SOLID STATE PLC

Interim Report

30th September 2015

www.solidstateplc.com

DIRECTORS, SECRETARY AND ADVISERS

Directors:	Anthony Brian Frere, *Chairman* Gary Stephen Marsh, *Chief Executive Officer* Peter Haining, FCA, *Finance Director* John Michael Lavery, *Director* John Lawford Macmichael, *Director*
Company Secretary and Registered Office:	Peter Haining, FCA Solid State PLC 2 Ravensbank Business Park Hedera Road Redditch B98 9EY
Company Number:	00771335
Nominated Adviser:	W H Ireland Limited 24 Martin Lane London WC4R 0DR
Broker:	W H Ireland Limited 4 Colston Avenue Bristol BS1 4ST
Auditors:	haysmacintyre 26 Red Lion Square London WC1R 4AG
Solicitors:	ShakespeareMartineau 1 Colmore Square Birmingham West Midlands B4 6AA
Bankers:	Lloyds Bank 125 Colmore Row Birmingham West Midlands B3 3SF
Registrars:	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Country of Incorporation of Parent Company:	Great Britain
Legal Form:	Public Limited Company
Domicile:	Great Britain

CHAIRMAN'S STATEMENT

Unaudited Interim Results for the six months ended 30th September 2015

The first half of the year has delivered record revenue and even more significantly an increase in earnings per share despite a softening in the Group's markets which has resulted in a slower start to the year than we would have liked. Nevertheless the Board remains confident about the prospects across the Group and expects an improved performance in the second half. This achievement reflects the resilience of the Group as a whole which is achieved through ensuring a broad and stable base of products and clients in a range of market sectors.

Highlights in the period include:

Operational:

- Launch of new design of ticketing machines for the rail industry expected to positively impact second half
- Construction is now underway on a brand new facility for the antenna and subsystems division of Steatite anticipated to open in Q1 FY 2016/2017
- New franchise contracts with Luminus Inc (high value LED lighting) and Silicon Labs (low energy microprocessors and radio devices) for Solid State Supplies
- Further development in own brand products
- Progress in cross-selling between divisions
- Cost reduction programme underway to deliver savings of approximately £500k in the full year 2016/2017
- Appointment of Mark Nutter as Group Finance Director commencing on 5 January 2016
- Order backlog at 31 October 2015 - £18.14m

Financial:

	2015	**2014**	**Change**
Turnover	£22.02m	£17.13m	+29%
Profit before tax	£1.49m	£1.55m	-4%
Profit after tax	£1.51m	£1.38m	+9.4%
Earnings per share (basic)	18.1p	16.7p	+8.4%
Gross profit margin	27.7%	32.1%	-440bps
Operating margin	7.0%	9.2%	-220bps
Dividend	4.00p	4.00p	-
Dividend cover	4.5X	4.1X	+10%

In response to the current state of the market the Board has implemented a cost reduction programme which will deliver savings of approximately £500k in the full year 2016/2017.

At the beginning of the period we completed the acquisition of Ginsbury Electronics Limited for an initial cash consideration of £1.6 million with a further £525,000 payable in three equal six monthly tranches. Ginsbury specialises in the supply of high quality display components, monitors, panels, signage and power components to the commercial, retail, industrial and military markets throughout the UK and Europe. As indicated at the time of its acquisition, Ginsbury is expected to make a positive contribution to the performance of the Group in this financial year.

CHAIRMAN'S STATEMENT
Unaudited Interim Results for the six months ended 30th September 2015 (continued)

The Board remains active in pursuing acquisition opportunities, particularly in the battery and added value services sectors. The Board has and will continue to apply a cautious acquisition strategy; in the period we pulled out of certain negotiations due to vendor price expectations and in one instance for due diligence reasons.

Following a rigorous recruitment process, after the period end we announced the appointment of Mark Nutter as Group Finance Director with effect from 5 January 2016. The Board has always recognised the need for the management team to grow with the business. Mark has a strong financial and commercial background and we believe his expertise will be of great benefit to the Group.

Also after the period end, on 29 October 2015, we announced that there would be delays to the anticipated delivery schedule for the three year, £34m contract to supply offender tagging technology to the Ministry of Justice (the "MoJ Contract"). While the delay is disappointing for the Company and its shareholders the contract has not been lost and the Directors still expect the contract to be fulfilled in its entirety in due course.

