

Interim Report 2009



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Inspired by Technology
Proven by Experience

Interim results for the six months ended 30th September 2009

“Our brand protection team continues to win new customers and currently consumer spending appears stable. ID’s traditional bias towards a stronger second half is expected to be reinforced by the conversion of some of its present sales pipeline, whilst bank note and high security is expected to benefit from higher sales to Eastern Europe and a number of new business wins. Operational performance going forward will be further significantly enhanced by the benefits arising from the restructuring of US operations and increased volumes of production within our UK facilities.

“As always there are difficulties in predicting the incidence of major new contracts but known volumes of potential new business and the benefits that are arising from the restructuring of our US facilities lead us currently to be confident that we will see significant improvements in our operations”.

David Mahony, Chairman

Highlights

- Group revenue down by 14% due to general economic conditions and prior year loss of significant tax stamp contract
- Significant cost saving and rationalisation programmes put in place beginning to benefit results
- Continued success winning new brand protection customers
- Significant prospects in the ID Solutions and BNHS sectors

	6 months ended 30th Sept 2009 unaudited	6 months ended 30th Sept 2008 unaudited
Group revenue	£16.3m	£18.9m
(Loss)/Profit before tax	(£337,000)	£367,000
(Loss)/Profit after tax	(£358,000)	£217,000
Basic earnings per share	(0.7p)	0.4p
Adjusted basic earnings per share*	0.4p	1.4p

* Adjusted for the effects of share based payments and the charge for intangible amortisation (see note 8).

Chairman's Statement

Chairman's Statement

In the first half of the current financial year we experienced mixed trading conditions with the first months of the period being particularly difficult. The impact of the loss last year of a Middle Eastern tax stamp contract coupled with a marked slowdown in orders by a major customer in Eastern Europe aggravated generally difficult trading in the first quarter. The second quarter was significantly more successful.

Group revenue for the six months was down by 14% to £16.3 million (2008: £18.9 million). Adjusted Operating Profit (see note 3) was reduced to £645,000 from £1,158,000 as the impact of lower revenue was partially offset by significant cost saving programmes. The result after taxation was a loss of £358,000 (2008: profit of £217,000).

Cash on the balance sheet as at 30th September 2009 amounted to £2,716,000 (2008: £2,771,000).

Brand Protection

This activity, the largest of our three market segments, suffered a fall in revenue in the period of 6%. Lower consumer spending, the driver of volume for many of our customers in this segment, led to reduced orders being placed with us, particularly in the first quarter. The second quarter saw a recovery and we continue to win new contracts both in the conventional and online sectors of this segment.

ID Solutions

Revenue in the ID solutions market grew by 4% compared to the same period in the prior year due mainly to strong ordering from the US and Canadian Governments. This segment has a historical bias towards the second half of the financial year which, coupled with a significant pipeline of potential future business, leads us to expect a strong revenue performance by this segment in the balance of the current year.

Banknote and High Security Documents

The loss of the Middle Eastern tax stamp programme and the marked slowdown in orders from an Eastern European customer referred to above severely impacted this segment of our business and revenue fell by 49% as compared to the same period last year. The development and capital expenditure programmes we have undertaken have benefitted both the range and the cost of the products we are able to offer and this has resulted in successful trials for significant new business being completed. This, coupled with the expected resumption of orders from Eastern Europe, leads us to expect a significantly stronger performance by this segment in the second half of the current year.

3DCD

The contribution from our joint venture 3DCD in the period was £114,000 compared to £261,000 in the prior year corresponding period. Royalties from our major software customer fell in the lead-up to their launch in November of a new product range and we incurred increased development costs. We have signed a new multi-year contract with that customer and this will secure the income we derive from the joint venture for the next few years.

Operations

In America the combination of our two manufacturing operations onto one site has now been completed without undue disruption of supplies to our customers. This integration and the other cost saving measures which we have implemented progressively benefited the first half year and led to a 37% increase in operating profit in America despite a 13% reduction in revenue.

European operations in the period felt the full impact of the loss of business from the Middle East and the slowdown in Eastern European ordering. The second half of the year is expected to benefit from a recovery in Eastern European volumes and the impact of production orders arising from the successful trials undertaken in the first half of the year.

Prospects

Our brand protection team continues to win new customers and currently consumer spending appears stable. ID's traditional bias towards a stronger second half is expected to be reinforced by the conversion of some of its present sales pipeline, whilst bank note and high security is expected to benefit from higher sales to Eastern Europe and a number of new business wins. Operational performance going forward will be further significantly enhanced by the benefits arising from the restructuring of US operations and increased volumes of production within our UK facilities.

