal of investments	<b>(316,946)</b>	—
Impairment in the value of investments	—	752,178
Amortisation of goodwill	<b>408,474</b>	600,000
Share based payments	<b>193,963</b>	-
Increase in debtors	<b>(930,503)</b>	(652,056)
(Decrease)/ increase in creditors	<b>(40,299)</b>	838,959
Decrease in stocks	<b>92,368</b>	228,007
Net cash inflow from operating activities	<b>3,418,736</b>	1,677,309

**analysis of net ( debt)/ funds**

	At 1 April 2006	Cash flow	At 31 March 2007
	£	£	£
Cash in bank and in hand	1,666,429	1,764,972	<b>3,431,401</b>
Debt due within one year	(825,011)	275,011	<b>(550,000)</b>
Debt due after one year	(2,266,077)	633,307	<b>(1,632,770)</b>
Finance lease	(39,322)	33,482	<b>(5,840)</b>
	<b>(1,463,981)</b>	<b>2,706,772</b>	<b>1,242,791</b>

**Notes to the Preliminary Statement**

**1. basis of preparation**

The Financial information set out in this preliminary announcement does not constitute the Group's statutory accounts for the year ended 31 March 2007, but is derived from those accounts. The statutory accounts for the year ended 31 March 2006 have been delivered to the Registrar of Companies, and those for the year ended 31 March 2007 will be delivered to the Registrar of Companies following the Annual General Meeting. Whilst currently in draft form the auditors have reported on those accounts; their reports were unqualified and do not contain statements under Companies Act 1985 sections 237(2) and (3).

The Financial Information is presented on the basis of the accounting policies contained in the Financial Statements for the year ended 31 March 2007.

**2. segmental analysis**  
**business analysis**

	2007			2006		
	Turnover	Operating profit/(loss)	Net operating assets	Turnover	Operating profit/(loss)	Net operating assets
	£	£	£	£	£	£
Property search services	<b>10,057,226</b>	<b>2,995,013</b>	<b>271,003</b>	7,751,389	2,137,771	870,094
Financial services	<b>489,900</b>	<b>315,154</b>	<b>12,371</b>	583,560	224,555	23,149
Specialist electronics	<b>2,711,790</b>	<b>479,292</b>	<b>973,182</b>	3,386,843	271,821	243,802

Packaging solutions	<b>1,309,339</b>	<b>406,633</b>	<b>142,674</b>	1,185,754	411,839	309,249
Head office	—	<b>(827,528)</b>	<b>12,753,482</b>	—	(1,023,276)	12,275,820
	<b>14,568,255</b>	<b>3,368,564</b>	<b>14,152,712</b>	12,907,546	2,022,710	13,722,114
Exceptional items	—	<b>480,467</b>	—	—	(2,272,315)	—
	<b>14,568,255</b>	<b>3,849,031</b>	<b>14,152,712</b>	12,907,546	(249,605)	13,722,114
Interest bearing assets			<b>3,431,401</b>			1,666,429
Interest bearing liabilities			<b>(2,188,610)</b>			(3,130,410)
Net assets			<b>15,395,503</b>			12,258,133

### 3. exceptional administrative credits/ (expenses)

	<b>2007</b>	2006
	<b>£</b>	£
Additional amount received from Moore & Buckle Directors' Pension Scheme	<b>571,995</b>	—
Goodwill written off - Moore & Buckle (Flexible Packaging) Limited	<b>(408,474)</b>	(600,000)
Profit on disposal of investments/ (write down)	<b>316,946</b>	(752,178)
Amounts payable to former directors including legal fees	—	(597,771)
Bank arrangement fees written off	—	(291,366)
Redundancy costs	—	(31,000)
	<b>480,467</b>	(2,272,315)

The profit on disposal of investments/ (write down) is made up as follows:

	<b>2007</b>	2006
	<b>£</b>	£
Tomco Energy plc	<b>268,132</b>	109,115
Energy Technique plc	<b>48,464</b>	(573,982)
Avatar Systems Inc.	—	(213,316)
Croma Group plc	—	(269)
Harrell Hospitality Group Inc.	—	(100,000)
Merchant House Group plc	—	25,983
Other	<b>350</b>	291
	<b>316,946</b>	(752,178)

The Group accounting policy for investments is to state them at directors' valuation. Where this reduces the value of the investment below its cost, the deficit is reflected as a charge to the profit and loss account.

There is no tax effect of the above profits on disposal of investments/(write down).

### 4. profit/ (loss) per share

Basic earnings per share are calculated on the Group profit for the financial year of £2,786,065 (2006: loss of £697,820) and on 26,969,267 ordinary shares, being the weighted average number of shares in issue in the year (2006: 18,569,506). Share options do not have a significant dilutive effect.

### 5. distribution

Copies of the Group's audited statutory accounts for the year ended 31 March 2007 will be despatched to shareholders and the AIM team shortly. Copies will also be available to the public at the Company's office at 133 Ebury Street, London SW1W 9QU and on the company's website [www.psgsols.com](http://www.psgsols.com).