



SOLID STATE PLC

Interim Report
30th September 2013

www.solidstateplc.com

DIRECTORS, SECRETARY AND ADVISERS

Directors:	Gordon Leonard Comben, <i>Chairman</i> Anthony Brian Frere, <i>Deputy Chairman</i> Gary Stephen Marsh, <i>Chief Executive Officer</i> Peter Haining, FCA, <i>Finance Director</i> John Michael Lavery, <i>Director</i> John Lawford Macmichael, <i>Director</i> William George Marsh, <i>Director</i>
Company Secretary and Registered Office:	Peter Haining, FCA Solid State PLC 2 Ravensbrook Business Park Hedera Road Redditch B98 9EY
Company Number:	771335
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:	Shakespeares Somerset House Temple Street Birmingham B2 5DJ
Bankers:	HSBC plc 70 Pall Mall London SW1Y 5EX
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 2013

Results

I am pleased to announce the interim results for the six months ended 30 September 2013 which has been a period of further good progress for the Group in which it has completed the acquisition of Q-Par Angus Limited in addition to achieving ongoing improvements within the core business. The result for the period, although lower than last year, represents a solid start to a year which is expected to be significantly second half weighted and on this basis the Board is happy to maintain the level of the interim dividend.

While the broader economy continues to show signs of caution in clients' buying patterns we have achieved record order intake in the first half of £16.6m, of which Q-Par contributed approximately £2m. As at 31 October 2013 the order book was £15.8m (31/10/12: £13.2m).

The current size of the Group means that large one-off contracts can distort the comparative performance of the business. These are quality contracts which we will always pursue, however we continue to look for opportunities to improve the composition of the business and its prospects through strategic acquisitions and achieving cross-Group synergies, the effect of which will be to smooth out spikes in revenues.

Highlights include:

Operational:

- Agreed terms for acquisition of Q-Par Angus Ltd ("Q-Par") in May for £1m and completion of integration
- Commencement of cross selling of Group products through Q-Par's international distribution agent network particularly into the transportation sector
- Closure of Oxfordshire site and relocation of operations to Redditch
- Successful margin enhancement initiatives in Steatite division
- Establishment of 'value enhancement' unit in Solid State Supplies division
- Record order intake of £16.6m resulting in H1 book:bill ratio 1.35:1.00
- Record order book at 31 October 2013 of £15.8m (31/10/2012: £13.2m)

Financial:

	2013	2012	Change
• Turnover	£12.29m	£15.77m*	-22%
• Profit after tax	£533k	£578k	-8%
• Earnings per share (basic)	7.5p	8.5p	-12%
• Gross profit margin	30.1%	24.4%	+570bps
• Operating margin	4.9%	4.9%	-
• Dividend	2.75p	2.75p	-
• Dividend cover	X2.7	X3.1	-13%

*Includes £3.5m one-off export contract announced previously

CHAIRMAN'S STATEMENT

Unaudited Interim Results for the six months ended 30th September 2013 (continued)

Commentating on the results, Gordon Comben, Chairman of Solid State, said:

“These results demonstrate the progress being made through both our organic and acquisitive strategies. The anticipated acquisition of 2001 Electronic Components Ltd announced today and the placing supported by our new institutional shareholders represents another major step in building our business.

As in previous years, we expect the result for the year to be significantly second half weighted, which is supported by a record order book and strong enquiry levels. This order book strength underpins the Board's confidence in declaring an interim dividend of 2.75p.

The Group continues to target niches where Solid State can achieve a competitive advantage at good margins.”

Financial Review

In the period, revenue decreased to £12.29m (H1 2012: £15.77m). The fall is principally attributable to the comparable period in 2012 benefitting from a large one-off export contract that had a value of £3.5 million. Q-Par which was acquired in May contributed revenue of £0.71m in the period.

Gross margin increased significantly in the period to 30.1% (H1 2012: 24.4%). The uplift in gross margin reflects a number of factors. First, the large contract in H1 last year was supplied at a lower than average margin, suppressing H1 2012's margins. Secondly, gross margins are always influenced by the product mix. Finally, the acquisition of Q-Par which has higher margin products and services has benefitted overall Group margins.

The operating margin has been maintained at 4.9% (2012: 4.9%) despite being adversely impacted by around £0.1m as a result of restructuring charges following the acquisition of Q-Par and the closure of our Oxfordshire manufacturing facility and transfer of its operations to our enlarged site in Redditch. This relocation will result in efficiency savings which will start to take effect in the last quarter of the year and continue into FY2014/15.