As always there are difficulties in predicting the incidence of major new contracts but known volumes of potential new business and the benefits that are arising from the restructuring of our US facilities lead us currently to be confident that we will see significant improvements in our operations.

DA Mahony
Chairman
2nd December 2009

Financial Statements

Condensed Consolidated Income Statement

	Six months ended 30-Sept-09 unaudited £'000	Six months ended 30-Sept-08 unaudited £'000	Year ended 31-Mar-09 audited £'000
Revenue	16,287	18,912	39,339
Cost of sales	(9,868)	(11,035)	(23,181)
Gross profit	6,419	7,877	16,158
Distribution and selling costs	(1,690)	(2,613)	(4,875)
Administrative expenses	(4,418)	(4,493)	(8,882)
Exceptional administrative expenses	–	–	(857)
Intangible amortisation	(350)	(353)	(800)
Intangible impairment	–	–	(851)
Total administration expenses	(4,768)	(4,846)	(11,390)
	(39)	418	(107)
Share of profit of jointly controlled entity	114	261	678
Operating profit	75	679	571
Financial income	(67)	4	84
Financial expenses	(345)	(316)	(1,436)
(Loss)/Profit before income tax	(337)	367	(781)
Income tax	(21)	(150)	(896)
(Loss)/Profit for the period attributable to equity holders of the parent	(358)	217	(1,677)
Earnings per share (p)			
Basic eps	(0.7)	0.4	(3.3)
Diluted eps	(0.7)	0.4	(3.3)
Non-GAAP measures			
Adjusted basic eps	0.4	1.4	2.9
Adjusted diluted eps	0.4	1.3	2.7
Adjusted for the effects of share based payments and the charge for intangible amortisation (see note 8).			

Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 30th September 2009

	Share Capital unaudited £'000	Share premium unaudited £'000	Translation reserve unaudited £'000	Hedging reserve unaudited £'000	Retained earnings unaudited £'000	Total equity unaudited £'000
Balance at 1 April 2009	2,669	29,309	6,113	(585)	(5,530)	31,976
Loss for the period	–	–	–	–	(358)	(358)
Other comprehensive income						
Foreign exchange translation differences	–	–	(2,970)	–	–	(2,970)
Effective portion of changes in fair value of cash flow hedges	–	–	–	76	–	76
Other comprehensive income/(expense) for the period, net of tax	–	–	(2,970)	76	–	(2,894)
Total comprehensive income/(expense) for the period	–	–	(2,970)	76	(358)	(3,252)
Transactions with owners recorded directly in equity						
Share based payments	–	–	–	–	220	220
Own shares sold	–	–	–	–	15	15
Total by and distributions to owners	–	–	–	–	235	235
At 30 September 2009	2,669	29,309	3,143	(509)	(5,653)	28,959

For the 6 months ended 30th September 2008

	Share Capital unaudited £'000	Share premium unaudited £'000	Translation reserve unaudited £'000	Hedging reserve unaudited £'000	Retained earnings unaudited £'000	Total equity unaudited £'000
Balance at 1 April 2008	2,669	29,309	(1,522)	–	(3,873)	26,583
Profit for the period	–	–	–	–	217	217
Other comprehensive income						
Foreign exchange translation differences	–	–	2,248	–	–	2,248
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	–
Other comprehensive income/(expense) for the period, net of tax	–	–	2,248	–	–	2,248
Total comprehensive income/(expense) for the period	–	–	2,248	–	217	2,465
Transactions with owners recorded directly in equity						
Share based payments	–	–	–	–	126	126
Own shares sold	–	–	–	–	83	83
Own shares purchased	–	–	–	–	(61)	(61)
Total by and distributions to owners	–	–	–	–	148	148
At 30 September 2008	2,669	29,309	726	–	(3,508)	29,196

For the year ended 31st March 2009

	Share Capital unaudited £'000	Share premium unaudited £'000	Translation reserve unaudited £'000	Hedging reserve unaudited £'000	Retained earnings unaudited £'000	Total equity unaudited £'000
Balance at 1 April 2008	2,669	29,309	(1,522)	–	(3,873)	26,583
Loss for the period	–	–	–	–	(1,677)	(1,677)
Other comprehensive income						
Foreign exchange translation differences	–	–	7,635	–	–	7,635
Effective portion of changes in fair value of cash flow hedges	–	–	–	(628)	–	(628)
Net change in fair value of cash flow hedges transferred to profit or loss	–	–	–	43	–	43
Other comprehensive income/(expense) for the period, net of tax	–	–	7,635	(585)	–	7,050
Total comprehensive income/(expense) for the period	–	–	7,635	(585)	(1,677)	5,373
Transactions with owners recorded directly in equity						
Share based payments	–	–	–	–	(2)	(2)
Own shares sold	–	–	–	–	83	83
Own shares purchased	–	–	–	–	(61)	(61)
Total by and distributions to owners	–	–	–	–	20	20
At 31 March 2009	2,669	29,309	6,113	(585)	(5,530)	31,976

