

4<sup>th</sup> June 2008

**OPSEC SECURITY GROUP plc**  
**(“OpSec” or “the Group”)**

**Preliminary Announcement of Results for the Year Ended 31<sup>st</sup> March 2008**

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 2008.

**Highlights**

|                                     | <b>2008</b>   | 2007   |
|-------------------------------------|---------------|--------|
| Revenue                             | <b>£33.0m</b> | £33.1m |
| Operating Profit                    | <b>£2.7m</b>  | £5.3m  |
| Adjusted Operating Profit*          | <b>£3.6m</b>  | £5.8m  |
| Basic Earnings Per Share            | <b>9.2p</b>   | 7.7p   |
| Adjusted Basic Earnings Per Share*† | <b>5.9p</b>   | 8.8p   |

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

† Adjusted for the £2,583,000 deferred tax credit on recognition of deferred tax assets in the UK operations

- Year of further progress for the Group and results broadly in line with expectations;
- Revenue in the Brand Protection market at record levels with significant new contract wins;
- Group revenues reflect the benefit of new customers offset by slower ordering from some major customers and further decline in the dollar exchange rate;
- The lower operating profit primarily reflects the expected reduction in 3dcd contribution, at £0.88 million (2007: £3.3 million), following its exceptional performance in the preceding year;
- Successful completion of major capital projects in both the European and American operations;
- New funding line of £19m secured with The Royal Bank of Scotland to help finance future organic growth and acquisitions;
- Acquisition of Light Impressions International Limited and P4M GmbH completed post year end.

**David Mahony, Chairman, said:**

“The markets which the Group serves continue to be robust and offer the Group exciting opportunities for growth. The Board believes that the current year, which has started well, will see good organic growth in both its core revenue and earnings, enhanced by the two acquisitions that have recently been completed.”

- Ends -

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**OPSEC SECURITY GROUP plc**  
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**Preliminary Announcement of Results for the Year Ended 31<sup>st</sup> March 2008**

**Chairman’s Statement**

**Introduction**

As anticipated, the contribution received from 3dcd returned to more normal levels following the exceptional results for the preceding year. Reported results were adversely affected by the translation effect of the continuing decline in the dollar pound exchange rate and the impact of a material write off in respect of abortive costs in regard to an intended acquisition. Given these factors, and the Group’s strong and successful investment programme, the year to 31<sup>st</sup> March 2008 represented a year of further progress for the Group.

Our European operations saw revenue fall by 4% and operating profit fall by 19% to £1,673,000 as three major government customers slowed down their ordering.

Our American operations achieved dollar revenue growth of 7%, despite the slow down in ordering of a number of major government customers. After currency translation the growth in revenue was 2% and operating profit fell 7% to £2,501,000.

Coupled with the successful completion of the major portion of the capital investment programmes in both our European and American operations we have continued further to strengthen the management team. This will enable us complete the move to becoming a market facing organisation focusing on our key areas of Brand Protection, Banknote and High Security Documents and ID Solutions.

**Acquisition activity**

The acquisition of Light Impressions International Limited will expand the Group’s Brand Protection operations by extending our activities in Asia, a major market to which we have hitherto had little exposure.

The acquisition of P4M GmbH, also announced since the year end, complements the activities of GenuOne and further extends both the number of international brands which we serve and the services we can provide to them.

We expect the impact of these acquisitions to be earnings enhancing in the current year.

Against a background of resilient markets for the products which we offer and depressed valuations for AIM companies we considered it appropriate to take advantage of the Group’s ability, even in a difficult banking climate, to raise a £19m credit line with Royal Bank of Scotland plc to finance both the intended organic growth of the Group and appropriate acquisitions.

The Board believes that not to have taken this route would have prevented the Group from taking full advantage of the opportunities open to us to grow the business. A necessary consequence of this decision is that we do not consider it appropriate to recommend a dividend for the current year; however, it remains our policy to recommend dividends when it is appropriate to do so.

## **Management and Employees**

Given the major changes which have taken place the Board would like to record it's thanks to all employees for their contribution to the achievements of the Group in the past year.

## **Outlook**

The markets which the Group serves continue to be robust and offer the Group exciting opportunities for growth. The Board believes that the current year, which has started well, will see good organic growth in both its core revenue and earnings, enhanced by the two acquisitions that have recently been completed.

