

# Annual Report and Accounts 2009



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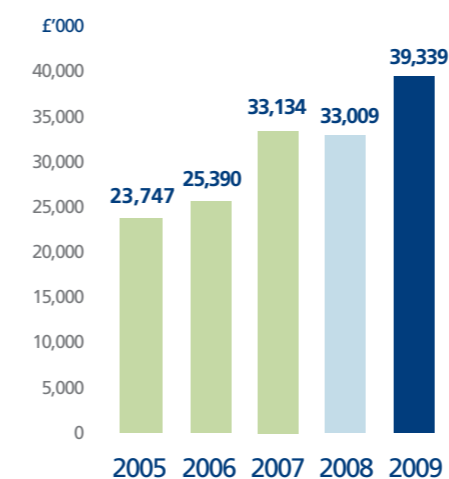
David Mahony, Chairman

## Financial Highlights

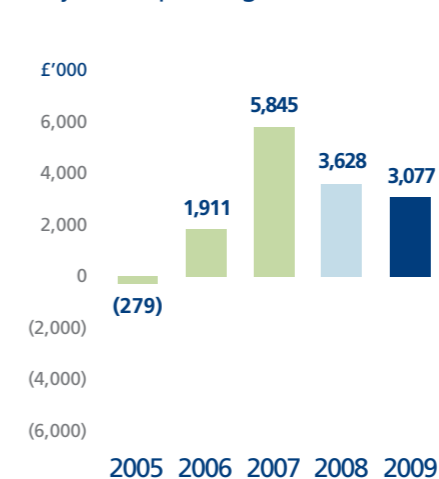
	2009	2008
Revenue	£39.3 million	£33.0 million
Operating Profit	£0.6 million	£2.7 million
Adjusted Operating Profit*	£3.1 million	£3.6 million
Basic (Loss)/Earnings Per Share	(3.3p)	9.2p
Adjusted Basic Earnings Per Share*†	2.9p	5.9p

\* Adjusted for the charges for intangible amortisation, exceptional charges and share based payments (note 2)  
 † 2008 adjusted for the £2,583,000 deferred tax credit on recognition of deferred tax assets in the UK operations

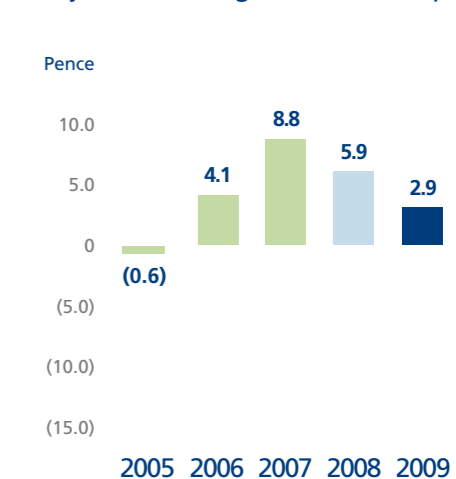
Revenue £39.3m



Adjusted Operating Profit £3.1m



Adjusted Earnings Per Share 2.9p



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## Key Accomplishments 2009

- Successful integration of two acquisitions – Light Impressions and P4M;
- Group revenue increased by 19% to £39.3 million (decreased by 1% excluding acquisitions) with adjusted operating profits down to £3.1 million;
- The lower operating profit reflects the impact of global economic conditions, which resulted in an unprecedented reduction in the consumer Brand Protection volumes in the last quarter of the year;
- Net cash inflow from operating activities improved to £3.5 million (2008: £0.9 million);
- Significant cost saving measures have been implemented which will benefit the year ending 31<sup>st</sup> March 2010;
- New banking arrangements secured with The Royal Bank of Scotland.

# Chairman's Statement

## Introduction

During the year to 31<sup>st</sup> March we faced the challenges of the difficult economic conditions being experienced by all major developed economies, coupled with significant instability in exchange rates.

The year saw movements in terms of our customer base throughout the Group. One significant customer was lost during the year but the Group was successful in winning other contracts, extending its contractual relationships both with three of the US Sports Leagues and other large customers and agreeing a renewed programme with 3DCD's largest customer. Inevitably contraction of US consumer spending led to sales volumes in our Brand Protection operation coming under pressure, particularly towards the end of the year. Fuller details of these changes are contained in the Chief Executive's Review.

The Group's policy of investing to improve the quality and range of its products has been coupled with a major drive to reduce operating costs by rationalising production facilities. The benefits of this approach are expected to be seen in the current year.

Despite the costs of these measures and the impact of acquisitions the Group was operating cash generative in the year and new arrangements have been agreed with RBS, the Company's bankers, including revised covenants relating to our borrowings from them.

## Acquisitions

The Group made two acquisitions in the year. The first of these, Light Impressions, lost one major customer in an international tender which, although it represented only very low margin business for the Group, has required us to make an impairment charge. It should be noted that the loss of this customer will reduce the further payments that the Group was due to make in regard to this acquisition. Apart from this set back the Company has, and is expected to continue to, meet our plans for it.

P4M, based in Germany, has performed exceptionally well both as regards customer retention and winning new business. It is complementary to the earlier acquisition of GenuOne and both of these activities are firmly embedded in our Brand Protection business.

## Management and Employees

The Group's management was strengthened in the year by the recruitment of a Group Chief Manufacturing Officer who has overseen the rationalisation of our production facilities referred to above. Given the difficult economic environment we undertook a pay freeze across the Group. In addition we proposed, and were gratified by the reception given to, an arrangement whereby all Directors, middle and senior management agreed to waive a percentage of their salary. These waivers are only reversible on the achievement of budgeted cash and profit goals for the current year.

## Outlook

During the first quarter of the current year the general economic position has continued to have an adverse impact on the Company; particularly on our Brand Protection business. We are pursuing a number of large ID and BNHS projects, mainly outside of Europe and the US, and to the extent that these contracts are secured they will benefit both the second half and future years. The restructuring and cost reduction measures we have undertaken will have a significant positive impact on the second half of the current year whilst retaining the capacity to service both existing business and the future business we are seeking.

**DA Mahony**  
Chairman  
2<sup>nd</sup> July 2009

# 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 three 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 (CDs and DVDs).

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

## Review of Operations

For the year to 31<sup>st</sup> March 2009, revenue rose by 19% to £39.3 million (2008: £33.0 million), benefiting from the two acquisitions made in the year. Revenue decreased by 1% excluding the acquisitions. Adjusted operating profit of £3.1 million was 15% lower than the previous year, (2008: £3.6 million). Net cash inflow from operating activities increased to £3.5 million (2008: £0.9 million), and adjusted basic earnings per share fell to 2.9 pence (2008: 5.9 pence). It should be noted that these numbers were impacted favourably by the strengthening of the dollar and the euro against sterling.

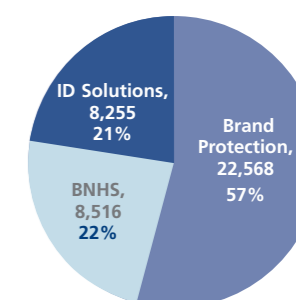
## Strategy

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.

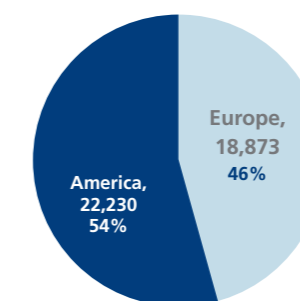
## Market Sectors

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.

Revenue:  
Market Sector £'000



Revenue:  
Geographical Analysis £'000\*



\*Before eliminations

# Business Review

## Chief Executive's Review continued

### Brand Protection

On the back of a strong performance in the first nine months, the Brand Protection group had a record year with revenue up 55% to £22.6 million (2008: £14.6 million). This included revenue from the new acquisitions, Light Impressions and P4M, of £4.0 million and £2.6 million respectively. Excluding these, Brand Protection revenue rose by 9%.

These results reflect 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.

During the year OpSec negotiated multi-year extensions to contracts with seven of its major customers. This positions the Group very strongly with its key customers going forward but it remains to be seen how long the current economic conditions, which started to impact the latter part of the year, continue to depress volumes.

The acquisitions of Light Impressions and P4M were successfully integrated in to OpSec's operations during the year and the management team at P4M have become a key component of the Group's online Brand Protection team.

### ID Solutions

In the year ended 31<sup>st</sup> March 2009, revenue in the ID Solutions business increased by 6% to £8.3 million, (2008: £7.8 million). This reflected the benefit of a number of significant new accounts which were secured during the year offset by the impact of the prior year loss of one contract in Latin America and a slowdown in ordering from one key government customer.

A number of the new contracts utilise the new products which were launched in the prior year. This expanded product range has positioned OpSec to compete strongly to supply products for the next generation of ID documents. This competitive position has been enhanced further by the completion of the £1.5 million investment which enables OpSec to manufacture highly specified secure ID cards at its plant in Lancaster, Pennsylvania.

### Banknote and High Security Documents

Revenue in the Banknote and High Security market sector fell by 20% to £8.5 million (2008: £10.6 million). This reflected the loss of the Group's Middle Eastern tax stamp customer, as reported at the time of the interims. This loss, the full impact of which will be seen next year, was partially offset by an increase in sales of films to Russia.

During the year the Group made significant investments developing potential opportunities in the area of excise/tax stamps and in the supply of engineered films, which the Group believes could be a strong driver of future growth.

### 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 \$37.3 million, down 6% from the prior year total of \$39.5 million. This reflected a reduction in sales of the Group's patented temporary licence plate product and the slow-down of Brand Protection sales in the latter part of the year. The reduced adjusted operating profit of \$2.5 million (2008: \$5.0 million) was due to lower sales and the cost of investments in the business made to underpin anticipated growth which did not materialise.

As a consequence of the lower sales levels and the uncertainty over future order levels the decision was taken to combine the Group's two American manufacturing locations on to its site at Lancaster, Pennsylvania. This, together with a number of other initiatives, will help the Group realise significant cost savings in the current financial year.

### European Operations

Revenue in the core European operations fell to £12.2 million from £15.2 million, principally as a result of the loss of the Group's Middle Eastern tax stamp customer. This decline in revenue meant that adjusted operating profit fell to £1.0 million (2008: £1.7 million).

The new equipment commissioned in the prior year has helped realise significant cost and efficiency savings and allowed the expansion of the Group's range of embossed and engineered films and foils. Investment continues to be made in the Group's optical capabilities where a number of new products are being developed.

### Light Impressions

At the start of the year the Group acquired Light Impressions International Ltd. ("Light Impressions"). Light Impressions is a provider of holographic products to approximately 80 customers globally with a particularly strong presence in Asia.

Light Impressions reported revenue for the year of £4.0 million and an operating profit of £0.8 million in the year ended 31<sup>st</sup> March 2009. This business lost a major customer in the year which will impact future revenue (and reduce the contingent element of the purchase price) but the integration of this business into the Group's European operations is proceeding to plan and should realise significant cost savings.

### P4M

In May 2008 the Group purchased P4M Partners 4 Management GmbH. ("P4M"). P4M is a leading provider of online brand protection and monitoring services in Europe enabling 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 reported revenue of €3.1 million and an operating profit of €1.025 million in the 11 months to 31<sup>st</sup> March 2009. It has exceeded all expectations and has started the current financial year very strongly. The business has been successfully integrated and the senior management at P4M have been given broader global roles in the Group's global online Brand Protection business.

### 3dcd Joint Venture

3dcd performed in line with expectations with a contribution of £0.7 million (2008: £0.9 million).

3dcd has reached agreement with its major customer to extend its current commercial arrangements for a further three years. This extension, which is currently being documented, was achieved as a result of the development of the next generation of technology for optical disk protection which was completed during the year.

### Corporate

The charge for share based payments in the current year decreased from £789,000 to a credit of £2,000, partly as a consequence of the non-achievement of the performance conditions attaching to a number of the various incentive schemes. Other corporate costs increased by 33% to £1.9 million (2008: £1.4 million). The major contributor to this increase was exchange rate movements. The increase also reflects the cost of a Chief Manufacturing Officer recruited during the year.

The profit and loss account also includes an exceptional cost of £857,000. This charge reflects the cost of the significant headcount reductions that have taken place and are scheduled to take place in the current year together with the costs of closing the Parkton facility and moving it to Lancaster.

### People

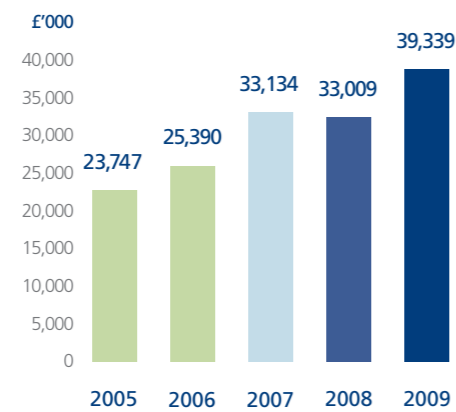
OpSec has employees operating from its manufacturing facilities in North America, Germany and the United Kingdom, as well as its optical laboratories in the United Kingdom, the corporate office in Denver, and sales and support facilities in Hong Kong and Latin America.

Total Group headcount (adjusted for the acquisitions) fell from 325 at 31<sup>st</sup> March 2008 to 280 at 31<sup>st</sup> March 2009. This number has fallen to below 260 in the current year, with the move of the Parkton facility to Lancaster.

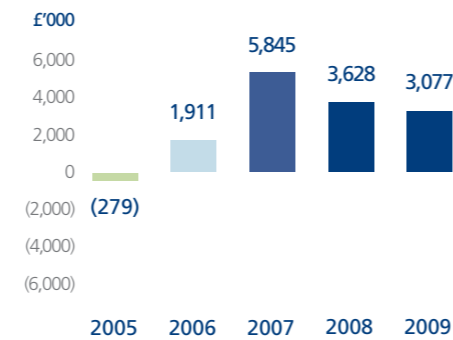
OpSec believes strongly that employee recruitment, training and retention are critical to its success as a group. The Group remains fully committed to maintaining its health, safety and environmental standards and performance.

