

18th November 2004

APPLIED OPTICAL TECHNOLOGIES plc
(“Applied Optical Technologies” or “the Group”)

Interim results for the six months ended 30th September 2004

Applied Optical Technologies plc, the supplier of anti-counterfeiting technologies and services, and premium packaging for brand enhancement and protection, announces interim results for the six months ended 30th September 2004.

Highlights

	2004	2003
	unaudited	unaudited
Group turnover	£12.2m	£12.7m
Adjusted operating (loss)/profit	£(692,000)	£20,000
Adjusted loss per share	(2.1)p	(1.3)p

- American operations and 3dcd continue to perform ahead of expectations and have secured significant new customers
- The Board last month announced the decision to exit the loss making parts of the European operations which continue to underperform
- Net cash inflow from operations of £496,000 (2003: £730,000)
- Cash at bank and in hand at 30th September 2004 of £1.4 million (2003: £2.5 million). The sale and partial lease back since the period end of the Group’s property at Grove Park for £3.75 million has strengthened this position

David Mahony, Chairman, said:

“Continuing poor operating results in Europe have led to the Board’s decision to exit the loss making parts of the European operations. That process and the attendant consultations with employee representatives are now commencing. The American and joint venture operations continue to perform well and will form the basis for an ongoing profitable operation once the current restructuring is completed.”

- Ends -

For further information, please contact:

Applied Optical Technologies plc

Mark Turnage, Chief Executive (mturnage@aotgroup.com)

Mike Angus, Finance Director (mangus@aotgroup.com)

0191 419 3344

Weber Shandwick Square Mile

Nick Osborne/Stephanie Badjonat

020 7067 0700

18th November 2004

APPLIED OPTICAL TECHNOLOGIES plc
("Applied Optical Technologies" or "the Group")

Interim results for the six months ended 30th September 2004

Chairman's Statement

Trading in the first half of the year was ahead of expectations in both American operations and our joint venture, 3dcd. The European operations continued to underperform and the Board announced on 14th October that the Group would be making a systematic exit from the loss making parts of these operations.

Results

Group turnover for the six months was £12.2 million (2003: £12.7 million) and the operating loss, adjusted for the impact of goodwill and exceptional costs, was £692,000 (2003: profit of £20,000).

Cash inflow from operating activities was £496,000 (2003: £730,000).

The Group's balance sheet remains strong, with cash at bank and in hand of £1.4 million (2003: £2.5 million) and net funds of £1.0 million (2003: £2.3 million). The proceeds from the sale and partial lease back of our property at Grove Park, Leicester for £3.75 million has strengthened the Group's liquidity.

American Operations

Our American operations continued to perform ahead of expectations. On a dollar basis turnover was 1% above the corresponding period last year but operating profit was 5% lower. Gross margins remained steady at 40% and the primary reason for the shortfall in operating profit was a significant investment in marketing.

The brand protection business in America continued to be strong. Volumes in the licensed merchandise programmes grew by 17% and new brand protection programmes were secured with two international brands. As expected, turnover derived from AAMVA temporary license plates was below last year's level, reflecting order cycles in this market.

Our ID Technologies business based at Lancaster achieved a strong recovery from the prior year. This came from both the recommencement of programmes which were delayed in the second half of the last financial year, as well as growth in new and existing programmes. New contracts were secured in Afghanistan, Pakistan and Iraq.

Joint Ventures

During the six months to 30th September 2004 3dcd contributed £368,000 (2003: £518,000) to Group results. This contribution is ahead of expectations due to higher revenue from the DVD market which has partially offset the anticipated reduction in activity at Microsoft.

European Operations

Despite ongoing control of overheads and a reduction in headcount, European operations continue to perform below expectations. While turnover for the European operations was up by 9%, largely due to the impact of a tax stamp programme in the Middle East, volumes were significantly below expectations.

There continue to be new opportunities for the European business and the reduction in the European head count completed during the period should help reduce operating costs in the second half. However, we announced on 14th October that we would be seeking a systematic exit from the loss making parts of our European operations and that Peter Emerson, Director, was leaving the Group. The planning of this exercise has commenced and consultations with employee representatives are scheduled to start today. Stuart Firth, an Interim Manager, has been appointed to manage the process.

Conclusion

Continuing poor operating results in Europe have led to the Board's decision to exit the loss making parts of the European operations. That process and the attendant consultations with employee representatives are now commencing. The American and joint venture operations continue to perform well and will form the basis for an ongoing profitable operation once the current restructuring is completed.