**DA Mahony**  
**Chairman**  
**4<sup>th</sup> June 2008**

## **BUSINESS REVIEW**

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

#### **Introduction**

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

OpSec supplies technologies and solutions into 3 core markets: Brand Protection, ID Solutions, and Banknote and High Security Documents. In addition, OpSec owns 50% of 3dcd LLC, a joint venture which licenses technologies for the protection of optical disks (CD's and DVD's).

OpSec's customers are served from Company facilities in the USA, the UK, Germany (following the P4M acquisition), and Hong Kong, and via a network of over 40 agents worldwide.

#### **Review of Operations**

For the year to 31<sup>st</sup> March 2008, revenue was flat at £33.0 million (2007: £33.1 million) with adjusted operating profit down from £5.8 million to £3.6 million reflecting the expected decrease in the contribution from 3dcd. Before currency translation, revenue grew by 4%. Net cash inflow from operating activities was £0.9 million (2007: £3.7 million), and adjusted basic earnings per share fell 33% to 5.9 pence (2007: 8.8 pence).

Although we achieved record Brand Protection sales, we experienced a slowdown in orders from key government customers in the ID Solutions and Banknote and High Security Documents markets. 3dcd results, while stronger than expected, did not match the exceptional results of the prior year which had benefited from the launch of its major customer's software product.

#### **Strategy**

OpSec's strategy is to provide world-class authentication technologies and solutions into its core markets, leveraging its unique technology portfolio, its expertise, and its global distribution network. OpSec will continue to invest in people, technology, manufacturing and distribution to continue its growth and broaden its product offerings. On a selective basis the Group will also make acquisitions that fit its core market strategy or enhance its technology strategy.

## **Market Sectors**

OpSec is organised by market-facing groups, each addressing its discrete market with dedicated management, sales, sales support, and technology development teams. The three market facing groups are supported by the manufacturing group which provides them with products and services from the Group's various manufacturing facilities.

### **Brand Protection**

The Brand Protection group had a record year with revenue up 11% to £14.6 million (2007: £13.2 million). The result reflected OpSec's very strong strategic positioning in this sector, as seen in new customers won during the year and the retention and strong growth of underlying key customer accounts.

OpSec is unique in providing brand protection solutions which encompass both the tagging and tracking of physical product through the supply chain, as well as the monitoring online of brand identity and activity, and the online sale of merchandise. This allows brand owners to address all facets of the problems associated with counterfeiting, grey marketing, and unlawful use and sale of branded merchandise both in retail establishments as well as online sales. OpSec invested significantly in the year in expanding our capabilities in both spheres.

During the year OpSec negotiated multi-year extensions to its contracts with the US National Basketball Association (NBA) and Major League Baseball (MLB), and launched a new program with the Collegiate Licensed Properties Association (CLPA). In addition, OpSec significantly expanded its programme with the National Football League (NFL). OpSec also launched a major new product line providing cell phone battery authentication, with a major global provider of cell phone accessories. Importantly, the cross selling of digital and physical solutions continued, and a majority of OpSec's largest brand protection customers now purchase both categories of services from OpSec.

Subsequent to the close of the year the Company announced the acquisitions of both Light Impressions International Ltd. and P4M GmbH. Both of these companies add key brand protection customers and significantly enhance OpSec's capabilities in this market sector.

### **ID Solutions**

Revenue in the ID Solutions business fell by 9% to £7.8 million (2007: £8.6 million). This reflected the irregularity of ordering from key government customers, where very strong ordering in the prior year was followed by lower order levels during the year. This was particularly true among several large US and Latin American customers.

During the year a number of new products were launched, including a new generation of colour-shifting liquid crystal authentication features, as well as Radio Frequency ("RF") enabled ID cards. These products complement and expand OpSec's capabilities in this area, and enable it to supply products for the next generation of ID documents.

As a key component of the strategy in the sector of broadening the range of products available to its customers, the Board approved a £1.5 million investment to enable OpSec to manufacture highly specified secure ID cards at its plant in Lancaster, Pennsylvania. This capability should start production in the late summer of 2008.

Also during the year extensive negotiations and discussions took place with a number of potential acquisitions in the ID solutions sector. One of these was aborted in the first half,

after incurring acquisition costs of £235,000, reflecting the unwillingness of the Board to proceed on anything other than completely acceptable terms. A number of other discussions continue.