**MT Turnage**  
Chief Executive  
2<sup>nd</sup> July 2009

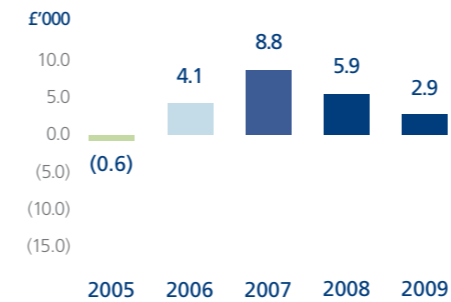
## Revenue £39.3m



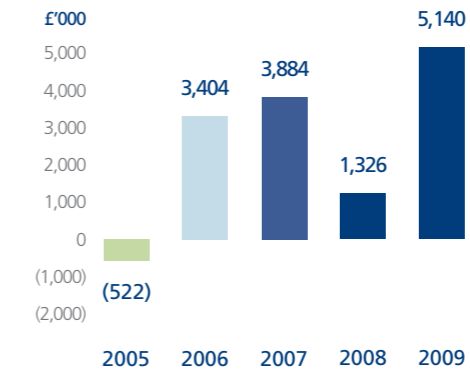
## Adjusted Operating Profit £3.1m



## Adjusted Basic Earnings Per Share 2.9p



## Operating Cash Flow £5.1m



# Business Review

## Financial Review

### Revenue

The year to 31<sup>st</sup> March 2009 saw Group revenue increase by 19% to £39.3 million (2008: £33.0 million). The gains, which arose from the acquisitions and an improvement in the sterling US dollar exchange rate, were offset by an end of year slow-down in ordering in the Brand Protection market and the loss of a major customer in the Banknote and High Security Documents market.

### Gross Profit Margin

Gross profit margin for the year fell from 42% to 41%. The decrease was principally a consequence of margins in our American operations falling from 43% to 39% as the planned volumes in these facilities were not achieved. Margins in our core European operations improved from 37% to 38% as the mix of sales improved and a number of operating efficiencies were achieved.

### Operating Profit

Adjusted operating profit (adjusted for the effects of intangible amortisation and share based payments) decreased to £3.1 million (2008: £3.6 million).

### Finance Expense

The net finance cost for the year was £1.4 million (2008: £0.1 million). This includes an exceptional write off of £0.6 million in respect of debt advisor costs.

### Income Tax

The tax charge for the year of £0.9 million (2008: credit of £2.0 million) arises predominantly from the impairment of the deferred tax asset in the Group's UK based companies.

### Earnings Per Share

Basic adjusted earnings per share decreased to 2.9p (2008: 5.9p). Adjusted fully diluted earnings per share decreased to 2.7p, (2008: 5.4p).

### Balance Sheet

Net assets increased by £5.4 million to £32.0 million (2008: £26.6 million). The principal movements during the year arose from foreign exchange movements of £7.6 million offset by amounts written off intangible assets and deferred tax.

### Cash Flow

Net cash inflow from operating activities was £3.5 million (2008: £0.9 million). In addition, the Group received dividends from its joint venture amounting to £0.7 million (2008: £1.2 million).

The principal cash outflows during the year were the acquisitions of Light Impressions and P4M for £9.0 million, property, plant and equipment additions of £2.3 million (2008: £3.2 million) and interest and bank fee payments of £1.4 million (2008: £0.1 million). These outflows were funded from a net increase in borrowings of £9.0 million.

Overall the net increase in cash and cash equivalents for the year was £3.0 million (2008: decrease of £2.2 million). After the effects of exchange rate fluctuations on cash of £0.5 million, net cash and cash equivalents increased to £4.2 million (2008: £0.8 million).

### Liquidity Risk

OpSec seeks to maintain a balance between continuity of funding and flexibility. During the year the Group repaid its revolving credit facility with the Bank of America and entered into a term loan and revolving credit facility of up to £19 million with The Royal Bank of Scotland plc ("RBS"). At 31<sup>st</sup> March 2009 the available bank facilities totalled £12.5 million of which £12.0 million was drawn down.

Whilst there was no breach of the original covenants the sharp down turn in trading in the final quarter led us to negotiate new banking arrangements with RBS. These new arrangements include a new set of covenants, an increase in the interest rate margin up to a maximum of 5.25% and a reduction in the term of the facility from March 2013 to June 2012.

### 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 sterling, Euros and 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	
	2009	2008	2009	2008
US\$:£	1.72	2.01	1.43	1.99
€:£	1.21	1.42	1.07	1.25

The differences between the average and closing exchange rates are such that if the results for the year ended 31<sup>st</sup> March 2009 were translated at the closing rates rather than the average rates, revenue would be increased by £4.1 million and operating profit by £0.2 million.

**MW Angus**  
Finance Director  
2<sup>nd</sup> July 2009

# Business Review

## Analysis of Key Risks

Any business faces a number of risks and uncertainties in its operations. Some of these risks are common across all types of businesses; others are specific to the particular business in which a company operates.

OpSec operates on a global basis serving both governments and corporations, who face daily efforts by criminals to counterfeit and compromise their documents and brands. Given the natural risks associated with its specific markets, OpSec both monitors these risks and has put in place a mitigation programme to address them wherever possible.

The principal risks faced by OpSec and its responses thereto are summarised in this analysis. Not all of these factors are within the Company's control. There may be other risks and uncertainties which are unknown to the Company or which may not be deemed material now which could turn out to be material in the future.

Key risks and the OpSec response to these risks are shown below:

<p><b>Risk</b></p> <p><b>Customer Concentration</b></p> <p>As with any business its size, OpSec relies on a relatively small number of customers for a large percentage of its revenue. The loss of a key customer, or a slowdown in ordering, can have a detrimental impact on earnings.</p>	<p><b>OpSec Response</b></p> <p>OpSec is focused on delivering organic growth via new customers – thus broadening the number of key customers – as well as acquiring new customers via suitable acquisitions.</p>
<p><b>Risk</b></p> <p><b>Competitive Pressure</b></p> <p>OpSec operates in a highly competitive market environment, and OpSec performance may be hurt by loss of competitiveness vis a vis its competitors.</p>	<p><b>OpSec Response</b></p> <p>OpSec reviews the competitiveness of its products, technologies and services on an ongoing basis, both formally (via regularly scheduled strategic and management review meetings) and informally with its clients and customers in the market.</p>
<p><b>Risk</b></p> <p><b>Technology Obsolescence</b></p> <p>Introduction of new technologies by competitors could make OpSec technologies obsolete or less competitive in the market.</p>	<p><b>OpSec Response</b></p> <p>OpSec maintains a very high level of R&amp;D in its core technologies and monitors competitive developments in the market. Where necessary OpSec will license or purchase new technologies applicable to its core markets.</p>
<p><b>Risk</b></p> <p><b>Global Political and Economic Risks</b></p> <p>As OpSec sells internationally, its earnings are naturally subject to risks from currency exchange rates, regulatory and legal changes, and political risks.</p>	<p><b>OpSec Response</b></p> <p>OpSec attempts wherever possible to make natural hedges against significant currency exposure, and regularly monitors legal and political developments in its key markets.</p>

<p><b>Risk</b></p> <p><b>Funding</b></p> <p>Economic conditions impact OpSec's ability to comply with the requirements of its funding agreements.</p>	<p><b>OpSec Response</b></p> <p>OpSec has negotiated revised covenants with our principal lender (see note 1).</p>
<p><b>Risk</b></p> <p><b>Intellectual Property Risks</b></p> <p>Possession of IP is integral to preserving OpSec's competitive advantage. The cost of developing and maintaining IP is high and there is a risk of having competitor IP obviate OpSec's ability to compete in the market or commercialise certain types of products.</p>	<p><b>OpSec Response</b></p> <p>OpSec has in place a strategy for developing and protecting IP, including patenting where appropriate. In addition, OpSec carefully monitors competitor IP to ensure that it does not infringe and is not prevented from commercialising its own products.</p>
<p><b>Risk</b></p> <p><b>Loss of Key Personnel</b></p> <p>Loss of key personnel, particularly key management team members, could have a detrimental effect on operations.</p>	<p><b>OpSec Response</b></p> <p>OpSec has put in place a management and personnel retention program which we believe provides good protection against loss of key personnel. All key management team members are under contract with adequate notice provisions.</p>
<p><b>Risk</b></p> <p><b>Credit Risk</b></p> <p>Default by customers on receivables could negatively affect earnings.</p>	<p><b>OpSec Response</b></p> <p>Credit is monitored by all financial staff, and where risk is judged to be higher more stringent credit terms are required.</p>
<p><b>Risk</b></p> <p><b>Loss of Supply of Critical Materials</b></p> <p>Loss of supply of critical materials from key suppliers could affect OpSec's ability to deliver product to customers.</p>	<p><b>OpSec Response</b></p> <p>Where possible, OpSec attempts to dual source all key materials from multiple suppliers. OpSec also endeavours to maintain supply contracts with all key suppliers.</p>

## Officers and Advisers

**DA Mahony**  
Non-Executive  
Chairman

**RT Povey**  
Non-Executive  
Senior Independent Director

**MT Turnage**  
Chief Executive

**MW Angus**  
Financial Director

**Secretary**  
MW Angus

**Registered Office**  
40 Phoenix Road  
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**Registered Number**  
1688482

**NOMAD and Stockbrokers**  
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London  
EC2V 7AN

### Auditors

KPMG Audit Plc  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
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### Bankers

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Newcastle upon Tyne  
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### Solicitors

Dickinson Dees LLP  
St. Ann's Wharf  
112 Quayside  
Newcastle upon Tyne  
NE1 3DX

### Registrars

Capita Registrars  
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Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA

### Financial PR

Weber Shandwick Financial  
Fox Court  
14 Gray's Inn Road  
London  
WC1X 8WS

## Directors' Report

### Directors and their Interests

	31 <sup>st</sup> March 2009 Ordinary Shares	1 <sup>st</sup> April 2008 Ordinary Shares
DA Mahony	412,920	302,527
MW Angus	1,033,169	300,640
RT Povey	100,000	100,000
MT Turnage	1,909,483	1,271,876

The Directors present their Annual Report on the affairs of the Group, together with the audited accounts for the year ended 31<sup>st</sup> March 2009.

### Principal Activity

The principal activity of the Company is to act as an investment holding company. The principal activity of the Group during the year was the supply of anti-counterfeiting technologies and services.

### Business Review

A review of the business during the year, comments on the future outlook, activities in the field of research and development and key risks are contained in the Business Review on pages 3 to 9.

During the year, the Group reported a loss before taxation of £0.8 million (2008: profit of £2.6 million).

### Dividends

The Directors have not proposed the payment of a final dividend for the current financial year (2008: nil).

### Directors and their Interests

The beneficial interests of the Directors who held office at 31<sup>st</sup> March 2009 in the ordinary shares of the Company at that date are detailed above.

There were no changes in Directors' interests in the period between 1<sup>st</sup> April 2009 and 2<sup>nd</sup> July 2009.

Details of Directors' outstanding share options are given in the Directors' Remuneration note on p.33. No Director has had any interest in any transaction which is unusual in its nature or conditions or significant to the business of the Group.

Full details of Directors' shareholdings and options to subscribe are contained in the Register of Directors' interests, which is open to inspection.

There have been no changes in Directors during the year. In accordance with the Articles of Association one third of Directors retire by rotation each year. Any newly appointed Directors are also subject to re-election. Each Director must be subject to re-election at least every three years. Directors who are proposed for re-election are David Mahony and Mark Turnage. None of the Directors have a service contract of more than one year's duration with the Company.

All of the Directors benefited from qualifying third party indemnity insurance in place during the financial year and at the date of this report.

### Executive Directors

Mark Turnage, 48, was appointed Chief Executive in 2001. He joined the Board of Directors in 2000 following the purchase of Optical Security Group, Inc. where he was President and Chief Operating Officer. He was previously a management consultant with McKinsey & Company and a lawyer with the law firm of Davis, Graham & Stubbs.

Mike Angus, 45, qualified as a chartered accountant in 1988 and worked for Price Waterhouse for twelve years before joining the Company in 1997 as Financial Director and Company Secretary.

### Non-Executive Directors

David Mahony, 65, has been a Non-Executive of the Company since 1985. He holds a number of other directorships of public and private companies in a variety of industrial sectors.

Richard Povey, 66, joined the Board in 1999. Following periods of employment with Shell, Morgan Grenfell and P&O he spent seventeen years in various roles with Swire Group companies in the Far East. He has served as director of a number of public and private UK companies and is now a non-executive director of the Jersey Competition Regulatory Authority.

## Substantial Shareholdings

	Number of ordinary shares	% held
Herald Investment Trust Limited	6,903,924	12.9
Black Rock Investment Management	2,596,220	4.9
Knox D'Arcy	3,612,625	6.8
The OpSec Security Group Employee Trust	2,333,551	4.4
MT Turnage	1,909,483	3.6
Aerion Fund Management	1,672,903	3.1

# Directors' Report

continued

## Share Capital

Movements in share capital during the year are set out in note 23 to the accounts.

## Financial Objectives and Policies

A description of the Group's financial risk management objectives and policies, and the exposure of the Group to interest rate, credit, liquidity and foreign currency risk is set out in note 25.

## Policy on the Payment of Creditors

Whilst the Company does not follow any code or standard on payment practice it was the Company's policy for the year ended 31<sup>st</sup> March 2009 to pay suppliers for liabilities incurred by the Company in accordance with terms of payment agreed with each individual supplier. The Company's trade creditors at 31<sup>st</sup> March 2009 represent 27 average days' purchases (2008: 26 days).

## Substantial Shareholdings

On 2<sup>nd</sup> July 2009, the shareholders detailed above were registered as having an interest in 3% or more of the Company's issued share capital.

## Fixed Assets

In the opinion of the Directors the market value of the Group's property is not significantly different from the historical net book amount.

## Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's

auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Employees

The employment policies of the Group embody the principles of equal opportunity. The sole criteria for selection, training, development and promotion is the individual's suitability for the position of employment offered and his or her aptitudes and abilities. The Group takes seriously its statutory obligations relating to disabled persons and seeks not to discriminate against current or prospective employees by reason of their disability.