DA Mahony
Chairman
18th November 2004

APPLIED OPTICAL TECHNOLOGIES plc
Consolidated Profit and Loss Account

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 £'000	Year ended 31-Mar-04 £'000
Turnover: Group and share of joint ventures	13,605	13,834	28,271
Less, share of joint ventures' turnover	(1,452)	(1,156)	(2,214)
Group turnover	12,153	12,678	26,057
Cost of sales	(8,709)	(8,507)	(18,042)
Gross profit	3,444	4,171	8,015
Goodwill amortisation	(567)	(629)	(1,203)
Exceptional items	(402)	-	-
Other operating expenses	(4,504)	(4,669)	(9,318)
Net operating expenses	(5,473)	(5,298)	(10,521)
Group operating loss	(2,029)	(1,127)	(2,506)
Share of operating profit of joint ventures	368	518	993
Operating loss	(1,661)	(609)	(1,513)
Interest receivable and similar income	14	(22)	(26)
Amounts written off investments	-	(37)	(37)
Interest payable and similar charges	(13)	(21)	46
Loss on ordinary activities before taxation	(1,660)	(689)	(1,530)
Taxation	(378)	(609)	(796)
Loss for the financial period	(2,038)	(1,298)	(2,326)
Basic loss per share	(4.0)p	(2.6)p	(4.6)p
Diluted loss per share	(4.0)p	(2.6)p	(4.6)p
Adjusted loss per share	(2.1)p	(1.3)p	(2.2)p
Adjusted diluted loss per share	(2.1)p	(1.3)p	(2.2)p

APPLIED OPTICAL TECHNOLOGIES plc
Consolidated Balance Sheet

	Unaudited 30-Sep-04 £'000	Unaudited 30-Sep-03 As restated £'000	31-Mar-04 As restated £'000
Fixed assets			
Intangible assets	6,111	7,851	6,582
Tangible assets	10,182	11,853	10,654
Investments			
Investments in joint ventures			
Share of gross assets	1,215	1,029	913
Share of gross liabilities	(161)	(359)	(237)
	<u>1,054</u>	<u>670</u>	<u>676</u>
Other investments	28	28	28
	<u>17,375</u>	<u>20,402</u>	<u>17,940</u>
Current assets			
Stocks	2,699	2,302	2,522
Debtors			
- amounts falling due within one year	4,766	5,473	6,918
- amounts falling due after more than one year	1,452	1,694	1,545
	<u>6,218</u>	<u>7,167</u>	<u>8,463</u>
Cash	1,370	2,526	1,851
	<u>10,287</u>	<u>11,995</u>	<u>12,836</u>
Creditors : amounts falling due within one year	(5,456)	(5,447)	(6,750)
Net current assets	<u>4,831</u>	<u>6,548</u>	<u>6,086</u>
Total assets less current liabilities	22,206	26,950	24,026
Creditors : amounts falling due after more than one year	(32)	(93)	(56)
Net assets	<u>22,174</u>	<u>26,857</u>	<u>23,970</u>
Capital and Reserves			
Called up equity share capital	2,669	2,669	2,669
Share premium account	53,160	70,402	53,160
Profit and loss account	(33,655)	(46,214)	(31,859)
Equity shareholders' funds	<u>22,174</u>	<u>26,857</u>	<u>23,970</u>

Comparative figures for the year ended 31st March 2004 and the six months ended 30th September 2003 have been restated following the introduction of UITF 38 (see Note 2).

APPLIED OPTICAL TECHNOLOGIES plc
Consolidated Cash Flow Statement

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 £'000	Year ended 31-Mar-04 £'000
Cash inflow/(outflow) from operating activities	496	730	(342)
Dividend received from joint venture	-	221	602
Returns on investments and servicing of finance	1	(11)	(40)
Taxation	(83)	(44)	(97)
Capital expenditure and financial investment	(545)	(799)	(1,001)
	<hr/>	<hr/>	<hr/>
Cash (outflow)/inflow before financing	(131)	97	(878)
Financing			
Issue of shares	-	29	29
Decrease in net debt	(17)	(219)	(433)
Net cash outflow from financing	<hr/> (17) <hr/>	<hr/> (190) <hr/>	<hr/> (404) <hr/>
Decrease in cash in the period	<hr/> (148) <hr/>	<hr/> (93) <hr/>	<hr/> (1,282) <hr/>
Reconciliation of net cash flow to movement in net funds			
Decrease in cash in the period	(148)	(93)	(1,282)
Cash outflow from decrease in debt and lease financing	17	219	433
Change in net funds resulting from cash flows	<hr/> (131) <hr/>	<hr/> 126 <hr/>	<hr/> (849) <hr/>
Foreign exchange movements	20	(134)	(316)
Movement in net funds in period	<hr/> (111) <hr/>	<hr/> (8) <hr/>	<hr/> (1,165) <hr/>
Net funds at start of period	1,102	2,267	2,267
Net funds at end of period	<hr/> 991 <hr/>	<hr/> 2,259 <hr/>	<hr/> 1,102 <hr/>

