

5<sup>th</sup> June 2007

**OPSEC SECURITY GROUP plc**  
**(“OpSec” or “the Group”)**  
**(formerly Applied Optical Technologies plc)**

**Preliminary Announcement of Results for the Year Ended 31<sup>st</sup> March 2007**

OpSec Security Group plc, the supplier of anti-counterfeiting technologies, services and programmes announces its results for the year ended 31<sup>st</sup> March 2007.

**Highlights**

	<b>2007</b>	2006
Revenue	<b>£33.1m</b>	£25.4m
Operating Profit	<b>£5.3m</b>	£1.6m
Adjusted Operating Profit*	<b>£5.8m</b>	£1.9m
Basic Earnings Per Share	<b>7.7p</b>	3.5p
Adjusted Basic Earnings Per Share*	<b>8.8p</b>	4.1p

\* Adjusted for the charges for intangible amortisation and share based payments (note 2c)

- Group revenue up by 31% and adjusted operating profit more than trebled;
- Record results across each business unit and market sector
  - Brand protection revenue up 28%
  - ID Technologies revenue up 62%
  - Banknote and High Security revenue up 12%
- Record results in 3dcd joint venture on the back of successful launch of its major software customer’s new operating software;
- Successful completion of acquisition and integration of GenuOne, Inc;
- Proposed final dividend of 1p per share;
- Significant investment in management and equipment to position Group for further growth.

**David Mahony, Chairman, said:**

“The Board believes that the current year will see further growth in the underlying business, albeit without the exceptional contribution from 3dcd which featured in the year just ended. In order to accommodate this expected growth the Group continues to invest heavily both in its staff and its facilities. We also expect to conclude acquisitions as the opportunities arise which will further add to the performance of the Group in the current and future years.”

- Ends -

**For further information, please contact:**

**OpSec Security Group plc**

Mark Turnage, Chief Executive ([mturnage@opsecsecurity.com](mailto:mturnage@opsecsecurity.com))

Mike Angus, Finance Director ([mangus@opsecsecurity.com](mailto:mangus@opsecsecurity.com))

**Weber Shandwick Financial**

Nick Osborne/ Stephanie Badjonat/Charlie Hooper

**Oriel Securities Ltd**

Andrew Edwards

**today; 020 7067 0700**  
**thereafter: 0191 417 5434**

**020 7067 0700**

**020 7710 7600**

5<sup>th</sup> June 2007

**OPSEC SECURITY GROUP plc**  
**(“OpSec” or “the Group”)**  
**(formerly Applied Optical Technologies plc)**

**Preliminary Announcement of Results for the Year Ended 31<sup>st</sup> March 2007**

**Chairman’s Statement**

**Introduction**

I am pleased to report that the year to 31<sup>st</sup> March 2007 represented a record year for the Group across all of its business units and market sectors. Adjusted operating profit amounted to £5.8 million (2006: £1.9 million) helped by an exceptional contribution of £3.3 million (2006: £0.7 million) from our joint venture 3dcd. This significant contribution should not be allowed to mask the strong performance by the other elements of the Group; excluding the 3dcd contribution revenue grew by 31% and adjusted operating profit grew by 127%. The Group continues to be very cash generative and net cash inflow from operating activities was £3.7 million (2006: £3.3 million).

Our European operations made excellent progress in the year to 31<sup>st</sup> March 2007 and improved their operating profit by 255% in the period through a combination of growing turnover by 29% and improving gross margins.

Our American operations achieved growth of 31% in turnover and 33% in profitability when stated in dollar terms and including the impact of GenuOne. Excluding the impact of the acquisition, revenue grew by 14% and operating profit grew by 32%.

**Acquisition of GenuOne**

The Group is committed to growing both organically and by acquisition. It is encouraging to be able to report that the acquisition of GenuOne has proved its worth both by successful cross selling to the enlarged Group’s customer lists and by its major contribution to the software offering we can make to major brand and revenue protection programmes.

**Management and Employees**

We have undertaken a comprehensive review of existing remuneration schemes throughout the Group and revised these to incentivise all employees to continue to achieve improved performance and reward them when this is delivered.