Financial Review

Revenue for the period increased 28.5% to £22.02m (2014: £17.13m) due to the first contributions from the MoJ Contract and from Ginsbury Electronics, which was acquired on 1 April 2015. Like-for-like sales across the Group were broadly flat.

Group margins declined relative to the comparative period due to the inclusion of lower margin mobilisation revenue as part of the MoJ Contract, currency headwinds in the distribution division resulting in a £77k adverse impact, and lower first half sales at Q-Par which typically generates higher than Group average margins. The gross profit margin was 27.7% (2014: 32.1%) with a net operating margin of 7.0% (2014: 9.2%).

There was no charge for share base payments in the period (H1 2014: £117k).

Profit before tax was £1.49m (2014: £1.55m) and profit after tax was £1.51m (2014: £1.38m) after recognising a positive tax expense of £20k (2014: charge of £171k). Basic earnings per share increased 8.4% to 18.1p (2014: 16.7p).

Group order intake in the period totalled £19.1m (2014: £24.5m) and as at 31 October 2015 the order backlog amounted to £18.1m.

As in previous years, the Group order intake and sales performance is expected to be second half weighted.

CHAIRMAN'S STATEMENT
Unaudited Interim Results for the six months ended 30th September 2015 (continued)

Dividends

The Directors are declaring an interim dividend of 4.0p per share (H1 2014: 4.0p) which is covered 4.5 times by earnings.

The interim dividend will be paid on 26 February 2016 to shareholders on the register at the close of business on 8 January 2016. The shares will go ex-dividend on 7 January 2016.

Business Overview

The Group is focussed on the supply and support of specialist electronics equipment which include high tolerance and tailor made battery packs, specialist electronic components, specialist antennas, industrial/rugged computers and secure communications systems.

The market for the Group's products and services is driven by the need for custom electronic solutions to address complex needs, typically in harsh environments where enhanced durability and resistance to extreme and volatile temperatures is vital. Drivers in our markets include efficiency improvement, cost saving, environmental monitoring and safety.

Divisional Review

Steatite Division (comprising Steatite, Q-Par and Steatite Electronic Monitoring Systems - 'SEMS')

Steatite is one of the leading UK suppliers of specialist electronic equipment. It designs, manufactures and supplies a range of products and solutions that include bespoke lithium battery packs, rugged mobile computing/radio solutions, secure communications systems, industrial computer hardware and software. Key to its strategy is the ability to design, manufacture and test to customer requirements, and against the most stringent of standards and qualifications, products for use in some of the most difficult and harsh environments.

The Steatite division faced a challenging first six months of the financial year due to a softening in the UK's manufacturing sector and unforeseen delays to two major programmes, one being the MoJ Contract (further details in the section below) and the other being a programme to supply antennas. The latter contract is now underway and will make a contribution to the second half.

Turnover in the period was £13.65m (2014: £9.9m). Gross margins were below last year principally because of the delayed contract in Q-Par referred to above.

Despite these two contract delays, there have been successes with contract awards in a range of platforms at a higher system integration level. This will have a positive impact in the ensuing months along with the completion of a new design for ticketing machines for the rail industry, with orders expected to commence in the second half.

CHAIRMAN'S STATEMENT
Unaudited Interim Results for the six months ended 30th September 2015 (continued)

Construction is now underway on a brand new leasehold facility for the Q-Par antenna and subsystems operation close to the existing facility in Leominster. The facility is anticipated to open in Q1 FY 2016/2017. It will more than double capacity and incorporate a new Group pre-compliance test centre which will increase our in-house test capabilities and save outsourcing costs.

The Steatite division has a healthy pipeline of prospects for the second half. These include programmes in the government and transportation sectors and in its secure communications product range. As a result both the Steatite and Q-Par parts of the Division are on course for a stronger second half performance.

SEMS - Ministry of Justice Offender tagging contract (MoJ)

In the first half the Group recognised £3.5 million of revenue as part of the mobilisation element of the MoJ Contract. This part of the contract is at low margins compared to the actual delivery part of the contract. Additional mobilisation revenue will be recognised in the second half but will be less than in the first half. Unfortunately, as announced in our trading update on 29 October 2015, the delivery schedule to the contract has encountered delays.

Steatite is directly contracted to the MoJ and supplies and invoices directly to the MoJ as its client. Steatite has to date fulfilled its contractual requirements but the overall project is made up of a consortium of suppliers and therefore there is a dependence on other parties for the project to roll out in unison as a fully operating upgrade to the existing offender tagging estate.