### **Banknote and High Security Documents**

Revenue in the Banknote and High Security market sector fell by 7% to £10.6 million (2007: £11.4 million). This reflected a slowdown in orders from key clients and was particularly noticeable among the Group's Middle Eastern and Russian clients who had ordered strongly in the prior year. This was partially offset by an increase in sales of the Group's patented temporary license plate product in America.

During the year new customers were gained, most notably in the excise/tax stamp area, but the effect of these did not offset the slowdown in ordering noted above. Significant marketing efforts were undertaken in the area of excise/tax stamps, which the Group believes will continue to be a strong driver of growth in the future.

The improvements in the manufacturing capabilities in our European operations combined with a number of technical developments which have been successfully completed should enable the Group to broaden its customer base in this market.

### **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. Manufacturing locations also lie within each geographical sector.

#### **American Operations**

Revenue in our American operations was a record \$39.5 million (2007: \$37.0 million), reflecting in particular the strength of Brand Protection sales. The slightly reduced operating profit of \$5.0 million (2007: \$5.2 million) was due to a change in the mix of business and the cost of investments in the business to underpin continued growth in years to come.

During the year almost \$3 million of new equipment was installed and commissioned, to allow the Company to produce a broader range of security products. Physical throughput in the two American manufacturing facilities was at record levels during the year.

A charge for intangible amortisation of £126,000 (2007: £109,000) was made during the year. This relates to the amortisation of the intangible assets arising on the acquisition of GenuOne.

## **European Operations**

Revenue in the European operations fell to £15.2 million from £15.8 million as a result of slow ordering from a number of large government customers. This decline in revenue meant that operating profit fell to £1.7 million (2007: £2.1 million).

During the year, over £3 million of new equipment was commissioned for the UK manufacturing site. This included two new coaters which will allow the production of substantially greater volumes of product at higher quality than is currently the case. Substantial investment continues to be made elsewhere in the business, including in optical development.

## **3dcd Joint Venture**

Following the exceptional results of the 3dcd joint venture in the prior year, which were associated with a product launch by its major customer, 3dcd returned to a more normal level of earnings. Nonetheless, it performed ahead of expectations with a contribution of £0.9 million (2007: £3.3 million).

During the year the Board of 3dcd authorised the expenditure of over \$1 million to develop further the next generation of technology for optical disk protection. This new technology has the potential to extend and enhance the current product offering. At the end of the year this new technology was incorporated into the first commercial products and has been well received.

## **Corporate**

The charge for share based payments in the current year increased from £413,000 to £789,000. Other corporate costs decreased by 35% to £1.4 million (2007: £2.2 million). The major contributors to this decrease were the lower cost of management bonuses and a decrease in the costs associated with intellectual property issues.

## **Financing and Acquisitions**

After the close of the year OpSec announced a new term loan and revolving credit facility of up to £19 million with the The Royal Bank of Scotland plc. Details of this facility are given in the Financial Review below.

In addition, after the close of the year the Company announced the acquisition of Light Impressions International Ltd. ("Light Impressions") and P4M Partners 4 Management GmbH. ("P4M"). Light Impressions is a provider of holographic products to approximately 80 customers globally with a particularly strong presence in Asia. In the year ending 30<sup>th</sup> August 2007 Light Impressions reported revenue of £5.0 million, profit before taxation of £0.6 million and net assets of £1.5 million. The purchase price consists of an upfront cash payment of £2.0 million and a two year cash earn-out capped at £4.5 million. The two-year earn-out is to be calculated by reference to the revenue and gross margin achieved on key customer accounts during that period.

P4M is a leading provider of online brand protection and monitoring services in Europe which enable brand owners to detect illegal distribution of digital media, identify counterfeit and grey market goods on e-commerce sites, and measure online brand image and customer satisfaction. P4M currently serves 65 major brands including Bayer HealthCare, Fujifilm, Hewlett Packard, Lacoste, Samsung and Warner Brothers.

In the year ended 31<sup>st</sup> December 2007 P4M reported revenue of €1.7 million and profit after taxation of €158,000. Further growth is expected in the year to 31<sup>st</sup> December 2008 and management expect the acquisition to be slightly earnings enhancing in the current year. The consideration will consist of an up front payment of €4.2 million and an earn-out (capped at €6.0 million) equal to six times P4M's increase in EBITDA for the year ending 31<sup>st</sup> December 2008.