The Board would like to record its thanks to all employees for their contribution to the achievement of the excellent results for the year under review.

**Investment Programme**

I have commented previously on the programme of major capital investment that the Group is undertaking. The initial stages of this programme have now been completed in our American operations and the current year will see our European operations completing the first part of a programme which will include the installation of state of the art coating equipment.

## **Corporate Activity**

In view of the results for the year ended 31<sup>st</sup> March 2007 and the Board's confidence as to profitability in future years a final dividend of 1p per share will be proposed at the forthcoming AGM.

During the year ended 31<sup>st</sup> March 2007 the Company acquired 1.1 million shares on behalf of its employee trusts at an average price of 68 pence. The Board will keep under review the possibility of further share buy backs in the current year.

## **Outlook**

The Board believes that the current year will see further growth in the underlying business, albeit without the exceptional contribution from 3dcd which featured in the year just ended. In order to accommodate this expected growth the Group continues to invest heavily both in its staff and its facilities. We also expect to conclude acquisitions as the opportunities arise which will further add to the performance of the Group in the current and future years.

**DA Mahony**  
**Chairman**  
**5<sup>th</sup> June 2007**

## **BUSINESS REVIEW**

### **Chief Executive's Review**

#### **Introduction**

OpSec is an international company whose mission is to provide solutions to its customers in combating counterfeiting and the related problems of diversion, grey marketing, online brand abuse and fraud. OpSec's customers include many governments and a number of the world's largest corporations.

OpSec's Banknote and High Security group provides products which help protect banknotes, fiduciary instruments, licenses, traveller's cheques, and other high security documents against counterfeiting. OpSec also provides turn-key tax stamp systems solutions, and integration services for governments seeking to secure their excise tax collection systems.

OpSec's Brand Protection group provides comprehensive brand protection and management solutions to brand owners who experience counterfeiting of their products, as well as diversion, online brand abuse and sale of fake goods. OpSec solutions allow customers to understand better their supply chain and the use of their brand and to exercise control from production through to final sale of goods.

The ID Technologies group provides governments with leading technology solutions to secure individual identity cards, passports, and similar documents against counterfeiting, forgery and alteration. OpSec also provides a suite of other services in the ID sector including ID and passport issuance integration services.

These market sectors are served from operating divisions and facilities in the United Kingdom and the United States, and from sales offices in Latin America and Hong Kong. OpSec and its customers are also supported by a network of over 40 agents worldwide.

#### **Review of Operations**

OpSec experienced record Group revenue and operating profit in 2007. This was driven by record revenue in all of its market segments and geographical business units, and an exceptional contribution from its joint venture, 3dcd.

For the year to 31<sup>st</sup> March 2007, revenue was up 31% to £33.1 million (2006: £25.4 million) with adjusted operating profit up 206% to £5.8 million (2006: £1.9 million). Net cash inflow from operating activities was £3.7 million (2006: £3.3 million), and adjusted basic earnings per share grew 115% to 8.8 pence (2006: 4.1 pence). These record performances were realised in spite of the adverse movement in the sterling-dollar exchange rate during the year.

#### **Strategy**

OpSec's strategy is to grow profitably by continuing to leverage its technology and solutions portfolio in its core markets. OpSec maintains its competitive positioning by investing in personnel, Research & Development, manufacturing and sales and marketing. In addition, OpSec seeks to strengthen its technological and market position through selective acquisitions in appropriate markets.

## **Market Sectors**

During the year a reorganisation of the Group's sales, marketing, customer support, and product development resources was undertaken by placing these resources into groups dedicated solely to specific target markets. It is anticipated that this reorganisation will allow the Group to compete better in its core markets.

### **Brand Protection**

The Brand Protection group had a record year with revenue up 28% to £12.6 million (2006: £9.9 million). This result reflected strong underlying growth in new and existing clients, as well as the successful integration of GenuOne, Inc., the acquisition of which was completed during the year.

The acquisition of GenuOne has significantly expanded the technology portfolio the Group is able to offer its brand protection customers, specifically via the proprietary GenuNet™ software in the area of online monitoring for theft of brand logos, names, and domains, as well as the sale of counterfeit merchandise. A number of new customers for these services were secured during the year, including Boots, Oillily, River Island, and Gant. In addition, a number of OpSec customers have now subscribed for GenuNet™ services and products.