The Group maintains its commitment to providing employees with information on matters of concern to them as employees. Consultation with employees allows the Group to take the views of employees into account in making decisions that are likely to affect their interests.

## Political and Charitable Donations

The Group made no political donations during the year (2008: £nil). Charitable donations of £5,000 were made (2008: £4,000).

## Going Concern

After making appropriate enquiries, the Directors have formed the view, at the time of approving the financial statements, that there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements (see note 1(b)).

## Annual General Meeting

At the Annual General Meeting, six resolutions constituting special business will be considered.

Resolution 6, which will be proposed as an ordinary resolution, authorises the Directors to allot shares in the Company. Under section 80 of the Companies Act 1985, the Directors of the Company may only allot relevant securities if authorised to do so. In accordance with good corporate governance practice the Company has decided to make such authority subject to annual renewal by the shareholders. Resolution 6 will, if passed, give the Directors additional authority to allot shares up to a maximum nominal value of £681,149 (representing the authorised but unissued share capital of the Company and approximately 25% of the issued share capital of the Company at 31<sup>st</sup> March 2009). It is the present intention of the Directors to seek a similar authority annually.

Resolution 7, which will be proposed as a special resolution, relates to the disapplication of statutory pre-emption rights, which would otherwise apply on the issue of the Company's shares for cash. Resolution 7 disapplies these statutory pre-emption rights for an issue of the shares for cash pursuant to a rights issue (or a similar pre-emptive share issue), and for share issues required by existing share option and/or incentive schemes which have been approved by the Company in general meeting. Resolution 7 also disapplies the statutory pre-emption rights in connection with the allotment of shares on a non-preemptive basis up to an aggregate nominal amount of £133,443 (being 5% of the Company's issued share capital at 31<sup>st</sup> March 2009). Resolution 7 replaces the existing authority (passed at the Company's 2008 Annual General Meeting) to disapply pre-emption rights, which expires at the Annual General Meeting. The new authority will expire

at the conclusion of the Company's Annual General Meeting next year, or 15 months from the date of passing of the resolution, whichever is the earlier. Other than the allotment of shares in connection with the Company's share option and/or incentive schemes, the Directors have no present intention to allot shares in the Company.

Resolution 8, which will be proposed as a special resolution, gives authority for the Company to purchase its own shares. The directors would like the Company to have the flexibility to buy its own shares. The maximum number of shares which the Company may buy would be 5,337,770 (representing 10% of the issued share capital at the date of the notice of Annual General Meeting). The Company's exercise of this authority is subject to the stated upper and lower limits on the price payable. The directors will only exercise this authority if they consider that earnings per share are expected to be enhanced as a result and it is in the best interests of shareholders generally. The authority will expire at the conclusion of the Company's Annual General Meeting next year, or 15 months from the date of passing of the resolution, whichever is the earlier. The Company may either cancel the shares it has repurchased or hold them as treasury shares or a combination of both of these. Treasury shares are shares that have been repurchased by the Company and which the Company is allowed to hold pending either reselling them or cancelling them. The Directors believe it is in the interests of the Company to have the choice of either repurchasing shares or holding the repurchased shares as treasury shares. Holding treasury shares would give the Company the ability to re-issue them quickly and cost effectively and would provide the Company with additional flexibility in managing its capital base. No dividends will be paid on and no voting rights will be exercised in relation to treasury shares.

Resolution 9, which will be proposed as a special resolution, would amend the Company's articles of association to permit all extraordinary general meetings (but not the Company's Annual General Meetings) to be held on 14 days' notice.

This change would only come into effect from 1<sup>st</sup> October 2009, when new provisions of the Companies Act 2006 (which will reduce the period of notice required for special resolutions from 21 to 14 days) come into force.

Resolution 10, which will be proposed as a special resolution, would amend the Company's Articles of Association to empower the Board to authorise potential conflicts of interest of the Directors which would otherwise constitute a breach of the Companies Act 2006. The Companies Act 2006 has made it an offence for a director to permit to exist any situation which might give rise to any such conflict of interest in the future. Under the 2006 Act, such potential conflicts of interest can be authorised by the independent directors of the Company but only if authorised to do so by a resolution of the Company's shareholders. Resolution 10 would provide this authority.

Resolution 11, which will be proposed as an ordinary resolution, authorises the Company to use e-communications and to supply documentation to shareholders via the Company's website.

The Directors will also place before the Annual General Meeting two separate resolutions to re-appoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to set the auditors' remuneration.

By order of the Board

**MW Angus**  
Company Secretary  
2<sup>nd</sup> July 2009

## Statement of Directors' Responsibilities in respect of the Annual Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare Group financial statements in accordance with IFRSs as adopted by the EU and applicable laws and have elected to prepare the Parent Company financial statements on the same basis.

The Group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law the Directors are responsible for preparing the Directors' Report.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- The Directors' Report, Chairman's Statement, Chief Executive's Review and Business Review includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

## Consolidated Income Statement

for the year ended  
31<sup>st</sup> March 2009

	Note	2009 £'000	2008 £'000
<b>Revenue</b>	2	39,339	33,009
Cost of sales		(23,181)	(19,030)
<b>Gross profit</b>		16,158	13,979
Distribution and selling expenses	4	(4,875)	(4,225)
Administrative expenses	4	(8,882)	(7,799)
Exceptional administrative expenses	4	(857)	-
Intangible amortisation	4	(800)	(126)
Intangible impairment	4	(851)	-
Total administrative expenses	4	(11,390)	(7,925)
		(107)	1,829
Share of profit of jointly controlled entities		678	884
<b>Operating profit</b>		571	2,713
Finance income	8	84	65
Finance expenses	8	(1,436)	(133)
<b>Net finance costs</b>		(1,352)	(68)
<b>(Loss) / Profit before income tax</b>		(781)	2,645
Income tax	10	(896)	1,964
<b>(Loss) / Profit for the year attributable to equity holders of the parent</b>		(1,677)	4,609
<b>Earnings Per Share</b>			
Basic earnings per share (pence)	11	(3.3)	9.2
Diluted earnings per share (pence)	11	(3.3)	8.4

	Note	2009 £'000	2008 £'000
Foreign exchange translation differences	23	7,635	(271)
Effective portion of changes in fair value of cash flow hedges	15	(628)	-
Net change in fair value of cash flow hedges transferred to profit or loss	15	43	-
<b>Net income/(expense) recognised directly in equity</b>		7,050	(271)
(Loss)/Profit for the year	23	(1,677)	4,609
<b>Total recognised income for the year attributable to equity holders of the parent</b>	23	5,373	4,338

	Note	2009 £'000	2008 £'000
Effective portion of changes in fair value of cash flow hedges	15	(628)	-
Net change in fair value of cash flow hedges transferred to profit or loss	15	43	-
<b>Net expense recognised directly in equity</b>		(585)	-
Profit for the year	23	565	1,048
<b>Total recognised income for the year attributable to equity holders of the parent</b>	23	(20)	1,048

## Consolidated Statement of Recognised Income and Expense

for the year ended  
31<sup>st</sup> March 2009

## Company Statement of Recognised Income and Expense

for the year ended  
31<sup>st</sup> March 2009

# Consolidated Balance Sheet

31<sup>st</sup> March 2009

	Note	2009 £'000	2008 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	11,633	8,668
Intangible assets	13	28,609	10,576
Investment in jointly controlled entities	14	530	396
Other investments	14	18	18
Deferred tax assets	16	4,347	4,965
<b>Total non-current assets</b>		<b>45,137</b>	<b>24,623</b>
<b>Current assets</b>			
Inventory	17	3,868	3,549
Trade and other receivables	18	7,517	5,908
Cash and cash equivalents	19	4,244	875
<b>Total current assets</b>		<b>15,629</b>	<b>10,332</b>
<b>Total assets</b>		<b>60,766</b>	<b>34,955</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	20	(1,249)	(108)
Deferred government grants		(20)	(20)
Provisions	22	(536)	-
Income tax payable		(252)	(73)
Trade and other payables	21	(13,922)	(6,182)
<b>Total current liabilities</b>		<b>(15,979)</b>	<b>(6,383)</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	20	(11,787)	(1,810)
Deferred government grant		(159)	(179)
Derivative financial instruments	15	(585)	-
Deferred tax liabilities		(280)	-
<b>Total non-current liabilities</b>		<b>(12,811)</b>	<b>(1,989)</b>
<b>Total liabilities</b>		<b>(28,790)</b>	<b>(8,372)</b>
<b>Net assets</b>		<b>31,976</b>	<b>26,583</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Issued capital	23	2,669	2,669
Share premium account	23	29,309	29,309
Translation reserve	23	6,113	(1,522)
Hedging reserve	23	(585)	-
Retained earnings	23	(5,530)	(3,873)
<b>Total equity attributable to equity holders of the parent</b>		<b>31,976</b>	<b>26,583</b>

# Company Balance Sheet

31<sup>st</sup> March 2009

	Note	2009 £'000	2008 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	-	-
Investments	14	30,062	58,815
Deferred tax asset	16	164	237
<b>Total non-current assets</b>		<b>30,226</b>	<b>59,052</b>
<b>Current assets</b>			
Trade and other receivables	18	22,626	4,953
Cash and cash equivalents	19	238	34
<b>Total current assets</b>		<b>22,864</b>	<b>4,987</b>
<b>Total assets</b>		<b>53,090</b>	<b>64,039</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Interest-bearing loan and borrowings	20	(1,223)	-
Trade and other payables	21	(5,830)	(29,372)
<b>Total current liabilities</b>		<b>(7,053)</b>	<b>(29,372)</b>
<b>Non-current liabilities</b>			
Interest-bearing loan and borrowings	20	(10,785)	-
Derivative financial instruments	15	(585)	-
<b>Total non-current liabilities</b>		<b>(11,370)</b>	<b>-</b>
<b>Total liabilities</b>		<b>(18,423)</b>	<b>(29,372)</b>
<b>Net assets</b>		<b>34,667</b>	<b>34,667</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Issued capital	23	2,669	2,669
Share premium account	23	29,309	29,309
Hedging reserve	23	(585)	-
Retained earnings	23	3,274	2,689
<b>Total equity attributable to equity holders of the parent</b>		<b>34,667</b>	<b>34,667</b>

The financial statements on pages 16 to 59 have been approved by the Board and signed on its behalf by:

**MT Turnage**  
Chief Executive  
2<sup>nd</sup> July 2009

# Consolidated Statement of Cash Flows

For the year ended 31<sup>st</sup> March 2009

	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>		
(Loss)/Profit for the year	(1,677)	4,609
Depreciation	1,764	1,326
Amortisation/impairment of intangible assets	1,651	126
Profit on sale of investment	–	–
Release of government grants	(20)	–
Equity settled share based payment expense	(2)	789
Share of profit of jointly controlled entities	(678)	(884)
Finance income	(84)	(65)
Finance expenses	1,436	133
Income tax expense	896	(1,964)
Movement in inventory	892	(832)
Movement in trade and other receivables	493	(176)
Movement in trade and other payables	469	(1,736)
Cash from operating activities	5,140	1,326
Interest paid	(1,436)	(133)
Income tax paid - overseas	(175)	(278)
<b>Net cash inflow from operating activities</b>	<b>3,529</b>	<b>915</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary undertaking (net of cash acquired)	(7,948)	–
Acquisition of property, plant and equipment	(2,340)	(3,195)
Proceeds from sale of property, plant and equipment	–	6
Proceeds from sale of investment	–	–
Proceeds from government grants	–	199
Dividends received from jointly controlled entity	705	1,163
Income from other fixed asset investments	–	–
Interest received	84	65
<b>Net cash outflow from investing activities</b>	<b>(9,499)</b>	<b>(1,762)</b>
<b>Cash flows from financing activities</b>		
Payment of finance lease liabilities	(58)	(34)
Drawdown of borrowings	12,008	350
Repayment of borrowings	(3,049)	–
Proceeds from sale of own shares	83	102
Purchase of own shares	(61)	(1,266)
Dividends paid	–	(504)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>8,923</b>	<b>(1,352)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,953</b>	<b>(2,199)</b>
Cash and cash equivalents at the start of the year	793	3,073
Effect of exchange rate fluctuations on cash	498	(81)
<b>Cash and cash equivalents at the end of the year</b>	<b>4,244</b>	<b>793</b>

	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>		
Profit for the year	565	1,048
Equity-settled share-based payment expense	(2)	789
Finance income	(688)	(814)
Finance expenses	1,394	(248)
Income tax	73	–
<b>Cash flows from operating activities before working capital movements</b>	<b>1,342</b>	<b>775</b>
Movement in trade and other receivables	10	8
Movement in trade and other payables	(5,550)	(1,112)
<b>Cash flow from operating activities</b>	<b>(4,198)</b>	<b>–</b>
Interest paid	(1,394)	–
<b>Net cash outflow from operating activities</b>	<b>(5,592)</b>	<b>(329)</b>
<b>Cash flows from investing activities</b>		
Acquisition cost	(3,252)	(282)
Dividend received	–	746
Interest received	688	63
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(2,564)</b>	<b>527</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	9,743	–
Proceeds from sale of own shares	83	102
Purchase of own shares	(61)	(1,266)
Dividends paid	–	(504)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>9,765</b>	<b>(1,668)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,609</b>	<b>(1,470)</b>
Cash and cash equivalents at the start of the year	34	1,488
Effect of exchange rate fluctuations on cash	(1,405)	16
<b>Cash and cash equivalents at the end of the year</b>	<b>238</b>	<b>34</b>

# Company Statement of Cash Flows

For the year ended 31<sup>st</sup> March 2009

# Notes to the Consolidated Financial Statements

## 1. Significant accounting policies

OpSec Security Group plc (the "Company") is a company domiciled in England. The consolidated financial statements of the Company for the year ended 31<sup>st</sup> March 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

The consolidated financial statements were authorised for issue by the Directors on 2<sup>nd</sup> July 2009.