Both acquisitions further the Company's strategy of expanding its customer and technology base in its core markets, and enhancing the geographical distribution of its products. Light Impressions' customer base in Asia significantly expands OpSec's presence in the region following the opening of its Hong Kong office in the prior year. P4M's complementary product offerings, team of Internet agents, European management team and client base make it a natural addition which will further strengthen OpSec's global brand protection strategy

## **People**

OpSec has 272 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**  
**4<sup>th</sup> June 2008**

## **BUSINESS REVIEW**

### **Financial Review**

#### **Revenue**

The year to 31<sup>st</sup> March 2008 saw Group revenue decrease by 0.4% to £33.0 million (2007: £33.1 million). The gains which arose from new contract wins in the Brand protection market were offset by the deterioration in the sterling US dollar exchange rate and by a slow down in ordering from major customers in the Banknote and High Security Documents and ID Solutions markets.

#### **Gross profit margin**

Gross profit margin for the year fell from 44% to 42%. The decrease was a consequence of margins in our European operations decreasing from 38% to 37% due to the impact of lower volumes and a decrease in American margins from 44% to 43% caused by an adverse change in product mix and the cost of investments made in additional capacity to position the operations for further growth.

#### **Operating Profit**

Adjusted operating profit (adjusted for the effects of intangible amortisation and share based payments) decreased to £3.7 million (2007: £5.8 million) reflecting the anticipated reduction in the contribution from 3dcd and the abortive acquisition costs of £235,000. Excluding joint venture income, adjusted operating profit grew by 8% to £2.7 million (2007: £2.5 million).

#### **Finance expense**

The net finance cost for the year was £0.1 million (2007: £0.1 million).

#### **Income Tax**

The tax credit for the year of £1,964,000 arises predominantly from the recognition of a deferred tax asset of £2,583,000 in the Group's UK based companies which are now in a position to utilise past trading losses against future trading profits. After adjusting for this credit the tax charge for the year is £619,000 (2007: £1,253,000) which represents 23% of profit before tax.

#### **Earnings per share**

Basic adjusted earnings per share decreased by 33% to 5.9p, (2007: 8.8p). Adjusted fully diluted earnings per share decreased by 34% to 5.4p, (2007: 8.2p).

#### **Balance sheet**

Net assets increased by £3.5 million to £26.6 million (2007: £23.1 million). The principal movements during the year arose from tangible property, plant and equipment additions of £3.2 million, and an increase in the deferred tax asset of £1.8 million.

## **Cash flow**

Net cash inflow from operating activities was £0.9 million (2007: £3.7 million). The major movement in the year was a decrease in creditors following a significant increase in the prior year. In addition, the Group received dividends from its joint venture amounting to £1.2 million (2007: £2.6 million).

The principal cash outflows during the year were the purchase of 1.6 million shares on behalf of the employee trusts of £1.3 million, (2007: £0.7 million), property, plant and equipment additions of £3.2 million (2007: £3.7 million) and a shareholder dividend payment of £0.5 million, (2007: £nil).

Overall the net cash outflow for the year was £2.2 million. After the effects of exchange rate fluctuations on cash of £0.1 million, net cash and cash equivalents fell to £0.8 million (2007: £3.1 million).

## **Liquidity Risk**

OpSec seeks to maintain a balance between continuity of funding and flexibility. The Group's only indebtedness during the year was a revolving credit facility with the Bank of America. The facility was scheduled to mature on 16<sup>th</sup> June 2009. At 31<sup>st</sup> March 2008 the available bank facilities totalled \$10 million of which \$3.0 million was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility.

Subsequent to the year end the Group paid off the Bank of America loan and entered into a term loan and revolving credit facility of up to £19 million with The Royal Bank of Scotland plc ("RBS").

The facility is split into three separate tranches designated Facility A, Facility B and Facility C.

Facility A is a £12.5 million multi currency term loan, bearing an interest rate which is the sum of three month LIBOR, a margin of 1.5% (subject to a margin ratchet of 25 basis points) and the mandatory costs rate calculated by RBS. Facility A has a term of five years with a quarterly repayment profile commencing on 31<sup>st</sup> March 2009 and amortising to a £3 million bullet repayment on 31<sup>st</sup> March 2013. This facility will be used to refinance the Company's acquisition of Light Impressions International Ltd. announced on 2<sup>nd</sup> April 2008 and fund other planned acquisitions.