The replacement of the existing estate of tags and the ability to extend the use of high functioning offender tags to a broader range of sentencing options is high priority for MoJ. It is a pillar of the MoJ's strategy of achieving cost savings through approaching offender management in a more sophisticated way through the use of advanced technology solutions.

The overall value of the project is understood to be in the region of £300m. Solid State is contracted to supply products to a value of £34m over three years which illustrates the relatively modest nature of Solid State's proportion of the overall project cost.

Steatite expects to be updated on the revised roll out to this client in the New Year but no significant deliveries are now expected in the current financial year.

Solid State Supplies Division (comprising Solid State Supplies and Ginsbury)

The Solid State Supplies Division distributes specialist components to the UK OEM community; selling semiconductors, related components and modules for embedded processing, control and communications switches, power management units and LED lighting.

The Division has experienced a softening in its markets in the first half. Turnover which included Ginsbury for the first time was £8.3m compared to £7.3m in 2014. Like-for-like gross margins were down but the overall gross margin was up as the Division benefitted, as expected, from Ginsbury's higher margin products.

CHAIRMAN'S STATEMENT
Unaudited Interim Results for the six months ended 30th September 2015 (continued)

Client order patterns show that the industry as a whole has moved from committing to long term scheduled orders, to placing shorter term orders. This is consistent with previous periods of market softening. The effect of this is a reduction in the backlog, however billings are holding which demonstrates that the overall demand has largely remained constant despite the reduced revenue visibility.

Progress has been made on various fronts across the Division during the first half of the year.

Solid State Supplies negotiated two important new franchise contracts with Luminus Inc and Silicon Labs. Luminus brings new high value products to the LED lighting sector of the business and is expected to start contributing to revenue in the final quarter of the year whilst Silicon Labs is a leading supplier of low energy microprocessors and radio devices and adds a very prestigious name to the product line up. Silicon Labs (revenue $620 million, year ended 3 Jan 2015) is expected to bring additional revenues in the 2016/17 financial year.

Commission income on overseas or indirect sales has improved during the first half of the year and is now 50% above forecast, in line with the growing recognition from suppliers of the design work carried out by the company in the UK.

At Ginsbury, while turnover is currently running behind plan, concerted efforts to increase margin have seen the gross profit margin up 2% on plan, thus reducing the impact of the lower turnover on net profit. In addition, efforts to generate new sales through cross selling with Solid State Supplies are progressing well. Cross training has been completed with some early sales successes already recorded. Furthermore, the single board computer platform developed as an own-brand product range by Ginsbury has been well received with several potential customers in both Ginsbury and Solid State Supplies now evaluating it.

Solid State Supplies and Ginsbury continue to work together to transfer the displays business to its natural home at Ginsbury. Work to increase the existing value-added contribution at Ginsbury also continues alongside developments in the fields of electric vehicles and Internet of Things technology in asset tracking.

Recognising the softening in its market, the Division has taken steps to reduce its cost base and as a result expects to see a stronger performance in the second half.

Divisional summary & strategy

The companies in the Solid State group have distinct characteristics in their market places. A depth of technical understanding and a collaborative approach to client relationships have always promoted an integrated process of product design and supply. The degree of co-operation has always been appreciated by our clients and we believe it is of significant commercial value both to us and our customers. Solid State will continue to pursue this approach and to extend it into new relationships where appropriate.

CHAIRMAN'S STATEMENT
Unaudited Interim Results for the six months ended 30th September 2015 (continued)

Our stated strategy is to supplement organic growth with selective acquisitions within the electronics industry which will complement our existing Group companies and enable us to achieve improved operating margins through the employment of operational efficiencies, scale and distribution.

Outlook

The announcement of delays to the MoJ Contract has caused expectations for the Group to be revised for the current year and at present we do not have visibility on how the contract will impact the next financial year. While we are pressing for clarity the issue is largely out of our control. We can report however that a trouble-shooter from industry has been appointed to resolve any outstanding issues and to report back to the Minister in the New Year. The project is high priority for MoJ and the Directors are confident that the contract will be fulfilled. While the delay is clearly disappointing it needs to be put in context given that this SEMS activity is just one of seven operating activities across the Group.