APPLIED OPTICAL TECHNOLOGIES plc
Statement of Total Recognised Gains and Losses

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 £'000	Year ended 31-Mar-04 £'000
Loss for the financial period attributable to shareholders	(2,038)	(1,298)	(2,326)
Translation of net foreign currency investments	242	(978)	(2,837)
	<hr/>	<hr/>	<hr/>
Total gains and losses relating to the period	(1,796)	(2,276)	(5,163)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Reconciliation of Movements in Shareholders' Funds

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 As restated £'000	Year ended 31-Mar-04 As restated £'000
Loss for the financial period attributable to shareholders	(2,038)	(1,298)	(2,326)
Translation of net foreign currency investments	242	(978)	(2,837)
	<hr/>	<hr/>	<hr/>
Movement for the period	(1,796)	(2,276)	(5,163)
Opening shareholders' funds (originally £25,578,000 at 1 st April 2004 (2003: £30,741,000) restated for prior year adjustment of £1,608,000)	23,970	29,133	29,133
	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	22,174	26,857	23,970
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Comparative figures for the year ended 31st March 2004 and the six months ended 30th September 2003 have been restated following the introduction of UITF 38 (see Note 2).

Notes to the Interim Statement

1. Basis of preparation

The financial information set out in this document does not constitute full financial statements within the meaning of the Companies Act 1985. The financial information for the six months ended 30th September 2004 has been prepared on the basis of the current accounting policies of the Group and is unaudited. Except as stated in Note 2, these policies have not changed since 31st March 2004.

The comparative figures for the financial year ended 31st March 2004 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

2. Prior Year Restatement

The Group has adopted Urgent Issues Task Force Abstract 38 from 1st April 2004. Ordinary shares in Applied Optical Technologies plc held in employee share ownership plans were previously reported as fixed asset investments. These shares are now reported as a deduction from shareholder's funds.

At 30th September 2004 the carrying value of these shares was £1,608,000 which has been set against profit and loss account reserves. The comparative figures for fixed asset investments and profit and loss account reserves have been amended to reflect the change in treatment.

3. Segment Information

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 £'000	Year ended 31-Mar-04 £'000
<i>a) Turnover by market sector</i>			
Banknote and high security	2,994	3,605	8,337
Brand protection	4,942	4,747	9,600
Brand protection via Joint Venture	1,452	1,156	2,214
ID Technologies	3,248	3,045	5,631
Product Enhancement	480	702	1,388
Metallising	227	262	528
Other	262	317	573
	<u>13,605</u>	<u>13,834</u>	<u>28,271</u>
<i>b) Turnover by geographical origin</i>			
American operations	7,148	7,853	14,281
American operations via Joint Venture	1,452	1,156	2,214
European operations	6,021	5,514	13,397
Intersegment sales	(1,016)	(689)	(1,621)
	<u>13,605</u>	<u>13,834</u>	<u>28,271</u>
<i>c) Operating(loss)/profit by geographical origin</i>			
American operations	477	854	1,011
European operations	(2,138)	(1,463)	(2,524)
Operating loss	(1,661)	(609)	(1,513)
Exclude goodwill amortisation	567	629	1,203
Exclude exceptional items	402	-	-
Adjusted operating (loss)/profit	<u>(692)</u>	<u>20</u>	<u>(310)</u>
Adjusted operating (loss)/profit arises from :			
American operations	651	940	1,171
European operations	(1,711)	(1,438)	(2,474)
Joint Ventures	368	518	993
	<u>(692)</u>	<u>20</u>	<u>(310)</u>

Notes to the Interim Statement

4. Net Operating Expenses

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 £'000	Year ended 31-Mar-04 £'000
<i>Distribution Costs</i>			
Selling and marketing costs	<u>1,765</u>	<u>1,710</u>	<u>3,591</u>
<i>Administrative Expenses</i>			
Technical support	228	304	557
Research and development costs	519	551	1,075
Administrative costs	1,992	2,104	4,095
Exceptional costs	402	-	-
Goodwill amortisation	567	629	1,203
	<u>3,708</u>	<u>3,588</u>	<u>6,930</u>
<i>Net Operating Expenses</i>	<u>5,473</u>	<u>5,298</u>	<u>10,521</u>
<i>Exceptional items included within net operating expenses</i>			
Reorganisation costs	<u>402</u>	<u>-</u>	<u>-</u>

5. Share of Operating Profit of Joint Ventures

The share of operating profit of joint ventures represents the Group's share of the results of 3dcd for the six months ended 30th September 2004.