Facility B is a £2 million multi currency revolving credit facility, bearing the same interest rate as Facility A. Facility B has a five year term with each revolving loan under the facility being repayable on the last day of its quarterly interest period. All outstanding Facility B loans must be repaid in full (together with the accrued interest in respect of such loans) on the fifth anniversary of the first drawdown of any of the facilities by OpSec. This facility will be used to fund the Company's working capital requirements.

Facility C is a £4.5 million multi currency revolving credit facility, bearing the same interest rate as Facility A. Facility C has a term of five years with each revolving loan under the facility being repayable on the last date of its quarterly interest period. On or prior to the third anniversary of the first drawdown of Facility C by OpSec it must agree an amortisation profile with RBS specifying dates upon which the Facility C commitment will be permanently reduced by specified amounts. This facility will be used to repay the Company's current borrowings with Bank of America and to finance its capital expenditure.

### 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 |      |
|---------|---------|------|---------|------|
|         | 2008    | 2007 | 2008    | 2007 |
| US\$: £ | 2.01    | 1.90 | 1.99    | 1.96 |
| € £     | 1.42    | 1.47 | 1.25    | 1.47 |

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 2008 were translated at the closing rates rather than the average rates, revenue would be increased by £0.2 million and operating profit by £0.01 million.

**MW Angus**  
**Finance Director**  
**4<sup>th</sup> June 2008**

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

|   | Year ended<br>31-Mar-08<br>£'000 | Year ended<br>31-Mar-07<br>£'000 |
|---|----------------------------------|----------------------------------|
| <b>Revenue</b>  | <b>33,009</b>                    | 33,134                           |
| Cost of sales   | (19,030)                         | (18,581)                         |
| <b>Gross profit</b>   | <b>13,979</b>                    | 14,553                           |
| Distribution and selling costs  | (4,225)                          | (4,169)                          |
| Administrative expenses   | (7,799)                          | (8,369)                          |
| Intangible amortisation   | (126)                            | (109)                            |
| Total administrative expenses   | (7,925)                          | (8,478)                          |
| Other income  | -                                | 119                              |
|   | <b>1,829</b>                     | 2,025                            |
| Share of profit of jointly controlled entities                          | <b>884</b>                       | 3,298                            |
| Operating profit  | <b>2,713</b>                     | 5,323                            |
| Finance income  | <b>65</b>                        | (10)                             |
| Finance expenses  | (133)                            | (139)                            |
| <b>Net finance expense</b>  | <b>(68)</b>                      | (149)                            |
| <b>Profit before income tax</b>   | <b>2,645</b>                     | 5,174                            |
| Income tax  | <b>1,964</b>                     | (1,253)                          |
| <b>Profit for the year attributable to equity holders of the parent</b> | <b>4,609</b>                     | <b>3,921</b>                     |
| Basic earnings per share (p)  | <b>9.2</b>                       | <b>7.7</b>                       |
| Diluted earnings per share (p)  | <b>8.4</b>                       | <b>7.2</b>                       |
| Final proposed dividend per share (p)                                   | <b>0.0</b>                       | <b>1.0</b>                       |

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

|  | Year ended<br>31-Mar-08<br>£'000 | Year ended<br>31-Mar-07<br>£'000 |
|--|----------------------------------|----------------------------------|
| Foreign exchange translation differences   | (271)                            | (2,300)                          |
| <b>Net income / (expense) recognised directly in equity</b>                              | <b>(271)</b>                     | <b>(2,300)</b>                   |
| <b>Profit for the year</b>   | <b>4,609</b>                     | <b>3,921</b>                     |
| <b>Total recognised income for the year attributable to equity holders of the parent</b> | <b>4,338</b>                     | <b>1,621</b>                     |