OpSec continues to provide proprietary supply chain security and product tagging and tracking solutions to its customers to allow authentication of products in the marketplace. The year saw strong underlying growth in the provision of these products. OpSec's proprietary solutions allow customers to control and administer licensing and outsourced manufacturing, an increasingly critical issue in an era of globalisation.

In keeping with OpSec's strategy of providing its customers with a comprehensive service and technology offering, the Group now offers GenuNet™ products as part of a comprehensive brand protection management system. This has facilitated the successful integration of the GenuOne operations and management into the larger OpSec organisation.

### **ID Technologies**

Revenue in the ID Technologies business market grew 62% to £9.1 million (2006: £5.6 million). This record was achieved with substantial growth in the Group's passport security business, particularly in South Asia, as well as strong underlying performance in the UK and the Americas. Confidentiality provisions do not generally allow OpSec to disclose the names of its government clients.

Significant investment was made during the year in developing new cost-efficient technologies for ID document protection, the commercialisation of which will occur during the current year. This has resulted in new colour-shifting technologies, as well as products combining a number of the Groups' existing technologies.

OpSec provides a variety of security technologies and solutions for identity documents. The Group also provides integration services and products for a broad variety of identity document issuance systems, often in conjunction with strategic partners. During the year the Group participated successfully with a number of such partners in providing these services and it is anticipated that as the Group's ID business continues to grow the scope of the services and products OpSec can offer will increase.

## **Banknote and High Security**

The Banknote and High Security market sector achieved record revenue of £10.8 million (2006: £9.6 million), an increase of 12% over the prior year. This growth was driven primarily by strong sales of excise stamp products. The Group also continues to supply a broad range of products for currency, traveller's cheques, licenses, and other government and fiduciary instruments.

During the year OpSec invested heavily in its excise stamp product and software offerings, reflecting its belief that this market will continue to expand as governments continue to be faced with significant fraud in the collection of tax revenues via excise stamps. The Group's product offering now extends beyond the supply of anti-counterfeiting technologies to the turnkey provision of excise stamp programmes, including tracking and authentication software.

## **Geographical Business Units**

The Group reports revenues and profitability split geographically between its European and American operations. These operations compete across all the market sectors referenced above. The reorganisation of the Company along market facing lines has led to a substantial increase in cooperation between the business units.

### **American Operations**

In spite of a weak first quarter, revenue in our American operations excluding GenuOne was a record \$31.2 million (2006: \$27.3 million), with operating profit a record \$5.2 million (2006: \$3.9 million). The Lancaster, Pennsylvania facility in particular had very strong results for the year.

During the year substantial investments were made in expanding the range of manufacturing capabilities in the American facilities, particularly in security printing and coating. A substantial investment was also made during the year in hiring new American operating management. The Board believes that these investment have already yielded significant benefits.

The purchase and integration of GenuOne's operations was concluded during the year. These operations continue to be based in Boston, Massachusetts with several members of the GenuOne management team now having wider Group responsibilities. In the ten months to 31<sup>st</sup> March 2007 GenuOne contributed revenue of \$5.8 million and operating profit of \$43,000 to Group results.

A charge for intangible amortisation of £109,000 (2006: £nil) was made during the year. This relates to the amortisation of the intangible assets arising on the acquisition of GenuOne.

### **European Operations**

The European operations achieved very strong results, with revenue of £15.8 million (2006: £12.2 million) and operating profit of £2.1 million (2006: £0.6 million). This positive result builds on the restructuring completed in the prior year. Particularly strong performance was realised during the year in both the ID Technologies and the Banknote and High Security markets.

A programme of investment in technology and equipment designed to enhance the European operations' manufacturing capabilities commenced during the year. The installation of the new equipment will be completed in the current year and will lead to a significant increase both in capacity and technical capabilities. The Group also made significant investments in its optical origination facilities based in Leicestershire.