Each of these operating activities has a niche within its market and is recognised for its quality of staff and in depth knowledge of technologies and solutions that afford clients invaluable share of mind. The Group has delivered year-on-year growth over the last five years and the Directors believe that the existing strategy will deliver considerable growth over the coming years.

The Group has a broad base of clients, products and markets which give a high degree of confidence in the stability and resilience of the Group. The order backlog at 31 October 2015 was £18.14m and the Directors are pleased with the new business pipeline and level of new contract awards across the Group. This gives the Board confidence that despite a general softening of conditions across its markets that the Company can deliver an improved second half performance and continue to deliver growth for the Company and its shareholders.

Finally, on behalf of the Board, I would like to acknowledge the significant contribution of our staff in achieving Solid State's continued progress.

Tony Frere

Non-Executive Chairman

24th November 2015

INTERIM CONSOLIDATED INCOME STATEMENT
for the six months ended 30th September 2015

	Unaudited Six months to 30th September 15 £'000	*Unaudited Six months to 30th September 14 £'000*	*Audited Year to 31st March 15 £'000*
Revenue	22,017	17,133	36,559
Cost of sales	(15,928)	(11,630)	(25,395)
Gross profit	6,089	5,503	11,164
Distribution costs	(1,943)	(1,846)	(3,401)
Administrative expenses	(2,598)	(2,078)	(4,701)
	(4,541)	(3,924)	(8,102)
Profit from operations	1,548	1,579	3,062
Finance costs	(55)	(27)	(48)
Profit before taxation	1,493	1,552	3,014
Tax expense	20	(171)	(122)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	1,513	1,381	2,892
Other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,513	1,381	2,892
Earnings per share (see below)			
Basic	18.1p	16.7p	34.9p
Diluted	17.8p	16.2p	33.9p

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30th September 2015 (unaudited)

	Share capital	*Share premium reserve*	*Capital redemption reserve*	*Retained earnings*	*Shares held in Treasury*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Balance at 31st March 2014	411	3,629	5	6,362	-	10,407
Total comprehensive income for the period	-	-	-	1,381	-	1,381
Issue of new shares	6	-	-	-	-	6
Share based payment expense	-	-	-	117	-	117
Dividends	-	-	-	(479)	-	(479)
Balance at 30th September 2014	417	3,629	5	7,381	-	11,432
Total comprehensive income for the period	-	-	-	1,510	-	1,510
Issue of new shares	-	-	-	-	-	-
Dividends	-	-	-	(332)	-	(332)
Share based payment expense	-	-	-	94	-	94
Repurchase of own shares into treasury	-	-	-	-	(313)	(313)
Balance at 31st March 2015	417	3,629	5	8,653	(313)	12,391
Total comprehensive income for the period	-	-	-	1,513	-	1,513
Issue of new shares	4	-	-	-	-	4
Dividends	-	-	-	(670)	-	(670)
Share based payment expense	-	-	-	-	-	-
Balance at 30th September 2015	421	3,629	5	9,496	(313)	13,238

CONSOLIDATED BALANCE SHEET
as at 30th September 2015

	Unaudited as at 30th September 15 £'000	*Unaudited as at 30th September 14 £'000*	*Audited as at 31st March 15 £'000*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1,474	1,217	1,243
Intangible assets	5,900	5,048	5,400
TOTAL NON-CURRENT ASSETS	7,374	6,265	6,643
CURRENT ASSETS			
Inventories	6,120	5,120	5,402
Trade and other receivables	10,439	7,077	8,874
Corporation tax recoverable	129	-	129
Cash and cash equivalents	321	43	1,737
TOTAL CURRENT ASSETS	17,009	12,240	16,142
TOTAL ASSETS	24,383	18,505	22,785
LIABILITIES			
CURRENT LIABILITIES			
Bank overdraft	(4,322)	(1,070)	(4,201)
Trade and other payables	(6,137)	(5,382)	(5,833)
Corporation tax liabilities	(102)	(187)	(5)
TOTAL CURRENT LIABILITIES	(10,561)	(6,639)	(10,039)
NON-CURRENT LIABILITIES			
Trade and other payables	(182)	(10)	(8)
Corporation tax liabilities	-	(95)	-
Deferred tax liability	(402)	(254)	(347)
Provision for liabilities	-	(75)	-
TOTAL NON-CURRENT LIABILITIES	(584)	(434)	(355)
TOTAL LIABILITIES	(11,145)	(7,073)	(10,394)
TOTAL NET ASSETS	13,238	11,432	12,391
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	421	417	417
Share premium reserve	3,629	3,629	3,629
Capital redemption reserve	5	5	5
Retained earnings	9,496	7,381	8,653
Shares held in treasury	(313)	-	(313)
TOTAL EQUITY	13,238	11,432	12,391