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

|  | 31-Mar-08<br>£'000 | 31-Mar-07<br>£'000 |
|--|--------------------|--------------------|
| <b>ASSETS</b>  |                    |                    |
| <b>Non-current assets</b>  |                    |                    |
| Property, plant and equipment                                    | 8,668              | 7,125              |
| Intangible assets  | 10,576             | 10,846             |
| Investment in jointly controlled entity                          | 396                | 920                |
| Other investments  | 18                 | 18                 |
| Deferred tax assets  | 4,965              | 3,194              |
| <b>Total non-current assets</b>                                  | <u>24,623</u>      | <u>22,103</u>      |
| <b>Current assets</b>  |                    |                    |
| Inventory  | 3,549              | 2,729              |
| Trade and other receivables                                      | 5,908              | 5,600              |
| Cash and cash equivalents  | 875                | 3,077              |
| <b>Total current assets</b>                                      | <u>10,332</u>      | <u>11,406</u>      |
| <b>Total assets</b>  | <u>34,955</u>      | <u>33,509</u>      |
| <b>LIABILITIES</b>   |                    |                    |
| <b>Current liabilities</b>                                       |                    |                    |
| Interest-bearing loans and borrowings                            | (108)              | (81)               |
| Deferred government grants                                       | (20)               | -                  |
| Income tax payable   | (73)               | (511)              |
| Trade and other payables   | (6,182)            | (8,323)            |
| <b>Total current liabilities</b>                                 | <u>(6,383)</u>     | <u>(8,915)</u>     |
| <b>Non current liabilities</b>                                   |                    |                    |
| Interest-bearing loans and borrowings                            | (1,810)            | (1,470)            |
| Deferred government grants                                       | (179)              | -                  |
| <b>Total non current liabilities</b>                             | <u>(1,989)</u>     | <u>(1,470)</u>     |
| <b>Total liabilities</b>   | <u>(8,372)</u>     | <u>(10,385)</u>    |
| <b>Net assets</b>  | <u>26,583</u>      | <u>23,124</u>      |
| <b>EQUITY</b>  |                    |                    |
| <b>Capital and reserves</b>                                      |                    |                    |
| Issued capital   | 2,669              | 2,669              |
| Share premium account  | 29,309             | 29,309             |
| Translation reserve  | (1,522)            | (1,251)            |
| Retained earnings  | (3,873)            | (7,603)            |
| <b>Total equity attributable to equity holders of the parent</b> | <u>26,583</u>      | <u>23,124</u>      |

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

|   | Year ended<br>31-Mar-08<br>£'000 | Year ended<br>31-Mar-07<br>£'000 |
|---|----------------------------------|----------------------------------|
| <b>Cash flows from operating activities</b>                 |                                  |                                  |
| Profit for the year   | 4,609                            | 3,921                            |
| Depreciation  | 1,326                            | 1,239                            |
| Amortisation of intangible assets                           | 126                              | 109                              |
| Profit on sale of investment                                | -                                | (119)                            |
| Release of government grants                                | -                                | (21)                             |
| Equity settled share based expense                          | 789                              | 413                              |
| Share of profit of jointly controlled entities              | (884)                            | (3,298)                          |
| Finance income  | (65)                             | 10                               |
| Finance expenses  | 133                              | 139                              |
| Income tax expense  | (1,964)                          | 1,253                            |
| Movement in inventory                                       | (832)                            | (847)                            |
| Movement in trade and other receivables                     | (176)                            | (1,626)                          |
| Movement in trade and other payables                        | (1,736)                          | 2,711                            |
|   | <hr/>                            | <hr/>                            |
| Cash from operating activities                              | 1,326                            | 3,884                            |
| Interest paid   | (133)                            | (139)                            |
| Income tax paid - overseas                                  | (278)                            | (86)                             |
|   | <hr/>                            | <hr/>                            |
| <b>Net cash inflow from operating activities</b>            | <b>915</b>                       | <b>3,659</b>                     |
| <b>Cash flows from investing activities</b>                 |                                  |                                  |
| Acquisition of subsidiary undertaking                       |                                  | (7,297)                          |
| Acquisition of property, plant and equipment                | (3,195)                          | (3,695)                          |
| Proceeds from sale of property, plant and equipment         | 6                                | -                                |
| Proceeds from sale of investment                            | -                                | 130                              |
| Proceeds from sale of government grants                     | 199                              | -                                |
| Dividends received from jointly controlled entity           | 1,163                            | 2,589                            |
| Income from other fixed asset investments                   | -                                | -                                |
| Interest received   | 65                               | (10)                             |
|   | <hr/>                            | <hr/>                            |
| <b>Net cash outflow from investing activities</b>           | <b>(1,762)</b>                   | <b>(8,283)</b>                   |
| <b>Cash flows from financing activities</b>                 |                                  |                                  |
| Payment of finance lease liabilities                        | (34)                             | (26)                             |
| Proceeds from borrowings                                    | 350                              | 1,470                            |
| Proceeds from sale of own shares                            | 102                              | 133                              |
| Purchase of own shares                                      | (1,266)                          | (748)                            |
| Dividends paid  | (504)                            | -                                |
|   | <hr/>                            | <hr/>                            |
| <b>Net cash inflow from financing activities</b>            | <b>(1,352)</b>                   | <b>829</b>                       |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |                                  |                                  |
|   | <hr/>                            | <hr/>                            |
|   | <b>(2,199)</b>                   | <b>(3,795)</b>                   |
| Cash and cash equivalents at the start of the year          | 3,073                            | 7,568                            |
| Effect of exchange rate fluctuations on cash                | (81)                             | (700)                            |
|   | <hr/>                            | <hr/>                            |
| <b>Cash and cash equivalents at the end of the year</b>     | <b>793</b>                       | <b>3,073</b>                     |