### **3dcd Joint Venture**

A record contribution of £3.3 million (2006: £0.7 million) to the Group's profits was realised from the Group's 50% share of 3dcd. The strong performance during the year reflected the launch of 3dcd's major customer's new operating and office software packages. The level of contribution will return to a normal level in the current year as a substantial part of the revenues were one-off in nature and tied to the launch of the new software.

The Group continues actively to seek new customers for the 3dcd technology and to invest in the next generation of optical disk protection technology.

### **Corporate**

The charge for share based payments increased from £329,000 to £413,000. Other corporate costs increased by 43% to £2.2 million (2006: £1.5 million). Included in this category are the costs of all management bonus schemes, all centrally controlled legal, professional and patent costs, public company costs, and corporate office and personnel costs. The major contributors to the increase were a significant increase in costs associated with intellectual property issues and the higher cost of management bonuses.

### **People**

OpSec has 241 employees operating from its manufacturing facilities in North America and the United Kingdom, as well as its optical laboratories in the United Kingdom, the corporate office in Denver, and sales and support facilities in Hong Kong and Latin America

OpSec believes strongly that employee recruitment, training and retention are critical to its success as a group. The Group remains fully committed to maintaining its health, safety and environmental standards and performance.

**MT Turnage**  
**Chief Executive**  
**5<sup>th</sup> June 2007**

## **BUSINESS REVIEW**

### **Financial Review**

#### **Revenue**

Revenue increased by 31% to £33.1 million (2006: £25.4 million). Excluding the benefit from the acquisition of GenuOne, the increase was 19% to £30.1 million.

#### **Gross profit margin**

Gross profit margin for the year was 44% (2006: 38%). The increase was a consequence of margins in our European operations increasing from 32% to 38% and an increase in American margins from 37% to 45%. This latter increase was aided by the higher margins in our GenuOne acquisition.

#### **Operating Profit**

Adjusted operating profit (adjusted for the effects of intangible amortisation and share based payments) increased by 206% to £5.8 million (2006: £1.9 million). Excluding joint venture income and the contribution from current year acquisitions operating profit grew by 125% to £2.0 million (2006: £0.9 million).

#### **Finance expense**

The net finance cost for the year was £0.1 million (2006: income of £0.1 million). The movement reflects the cost of the borrowings used partially to fund the GenuOne acquisition and losses on the retranslation of foreign currency deposits due to adverse movements in exchange rates.

#### **Tax**

The tax charge for the year of £1,253,000 (2006: credit of £40,000) represents 24% of profit before tax. The charge comprises deferred tax and corporation tax charges on the profits of the American operations and joint venture. No charge is payable on the profits of our UK operations due to losses brought forward.

#### **Earnings per share**

Basic adjusted earnings per share increased by 115% to 8.8p, (2006: 4.1p). Adjusted fully diluted earnings per share increased by 105% to 8.2p, (2006: 4.0p).

#### **Balance sheet**

Net assets increased by £1.4 million to £23.1 million (2006: £21.7 million). The principal movements during the year arose from the GenuOne acquisition, property, plant and equipment additions of £3.8 million, the profitability of the Group and the impact of exchange rate movements.

Intangible assets increased by £5.1 million following the acquisition of GenuOne in June 2006.

## Cash flow

Net cash inflow from operating activities was £3.9 million, an increase of 14% compared to 2006, (£3.4 million). In addition, the Group received dividends from its joint venture amounting to £2.6 million (2006: £0.8 million).

The principal cash outflows during the year were the acquisition of GenuOne for £7.3 million, the purchase of shares on behalf of the employee trusts of £0.7 million and property, plant and equipment additions of £3.7 million (2006: £1.4 million).

Overall the net cash outflow for the year was £3.8 million. After the effects of exchange rate fluctuations on cash of £0.7 million, net cash and cash equivalents fell to £3.1 million (2006: £7.6 million).

## Liquidity Risk

OpSec seeks to maintain a balance between continuity of funding and flexibility. The Company's only indebtedness is a revolving credit facility with the Bank of America. The facility matures on 16<sup>th</sup> June 2009. At 31<sup>st</sup> March 2007 the available bank facilities totalled \$10 million of which \$2.9 million was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility.