### (a) Statement of compliance

Both the Company and consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The Company has taken advantage of the exemption permitted by Section 230 of the Companies Act 1985 from presenting its own income statement and related notes.

### (b) Basis of preparation

The financial statements are presented in pounds sterling, rounded to the nearest thousand, and are prepared on the historical cost basis, except as follows:

- Interest bearing loans and borrowings are initially recognised at fair value.
- Derivative financial instruments are measured at fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review.

The Group meets its day to day working capital requirements through its facilities with The Royal Bank of Scotland. As noted in the Financial Review the Group was at risk of breaching certain banking covenants at the year end and the Directors have taken action to renegotiate the terms to these bank facilities. This has been based on detailed revised projections for the next three years, based on a degree of caution that the Directors believe is appropriate in the current environment. In addition the key assumptions have been stress-tested within the range of what the Directors believe is reasonably possible.

The terms of the facility have therefore recently been amended, including a revision to certain covenants. Further details are included in note 30. The amended facilities are due for renewal on 30<sup>th</sup> June 2012. The current economic conditions create uncertainty particularly over (a) the level and timing of demand for the Group's products, (b) the exchange rate between Sterling and the Euro and US Dollar, and (c) the availability of bank finance in the foreseeable future.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its revised facility.

The Group will open renewal negotiations with the bank, or alternative debt providers, in due course when appropriate.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of Adopted IFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are described in note 31.

The accounting policies set out below have been applied consistently by Group entities.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. There were no adopted IFRS's effective for the first time in these financial statements.

### (c) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (ii) Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

#### (iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

### (d) Foreign currency

#### (i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

#### (ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the group's presentational currency, pounds sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to pounds sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of the net investment in foreign operations are taken directly to the translation reserve. They are released into the income statement upon disposal of the foreign operation.

In respect of all foreign operations, any differences that have arisen after 1<sup>st</sup> April 2004, the date of transition to Adopted IFRSs, are presented as a separate component of equity.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity.

# Notes to the Consolidated Financial Statements

continued

## (e) Property, plant and equipment

### (i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see (iv) below) and impairment losses (see accounting policy j).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

### (ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see (iv) below) and impairment losses (see accounting policy j).

### (iii) Subsequent costs

The Group recognises in the carrying value of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

### (iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Freehold land is not depreciated. The estimated useful lives are as follows:

• freehold buildings	50 years
• leasehold improvements	term of lease
• plant and equipment	4 - <b>Subsidiary</b> 10 years
• fixtures and fittings	3 - 5 years
• motor vehicles	3 - 5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

## (f) Intangible assets

### (i) Goodwill

All business combinations are accounted for by applying the purchase method.

#### Acquisitions prior to 1<sup>st</sup> April 2004

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1<sup>st</sup> April 2004. In respect of acquisitions prior to 1<sup>st</sup> April 2004, goodwill represents the amount recognised under the Group's previous accounting framework (UK GAAP).

#### Acquisitions on or after 1<sup>st</sup> April 2004

For acquisitions on or after 1<sup>st</sup> April 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

#### Subsequent measurement

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see accounting policy j).

### (ii) Intangible assets other than goodwill

Intangible assets that are acquired by the Group and have a finite life are stated at cost less accumulated amortisation and impairment charges.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are as follows:

Trade names	-	5 years
Software	-	5 years
Customer lists	-	5 - 8 years
Image rights	-	3 years
Non-compete	-	3 - 4 years

## (g) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost as reduced by an appropriate allowance for irrecoverable amounts.

## (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

## (i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank facilities that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## (j) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy h) and deferred tax assets (see accounting policy r) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

### (i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### (ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## (k) Share capital

### (i) Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

### (ii) Employee share ownership plan

The Group accounts include the assets and related liabilities of the OpSec Security Group Employee Trust (formerly the AH LTIP Trust) and the AH QUEST Trust. In both the Group and parent company accounts the shares held by the trusts are stated at cost and deducted from shareholders' funds.

# Notes to the Consolidated Financial Statements

continued

## (l) Employee benefits

### (i) Defined contribution plans

A defined contribution plan is a post employment benefit plan under which the Company pays fixed contributions in to a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

### (ii) Share-based payment transactions

The share option, LTIS and deferred bonus programmes allow Group employees to acquire shares of the Company. The fair value of awards are recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest for which the related service and non-market vesting conditions are met. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the awards. The fair value of options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards that vest except where forfeiture of options is only due to share prices not achieving the threshold for vesting.

The fair value of options granted by the Parent Company to employees of subsidiaries is treated as an investment unless the Parent Company is reimbursed.

For options and other awards granted before 7<sup>th</sup> November 2002 the recognition and measurement principles of IFRS 2 have not been applied in accordance with IFRS 1.

## (m) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## (n) Trade and other payables

Trade and other payables are stated at nominal value.

## (o) Revenue

### (i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

## (p) Expenses

### (i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

### (ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### (iii) Finance income

Finance income comprises interest receivable on funds invested and foreign exchange gains and losses arising on foreign currency deposits. Interest income is recognised in the income statement as it accrues, using the effective interest method.

### (iv) Finance expense

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange gains and losses arising on foreign currency borrowings. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

## (v) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as the expense is incurred. Development costs are capitalised when such projects are expected to generate future profits provided that the intellectual property arising is separable or arises from contractual or other legal rights.

## (q) Government grants

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

## (r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

## (s) Classification of financial instruments issued by the Group

Financial instruments issued by the Group form part of shareholders' funds only to the extent that they meet the following conditions:

(i) they include no contractual obligations upon the Company (or Group) to deliver cash or other financial assets or to exchange assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company;

(ii) where the instruments will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Finance payments that are associated with financial instruments that are classified as equity are recorded directly in equity.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment.

# Notes to the Consolidated Financial Statements

continued

## (t) Financial instruments

### Derivative financial instruments

The Group uses interest rate swaps to help manage its interest rate risk.

All derivative financial instruments are recognised initially at fair value and subsequently re-measured to fair value at each reporting date and changes therein are accounted for as described below.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit and loss.

Derivatives designated as hedging instruments are accounted for in line with the nature of hedging arrangement. Derivatives are intended to be highly effective in mitigating the above risks, and hedge accounting is adopted where the required hedge documentation is in place and the relevant test criteria are met.

## (u) IFRSs available for early adoption not yet applied

The following Adopted IFRSs were available for early application but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material affect on the financial statements unless otherwise indicated:

- IFRS 8 'Operating Segments' (mandatory for the year commencing on or after 1<sup>st</sup> January 2009).
- Revised IAS 23 'Borrowing Costs' (mandatory for the year commencing on or after 1<sup>st</sup> January 2009).
- Revised IAS 1 'Presentation of Financial Statements' (mandatory for the year commencing on or after 1<sup>st</sup> January 2009).
- Revised IFRS 3 'Business Combinations' (mandatory for the year commencing on or after 1<sup>st</sup> July 2009).
- Revised IAS 27 'Consolidated and Separate Financial Statements' (mandatory for the year commencing on or after 1<sup>st</sup> July 2009).
- Amendments to IFRS 2 'Share based payment – Vesting Conditions and Cancellations' (mandatory for the year commencing on or after 1<sup>st</sup> January 2009).

The Directors currently anticipate that the adoption of the above standards and interpretations will have no material impact on the Group's financial statements.

All other amendments to standards and interpretations that are available for early adoption currently have no impact for the Group.

## 2. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, geographical segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

### Business and geographical segments

The Group comprises the following main geographical segments:

- American operations. The manufacture and sale of anti-counterfeiting technologies, services and programmes from the Group's facilities in America.
- European operations. The manufacture and sale of anti-counterfeiting technologies, services and programmes from the Group's facilities in Europe.
- Joint venture. The licensing of technology relating to the application of holography to compact discs and DVDs.

### Business and geographical segments (continued)

- Corporate costs. These costs include the costs of being a public company, including the costs attributable to the Board of Directors, and other centrally controlled costs such as patent maintenance costs and the costs of the Group's management incentive schemes.

The Group operates in a single business segment, being the supply of anti-counterfeiting technologies, services and programmes but classifies its external sales by the following market sectors:

- Banknote and High Security Documents ("BNHS")
- Brand Protection
- ID Solutions

	American operations		European operations*		Joint Venture		Corporate		Eliminations		Consolidated	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Revenue:												
Banknote and High Security Documents	2,442	2,471	7,348	9,381	–	–	–	–	(1,274)	(1,212)	8,516	10,640
Brand Protection	13,100	11,494	9,912	3,679	–	–	–	–	(444)	(606)	22,568	14,567
ID Solutions	6,688	5,684	1,613	2,136	–	–	–	–	(46)	(18)	8,255	7,802
Total segment revenue	22,230	19,649	18,873	15,196	–	–	–	–	(1,764)	(1,836)	39,339	33,009
Adjusted operating profit	1,550	2,501	2,759	1,673	678	884	(1,910)	(1,430)	–	–	3,077	3,628
Exceptional expenses	(775)	–	(82)	–	–	–	–	–	–	–	(857)	–
Intangible amortisation	(151)	(126)	(649)	–	–	–	–	–	–	–	(800)	(126)
Intangible impairment	–	–	(851)	–	–	–	–	–	–	–	(851)	–
Share based payments	–	–	–	–	–	–	2	(789)	–	–	2	(789)
Operating profit	624	2,375	1,177	1,673	678	884	(1,908)	(2,219)	–	–	571	2,713
Net financing costs											(1,352)	(68)
Income tax											(896)	1,964
Profit for the period											(1,677)	4,609
Depreciation charge	1,032	801	713	509	–	–	19	16	–	–	1,764	1,326
Capital expenditure	1,875	1,480	889	1,425	–	–	5	27	–	–	2,769	2,932
Segment assets	16,414	11,112	25,874	8,995	–	–	71,390	67,843	(53,442)	(53,391)	60,236	34,559
Investment in joint ventures	–	–	–	–	530	396	–	–	–	–	530	396
Total assets	16,414	11,112	25,874	8,995	530	396	71,390	67,843	(53,442)	(53,391)	60,766	34,955
Segment liabilities	(13,337)	(7,783)	(19,861)	(4,181)	–	–	(24,355)	(25,170)	28,763	28,762	(28,790)	(8,372)
Total liabilities	(13,337)	(7,783)	(19,861)	(4,181)	–	–	(24,355)	(25,170)	28,763	28,762	(28,790)	(8,372)
Net cash flows from operating activities	5,051	1,016	6,047	2,059	–	–	(7,569)	(2,160)	–	–	3,529	915
Cash flows from investing activities	(1,607)	(1,712)	(5,902)	(1,455)	–	1,163	(1,990)	242	–	–	(9,499)	(1,762)
Cash flows from financing activities	(1,816)	316	923	–	–	–	9,766	(1,668)	–	–	8,923	(1,352)

\* European operations results for the year ended 31<sup>st</sup> March 2009 include Light Impressions and P4M acquisitions made during the year. See note 3.

# Notes to the Consolidated Financial Statements

continued

## 3. Acquisition of Subsidiaries

### (a) Acquisition of Light Impression

On 2<sup>nd</sup> April 2008 the Group acquired 100% of the equity of Light Impressions International Ltd ("Light Impressions", subsequently renamed Opsec LI Ltd), a provider of holographic product based in Leatherhead, U.K. The purchase price consisted of an upfront cash payment of £2.0 million and a two year cash earn-out capped at £4.5 million. In the year ended 31<sup>st</sup> March 2009, the acquisition contributed £4.0 million to turnover and made a net profit of £519,000.

The acquisition had the following effect on the Group's assets and liabilities at the date of acquisition:

	Pre-acquisition carrying amounts £'000	Fair value adjustments £'000	Recognised values on acquisition £'000
Property, plant and equipment	-	-	-
Intangible assets	-	2,250	2,250
Inventory	6	-	6
Trade and other receivables	569	-	569
Cash and cash equivalents	941	-	941
Deferred tax assets	(12)	(630)	(642)
Trade and other payables	(1,235)	(39)	(1,274)
Long term liabilities	(6)	(233)	(239)
<b>Net identifiable assets and liabilities</b>	<b>263</b>	<b>1,348</b>	<b>1,611</b>
<b>Goodwill on acquisition</b>			<b>4,212</b>
<b>Total cost of acquisition</b>			<b>5,823</b>
Consideration paid, satisfied in cash (including legal and other fees of £455,000)			3,396
Consideration payable			2,427
Cash acquired			(941)
<b>Net cash outflow</b>			<b>4,882</b>

Pre-acquisition carrying amounts were determined based on applicable Adopted IFRSs immediately before the acquisitions. The values of assets and liabilities recognised on acquisition are their fair values to the Group.

The deferred tax liability recognised relates to the difference between the tax base of the intangible assets acquired and their carrying value. The other fair value adjustments are in relation to the leasehold property interest acquired with the business.

In accordance with IFRS3 Business Combinations, a review of the acquisition was performed to identify specific intangible assets. This resulted in the recognition of intangible assets of £2,250,000; consisting of customer relationships (£1,800,000), image rights (£290,000) and non-compete agreements (£160,000).

Customer relationships were valued based on the present value of projected cash flows, in excess of returns on requisite assets during the life of the relationship with customers.

Image rights were valued using the relief-from-royalty method whereby an appropriate royalty rate was applied to the expected level of sales of existing products using owned image rights.

Non-compete agreements were valued based on a percentage of the business being taken away as a result of senior management competing against Light Impressions following the acquisition.

Goodwill represents the value of the assembled and trained workforce, the potential for significant improvements in the underlying business performance, and synergies with the Group's existing business.

## 3. Acquisition of Subsidiaries (continued)

### (b) Acquisition of P4M

On 15<sup>th</sup> May 2008 the Group acquired 100% of the equity of P4M Partners 4 Management GmbH ("P4M", subsequently renamed OpSec Security GmbH), a leading provider of online brand protection and monitoring services in Europe, for a cash consideration of up to €10.2 million (approximately £8 million). The consideration consisted of an up front payment of €4.2 million and an earn-out capped at €6.0 million.

In the eleven months to 31<sup>st</sup> March 2009, the acquisition contributed £2.6 million to turnover and made a net profit of £444,000.