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30th September 2015

	Unaudited Six months to 30th September 15 £'000	*Unaudited Six months to 30th September 14 £'000*	*Audited Year to 31st March 15 £'000*
OPERATING ACTIVITIES			
Net profit from ordinary activities before taxation	1,493	1,552	3,014
Adjustments for:			
Depreciation	182	123	297
Amortisation	124	95	196
Loss on disposal of property, plant and equipment	2	4	6
Share based payment expense	-	117	211
Finance costs	55	27	48
Operating profit before changes in working capital and provisions	1,856	1,918	3,772
(Increase) in inventories	(424)	(545)	(827)
(Increase)/decrease in trade and other receivables	(913)	3,361	1,564
Increase/(decrease) in trade and other payables	186	(2,108)	(1,659)
(Decrease) in provisions	-	(95)	(170)
Cash generated from operations	705	2,531	2,680
Income taxes paid	-	(257)	(522)
Income taxes recovered	-	46	46
Cash flows from operating activities	705	2,320	2,204
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(398)	(191)	(525)
Purchase of computer software	(25)	(74)	(158)
Proceeds from sale of property, plant and equipment	35	16	38
Consideration paid on acquisition of subsidiaries	(2,110)	-	-
Expenditure on development costs	-	(244)	(503)
Cash with subsidiaries over which control has been obtained	977	-	-
	(1,521)	(493)	(1,148)
FINANCING ACTIVITIES			
Issue of ordinary shares	4	6	5
Invoice discounting finance (net movement)	-	(1,144)	(1,144)
Interest paid	(55)	(27)	(48)
Dividends paid to equity shareholders	(670)	(479)	(810)
Purchase of own shares for holding in treasury	-	-	(313)
	(721)	(1,644)	(2,310)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,537)	183	(1,254)
Cash and cash equivalents brought forward	(2,464)	(1,210)	(1,210)
CASH AND CASH EQUIVALENTS CARRIED FORWARD	(4,001)	(1,027)	(2,464)
Represented by:			
Cash at bank and in hand	321	43	1,737
Bank overdrafts	(4,322)	(1,070)	(4,201)
	(4,001)	(1,027)	(2,464)

NOTES TO THE INTERIM REPORT
for the six months ended 30th September 2015

1. Basis of preparation of interim financial information

The consolidated interim financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as endorsed by the European Union ("IFRS") and expected to be effective at the year end of 31st March 2016. The accounting policies are unchanged from the financial statements for the year ended 31st March 2015.

The interim financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31st March 2015, prepared in accordance with IFRS, have been filed with the Registrar of Companies. The Auditors' Report on these accounts was unqualified, did not include any matters to which the Auditors drew attention by way of emphasis without qualifying their report and did not contain any statements under section 498 of the Companies Act 2006.

2. The earnings per share

The earnings per share figures are based on the profit on ordinary activities after taxation as stated in the unaudited income statement and the weighted average number of shares in issue during each period. The weighted average number of shares in issue during the period was 8,363,720 for the six months ended 30th September 2015, 8,296,504 for the year ended 31st March 2015 and 8,261,593 for the six months ended 30th September 2014. The calculation of diluted earnings per share was based on 8,527,913 for the six months ended 30th September 2015, 8,542,212 for the year ended 31st March 2015 and 8,549,849 for the six months ended 30th September 2014.

3. Dividends

Dividends paid during the period from 1st April 2014 to 30th September 2015 were as follows:

2nd September 2014	Final dividend year ended 31st March 2014	5.75p per share
7th January 2015	Interim dividend year ended 31st March 2015	4.00p per share
29th September 2015	Final dividend year ended 31st March 2015	8.00p per share

The directors are intending to pay an interim dividend for the year ended 31st March 2016 in February 2016 of 4p per share. This dividend has not been accrued at 30th September 2015.

4. Further copies of this document are available both at the registered office of the Company and from the offices of W H Ireland Limited, 4 Colston Avenue, Bristol, BS1 4ST. The statement will also be available to download on the Company's website: www.solidstateplc.com