Consolidated Balance Sheet

	30-Sep-09 unaudited £'000	30-Sep-08 unaudited £'000	31-Mar-09 audited £'000
Assets			
Non-current assets			
Property, plant and equipment	10,039	10,619	11,633
Intangible assets	26,484	24,017	28,609
Investment in jointly controlled equity	274	421	530
Other investments	17	18	18
Deferred tax assets	4,070	5,266	4,347
Total non-current assets	40,884	40,341	45,137
Current assets			
Inventory	2,691	4,026	3,868
Trade and other receivables	7,069	8,853	7,517
Cash and cash equivalents	2,716	2,771	4,244
Total current assets	12,476	15,650	15,629
Total assets	53,360	55,991	60,766
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	(1,391)	(829)	(1,249)
Deferred government grants	(51)	(20)	(20)
Provisions	(232)	–	(536)
Income tax payable	(344)	(368)	(252)
Trade and other payables	(10,975)	(15,310)	(13,922)
Total current liabilities	(12,993)	(16,527)	(15,979)
Non-current liabilities			
Interest-bearing loans and borrowings	(10,356)	(10,099)	(11,787)
Deferred government grant	(213)	(169)	(159)
Derivative financial instruments	(509)	–	(585)
Deferred tax liabilities	(330)	–	(280)
Total non-current liabilities	(11,408)	(10,268)	(12,811)
Total liabilities	(24,401)	(26,795)	(28,790)
Net assets	28,959	29,196	31,976
Equity			
Capital and reserves			
Issued capital	2,669	2,669	2,669
Share premium	29,309	29,309	29,309
Translation reserve	3,143	726	6,113
Hedging reserve	(509)	–	(585)
Retained earnings	(5,653)	(3,508)	(5,530)
Total equity attributable to equity holders of the parent	28,959	29,196	31,976

Condensed Consolidated Statement of Cash Flows

	Six months ended 30-Sep-09 unaudited £'000	Six months ended 30-Sep-08 unaudited £'000	Year ended 31-Mar-09 audited £'000
Cash flows from operating activities			
(Loss)/Profit for the period	(358)	217	(1,677)
Depreciation	1,025	766	1,764
Amortisation of intangible assets	350	353	1,651
Release of government grants	22	(10)	(20)
Share based payment expense	220	126	(2)
Share of income from jointly controlled entity	(114)	(261)	(678)
Finance income	67	(4)	(84)
Finance expenses	345	316	1,436
Income tax	21	150	896
Cash flows from operating activities before working capital movements	1,578	1,653	3,286
Movement in inventory	798	(95)	892
Movement in debtors	(14)	(946)	493
Movement in creditors	(1,481)	543	469
Net cash inflow from operating activities	881	1,155	5,140
Interest paid	(359)	(999)	(1,436)
Income tax paid – overseas	(79)	(22)	(175)
Net cash inflow from operating activities	443	134	3,529
Cash flows from investing activities			
Acquisition of subsidiary undertaking (net of cash acquired) ¹	(1,777)	(6,000)	(7,948)
Acquisition of property, plant and equipment	(374)	(1,964)	(2,340)
Proceeds from sale of property, plant and equipment	1	–	–
Proceeds from government grant	–	–	–
Dividends received from jointly controlled entity	310	274	705
Interest received	(67)	4	84
Net cash outflow from investing activities	(1,907)	(7,686)	(9,499)
Cash flows from financing activities			
Payment of finance lease liabilities	(103)	–	(58)
Proceeds from borrowings	199	9,122	12,008
Repayment of borrowings	–	–	(3,049)
Proceeds from sale of own shares	16	83	83
Purchase of own shares	–	(61)	(61)
Net cash inflow from financing activities	112	9,144	8,923
Net (decrease)/increase in cash and cash equivalents	(1,352)	1,592	2,953
Cash and cash equivalents at the start of the period	4,244	793	793
Effect of exchange rate fluctuations on cash	(176)	386	498
Cash and cash equivalents at the end of the period	2,716	2,771	4,244

¹ The acquisition of subsidiary undertakings number in the six months ended 30th September 2009 represents deferred earnout payments.

Notes to the Interim Statement

1. Basis of Preparation

This interim financial information has been prepared applying the accounting policies that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31st March 2009.