The acquisition would have contributed £2.7 million to turnover and £461,000 to net profit had its contributions begun from 1<sup>st</sup> April 2008.

The acquisition had the following effect on the Group's assets and liabilities at the date of acquisition:

	Pre-acquisition carrying amounts £'000	Fair value adjustments £'000	Recognised values on acquisition £'000
Property, plant and equipment	26	-	26
Intangible assets	38	1,235	1,273
Inventory	-	-	-
Trade and other receivables	376	-	376
Cash and other equivalents	81	-	81
Deferred tax assets	-	(357)	(357)
Trade and other payables	(115)	-	(115)
Long term liabilities	-	-	-
<b>Net identifiable assets and liabilities</b>	<b>406</b>	<b>878</b>	<b>1,284</b>
<b>Goodwill on acquisition</b>			<b>7,145</b>
<b>Total cost of acquisition</b>			<b>8,429</b>
Consideration paid, satisfied in cash (including legal and other fees of £598,000)			5,574
Consideration payable			2,855
Cash acquired			(81)
<b>Net cash outflow</b>			<b>8,348</b>

Pre-acquisition carrying amounts were determined based on applicable Adopted IFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their fair values to the Group.

In accordance with IFRS3 Business Combinations, a review of the acquisition was performed to identify specific intangible assets. This resulted in the recognition of intangible assets of £1,235,000; consisting of customer relationships (£543,000), non-compete agreements (£165,000) and monitor systems (£527,000).

Customer relationships were valued based on the present value of projected cash flows, in excess of returns on requisite assets during the life of the relationship with customers.

Non-compete agreements were valued based on a percentage of the business being taken away as a result of senior management competing against P4M following the acquisition.

Monitor systems were valued using the replacement cost and relief from royalty approach. The replacement cost approach attempts to capture the effort that would be required to develop the underlying technology for its products, primarily based on historical efforts of P4M.

Goodwill represents the value of the assembled and trained workforce, the potential for significant improvements in the underlying business performance, and synergies with the Group's existing business.

# Notes to the Consolidated Financial Statements

continued

## 4. Operating expenses

	2009 £'000	2008 £'000
<b>Distribution costs</b>		
Distribution and selling costs	4,875	4,225
<b>Administrative expenses</b>		
Technical support	1,022	828
Research and development costs	1,928	1,796
Administrative costs	5,932	5,175
Exceptional Administrative expenses	857	–
Intangible amortisation	800	126
Intangible impairment	851	–
	11,390	7,925
<b>Total operating expenses</b>	<b>16,265</b>	<b>12,150</b>

Exceptional Administrative expenses reflect the cost of redundancies together with the cost of closing the Parkton facility and moving it to Lancaster.

## 5. Operating profit

Operating profit is stated after charging/(crediting):

	2009 £'000	2008 £'000
Depreciation on owned property, plant and equipment	1,764	1,326
Release of government grants	–	–
Payments under operating leases		
– property rents	817	654
– plant and machinery	236	152
Provision for bad and doubtful debts	30	(58)
Impairment of inventories	(24)	115
Auditors' remuneration:		
– Audit of these financial statements	6	5
Amounts receivable by auditors and their associates in respect of:		
– Audit of financial statements of subsidiaries pursuant to legislation	110	60
– Taxation services	97	63
– Other services	–	61

## 6. Staff numbers and cost

The average number of persons employed by the Group (including Directors) during the year, analysed by category was as follows:

	2009	2008
Production	173	164
Selling and marketing	34	30
Technical	15	14
Research and development	20	21
Administration	48	43
	290	272

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Wages and salaries	10,587	8,229	55	46
Share based payments	(2)	789	(2)	789
Social security costs	1,300	769	6	7
Other pension costs	221	196	1	1
	12,106	9,983	60	843

The other pension costs relate to a number of defined contribution pension plans.

## 7. Directors' Remuneration

	2009 £'000	2008 £'000
Directors' emoluments	626	451
Amounts receivable under long term incentive schemes	203	513
Company contributions to money purchase pension plans	25	26
	854	990

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £395,780 (2008; £474,785), and the company pension contributions of £4,000 (2008; £3,000) were made to a money purchase scheme on his behalf. During the year the highest paid director received shares under a long term incentive scheme.

Fees paid to Non-Executive Directors were £55,000 (2008; £46,000).

	Number of Directors	
	2009	2008
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	2	2
The number of Directors who exercised share options was	–	–
The number of Directors in respect of whose services shares were received or receivable under long term incentive schemes	2	2

Details of the rights of Directors to subscribe to shares in the Company are shown below.

	At start of year	Number of options		Exercise price
		Lapsed during the year	At end of year	
Mark Turnage	3,804,000	1,902,000	1,902,000	5p
Mike Angus	2,544,000	1,272,000	1,272,000	5p

# Notes to the Consolidated Financial Statements

continued

## 8. Net finance income and expense

	2009 £'000	2008 £'000
Interest income	25	61
Foreign exchange gain on foreign currency deposits	59	4
Total finance income	84	65
Interest expense on financial liabilities measured at amortised cost	(758)	(145)
Net change in fair value of cash flow hedges transferred from equity	(43)	-
Exceptional cost of debt advisor fees written off	(635)	-
Foreign exchange gains on foreign currency borrowings	-	12
Total finance expense	(1,436)	(133)

The exceptional costs above relate to debt advisor fees written off as a consequence of the new funding arrangements reached with RBS.

## 9. Profit attributable to OpSec Security Group plc

Of the Group profit for the year, a profit of £565,000 (2008: profit of £1,048,000) is dealt with in the accounts of the Parent Company.

## 10. Income tax expense

	2009 £'000	2008 £'000
<b>Current tax expense</b>		
Current year	(22)	35
Adjustments in respect of prior years	(3)	(76)
	(25)	(41)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	921	(1,826)
Adjustments in respect of prior years	-	(97)
	921	(1,923)
Total income tax expense	896	(1,964)

No taxation is payable in the current year by any of the Group's UK based companies due to the availability of losses. Taxation on profits arising in the Group's American subsidiaries is limited due to losses brought forward from prior years. Taxation on profits arising in the Group's joint venture has been reduced due to the availability of losses brought forward in the Group's American subsidiaries.

The standard rate of corporation tax which has applied throughout the year in the UK is 28% (2008: 30%).

From 1<sup>st</sup> April 2008 the UK corporation tax rate changed from 30% to 28%. All deferred taxes which relate to UK operations have been recognised at 28%.

## 10. Income tax expense (continued)

Reconciliation of effective tax rate	2009 £'000	2008 £'000
(Loss) / Profit before income tax	(781)	2,645
Income tax using the domestic corporation tax rate	(219)	794
Effect of tax rates in foreign jurisdictions	24	69
Non-deductible expenses	414	35
Movement in deferred tax not recognised	(241)	(203)
Deferred tax recognised in UK operations	-	(2,583)
Impairment of previously recognised deferred tax assets	921	-
Over provision in prior years	(3)	(76)
	896	(1,964)

The movement in deferred tax not recognised represents the benefit of losses in GenuOne and the UK operations.

## 11. Earnings per share

### Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended 31<sup>st</sup> March 2009 was based on the following earnings and weighted average number of shares:

Earnings	2009	2008
Earnings for year	(1,677)	4,609
Exceptional items	1,492	-
Intangible amortisation	800	126
Intangible impairment	851	-
Equity-settled share-based payments	(2)	789
Deferred tax credit on UK losses	-	(2,583)
<b>Adjusted earnings</b>	<b>1,464</b>	<b>2,941</b>

### Weighted average number of ordinary shares

	2009	2008
Issued ordinary shares at 1 <sup>st</sup> April	53,377,008	53,377,008
Effect of own shares held	(3,802,543)	(4,078,699)
Effect of shares issued	1,060,001	952,875
<b>Weighted average number of ordinary shares (basic) during the year</b>	<b>50,634,466</b>	<b>50,251,184</b>
Effect of share options and other awards	2,946,502	4,383,285
<b>Weighted average number of ordinary shares (diluted) during the year</b>	<b>53,580,968</b>	<b>54,634,469</b>

The dilutive effect of share options is only considered when a loss is made to the extent that the dilutive effect increases the loss per share. The diluted loss per share for the year ended 31<sup>st</sup> March 2009 is therefore equal to the basic loss per share.

## 12. Property, plant and equipment

Group	Note	Land and buildings £'000	Short leasehold improvements £'000	Plant and equipment £'000	Fixtures and fittings £'000	Under Construction £'000	Total £'000
<b>Cost</b>							
1 <sup>st</sup> April 2007		984	1,787	18,609	1,423	–	22,803
Additions		26	18	1,972	74	842	2,932
Disposals		–	–	–	–	–	–
Foreign exchange movements		(13)	(6)	(82)	(16)	–	(117)
Other movements		–	–	(2)	2	–	–
31 <sup>st</sup> March 2008		997	1,799	20,497	1,483	842	25,618
1 <sup>st</sup> April 2008		997	1,799	20,497	1,483	842	25,618
Acquisitions through business combinations		–	–	–	58	–	58
Additions		39	194	2,394	141	–	2,768
Disposals		–	–	(1,522)	–	–	(1,522)
Impairment		(53)	–	(126)	–	–	(179)
Foreign exchange movements		387	208	2,959	525	–	4,079
Other movements		–	–	842	–	(842)	–
<b>31<sup>st</sup> March 2009</b>		<b>1,370</b>	<b>2,201</b>	<b>25,044</b>	<b>2,207</b>	<b>–</b>	<b>30,822</b>
<b>Depreciation and impairment losses</b>							
1 <sup>st</sup> April 2007		183	1,011	13,408	1,076	–	15,678
Depreciation charge for the year		21	120	1,022	163	–	1,326
Disposals		–	–	–	–	–	–
Foreign exchange movements		(2)	(2)	(37)	(13)	–	(54)
Other movements		–	–	(6)	6	–	–
31 <sup>st</sup> March 2008		202	1,129	14,387	1,232	–	16,950
1 <sup>st</sup> April 2008		202	1,129	14,387	1,232	–	16,950
Acquisitions through business combinations		–	–	–	28	–	28
Depreciation charge for the year		26	174	1,367	197	–	1,764
Disposals		–	–	(1,520)	–	–	(1,520)
Foreign exchange movements		83	97	1,348	439	–	1,967
Other movements		–	–	–	–	–	–
<b>31<sup>st</sup> March 2009</b>		<b>311</b>	<b>1,400</b>	<b>15,582</b>	<b>1,896</b>	<b>–</b>	<b>19,189</b>
<b>Carrying value</b>							
1 <sup>st</sup> April 2007		801	776	5,201	347	–	7,125
31 <sup>st</sup> March 2008		795	670	6,110	251	842	8,668
1 <sup>st</sup> April 2008		795	670	6,110	251	842	8,668
<b>31<sup>st</sup> March 2009</b>		<b>1,059</b>	<b>801</b>	<b>9,462</b>	<b>311</b>	<b>–</b>	<b>11,633</b>

## 12. Property, plant and equipment (continued)

Company	Short leasehold improvements £'000	Total £'000
<b>Cost</b>		
1 <sup>st</sup> April 2007	436	436
31 <sup>st</sup> March 2008	436	436
1 <sup>st</sup> April 2008	436	436
<b>31<sup>st</sup> March 2009</b>	<b>436</b>	<b>436</b>
<b>Depreciation and impairment losses</b>		
1 <sup>st</sup> April 2007	436	436
31 <sup>st</sup> March 2008	436	436
1 <sup>st</sup> April 2008	436	436
<b>31<sup>st</sup> March 2009</b>	<b>436</b>	<b>436</b>
<b>Carrying value</b>		
1 <sup>st</sup> April 2007	–	–
31 <sup>st</sup> March 2008	–	–
1 <sup>st</sup> April 2008	–	–
<b>31<sup>st</sup> March 2009</b>	<b>–</b>	<b>–</b>

# Notes to the Consolidated Financial Statements

continued

### 13. Intangible assets

Group	Trade names £'000	Software £'000	Customer relationships £'000	Image rights £'000	Non-compete £'000	Goodwill £'000	Total £'000
<b>Cost</b>							
1 <sup>st</sup> April 2007	128	127	388	–	–	10,312	10,955
Effect of movements in foreign exchange	(3)	(2)	(4)	–	–	(135)	(144)
31 <sup>st</sup> March 2008	125	125	384	–	–	10,177	10,811
1 <sup>st</sup> April 2008	125	125	384	–	–	10,177	10,811
Acquisitions	–	623	2,343	290	325	10,806	14,387
Effect of movements in foreign exchange	29	117	170	–	27	4,954	5,297
<b>31<sup>st</sup> March 2009</b>	<b>154</b>	<b>865</b>	<b>2,897</b>	<b>290</b>	<b>352</b>	<b>25,937</b>	<b>30,495</b>
<b>Amortisation</b>							
1 <sup>st</sup> April 2007	22	21	66	–	–	–	109
Amortisation for the year	25	25	76	–	–	–	126
31 <sup>st</sup> March 2008	47	46	142	–	–	–	235
1 <sup>st</sup> April 2008	47	46	142	–	–	–	235
Amortisation for the year	30	173	406	97	94	–	800
Impairment	–	–	787	64	–	–	851
<b>31<sup>st</sup> March 2009</b>	<b>77</b>	<b>219</b>	<b>1,335</b>	<b>161</b>	<b>94</b>	<b>–</b>	<b>1,886</b>
<b>Carrying value</b>							
Balance at 1 <sup>st</sup> April 2007	106	106	322	–	–	10,312	10,846
Balance at 31 <sup>st</sup> March 2008	78	79	242	–	–	10,177	10,576
Balance at 1 <sup>st</sup> April 2008	78	79	242	–	–	10,177	10,576
<b>Balance at 31<sup>st</sup> March 2009</b>	<b>77</b>	<b>646</b>	<b>1,562</b>	<b>129</b>	<b>258</b>	<b>25,937</b>	<b>28,609</b>

The amortisation and impairment charge is recognised in administrative expenses in the income statement.