The profit after tax was £533k (H1 2012: £578k) and equates to an earnings per share of 7.5p (H1 2012: 8.5p).

Dividends

The Directors are declaring an interim dividend of 2.75p per share (H1 2012: 2.75p) which is covered 2.7 times by earnings. The interim dividend will be paid on 31 January 2014 to shareholders on the register at the close of business on 10 January 2014. The shares will go ex-dividend on 8 January 2014.

CHAIRMAN'S STATEMENT

Unaudited Interim Results for the six months ended 30th September 2013 (continued)

Business Review

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 antennae and industrial/rugged computers.

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.

The Group products and services are delivered through its two principal operating businesses Steatite and Solid State Supplies. The key performance indicators of these businesses are billings, bookings and gross profit margins. Bookings are sales orders received and billings are sales delivered.

Steatite

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

Steatite has traded well in the first six months of the year despite not having the benefit of a £3.5million export order delivered in the comparable period last year. Excluding this one-off contract, the underlying business has performed in line with last year and has followed a seasonal pattern where a stronger second half performance will be achieved.

Specific attention has been dedicated to improving the gross margin with the resulting outcome being an improvement to 31.9% (2012: 24.7%). Even more pleasingly, these improved margins are stated after absorbing the restructuring charges following the acquisition of Q-Par in May 2013 and the costs of the closure of our Oxfordshire site which has now been fully integrated in the HQ at Redditch.

The benefit of these savings along with a record order book and a healthy pipeline of prospects in the government and transportation sectors and in secure communications product lines puts Steatite on course for a solid second half performance. We continue to target growth through geographic expansion and product innovation.

In May the Group acquired Q-Par for a cash consideration of £1m. Q-Par's expertise is in microwave and RF engineering and it has a specialisation in antenna systems including microwave reflectors, horn antennae and antenna positioning principally for the broadcast, environment, industrial, medical, security and defence markets. Q-Par's business is an excellent fit for Steatite and during the period its integration into Steatite has been completed. Since its acquisition it has contributed £0.71m to Group

CHAIRMAN'S STATEMENT

Unaudited Interim Results for the six months ended 30th September 2013 (continued)

turnover and £2.1m to the Group order book. Pleasingly, progress has been made in developing international cross selling opportunities for the Steatite product range, particularly in the transportation sector, using Q-Par's established international agent network.

Solid State Supplies

Solid State Supplies is a distributor of 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.

Solid State Supplies has seen a strong start to the year with a momentum that has carried into the second half. The forward order book has improved by over £1 million compared with the same point last year and the company continues to outperform the industry sector with growth in excess of 10%. Other key performance indicators in the business are outperforming both internal targets and industry standards.

Revenues from the signing of new franchises in the first half of the year are expected to start contributing to increased turnover in the second half whilst the expected margin increase from the addition of value added services is now having a positive impact. Further value added services have been introduced to the portfolio in the first half of the year and are already creating both greater customer loyalty and lock-in with existing customers, with new customers coming on board to take advantage of the services on offer.

The company is now executing its plan to introduce own-brand products to the marketplace. A series of own brand devices have been defined and prototypes are now in production. Early indications are that these devices are being well received by major industry players and offer the potential for significantly increased gross margins whilst giving the company greater control of the products that it presents to the marketplace. These products are expected to contribute to revenue in the fourth quarter.

The market outlook for the remainder of the year is buoyant and the company expects to see an equally strong second half performance.

Divisional summary

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.

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.

CHAIRMAN'S STATEMENT

Unaudited Interim Results for the six months ended 30th September 2013 (continued)

Outlook

Our markets continue to be defined by our clients' cautious approach to capital expenditure. This characteristic is in some ways to our advantage as our proposition remains one of adding value to our clients' design and purchasing needs. This approach is one which our competitors often struggle to emulate. The recently announced £1.8m contract announced with the MOD demonstrates the resilience in our business, despite ongoing pressures on the public purse.

We continue to reap the benefit of our acquisition strategy both at a revenue and synergistic level. The restructuring of our Oxfordshire site and relocation to the Redditch HQ will benefit the performance of the Group in the second half and through into 2014/2015. The second half will also benefit from a full contribution from Q-Par. Further acquisitions will aid the pattern of our revenues affording greater visibility and reducing the impact of large one-off contracts such as the £3.5m contract delivered in the comparable period in 2012.