## Foreign currency risk

A significant proportion of OpSec's net assets are in currencies other than sterling. The Company's policy is to limit the translation exposure and the resulting impact on shareholders' funds by borrowing in those currencies in which it has significant net assets.

Throughout the year borrowings were primarily denominated in US Dollars. The Company does not hedge the translation effect of exchange rate movements on the income statement.

The majority of OpSec's transactions are carried out in the functional currencies of its operations and so transaction exposure is limited.

## Principal exchange rates

	Average		Closing	
	2007	2006	2007	2006
US\$ : £	1.90	1.78	1.96	1.73
€ : £	1.47	1.46	1.47	1.40

The differences between the average and closing exchange rates, particularly the US dollar, are such that if the results for the year ended 31<sup>st</sup> March 2007 were translated at the closing rates rather than the average rates, revenue would be reduced by £0.4 million and operating profit by £0.1 million.

**MW Angus**  
**Finance Director**  
**5<sup>th</sup> June 2007**

**OPSEC SECURITY GROUP plc**  
**Consolidated Income Statement**

	Year ended 31-Mar-07 £'000	Year ended 31-Mar-06 £'000
<b>Revenue</b>	<b>33,134</b>	25,390
Cost of sales	(18,581)	(15,759)
<b>Gross profit</b>	<b>14,553</b>	9,631
Distribution and selling costs	(4,169)	(3,051)
Administrative expenses	(8,369)	(5,688)
Intangible amortisation	(109)	-
Total administrative expenses	(8,478)	(5,688)
Other income	119	-
	<b>2,025</b>	892
Share of profit of joint ventures	<b>3,298</b>	690
Operating profit	<b>5,323</b>	1,582
Finance income	(10)	151
Finance expenses	(139)	(2)
<b>Net finance costs</b>	<b>(149)</b>	149
<b>Profit before income tax</b>	<b>5,174</b>	1,731
Income tax	(1,253)	40
<b>Profit for the year attributable to equity holders of the parent</b>	<b>3,921</b>	1,771
Basic earnings per share (p)	<b>7.7</b>	3.5
Diluted earnings per share (p)	<b>7.2</b>	3.4
Final proposed dividend per share (p)	<b>1.0</b>	-

**OPSEC SECURITY GROUP plc**  
**Consolidated Statement of Recognised Income and Expense**

	Year ended 31-Mar-07 £'000	Year ended 31-Mar-06 £'000
Foreign exchange translation differences	<b>(2,300)</b>	1,495
<b>Net income / (expense) recognised directly in equity</b>	<b>(2,300)</b>	1,495
<b>Profit for the year</b>	<b>3,921</b>	1,771
<b>Total recognised income for the year attributable to equity holders of the parent</b>	<b>1,621</b>	3,266

**OPSEC SECURITY GROUP plc**  
**Consolidated Balance Sheet**

	31-Mar-07 £'000	31-Mar-06 £'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	7,125	4,966
Intangible assets	10,846	6,498
Investment in joint venture	920	329
Other investments	18	28
Deferred tax assets	3,194	1,758
<b>Total non-current assets</b>	<u>22,103</u>	<u>13,579</u>
<b>Current assets</b>		
Inventory	2,729	1,839
Trade and other receivables	5,600	3,616
Cash and cash equivalents	3,077	7,568
<b>Total current assets</b>	<u>11,406</u>	<u>13,023</u>
<b>Total assets</b>	<u>33,509</u>	<u>26,602</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	(4)	-
Deferred government grants	-	(21)
Trade and other payables	(8,911)	(4,876)
<b>Total current liabilities</b>	<u>(8,915)</u>	<u>(4,897)</u>
<b>Non current liabilities</b>		
Interest-bearing loans and borrowings	(1,470)	-
<b>Total non current liabilities</b>	<u>(1,470)</u>	<u>-</u>
<b>Total liabilities</b>	<u>(10,385)</u>	<u>(4,897)</u>
<b>Net assets</b>	<u>23,124</u>	<u>21,705</u>
<b>EQUITY</b>		
<b>Capital and reserves</b>		
Issued capital	2,669	2,669
Share premium account	29,309	29,309
Translation reserve	(1,251)	1,049
Retained earnings	(7,603)	(11,322)
<b>Total equity attributable to equity holders of the parent</b>	<u>23,124</u>	<u>21,705</u>

