



ANNUAL RESULTS

March 2005

Presented by

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HIGHLIGHTS

- Record results across all business segments in America
- Contribution from 3dcd of £0.7 million (2004: £1.0 million)
- European operations fundamentally restructured during year
- Cash in hand at £4.0 million (2004: £1.1 million)

EUROPEAN RESTRUCTURING

- Exit from packaging, metallising and euro banknote foil markets
- Employee numbers reduced from 164 to 83
- Two production sites moved onto a single site
- Restructuring largely complete at 31st March 2005 with no financial impact expected in the current year
- European Operations will continue to supply all three key security markets including specific banknote applications.

KEY ASPECTS OF TRADING RESULTS

– Sales Analysis by Market

	March 2005 £'000	March 2004 £'000	Growth %
Bank Note and High Security Documents	6,519	8,377	(22)%
Brand Protection	9,386	9,600	(2)%
ID Technologies	6,562	5,631	17%
Product Enhancement	756	1,388	(46)%
Metallising	310	528	(41)%
Sundry	<u>214</u>	<u>573</u>	<u>(63)%</u>
Total	<u>23,747</u>	<u>26,057</u>	<u>(9)%</u>

KEY ASPECTS OF TRADING RESULTS

– Turnover

Banknote and High Security Documents

- Fall in sales of 22%
- Exit from euro banknote sales
- Cyclical downturn in AAMVA temporary license plate sales
- Two new tax stamp programmes
- Significant new government security application in America

KEY ASPECTS OF TRADING RESULTS

– Turnover



- Turnover down 2% to £9.4 million reflecting 9% deterioration in dollar exchange rate
- Renewal of long term contracts in USA with NFL (Football) and NHL (Hockey)
- Continuing success of DVD security label business
- Two new international brand protection programmes
- Continued strong presence in this sector

KEY ASPECTS OF TRADING RESULTS

– Turnover



- Global sales up 17% reflecting recovery in ordering from key Latin American ID customers and new accounts
- New accounts secured in Iraq, Afghanistan and Pakistan
- Significant progress made during the year on process improvement
- Continuing investment in R & D

KEY ASPECTS OF TRADING RESULTS

– Segmental Analysis

	EUROPE		AMERICA	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Turnover	<u>11,168</u>	<u>13,397</u>	<u>14,398</u>	<u>14,281</u>
Adjusted operating (loss)/profit	<u>(2,630)</u>	<u>(2,474)</u>	<u>1,351</u>	<u>1,171</u>

KEY ASPECTS OF TRADING RESULTS

– European Operations

- Turnover down by 17%
- Operating losses up by 7%
- Restructuring largely complete

KEY ASPECTS OF TRADING RESULTS

– American Operations

- Turnover increased by 10% despite cyclical down turn in AAMVA business
- Significant recovery in ID business and a new government security contract secured in latter part of year
- Operational improvements at both locations led to improved gross margins
- Strong outlook for current year

KEY ASPECTS OF TRADING RESULTS

– Group Net Operating Expenses

	2005 £'000	2004 £'000	Movement %
<u>Distribution Costs</u>			
Selling and Marketing Costs	3,267	3,591	(9)%
<u>Administrative Expenses</u>			
Technical Support	450	557	(19)%
Research and Development	1,036	1,075	(4)%
Administrative Costs	<u>4,072</u>	<u>4,095</u>	<u>(1)%</u>
	8,825	9,318	(5)%
<u>Exceptional Costs</u>			
Exceptional Costs	2,976	-	
Goodwill amortisation	1,093	1,203	
Goodwill impairment	417	-	
Lease premium impairment	<u>1,093</u>	<u>-</u>	
<u>Net Operating Expenses</u>	<u>14,404</u>	<u>10,521</u>	

KEY ASPECTS OF TRADING RESULTS

– Exceptional Items

- Exceptional costs £3.0 million
 - Asset impairment £1.2 million
 - Reorganisation costs £1.8 million
- Lease impairment
 - £1.093 million
 - Reduced rent
 - 5 year break
- Goodwill impairment £0.4 million
 - Demetallisation

KEY ASPECTS OF TRADING RESULTS

– Share of Profits from Joint Ventures

Joint Venture	2005	2004
	£'000	£'000
3DCD	<u>735</u>	<u>993</u>

- Expected downturn in Microsoft activity
- Strong contribution from studio business
- Launch of Longhorn in 2006

CASH FLOW STATEMENT

- Cash outflow from operating activities of £0.5 million (2004: £0.3 million)
- Significant exceptional costs offset by movement in debtors
- Capital expenditure of £0.9 million and lease premium payment of £1.1 million
- Proceeds from sale of tangible fixed assets of £3.5 million
- Net cash at bank and in hand of £4.0 million (31 March 2004: £1.1 million)
- Net funds of £3.9 million (31 March 2004: £1.1 million)

FY '05 PLANS

- US and 3dcd operations in strong position
- European restructuring will positively impact FY '06 results
- Marketing all sectors under OpSec brand
- Move to AIM
- Funding and acquisitions