Notes to the Interim Statement

6. Interest

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 £'000	Year ended 31-Mar-04 £'000
<i>Interest receivable and similar income</i>			
Bank interest receivable	4	6	11
Foreign exchange gains/(losses) on foreign currency deposits	10	(28)	(37)
	<u>14</u>	<u>(22)</u>	<u>(26)</u>
<i>Interest payable and similar charges</i>			
On finance leases and hire purchase agreements	1	3	5
On short term bank loans and overdrafts	12	12	46
Foreign exchange losses/(gains) on foreign currency borrowings	-	6	(97)
	<u>13</u>	<u>21</u>	<u>(46)</u>

7. Taxation

No taxation is payable in the current or comparative periods by any of the Group's UK based companies. Charges for taxation relate to State taxes in America and the utilisation of the Group's deferred tax asset in respect of profits arising in the American operations.

8. Loss per Share

The calculations of loss per share are based upon the following losses and numbers of shares.

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 £'000	Year ended 31-Mar-04 £'000
<i>Earnings</i>			
Loss for the financial period (Basic and Diluted EPS)	<u>(2,038)</u>	<u>(1,298)</u>	<u>(2,326)</u>
<i>Adjusted earnings</i>			
Loss for the financial period	(2,038)	(1,298)	(2,326)
Add back goodwill amortisation	567	629	1,203
Exclude amounts written off investments	-	37	37
Exclude exceptional items	402	-	-
Adjusted loss(Basic and Diluted EPS)	<u>(1,069)</u>	<u>(632)</u>	<u>(1,086)</u>
<i>Weighted average number of shares</i>			
	No. of shares	No. of shares	No. of shares
For Basic and Diluted earnings per share	<u>50,516,234</u>	<u>50,449,014</u>	<u>50,482,935</u>

Notes to the Interim Statement

9. Notes to the Cash Flow Statement

Reconciliation of Group Operating Loss to Operating Cash Flows

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 £'000	Year ended 31-Mar-04 £'000
Operating loss	(2,029)	(1,127)	(2,506)
Depreciation	1,064	1,125	2,214
Loss on sale of fixed assets	-	-	21
Amortisation of goodwill	567	629	1,203
Movement in stocks	(157)	177	(177)
Movement in debtors	1,997	(69)	(1,733)
Movement in creditors	(946)	(5)	636
Net cash inflow/(outflow) from operating activities	496	730	(342)

Analysis of Net Funds

	At 1 st April 2004 £'000	Cash flows £'000	Exchange adjustments £'000	At 30 th September 2004 £'000
Cash at bank and in hand	1,851	(501)	20	1,370
Bank overdraft	(702)	353	-	(349)
Finance leases	(47)	17	-	(30)
	<u>1,102</u>	<u>(131)</u>	<u>20</u>	<u>991</u>

Notes to the Interim Statement

9. Notes to the Cash Flow Statement (continued)

	Unaudited 6 months ended 30-Sep-04 £'000	Unaudited 6 months ended 30-Sep-03 £'000	Year ended 31-Mar-04 £'000
<u>Analysis of cash flows for headings netted in the cash flow statement</u>			
<i>Returns on investments and servicing of finance</i>			
Interest received	14	6	11
Interest paid	(13)	(17)	(51)
Net cash inflow/(outflow) from returns on investments and servicing of finance	<u>1</u>	<u>(11)</u>	<u>(40)</u>
<i>Taxation</i>			
Overseas tax paid	(83)	(44)	(97)
Net cash outflow from taxation	<u>(83)</u>	<u>(44)</u>	<u>(97)</u>
<i>Capital expenditure and financial investment</i>			
Purchase of tangible fixed assets	(545)	(1,020)	(1,222)
Sale of tangible fixed assets	-	221	221
Net cash outflow from capital expenditure and financial investment	<u>(545)</u>	<u>(799)</u>	<u>(1,001)</u>
<i>Financing</i>			
Issue of ordinary share capital	-	29	29
Loan repayments	-	(203)	(400)
Capital element of finance lease rental payments	(17)	(16)	(33)
Decrease in debt	<u>(17)</u>	<u>(219)</u>	<u>(433)</u>
Net cash outflow from financing	<u>(17)</u>	<u>(190)</u>	<u>(404)</u>

A copy of this announcement has been sent to all shareholders. Further copies are available to members of the public from the Company's registered office, 40 Phoenix Road, Crowther, District 3, Washington, Tyne & Wear, NE38 0AD.