**OPSEC SECURITY GROUP plc**  
**Notes to the Preliminary Announcement**  
**For the year ended 31<sup>st</sup> March 2008**

**1) Basis of preparation**

The financial information set out above has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs) as adopted by the EU (Adopted IFRSs).

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31<sup>st</sup> March 2008 or 2007. The financial information for 2007 is derived from the statutory accounts for 2007 which have been delivered to the registrar of companies. The auditors have reported on the 2007 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 2008 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 2008**

**2) Segment Information**

|   | Year ended<br>31-Mar-08<br>£'000 | Year ended<br>31-Mar-07<br>£'000<br>As restated |
|---|----------------------------------|---|
| <b>a) Revenue by geographic segment</b>                   |                                  |   |
| American operations                                       | 19,649                           | 19,315  |
| European operations                                       | 15,196                           | 15,824  |
| Inter-segment revenue                                     | (1,836)                          | (2,005)   |
|   | 33,009                           | 33,134  |
| <b>b) Revenue by market sector</b>                        |                                  |   |
| Bank Note and High Security Documents                     | 10,640                           | 11,399  |
| Brand Protection  | 14,567                           | 13,158  |
| ID Solutions  | 7,802                            | 8,577   |
|   | 33,009                           | 33,134  |
| <b>c) Operating profit by geographic segment</b>          |                                  |   |
| American operations                                       | 2,501                            | 2,587   |
| European operations                                       | 1,673                            | 2,057   |
| Jointly controlled entity                                 | 884                              | 3,298   |
| Corporate costs   | (2,345)                          | (2,619)   |
| <b>Operating profit</b>                                   | 2,713                            | 5,323   |
| Exclude intangible amortisation                           | 126                              | 109   |
| Exclude equity settled share based payments               | 789                              | 413   |
| <b>Adjusted operating profit</b>                          | 3,628                            | 5,845   |
| <b>d) Adjusted operating profit by geographic segment</b> |                                  |   |
| American operations                                       | 2,501                            | 2,696   |
| European operations                                       | 1,673                            | 2,057   |
| Jointly controlled entity                                 | 884                              | 3,298   |
| Corporate costs   | (1,430)                          | (2,206)   |
|   | 3,628                            | 5,845   |

**OPSEC SECURITY GROUP plc**  
**Notes to the Preliminary Announcement**  
**For the year ended 31<sup>st</sup> March 2008**

**3) Total Operating Expenses**

|                                       | <b>2008</b>          | 2007          |
|---------------------------------------|----------------------|---------------|
|                                       | <b>£'000</b>         | £'000         |
| <b>Distribution and Selling Costs</b> |                      |               |
| Distribution and selling costs        | <u>4,225</u>         | <u>4,169</u>  |
| <b>Administrative Expenses</b>        |                      |               |
| Technical support                     | 828                  | 1,017         |
| Research and development costs        | 1,796                | 1,499         |
| Administrative costs                  | 5,175                | 5,853         |
| Intangible amortisation               | 126                  | 109           |
|                                       | <u>7,925</u>         | <u>8,478</u>  |
| Total operating expenses              | <u><b>12,150</b></u> | <u>12,647</u> |

**4) Share of Profit of Jointly Controlled Entity**

The share of profit of jointly controlled entity represents the Group's share of the results of 3dcd for the year ended 31<sup>st</sup> March 2008.