The Company has separately announced today that it has exchanged a contract to acquire 2001 Electronic Components Limited for an initial cash consideration of £2.0 million with a further payment of up to £400,000, subject to a net asset adjustment on completion. Completion is expected to take place on 31 December 2013. 2001 Electronic Components Limited is a niche, focussed distributor of electronic components and is similar to Solid State Supplies. It is expected to be very complementary to the business of Solid State Supplies given the shared client-centric approach and the minimal overlap in terms of product lines, suppliers and customers. In addition, the Company has today announced a placing of 1,050,000 new ordinary shares at a price of 242p per share to raise approximately £2.54 million, before expenses. The proceeds of the placing will be used to part fund the acquisition and to provide additional working capital resource to the Group.

As in previous years, we expect the result for the year to be significantly second half weighted, which is supported by a record order book and strong enquiry levels. This order book strength underpins the Board's confidence in declaring an interim dividend of 2.75p.

I would like to record my thanks to all staff within the Group and specifically my fellow Board members for their dedication and professionalism. The commercial environment remains competitive and, whilst we believe that this offers considerable opportunities, we cannot afford to be complacent. Nevertheless, we look forward to the second half of the year with optimism.

Gordon Comben

Chairman

23 December 2013

INTERIM CONSOLIDATED INCOME STATEMENT
for the six months ended 30th September 2013

	<i>Unaudited</i> <i>Six months to</i> <i>30th September 13</i> <i>£'000</i>	<i>Unaudited</i> <i>Six months to</i> <i>30th September 12</i> <i>£'000</i>	<i>Audited</i> <i>Year to</i> <i>31st March 13</i> <i>£'000</i>
Revenue	12,292	15,772	31,495
Cost of sales	<u>(8,595)</u>	<u>(11,931)</u>	<u>(23,261)</u>
Gross profit	<u>3,697</u>	<u>3,841</u>	<u>8,234</u>
Distribution costs	(1,354)	(1,344)	(2,518)
Administrative expenses	<u>(1,741)</u>	<u>(1,730)</u>	<u>(3,872)</u>
	<u>(3,095)</u>	<u>(3,074)</u>	<u>(6,390)</u>
Profit from operations	602	767	1,844
Finance costs	<u>(38)</u>	<u>(35)</u>	<u>(74)</u>
Profit before taxation	564	732	1,770
Tax expense	<u>(31)</u>	<u>(154)</u>	<u>(283)</u>
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	533	578	1,487
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>533</u>	<u>578</u>	<u>1,487</u>
Earnings per share (see below)			
Basic	7.5p	8.5p	21.8p
Diluted	7.5p	8.2p	21.1p

**INTERIM CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY
for the six months ended 30th September 2013
(unaudited)**

	<i>Share capital</i>	<i>Share premium reserve</i>	<i>Capital redemption reserve</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Balance at 31st March 2012	340	925	5	3,836	5,106
Total comprehensive income for the period	-	-	-	578	578
Issue of new shares	3	34	-	-	37
Dividends	-	-	-	(325)	(325)
Share based payment expense	-	-	-	22	22
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Balance at 30th September 2012	343	959	5	4,111	5,418
Total comprehensive income for the period	-	-	-	909	909
Issue of new shares	6	114	-	-	120
Dividends	-	-	-	(188)	(188)
Share based payment expense	-	-	-	22	22
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Balance at 31st March 2013	349	1,073	5	4,854	6,281
Total comprehensive income for the period	-	-	-	533	533
Issue of new shares	10	193	-	-	203
Dividends	-	-	-	(377)	(377)
Share based payment expense	-	-	-	20	20
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Balance at 30th September 2013	359	1,266	5	5,030	6,660