From 1st April 2009 the following standards, amendments and interpretations became effective and were adopted by the Group:

IFRS 8: Operating Segments

Amendments to IAS 23: Borrowing Costs

Amendments to IFRS 2: Share Based Payments

Amendments to IAS 1: Presentation of financial statements

IFRIC 16: Hedges of Net Investment in a Foreign Operation

The adoption of the above has not had a significant impact on the Group's results or equity.

IFRS 8 'Operating Segments' requires segments to be reported on the same basis as the internal reporting that is provided to, and regularly reviewed, by the chief operating decision maker of the Group. The Board has reviewed the requirements of IFRS 8, including consideration of what results it reviews regularly to assess performance and make decisions about how resources are allocated, and have concluded that, as under IAS 14, the Group's reportable segments remain geographical.

While the Board manages the business by geography we communicate externally by business segment and continue to provide additional information by business segment as included in note 3.

2. Status of Financial Information

The interim information for the six months ended 30th September 2009 has not been audited or reviewed by the auditors.

The comparative figures for the year ended 31st March 2009 are not the Company's statutory financial statements 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, did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The interim report 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. The interim report is also available on the Company's website, www.opsecsecurity.com.

3. Segment Information

	Six months ended 30-Sep-09 unaudited £'000	Six months ended 30-Sep-08 unaudited £'000	Year ended 31-Mar-09 audited £'000
a) Turnover by geographic segment			
American operations	10,304	9,880	22,230
European operations	6,561	9,781	18,873
Intersegment sales	(578)	(749)	(1,764)
	16,287	18,912	39,339
b) Turnover by market sector			
Banknote and High Security Documents	2,162	4,240	8,516
Brand Protection	10,524	11,194	22,568
ID Solutions	3,601	3,478	8,255
	16,287	18,912	39,339
c) Operating profit by geographic segment			
American operations	828	518	624
European operations	639	1,399	1,177
Jointly controlled entity	114	261	678
Corporate costs	(1,156)	(1,146)	(1,108)
Intangible amortisation	(350)	(353)	(800)
Operating profit	75	679	571
Exclude exceptional administrative expenses	–	–	857
Exclude intangible amortisation	350	353	800
Exclude intangible impairment	–	–	851
Exclude equity settled share based payments	220	126	(2)
	645	1,158	3,077
d) Adjusted operating profit by geographic segment			
American operations	828	518	1,550
European operations	639	1,399	2,759
Jointly controlled entity	114	261	678
Corporate costs	(936)	(1,020)	(1,910)
Adjusted operating profit	645	1,158	3,077

4. Operating Expenses

	Six months ended 30-Sep-09 unaudited £'000	Six months ended 30-Sep-08 unaudited £'000	Year ended 31-Mar-09 audited £'000
<i>Distribution and Selling Costs</i>			
Selling and marketing costs	1,690	2,613	4,875
<i>Administrative Expenses</i>			
Technical support	498	476	1,022
Research and development costs	840	880	1,928
Administrative costs	3,080	3,137	5,932
Exceptional administrative costs	–	–	857
Intangible amortisation	350	353	800
Intangible impairment	–	–	851
	4,768	4,846	11,390
<i>Total Operating Expenses</i>	6,458	7,459	16,265

5. Share of Operating Profit of Jointly Controlled Entity

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 2009. The operating profit of 3dcd is subject to taxation in the accounts of its partners.

6. Finance Income and Expense

	Six months ended 30-Sep-09 unaudited £'000	Six months ended 30-Sep-08 unaudited £'000	Year ended 31-Mar-09 audited £'000
<i>Financial income</i>			
Interest income	4	–	25
Foreign exchange gains on foreign currency deposits	(71)	4	59
	(67)	4	84
<i>Financial expenses</i>			
Interest expense	(309)	(263)	(758)
Net change in fair value of cash flow hedges transferred from equity	–	–	(43)
Amortisation of bank fees	(38)	(53)	(635)
Foreign exchange gains on foreign currency borrowings	2	–	–
	(345)	(316)	(1,436)

7. Taxation

The charge for taxation is calculated by applying the Directors' best estimate of the annual effective rate of tax to the profit/(loss) for the period.

8. Earnings Per Share

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

	Six months ended 30-Sep-09 unaudited £'000	Six months ended 30-Sep-08 unaudited £'000	Year ended 31-Mar-09 audited £'000
Earnings			
Earnings for the financial period	(358)	217	(1,677)
Exceptional costs	–	–	1,492
Intangible amortisation	350	353	800
Intangible impairment	–	353	851
Share-based payments	220	126	(2)
Adjusted earnings for the financial period	212	696	1,464
<i>Weighted average number of shares</i>	No. of shares	No. of shares	No. of shares
For Basic earnings per share	51,015,602	50,388,803	50,634,466
For Diluted earnings per share	52,567,087	54,869,754	53,580,968