#### Impairment tests for cash-generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2009 £'000	2008 £'000
American operations	14,147	10,177
Light Impressions P4M	4,212 7,578	– –
European operations	11,790	–
	25,937	10,177

The impairment tests are based on value in use calculations. Those calculations are based upon a three year business plan starting from the current year budget approved by the Board of Directors, together with a perpetuity calculation reflecting the expected maintenance of the market position at the end of the third year. The key assumptions for the calculations are those regarding discount rates and growth rates. The pre-tax discount rates and the growth rates used in the calculations are shown below.

The key assumptions and the approach to determining their value are:

	American operations	European operations	
		Light impressions	P4M
Discount rate	10%	12%	10%
Inflationary growth	2%	2%	2%
Real growth	5%	0%	5%

The growth assumptions do not exceed the long term average growth rates for the industry. The discount rate represents management's best estimate of the weighted average cost of capital, risk adjusted for each cash generating unit. The increase in the discount rate applied to Light Impressions reflects the heightened perception of risk relevant to that business. The recoverable amounts of each cash generating unit exceeds their carrying amounts and remains so after adjustment for reasonably possible sensitivities.

### 14. Investments in subsidiaries and jointly controlled entities

The Group and the Company have the following principal investments in subsidiaries and jointly controlled entities

Subsidiary undertakings	Country of incorporation and operation	Principal activity	Class of shares held	Proportion of ordinary shares held	
				2009	2008
OpSec Security Group Holdings (Europe) Limited	Great Britain	Holding Company	Ordinary	100%	100%
OpSec Security Ltd *	Great Britain	Manufacture of holographic products	Ordinary	100%	100%
OpSec Security Group, Inc.	USA	Holding Company	Ordinary	100%	100%
OpSec Security, Inc.*	USA	Manufacture of optical security products	Ordinary	100%	100%
GenuOne, Inc.*	USA	Provider of anti-counterfeiting software products	Ordinary	100%	100%
OpSec LI Ltd*	Great Britain	Manufacture of holographic products	Ordinary	100%	–
OpSec Security GmbH*	Germany	Provider of internet monitoring services	Ordinary	100%	–
OpSec Germany GmbH*	Germany	Holding Company	Ordinary	100%	–
<b>Jointly controlled entity</b>					
3dcd LLC*	USA	Application of holograms to compact discs	n/a	50%	50%
<b>Other Investments</b>					
MTM	Turkey	Manufacture of holographic products	Ordinary	15%	15%

\*Denotes those investments not held directly by the ultimate holding company.

## Notes to the Consolidated Financial Statements

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continued

## 14. Investments in subsidiaries and jointly controlled entities (continued)

Investments in the Group comprise interests in jointly controlled entities and trade investments. Investments in the Company comprise interests in subsidiary undertakings and trade investments.

Group	Jointly controlled entities £'000	Other investments £'000	Total £'000
<b>Cost</b>			
1 <sup>st</sup> April 2007	920	172	1,092
Share of jointly controlled entities result	660	–	660
Share of jointly controlled entities distributions	(1,163)	–	(1,163)
Exchange difference	(21)	–	(21)
31 <sup>st</sup> March 2008	396	172	568
1 <sup>st</sup> April 2008	396	172	568
Share of jointly controlled entities result	678	–	678
Share of jointly controlled entities distributions	(705)	–	(705)
Exchange difference	161	–	161
<b>31<sup>st</sup> March 2009</b>	<b>530</b>	<b>172</b>	<b>702</b>
<b>Provision</b>			
1 <sup>st</sup> April 2007	–	154	154
Released on disposal	–	–	–
31 <sup>st</sup> March 2008	–	154	154
1 <sup>st</sup> April 2008	–	154	154
Released on disposal	–	–	–
<b>31<sup>st</sup> March 2009</b>	<b>–</b>	<b>154</b>	<b>154</b>
<b>Carrying value</b>			
1 <sup>st</sup> April 2007	920	18	938
31 <sup>st</sup> March 2008 and 1 <sup>st</sup> April 2008	396	18	414
<b>31<sup>st</sup> March 2009</b>	<b>530</b>	<b>18</b>	<b>548</b>
<b>Company</b>	<b>Subsidiary undertakings £'000</b>	<b>Other investments £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
1 <sup>st</sup> April 2007	108,490	172	108,662
Acquisitions in the year	10	–	10
Disposals in the year	–	–	–
31 <sup>st</sup> March 2008	108,500	172	108,672
1 <sup>st</sup> April 2008	108,500	172	108,672
Acquisitions in the year	9	–	9
Disposals in the year	(28,762)	–	(28,762)
<b>31<sup>st</sup> March 2009</b>	<b>79,747</b>	<b>172</b>	<b>79,919</b>

## 14. Investments in subsidiaries and jointly controlled entities (continued)

Company	Subsidiary undertakings £'000	Other investments £'000	Total £'000
<b>Provision</b>			
1 <sup>st</sup> April 2007	49,703	154	49,857
Released on disposal	–	–	–
31 <sup>st</sup> March 2008	49,703	154	49,857
1 <sup>st</sup> April 2008	49,703	154	49,857
Released on disposal	–	–	–
<b>31<sup>st</sup> March 2009</b>	<b>49,703</b>	<b>154</b>	<b>49,857</b>
<b>Carrying value</b>			
1 <sup>st</sup> April 2007	58,787	18	58,805
31 <sup>st</sup> March 2008 and 1 <sup>st</sup> April 2008	58,797	18	58,815
<b>31<sup>st</sup> March 2009</b>	<b>30,044</b>	<b>18</b>	<b>30,062</b>

The disposal of subsidiary undertakings relates to the striking off of a sub-holding subsidiary by the Company.

Other investments are held at cost less provision for impairment. The Directors do not consider the fair value to be significantly different to the carrying value.

In accordance with IAS 31 the following information is disclosed in respect of 3dcd LLC, in which the Group has a 50% interest.

3dcd 100%	2009 £'000	2008 £'000
Non-current assets	624	–
Current assets	704	1,491
<b>Total Assets</b>	<b>1,328</b>	<b>1,491</b>
Current liabilities	(267)	(694)
Non-current liabilities	–	–
<b>Total liabilities</b>	<b>(267)</b>	<b>(694)</b>
Income	2,705	3,687
Expenses	(1,348)	(2,367)
<b>Profit</b>	<b>1,357</b>	<b>1,320</b>

# Notes to the Consolidated Financial Statements

continued

## 15. Other financial liabilities

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Non-current</b>				
Interest rate swaps designated as fair value through hedging reserve	585	–	585	–
	585	–	585	–

During the year the company entered into an interest rate swap agreement and by 31<sup>st</sup> March 2009 the fair value has decreased by £628,000 of which £43,000 relates to the current year. The current year element has been recognised in the income statement and has been paid during the year. The remaining £585,000 has been recognised in the Statement of Recognised Income and Expense as this element of the financial instrument relates to future periods.

## 16. Deferred tax assets and liabilities

	Group £'000	Company £'000		
<b>Movements in deferred tax assets:</b>				
1 <sup>st</sup> April 2007	3,194	–		
Amounts credited to the income statement	1,923	237		
Exchange rate adjustment	(152)	–		
31 <sup>st</sup> March 2008	4,965	237		
1 <sup>st</sup> April 2008	4,965	237		
Acquired in business combinations	(701)	–		
Amounts charged to the income statement	(921)	(73)		
Exchange rate adjustment	1,004	–		
<b>31<sup>st</sup> March 2009</b>	<b>4,347</b>	<b>164</b>		
<b>Deferred tax assets recognised in the accounts comprise:</b>				
	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>US Operations</b>				
Tax losses carried forward	3,438	2,234	–	–
Short term temporary differences	221	491	–	–
	3,659	2,725	–	–
<b>European Operations</b>				
Tax losses carried forward	–	1,377	–	–
Short term temporary differences	688	863	164	237
	688	2,240	164	237

The above deferred tax asset is recognised as management consider it probable that future taxable profits will be available against which the losses can be utilised.

## 16. Deferred tax assets and liabilities (continued)

	Group £'000	Company £'000
<b>Movements in deferred tax liabilities:</b>		
1 <sup>st</sup> April 2008	–	–
Acquired in business combination	357	–
Amounts charged to income statement	(77)	–
<b>31<sup>st</sup> March 2009</b>	<b>280</b>	<b>–</b>

### Deferred tax liabilities recognised in the accounts comprise:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
European operations				
Short term timing differences	280	–	–	–

### Deferred tax assets not provided in the accounts comprise:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Tax losses carried forward within the European operations	3,622	2,646	997	1,014
Short term temporary differences within the European operations	2,178	1,527	1,019	394
	5,800	4,173	2,016	1,408
Tax losses carried forward within the American operations	3,680	1,581	–	–

The deductible temporary short term differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom.

Short term timing differences in both the American and European operations comprise mainly decelerated capital allowances. Future tax charges may be reduced to the extent that the reversal of the timing differences and tax losses in the European operations, which give rise to unprovided deferred tax assets, can be deducted from suitable taxable profits arising after 31<sup>st</sup> March 2009.

# Notes to the Consolidated Financial Statements

continued

## 17. Inventory

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Raw materials and consumables	1,647	1,500	-	-
Work in progress	564	726	-	-
Finished goods	1,657	1,323	-	-
	<b>3,868</b>	<b>3,549</b>	-	-

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £12,154,000 (2008: £10,189,000).

## 18. Trade and other receivables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade receivables	6,262	4,862	-	-
Intercompany balances	-	-	22,500	4,565
Other receivables and prepayments	1,255	1,046	126	388
	<b>7,517</b>	<b>5,908</b>	<b>22,626</b>	<b>4,953</b>

Included within intercompany balances is £11,039,000 due after one year (2008: £nil).

## 19. Cash and cash equivalents

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank balances	4,244	875	238	34
Cash and cash equivalents per Balance sheet	4,244	875	238	34
Bank overdrafts	-	(82)	-	-
Cash and cash equivalents in the statement of cash flows	<b>4,244</b>	<b>793</b>	<b>238</b>	<b>34</b>

## 20. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 25.

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Non-current liabilities</b>				
Secured bank loan	10,785	1,792	10,785	-
Finance Lease Liability	1,002	18	-	-
	<b>11,787</b>	<b>1,810</b>	<b>10,785</b>	-
<b>Current liabilities</b>				
Secured bank loan	1,223	-	1,223	-
Current portion of finance lease liabilities	26	26	-	-
Unsecured bank facility	-	82	-	-
	<b>1,249</b>	<b>108</b>	<b>1,223</b>	-

### Terms and debt repayment schedule

	Currency	Nominal Interest Rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
				2009 £'000	2009 £'000	2008 £'000	2008 £'000
Bank of America	US Dollar			-	-	1,792	1,792
Facility A - RBS, Term loan 1	Sterling	7.475%	March 2013	2,143	2,143	-	-
Facility A - RBS, Term loan 2	Euro	6.695%	March 2013	3,990	3,990	-	-
Facility B - RBS	US Dollar	US LIBOR + 1.5%	March 2013	1,574	1,574	-	-
Facility C - RBS	US Dollar	US LIBOR + 1.5%	March 2013	4,301	4,301	-	-
				<b>12,008</b>	<b>12,008</b>	<b>1,792</b>	<b>1,792</b>

The finance leases are secured on specific fixed assets within the European operations. The other facilities are secured on the remaining group assets. Facility A was specifically for acquisitions and has been used to fund the acquisitions of Light Impressions and P4M. No other drawdowns are available from this facility. Facility B is a working capital facility that can be drawn down in sterling, euros and US Dollars. The rate of interest is variable and dependent on the currency drawdown. Facility C was specifically to prepay the Bank of America debt and to fund certain fixed asset purchases. No further drawdowns are available under this facility. Subsequent to the year end, these facilities were renegotiated, see note 30.

# Notes to the Consolidated Financial Statements

continued

## 20. Interest-bearing loans and borrowings (continued)

Group finance lease liabilities are payable as follows:

	Minimum lease payments			Minimum lease payments		
	Interest	Principal	Interest	Principal	Interest	Principal
	2009 £'000	2009 £'000	2009 £'000	2008 £'000	2008 £'000	2008 £'000
Less than one year	32	6	26	26	6	20
Between two and five years	1,136	134	1,002	18	2	16
	<b>1,168</b>	<b>140</b>	<b>1,028</b>	<b>44</b>	<b>8</b>	<b>36</b>

There are no material differences between the face value and the carrying amount of the finance leases.

## 21. Trade and other payables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade payables	3,052	2,415	53	195
Non-trade payables and accrued expenses	10,870	3,767	5,777	29,177
	<b>13,922</b>	<b>6,182</b>	<b>5,830</b>	<b>29,372</b>

## 22. Provisions

	Group	
	2009 £'000	2008 £'000
1 <sup>st</sup> April	-	-
Provisions made during the period	775	-
Provisions used during the period	(239)	-
	<b>536</b>	<b>-</b>

During the year ended 31<sup>st</sup> March 2009 a provision of £775,000 was made to cover the costs associated with combining the Group's two American manufacturing locations. Estimated restructuring costs mainly comprise employee termination benefits. The restructure is expected to be completed by December 2009.