CONSOLIDATED BALANCE SHEET
as at 30th September 2013

	<i>Unaudited</i> <i>as at</i> <i>30th September 13</i> <i>£'000</i>	<i>Unaudited</i> <i>as at</i> <i>30th September 12</i> <i>£'000</i>	<i>Audited</i> <i>as at</i> <i>31st March 13</i> <i>£'000</i>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	986	938	915
Intangible assets	2,786	2,409	2,397
TOTAL NON-CURRENT ASSETS	<u>3,772</u>	<u>3,347</u>	<u>3,312</u>
CURRENT ASSETS			
Inventories	3,930	4,318	3,057
Trade and other receivables	4,638	4,216	7,172
Cash and cash equivalents	160	276	1,098
TOTAL CURRENT ASSETS	<u>8,728</u>	<u>8,810</u>	<u>11,327</u>
TOTAL ASSETS	<u>12,500</u>	<u>12,157</u>	<u>14,639</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank overdraft	(1,219)	(2,027)	(2,497)
Trade and other payables	(3,382)	(4,166)	(4,714)
Bank borrowings	(1,032)	(43)	(906)
Corporation tax liabilities	(125)	(261)	(190)
TOTAL CURRENT LIABILITIES	<u>(5,758)</u>	<u>(6,497)</u>	<u>(8,307)</u>
NON-CURRENT LIABILITIES			
Corporation tax liabilities	(39)	(186)	-
Deferred tax liability	(43)	(56)	(51)
TOTAL NON-CURRENT LIABILITIES	<u>(82)</u>	<u>(242)</u>	<u>(51)</u>
TOTAL LIABILITIES	<u>(5,840)</u>	<u>(6,739)</u>	<u>(8,358)</u>
TOTAL NET ASSETS	<u>6,660</u>	<u>5,418</u>	<u>6,281</u>
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	359	343	349
Share premium reserve	1,266	959	1,073
Capital redemption reserve	5	5	5
Retained earnings	5,030	4,111	4,854
TOTAL EQUITY	<u>6,660</u>	<u>5,418</u>	<u>6,281</u>

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30th September 2013

	<i>Unaudited</i> <i>Six months to</i> <i>30th September 13</i> <i>£'000</i>	<i>Unaudited</i> <i>Six months to</i> <i>30th September 12</i> <i>£'000</i>	<i>Audited</i> <i>Year to</i> <i>31st March 13</i> <i>£'000</i>
OPERATING ACTIVITIES			
Net profit from ordinary activities before taxation	564	732	1,770
Adjustments for:			
Depreciation	108	130	232
Amortisation	27	22	44
Loss on disposal of property, plant and equipment	5	2	4
Share based payment expense	20	22	44
Finance costs	38	35	74
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Operating profit before changes in working capital and provisions	762	943	2,168
(Increase)/decrease in inventories	(644)	(1,256)	5
Decrease/(increase) in trade and other receivables	2,884	2,657	(300)
(Decrease) in trade and other payables	(1,515)	(1,200)	(651)
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Cash generated from operations	1,447	1,144	1,222
Income taxes paid	(65)	-	(391)
	<hr/>	<hr/>	<hr/>
Cash flows from operating activities	1,422	1,144	831
	<hr/>	<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(160)	(223)	(314)
Purchase of computer software	(5)	(5)	(15)
Proceeds from sale of property, plant and equipment	41	5	14
Consideration paid on acquisition of business	(872)	-	-
	<hr/>	<hr/>	<hr/>
	(996)	(223)	(315)
	<hr/>	<hr/>	<hr/>
FINANCING ACTIVITIES			
Issue of ordinary shares	203	37	157
Invoice discounting finance (net movement)	126	(1,023)	(158)
Interest paid	(38)	(35)	(74)
Dividends paid to equity shareholders	(377)	(325)	(514)
	<hr/>	<hr/>	<hr/>
	(86)	(1,346)	(589)
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INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents brought forward	(1,399)	(1,326)	(1,326)
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CASH AND CASH EQUIVALENTS CARRIED FORWARD	(1,059)	(1,751)	(1,399)
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Represented by:			
Cash at bank and in hand	160	276	1,098
Bank overdrafts	(1,219)	(2,027)	(2,497)
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	(1,059)	(1,751)	(1,399)
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NOTES TO THE INTERIM REPORT for the six months ended 30th September 2013

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 2014. The accounting policies are unchanged from the financial statements for the year ended 31st March 2013.

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 2013, 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 7,074,668 for the six months ended 30th September 2013, 6,835,502 for the year ended 31st March 2013 and 6,813,726 for the six months ended 30th September 2012. The calculation of diluted earnings per share was based on 7,121,004 for the six months ended 30th September 2013, 7,073,739 for the year ended 31st March 2013 and 6,870,252 for the six months ended 30th September 2012.

3. Dividends

Dividends paid during the period from 1st April 2012 to 30th September 2013 were as follows:

31st August 2012	Final dividend year ended 31st March 2012	4.75p per share
28th January 2013	Interim dividend year ended 31st March 2013	2.75p per share
2nd September 2013	Final dividend year ended 31st March 2013	5.25p per share

The directors are intending to pay an interim dividend for the year ended 31st March 2014 in January 2014 of 2.75p per share. This dividend has not been accrued at 30th September 2013.

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

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