**OPSEC SECURITY GROUP plc**  
**Consolidated Statement of Cash Flows**

	Year ended 31-Mar-07 £'000	Year ended 31-Mar-06 £'000
<b>Cash flows from operating activities</b>		
Profit for the year	3,921	1,771
Depreciation	1,239	1,332
Amortisation of intangible assets	109	-
Profit on sale of investment	(119)	-
Profit on sale of plant and machinery	-	(97)
Release of government grants	(21)	(21)
Share based payment expense	413	329
Share of joint venture income	(3,298)	(690)
Finance income	10	(151)
Finance expenses	139	2
Income tax expense	1,253	(40)
Movement in inventory	(847)	415
Movement in debtors	(1,626)	683
Movement in creditors	2,711	(129)
	<hr/>	<hr/>
Cash from operating activities	3,884	3,404
Interest paid	(139)	(2)
Income tax paid - overseas	(86)	(111)
	<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>	<b>3,659</b>	<b>3,291</b>
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary undertaking	(7,297)	-
Acquisition of property, plant and equipment	(3,695)	(1,397)
Proceeds from sale of property, plant and equipment	-	286
Proceeds from sale of investment	130	-
Dividends received from joint venture	2,589	849
Income from other fixed asset investments	-	-
Interest received	(10)	130
	<hr/>	<hr/>
<b>Net cash outflow from investing activities</b>	<b>(8,283)</b>	<b>(132)</b>
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Payment of finance lease liabilities	(26)	(14)
Proceeds from borrowings	1,470	-
Proceeds from sale of own shares	133	121
Purchase of own shares	(748)	-
	<hr/>	<hr/>
<b>Net cash inflow from financing activities</b>	<b>829</b>	<b>107</b>
	<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(3,795)</b>	<b>3,266</b>
	<hr/>	<hr/>
Cash and cash equivalents at the start of the year	7,568	3,954
Effect of exchange rate fluctuations on cash	(700)	348
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	<b>3,073</b>	<b>7,568</b>
	<hr/>	<hr/>

**OPSEC SECURITY GROUP plc**  
**Notes to the Preliminary Announcement**  
**For the year ended 31<sup>st</sup> March 2007**

- 1) The financial information set out above does not constitute the Company's statutory accounts for the years ended 31<sup>st</sup> March 2007 or 2006. The financial information for 2006 is derived from the statutory accounts for 2006 which have been delivered to the registrar of companies. The auditors have reported on the 2006 accounts; their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237 (2) or (3) of the Companies Act 1985. The statutory accounts for 2007 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

**OPSEC SECURITY GROUP plc**  
**Notes to the Preliminary Announcement**  
**For the year ended 31<sup>st</sup> March 2007**

**2) Segment Information**

	Year ended 31-Mar-07 £'000	Year ended 31-Mar-06 £'000
<b>a) Revenue by geographic segment</b>		
American operations	19,315	15,369
European operations	15,824	12,226
Intersegment sales	(2,005)	(2,205)
	33,134	25,390
<b>b) Revenue by market sector</b>		
Banknote and high security documents	10,795	9,647
Brand protection	12,645	9,868
ID technologies	9,081	5,598
Other	613	277
	33,134	25,390
<b>c) Operating profit by geographic segment</b>		
American operations	2,587	2,189
European operations	2,057	579
Joint ventures	3,298	690
Corporate costs	(2,619)	(1,876)
Operating profit	5,323	1,582
Exclude intangible amortisation	109	-
Exclude share based payments	413	329
Adjusted operating profit	5,845	1,911
<b>d) Adjusted operating profit by geographic segment</b>		
American operations	2,696	2,189
European operations	2,057	579
Joint ventures	3,298	690
Corporate costs	(2,206)	(1,547)
	5,845	1,911

**OPSEC SECURITY GROUP plc**  
**Notes to the Preliminary Announcement**  
**For the year ended 31<sup>st</sup> March 2007**