## 23. Capital and reserves

### Reconciliation of movement in capital and reserves - Group

Group	Share capital £'000	Share premium £'000	Translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance 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)
Balance at 31 <sup>st</sup> March 2008	<b>2,669</b>	<b>29,309</b>	<b>(1,522)</b>	<b>-</b>	<b>(3,873)</b>	<b>26,583</b>
Balance at 1 <sup>st</sup> April 2008	2,669	29,309	(1,522)	-	(3,873)	26,583
Total recognised income and expense	-	-	7,635	(585)	(1,677)	5,373
Equity-settled share based payments	-	-	-	-	(2)	(2)
Own shares sold	-	-	-	-	83	83
Own shares purchased	-	-	-	-	(61)	(61)
<b>Balance at 31<sup>st</sup> March 2009</b>	<b>2,669</b>	<b>29,309</b>	<b>6,113</b>	<b>(585)</b>	<b>(5,530)</b>	<b>31,976</b>

# Notes to the Consolidated Financial Statements

continued

## 23. Capital and reserves (continued)

### Reconciliation of movement in capital and reserves attributable to equity holders of the Parent Company

	Share capital £'000	Share premium £'000	Capital reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 <sup>st</sup> April 2007	2,669	29,309	220	–	2,301	34,499
Total recognised income and expense	–	–	–	–	1,048	1,048
Equity-settled share based payments	–	–	–	–	789	789
Own shares sold	–	–	–	–	102	102
Own shares purchased	–	–	–	–	(1,267)	(1,267)
Dividends Paid	–	–	–	–	(504)	(504)
Balance at 31 <sup>st</sup> March 2008	2,669	29,309	220	–	2,469	34,667
Balance at 1 <sup>st</sup> April 2008	2,669	29,309	220	–	2,469	34,667
Total recognised income and expense	–	–	–	(585)	565	(20)
Equity-settled share based payments	–	–	–	–	(2)	(2)
Own shares sold	–	–	–	–	83	83
Own shares purchased	–	–	–	–	(61)	(61)
<b>Balance at 31<sup>st</sup> March 2009</b>	<b>2,669</b>	<b>29,309</b>	<b>220</b>	<b>(585)</b>	<b>3,054</b>	<b>34,667</b>

#### Own shares held

Deducted from retained earnings is £3,245,000 (2008: £3,267,000) in respect of own shares held by the Opsec Security Group Employee Benefit Trust. The Trust, which was established during 2000 to act as a repository of issued Company shares, holds 2,335,551 shares (2008: 3,083,628 shares) with a market value at 31<sup>st</sup> March 2009 of £0.2 million (2008: £1.3 million) which have not vested unconditionally in employees. This represents 4.4% of the ordinary shares of the Company.

The shares held by the Trust can be purchased by employees on the exercise of an option under the Group's Option Schemes or transferred to employees under the LTIS or deferred bonus matching schemes.

#### Share capital

	Ordinary shares	
	2009 Number	2008 Number
In issue and fully paid at 1 <sup>st</sup> April Issued for cash	53,377,008	53,377,008
In issue and fully paid at 31 <sup>st</sup> March	53,377,008	53,377,008

At 31<sup>st</sup> March 2009, the authorised share capital comprised 67,000,000 ordinary shares (2008: 67,000,000) of 5 pence each.

All of the shares in issue in the current and preceding year are classified in shareholders' funds.

## 23. Capital and reserves (continued)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see above), all rights are suspended until those shares are reissued.

#### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of goodwill relating to the Company's investments in foreign subsidiaries.

#### Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

#### Capital reserve

A non distributable capital reserve was created in the Company as a result of a capital restructuring performed in a prior period.

#### Dividends

No dividends are proposed in relation to the current financial year (2008: Nil).

## 24. Share-based payments – Group and Company

#### Share Option Schemes

The following option schemes are operated by the Company.

- (i) The 1995 Employee Share Option Scheme ("the 1995 Scheme") is an exempt approved scheme which enables UK based employees and Executive Directors of the Company, and of subsidiary companies of the Company, to be granted options to acquire Ordinary Shares in the future, either by subscription or purchase.

This scheme has now ended.

- (ii) The 1996 Employee Share Option Scheme ("the 1996 Scheme") is an unapproved scheme which allows further options to be granted to employees and Executive Directors who have reached the statutory maximum for awards under the 1995 Scheme and enables non UK based employees and Executive Directors to be granted options.

This scheme has now ended.

- (iii) The 1999 Incentive Stock Option Plan ("the 1999 Plan") and the 1999 Employee Share Option Scheme ("the 1999 Scheme") were established at the time of the Company's purchase of Optical Security Group Incorporated for employees and Executive Directors of the Company, and of subsidiary companies of the Company, who are based outside of the UK and within the UK respectively. The primary purpose of these schemes was to retain and motivate management over the crucial first three years of the newly merged Group.

Awards under both the 1999 Schemes were split such that half were only conditional on continued employment and the balance were also subject to performance criteria.

These schemes are no longer used.

## 24. Share-based payments (continued)

(iv) Executive Directors based in the UK may also participate in the savings related scheme that is open to all UK members of staff. Under this scheme participants enter into a save as you earn contract with the Company's clearing bankers to provide them with the finance to exercise the options. The option price is calculated at 80% of the market value of the shares at the date of issue of invitations to participate. The scheme rules have received Inland Revenue clearance.

At the Annual General Meeting on 24<sup>th</sup> August 2007 two new all-employee share schemes were approved:

- (i) a new save-as-you-earn scheme, to be known as The OpSec Security Group SAYE Share Option Scheme 2007 (the "SAYE Scheme"), under which options may be granted to UK based employees of the Company and its subsidiaries and which will replace the Company's existing Sharesave Scheme, under which it has not been possible, after 25<sup>th</sup> July 2006, to grant any further options; and
- (ii) an employee stock purchase plan, to be known as The OpSec Security Group Employee Stock Purchase Plan 2007 (the "ESP Plan"), under which awards may be made, on terms similar to the SAYE Scheme, to US-based employees of the Company and its subsidiaries.

No awards have yet been made under these schemes.

Participants may exercise options after the third anniversary of the award and before the tenth anniversary. Awards made after 22<sup>nd</sup> August 2001 under the share option schemes are contingent upon the achievement of a growth in earnings per share at least equal to the growth in the retail price index plus 5% over a three year consecutive period.

### Long Term Incentive Scheme

Each initial award under the long term incentive scheme is subject to objective performance conditions which will determine whether and to what extent the ordinary shares subject to the award will be released to the participant.

Vesting of awards made since 5<sup>th</sup> July 2002 require growth in the Company's earnings per share at least equal to the growth in the retail price index plus 5% over a three year consecutive period. Vesting of the awards made on 1<sup>st</sup> December 2006 requires growth in the Company's earnings per share at least equal to 20% per annum over a three year period.

Performance is measured over a three year period but if the performance condition is not met the period may be extended by a further year.

This scheme ended during the year and was replaced by a new a new long term incentive plan, to be known as The OpSec Security Group Long Term Incentive Plan 2007 (the "LTIP"), under which it is proposed awards will be made to senior executives and other senior employees of the Company and its subsidiaries.

Under the LTIP, awards (which will take the form of nil cost options) will be made to senior executives, selected by the Committee, to acquire ordinary shares in the Company ("shares"). Awards will not normally vest until after the third anniversary of the date on which they are made, and then only if and insofar as conditions, specified by the Committee at the time they are made and relating to the performance of the Company over a minimum three-year period, have been met.

The maximum number of shares in respect of which awards may be made to any participant will be limited so that, in any financial year, the value does not exceed 100 per cent of the participant's basic salary for that financial year.

Awards cannot be made under the LTIP if and to the extent that, were those awards to vest in full, they would be satisfied by the issue of new shares which, when aggregated with any shares that have been, or will be, issued to satisfy awards made under the LTIP or rights granted under the Company's other discretionary and employee share schemes within the immediately preceding period of ten years, would exceed 10 per cent of the ordinary share capital of the Company at that time. Any shares issued to satisfy awards under the 2005 Plan and the Extended Plan are disregarded for this purpose.

## 24. Share-based payments (continued)

Awards will vest if performance conditions, determined by the Committee at the time they are made, are satisfied. Performance conditions will relate to the performance of the Company over a fixed performance period of not less than three financial years beginning not earlier than the financial year in which the awards are made. The current performance conditions that are required to be satisfied are as follows:-

- if the increase in the Company's adjusted earnings per share exceeds the increase in the retail prices index over the three-year period from the date the awards are made (the "vesting period") by 10% per year the awards will vest in full;
- if the increase in the Company's adjusted earnings per share exceeds the increase in the retail prices index over the vesting period by 5% per year the awards will vest as to 60%; and
- if the increase in the Company's adjusted earnings per share exceeds the increase in the retail prices index over the vesting period by between 5% and 10% per year, the proportion of the awards that will vest will increase from 60% to 100% on a straight line basis.

If the RPI + 5% target is not met for any vesting period the performance conditions will be recalculated the following year.

### Executive Directors' Incentive Plan

The Executive Directors' Incentive Plan 2005 ("the 2005 plan") involved the grant by the Company of one-off incentive awards to the Chief Executive Officer and the Finance Director. The awards comprise options to purchase a variable number of shares at a nominal value of 5 pence subject to the achievement of the following performance targets:

- an increase in the Company's share price over the three years of the scheme; and
- an increase in adjusted basic earnings per share in excess of 25% per year (the base figure is calculated by reference to the brokers' latest forecast of profits, adjusted to exclude the effects of taxation, goodwill and exceptional items, of £1.7 million for the year to 31<sup>st</sup> March 2006).

Those targets are stretching; neither individual will have an entitlement to any benefits unless the Company's share price has increased by more than 50% over the three-year period, and will only be entitled to benefit, in full, if the Company's share price has increased by more than 400% over the three-year period. In both cases, the earnings per share target must also be achieved.

The Chief Executive Officer and the Finance Director did, as a condition of being eligible for the awards, give up:

- all their existing options to acquire shares under the company's discretionary share option schemes; and
- their existing entitlement to an increased notice period and enhanced compensation following a change of control of the Company.

At the Annual General Meeting on 24<sup>th</sup> August 2007 an extension to the Company's Executive Directors Incentive Plan 2005 (the "2005 Plan"), to be known as The OpSec Security Group Executive Directors Incentive Plan 2007 (the "Extended Plan") was approved. Under the Extended Plan the Company's Chief Executive Officer and Finance Director will, to the extent that they are unable to acquire, in full, the shares comprised within the awards granted to them under the 2005 Plan when the three-year vesting period comes to an end after the Company's Annual General Meeting in 2008, be entitled to acquire some or all of the balance two years later.

Under the Extended Plan, the Chief Executive Officer and the Finance Director were granted additional awards, on terms that are near identical to the terms of the awards granted to them under the 2005 Plan, that will enable them to benefit from any increase in the share price of the Company at the end of that further two-year period, or from a take-over in that period, and acquire (having regard to any shares acquired at the end of the initial three-year period) the number of shares that they would have been entitled to acquire had the original three-year period been a five-year period.

## 24. Share-based payments – Group and Company

Awards were granted under the Group's various schemes both before and after 7<sup>th</sup> November 2002. The recognition and measurement principles of IFRS 2 have not been applied to grants made before 7<sup>th</sup> November 2002 in accordance with the transitional provisions in IFRS 1 and IFRS 2.

The terms and conditions of the grants are as follows, whereby all awards are settled by physical delivery of shares:

Name of scheme	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
<b>Long Term Incentive Scheme</b>						
Long Term Incentive Scheme	June-04	Senior employees	n/a	1,285,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 to 4 years
Long Term Incentive Scheme	December-04	Senior employees	n/a	305,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 to 4 years
Long Term Incentive Scheme	June-05	Senior employees	n/a	840,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 to 4 years
Long Term Incentive Scheme	June-06	Senior employees	n/a	485,500	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 years
Long Term Incentive Scheme	December-06	Senior employees	n/a	897,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 years
Long Term Incentive Scheme	July-07	Senior employees	n/a	493,000	Three years' service and growth in EPS of RPI plus 25% over a three year period	3 years
Long Term Incentive Scheme	May-08	Senior employees	n/a	100,000	Three years' service and growth in EPS of RPI plus 10% over a three year period	3 years
Long Term Incentive Scheme	June-08	Senior employees	n/a	900,000	Three years' service and growth in EPS of RPI plus 10% over a three year period	3 years
<b>Deferred Bonus Shares</b>						
Deferred Bonus Shares	July-05	Senior employees	n/a	128,767	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 years
Deferred Bonus Shares	July-06	Senior employees	n/a	30,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 years
<b>Option Schemes</b>						
1995 Employee Share Option Scheme	July-98	Senior employees	102.5p	90,500	Three years' service	3 to 10 years
1995 Employee Share Option Scheme	July-99	Senior employees	257.5p	45,950	Three years' service	3 to 10 years
1995 Employee Share Option Scheme	December-00	Senior employees	129p	137,100	Three years' service	3 to 10 years
1995 Employee Share Option Scheme	September-01	Senior employees	79.5p	60,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 to 10 years
1995 Employee Share Option Scheme	July-02	Senior employees	40.5p	40,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 to 10 years

## 24. Share-based payments – Group and Company (continued)

### Option Schemes (continued)

Name of scheme	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
1995 Employee Share Option Scheme	December-02	Senior employees	23p	40,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 to 10 years
1996 Employee Share Option Scheme	July-96	Senior employees	118p	70,000	Three years' service	3 to 10 years
1996 Employee Share Option Scheme	July-97	Senior employees	59p	20,000	Three years' service	3 to 10 years
1996 Employee Share Option Scheme	July-98	Senior employees	102.5p	84,000	Three years' service	3 to 10 years
1996 Employee Share Option Scheme	July-99	Senior employees	257.5p	2,050	Three years' service	3 to 10 years
1996 Employee Share Option Scheme	December-00	Senior employees	129p	622,775	Three years' service	3 to 10 years
1996 Employee Share Option Scheme	September-01	Senior employees	79.5p	590,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 to 10 years
1996 Employee Share Option Scheme	July-02	Senior employees	40.5p	297,500	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 to 10 years
1996 Employee Share Option Scheme	December-02	Senior employees	23p	210,000	Three years' service and growth in EPS of RPI plus 5% over a three year period	3 to 10 years
Savings Related Scheme	August-02	All UK employees	32p	1,375,096	Three years' service	3 to 7 years
1999 Employee Share Option Scheme	February-00	Senior employees	270p	1,239,344	Three years' service and relative performance of shareholder return	3 to 10 years
1999 Incentive Stock Option Plan	February-00	Senior employees	270p*	820,500	Three years' service and relative performance of shareholder return	3 to 10 years
Executive Directors Incentive Plan 2005	September-05	Executive Directors	5p	3,180,000	Three years' service, growth in EPS of 25% per annum over a three year period and increase in share price	3 years
Executive Directors Incentive Plan 2007	September-07	Executive Directors	5p	3,180,000	Three years' service, growth in EPS of 25% per annum over a five year period and increase in share price	5 years

\*Awards made under the 1999 Incentive Stock Option Plan were originally made at 435 pence but these were repriced to 270 pence in return for a pro rata reduction in the number of options outstanding.