**5) Finance Income**

|  | <b>2008</b>  | 2007        |
|--|--------------|-------------|
|  | <b>£'000</b> | £'000       |
| Interest income                                      | 61           | 96          |
| Exchange gains/(losses) on foreign currency deposits | 4            | (106)       |
|  | <u>65</u>    | <u>(10)</u> |

**6) Finance Expenses**

|   | <b>2008</b>  | 2007         |
|---|--------------|--------------|
|   | <b>£'000</b> | £'000        |
| Interest expense                              | (145)        | (139)        |
| Exchange gains on foreign currency borrowings | 12           | -            |
|   | <u>(133)</u> | <u>(139)</u> |

**OPSEC SECURITY GROUP plc**  
**Notes to the Preliminary Announcement**  
**For the year ended 31<sup>st</sup> March 2008**

**7) Taxation**

|                               | <b>2008</b>    | <b>2007</b>  |
|-------------------------------|----------------|--------------|
|                               | <b>£'000</b>   | <b>£'000</b> |
| <u>Corporation tax</u>        |                |              |
| Overseas taxes - current year | 35             | 415          |
| Overseas taxes - prior year   | (76)           |              |
| <u>Deferred taxes</u>         |                |              |
| Current year                  | (1,826)        | 838          |
| Prior year                    | (97)           |              |
|                               | <u>(1,964)</u> | <u>1,253</u> |

No corporation tax is payable in the current year by any of the Group's UK based companies due to existing trading and non trading losses brought forward.

Current period 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.

The deferred tax credit arising in the period relates mainly to the recognition of a brought forward deferred tax asset in the UK entities which had not previously been recognised. A decision has been made to recognise the deferred tax assets relating to the UK operations on the basis that the UK operations have been utilising brought forward tax losses and also capital allowances (tax depreciation) for a sustained period.

At 31<sup>st</sup> March 2008 the Group had recognised a deferred tax asset of £4,965,000 (2007: £3,194,000) arising from losses available in the UK and America which can be utilised to offset future profits of the same trades and other short term timing differences.

At 31<sup>st</sup> March 2008 the Group also had an additional unrecognised deferred tax asset of £5,754,000 in respect of unutilised tax losses and tax depreciation. This additional asset has not been recognised due to uncertainty relating to the utilisation of those tax assets.

**OPSEC SECURITY GROUP plc**  
**Notes to the Preliminary Announcement**  
**For the year ended 31<sup>st</sup> March 2008**

**8) Earnings Per Share**

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

|  | <b>2008</b>              | 2007              |
|--|--------------------------|-------------------|
|  | <b>£'000</b>             | £'000             |
| <b>Earnings</b>  |                          |                   |
| Earnings for the financial year (basic and diluted)          | <b>4,609</b>             | 3,921             |
| Deferred tax credit  | <b>(2,583)</b>           | -                 |
| Intangible amortisation                                      | <b>126</b>               | 109               |
| Equity settled share based payments                          | <b>789</b>               | 413               |
| Adjusted earnings for the financial year (basic and diluted) | <u><b>2,941</b></u>      | <u>4,443</u>      |
| <b>Weighted average number of shares</b>                     |                          |                   |
|  | <b>No. of shares</b>     | No. of shares     |
| For basic EPS  | <b>50,251,184</b>        | 50,766,763        |
| Effect of share options and other awards                     | <b>4,383,285</b>         | 3,639,620         |
| For diluted EPS  | <u><b>54,634,469</b></u> | <u>54,406,383</u> |

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

|                                     | Attributable to equity holders of the parent |               |                     |                   |               |
|-------------------------------------|--|---------------|---------------------|-------------------|---------------|
|                                     | Share capital                                | Share premium | Translation reserve | Retained earnings | Total         |
|                                     | £'000  | £'000         | £'000               | £'000             | £'000         |
| At 1 <sup>st</sup> April 2007       | 2,669  | 29,309        | (1,251)             | (7,603)           | 23,124        |
| Total recognised income and expense | -  | -             | (271)               | 4,609             | 4,338         |
| Equity settled share based payments | -  | -             | -                   | 789               | 789           |
| Own shares sold                     | -  | -             | -                   | 102               | 102           |
| Own shares purchased                | -  | -             | -                   | (1,266)           | (1,266)       |
| Dividends paid                      | -  | -             | -                   | (504)             | (504)         |
| At 31 <sup>st</sup> March 2008      | <u>2,669</u>                                 | <u>29,309</u> | <u>(1,522)</u>      | <u>(3,873)</u>    | <u>26,583</u> |

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

**11)** The preliminary announcement was approved by the Board of Directors for release on 4<sup>th</sup> June 2008.

- Ends -