**3) Net Operating Expenses**

	<b>2007</b>	2006
	<b>£'000</b>	£'000
<b>Distribution Costs</b>		
Distribution and selling costs	<u>4,169</u>	<u>3,051</u>
<b>Administrative Expenses</b>		
Technical support	1,017	463
Research and development costs	1,499	1,082
Administrative costs	5,853	4,143
Intangible amortisation	(109)	-
	<u>8,478</u>	<u>5,688</u>
Net operating expenses	<u><b>12,647</b></u>	<u><b>8,739</b></u>

**4) Share of Profit of Joint Venture**

The share of profit of joint venture represents the Group's share of the results of 3dcd for the year ended 31<sup>st</sup> March 2007.

**5) Financial Income**

	<b>2007</b>	2006
	<b>£'000</b>	£'000
Interest income	96	129
Exchange (losses)/gains on foreign currency deposits	(106)	22
	<u>(10)</u>	<u>151</u>

**6) Financial Expenses**

	<b>2007</b>	2006
	<b>£'000</b>	£'000
Interest expense	(139)	-
Exchange losses on foreign currency borrowings	-	2
	<u>(139)</u>	<u>2</u>

**7) Dividends**

A final dividend of 1p per share will be proposed at the forthcoming AGM.

**OPSEC SECURITY GROUP plc**  
**Notes to the Preliminary Announcement**  
**For the year ended 31<sup>st</sup> March 2007**

**8) Taxation**

	<b>2007</b>	2006
	<b>£'000</b>	£'000
<u>Overseas tax</u>		
Corporation tax	<b>415</b>	(12)
Deferred tax	<b>838</b>	(28)
	<u><b>1,253</b></u>	<u>(40)</u>

No taxation is payable in the current year by any of the Group's UK based companies due to trading losses brought forward.

Corporation tax on profits arising in the Group's American operations comprises state taxes and federal taxes, which have been reduced due to losses brought forward from prior years.

At 31<sup>st</sup> March 2007 the Group had a deferred tax asset of £3,194,000 (2006: £1,758,000) due to losses available in America to carry forward to offset against future profits of the same trades and other short term timing differences.

At 31<sup>st</sup> March 2007 the Group had additional tax losses in respect of European operations. No deferred tax asset has been recognised in respect of these losses.

**9) Earnings Per Share**

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

	<b>2007</b>	2006
	<b>£'000</b>	£'000
<b>Earnings</b>		
Earnings for the financial year (basic and diluted)	<b>3,921</b>	1,771
Intangible amortisation	<b>109</b>	-
Share based payments	<b>413</b>	329
Adjusted earnings for the financial year (basic and diluted)	<u><b>4,443</b></u>	<u>2,100</u>
<b>Weighted average number of shares</b>	<b>No. of shares</b>	No. of shares
For basic EPS	<b>50,766,763</b>	50,725,745
Effect of share options and other awards	<b>3,639,620</b>	1,308,349
For diluted EPS	<u><b>54,406,383</b></u>	<u>52,034,094</u>

**OPSEC SECURITY GROUP plc**  
**Notes to the Preliminary Announcement**  
**For the year ended 31<sup>st</sup> March 2007**

**10) Reconciliation of Movements in Capital and Reserves**

	Attributable to equity shareholders				
	Share capital £'000	Share premium £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 <sup>st</sup> April 2006	2,669	29,309	1,049	(11,322)	21,705
Total recognised income and expense	-	-	(2,300)	3,921	1,621
Share based payments	-	-	-	413	413
Own shares sold	-	-	-	133	133
Own shares purchased	-	-	-	(748)	(748)
At 31 <sup>st</sup> March 2007	<u>2,669</u>	<u>29,309</u>	<u>(1,251)</u>	<u>(7,603)</u>	<u>23,124</u>

**11)** A copy of the preliminary statement is available from the Company Secretary, 40 Phoenix Road, Crowther District 3, Washington, Tyne & Wear, NE38 0AD.

**12)** The preliminary announcement was approved by the Board of Directors for release on 5<sup>th</sup> June 2007.

- Ends -