In addition to the above, 100,000 shares are held under option at 60 pence per share by Technical Graphics Security Products LLC. These options are exercisable between 1<sup>st</sup> April 2005 and 31<sup>st</sup> March 2010.

Following the GenuOne acquisition, a one off incentive scheme was introduced which matched purchases of OpSec Security Group plc shares on a one for two basis over a three year period subject to the satisfaction of certain performance conditions.

Following the P4M acquisition, a one off incentive scheme was introduced which matched purchases of OpSec Security Group plc shares on a one for two basis over a three year period subject to the satisfaction of certain performance conditions.

# Notes to the Consolidated Financial Statements

continued

## 24. Share-based payments – Group and Company (continued)

The number and weighted average exercise price of share options is as follows:

	Weighted average exercise price 2009	Number of options 2009	Weighted average exercise price 2008	Number of options 2008
Outstanding at the beginning of the period	17p	7,012,142	32p	4,245,431
Lapsed during the period	6p	(3,215,000)	211p	(94,353)
Exercised during the period	–	–	33p	(319,136)
Granted during the period	–	–	5p	3,180,200
Outstanding at the end of the period	27p	3,797,142	17p	7,012,142
Exercisable at the end of the period	140p	617,142	135p	506,175

The options outstanding at 31<sup>st</sup> March 2009 have an exercise price in the range of 5 pence to 270 pence and a weighted average contractual life of 2.15 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Executive Directors Incentive Plan September-05	Executive Directors Incentive Plan September-07
Fair value at measurement date	16.2p	13.1p
Share price	40.5p	82p
Exercise price	5p	5p
Expected volatility	60%	50%
Option life	3 years	3 years
Expected dividends	Nil	1.2%
Risk free rate	4.20%	5.6%

## 24. Share-based payments (continued)

The costs charged to the income statement relating to share-based payments were as follows:

	2009 £'000	2008 £'000
LTIS awards granted in June 2004	–	16
LTIS awards granted in December 2004	–	8
LTIS awards granted in June 2005	(1)	66
LTIS awards granted in June 2006	(109)	58
LTIS awards granted in December 2006	140	218
LTIS awards granted in July 2007	103	90
LTIS awards granted in May 2008	14	–
LTIS awards granted in June 2008	108	–
Deferred bonus scheme awards granted in June 2005	2	13
Deferred bonus scheme awards granted in June 2006	(7)	4
Senior management matching scheme	20	20
GenuOne matching scheme	20	32
P4M matching scheme	27	–
Executive Directors Incentive Scheme - 2005	(458)	171
Executive Directors Incentive Scheme - 2007	139	93
	(2)	789

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

The total expense recognised in the income statement in the year arising from share-based payments is as follows:

	2009 £'000	2008 £'000
Equity settled share-based payments	(2)	789

# Notes to the Consolidated Financial Statements

continued

## 25. Financial instruments

Exposure to credit, interest and currency risks arise in the normal course of the Company's business.

The entire Group's surplus cash is invested as cash placed on deposit.

The Group's treasury policy has as its principal objective the achievement of the maximum interest rate on cash balances whilst maintaining an acceptable level of risk. Other than mentioned below there are no financial instruments, derivatives or commodity contracts used.

### Financial assets and liabilities

	Fair value through equity £'000	Loans and receivables £'000	Amortised cost £'000	Total carrying value £'000
<b>Financial assets</b>				
Trade and other receivables	–	7,517	–	7,517
Cash and cash equivalents	–	4,244	–	4,244
At 31 <sup>st</sup> March 2009	–	11,761	–	11,761
<b>Financial liabilities</b>				
Interest - bearing loans and borrowings	–	–	(13,036)	(13,036)
Trade and other payables	–	–	(14,458)	(14,458)
Derivatives	(585)	–	–	(585)
At 31 <sup>st</sup> March 2009	(585)	–	(27,494)	(28,079)

The Group's main financial asset comprises cash and cash equivalents. Other financial assets include trade receivables arising from the Group's activities.

As at 31<sup>st</sup> March 2009, the Group had loans of £12,008,000 with Royal Bank of Scotland (2008: £1,792,000 with Bank of America, repaid in June 2008), and finance leases, of £1,028,000 (2008: nil). Details of terms and repayments are given in note 20.

Other than the loans noted above, trade and other payables and the interest rate swap arrangement disclosed in note 15, the Group had no financial liabilities within the scope of IAS 39 as at 31<sup>st</sup> March 2009 (2008: nil). The Group has a working capital facility of £2,000,000 of which £426,000 was undrawn at 31<sup>st</sup> March 2009 (2008: £1,000,000 undrawn).

### (a) Credit risk

The Group's credit risk policy is to manage its trade receivables by taking credit references, requesting payment in advance should this be considered necessary and getting a letter of credit where deemed appropriate.

## 25. Financial instruments (continued)

The maximum exposures to credit risk for trade receivables at the balance sheet date by geographical operating segment were:

	2009 £'000	2008 £'000
Europe	2,926	2,001
US	3,791	3,179
	6,717	5,180

The ageing of trade receivables at the balance sheet date was:

	2009		2008	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	3,672	–	3,545	(4)
Past due (0-30 days)	1,442	(1)	783	(40)
Past Due (31-120 days)	1,040	(158)	550	(57)
More than 120 days	563	(296)	302	(217)
	6,717	(455)	5,180	(318)

Management assesses the necessity for impairment on a specific item by item basis. Management incorporate, amongst other criteria, their knowledge and understanding of the business along with the age of the item. No other receivables are past due.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2009 £'000	2008 £'000
Balance as at 1 <sup>st</sup> April	318	376
Acquired through business combinations	5	–
Impairment loss recognised	77	34
Impairment loss reversed	–	(87)
Foreign exchange movements	55	(5)
Balance as at 31 <sup>st</sup> March	455	318

# Notes to the Consolidated Financial Statements

continued

## 25. Financial instruments (continued)

The impairment provision in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

### (b) Market risk - Foreign currency risk

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments when it is based on notional amounts.

	Sterling £'000	Euro £'000	US Dollar £'000	Other £'000	Total £'000
31 <sup>st</sup> March 2008					
Cash and cash equivalents	634	–	241	–	875
Trade and other receivables	1,393	784	3,731	–	5,908
Secured bank loans	–	–	(1,792)	–	(1,792)
Unsecured bank facility	–	–	(82)	–	(82)
Trade and other payables	(2,062)	(332)	(3,788)	–	(6,182)
	(35)	452	(1,690)	–	(1,273)
31 <sup>st</sup> March 2009					
Cash and cash equivalents	532	534	3,178	–	4,244
Trade and other receivables	816	2,050	4,651	–	7,517
Secured bank loans	(3,122)	(3,990)	(5,874)	–	(12,986)
Unsecured bank facility	–	–	–	–	–
Trade and other payables	(7,003)	(3,697)	(4,824)	–	(15,524)
	(8,777)	(5,103)	(2,869)	–	(16,749)

The significant exchange rates applied during the year are disclosed in the Financial Review on page 7.

### Sensitivity analysis

The difference between the average and closing exchange rates, particularly in the US dollar and euro is such that if the results for the year ended 31<sup>st</sup> March 2009 were translated at the closing rates rather than the average rates, revenue would be increased by £4,122,000 (2008: £245,000) and operating profit increased by £173,000 (2008: £6,000).

The difference in exchange rates, closing and average, is 17% (2008: 1%)

### (c) Market risk - Interest rate risk

#### Effective interest rates

In respect of income-earning financial assets the following table indicates their effective rates at the balance sheet date.

	2009		2008	
	Effective interest rate	£'000	Effective interest rate	£'000
Bank balances	1.3%	4,244	3.5%	875
Bank overdrafts	–	–	6.3%	(82)
Secured bank loans	5.5%	12,008	6.3%	(1,792)
Asset finance leases	5.3%	979	6.3%	–
		17,231		(999)

## 25. Financial instruments (continued)

### Sensitivity analysis

A 1% increase in the interest rate of the secured bank loans would result in a decrease in profit of £179,000, (2008: £24,000).

### (c) Liquidity risk

The Group's policy on liquidity risk has been to maintain sufficient cash balances and undrawn facilities to provide flexibility in the management of the Group's liquidity. Further details on the liquidity of the Group can be seen in note 20.

### (d) Capital management

The Group's capital base comprises share capital and reserves as set out in note 23, and its objectives are to grow retained earnings to fund future investment, and where funds allow, to pass dividends to shareholders whilst hedging against the translation risk of overseas subsidiaries. The funding position is therefore closely linked to capital management. The Group's external debt is set out in note 20 and its policy is to service that debt in line with the agreed repayment schedule and covenants and to draw down in dollar and euro amounts where appropriate. As noted below those covenants have been revised since the year end.

## 26. Operating leases

### Leases as lessee – Group

Total amounts payable under non cancellable operating leases are payable as follows:

	Land and buildings £'000	Plant and machinery £'000	Total 2009 £'000	Total 2008 £'000
Less than one year	10	27	37	27
Between one and five years	2,172	297	2,469	2,018
More than five years	479	–	479	–
Commitment at 31 <sup>st</sup> March	2,661	324	2,985	2,045

During the year ended 31<sup>st</sup> March 2009 £1,054,000 was recognised as an expense in the income statement in respect of operating leases (2008: £806,000).

### Leases as lessee – Company

Total amounts payable under non cancellable operating leases are payable as follows:

	Land and buildings £'000	Plant and machinery £'000	Total 2009 £'000	Total 2008 £'000
Less than one year	–	14	14	27
Between one and five years	259	255	514	658
More than 5 years	479	–	479	–
Commitment at 31 <sup>st</sup> March	738	269	1,007	685

## 27. Capital commitments

At the end of the year capital commitments were:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Contracted for but not provided in the accounts	256	902	–	–

# Notes to the Consolidated Financial Statements

continued

## 28. Contingencies

As at 31<sup>st</sup> March 2009 the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business entered into for or on behalf of certain subsidiary undertakings. It is not expected that any material liability will arise in respect thereof.

The Company has guaranteed certain bank borrowings of its subsidiary companies. The amounts outstanding under the guarantee at the end of the year were £nil (2008: £nil).

## 29. Related party transactions

### Identity of related parties

The Group has a related party relationship with its subsidiaries, jointly controlled entities and its Directors.

### Trading transactions with subsidiaries and joint ventures – Group

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed.

During the year the Group charged 3dcd, LLC, its jointly controlled entity, a management fee of £117,000 (2008: £99,000) and recharged other costs of £276,000 (2008: £209,000).

### Trading transactions with subsidiaries – Parent company

Transactions between the Company and its subsidiaries comprise management fees only. Amounts charged to the subsidiaries were £467,000 (2008: £1,197,000).

### Transactions with key management personnel

The Directors are the key management personnel of the Group. The interests of the Directors who served during the year (including those of their immediate families) in the share capital of the Company, according to the register of Directors' interests, can be found in the Directors' Report.

Details of Directors' share options, emoluments, pension benefits and other non-cash benefits can be found in note 7. In addition to this, the element of the share based payment charge for the year that relates to key management personnel is £nil (2008: £398,000).

## 30. Subsequent events

On 1<sup>st</sup> July 2009 the Group signed a revised term loan and revolving credit facility with The Royal Bank of Scotland plc ("RBS"). The facility comprises three separate tranches designated Facility A, Facility B and Facility C.

Facility A is a multi currency term loan of £5,796,000 bearing an interest rate which is the sum of three month LIBOR, a margin of 2.5% (subject to a margin ratchet of up to 2.75%) and the mandatory costs rate calculated by RBS. Facility A expires in June 2012 with a quarterly repayment profile commencing in September 2009 amortising to a bullet repayment on 30<sup>th</sup> June 2012.

Facility B is a £2,000,000 multi currency revolving credit facility bearing the same interest rate as Facility A. Facility B has a three 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 30<sup>th</sup> June 2012. This facility will be used to fund the Group's working capital requirements.

Facility C is a multi currency term loan of £3,708,000 bearing the same interest as Facility A. Facility C expires in June 2012 with a quarterly repayment profile commencing in July 2010 amortising to a bullet repayment on 30<sup>th</sup> June 2012.

## 31. Accounting estimates and judgements

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

### Measurements of the recoverable amounts of cash generating units containing goodwill

This requires the identification of appropriate cash generating units and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these cash generating units and the comparison of these cash flows to the carrying value of the investments in these cash generating units and any related goodwill.

### Recognition of deferred tax assets

The Group has substantial deferred tax assets. In determining how much of these assets can be recognised this requires an assessment of the extent to which it is probable that future taxable profits will be available. This assessment is based on management's future assessment of the Group's financial performance and forecast financial information.

### Recognition of derivative financial instruments

The Group has entered into an interest swap agreement which protects its exposure to interest rate fluctuations. The fair value of the derivative is recognised in the accounts and is based on information provided by the Group's bankers. Management are required to assess the effectiveness of the hedge under IAS 39 and account for the movements in fair value in the income statement for the year or directly in equity as appropriate.

The preparation of financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, incomes and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

# Independent Auditors' Report to the Members of OpSec Security Group plc

We have audited the Group and Parent Company financial statements (the "financial statements") of OpSec Security Group Plc for the year ended 31<sup>st</sup> March 2009 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Parent Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual Report, and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 14.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referenced from the Business Review section of the Directors' Report.

In addition, we also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Parent Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31<sup>st</sup> March 2009 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31<sup>st</sup> March 2009;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**KPMG Audit Plc**  
**Chartered Accountants**  
**Registered Auditor**

**2<sup>nd</sup> July 2009**

**110 Quayside**  
**Quayside House**  
**Newcastle Upon Tyne**  
**Tyne and Wear**  
**NE1 3DX**

# Five Year Summary

(Unaudited)

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
<b>Summary consolidated income statement information</b>					
Revenue	39,339	33,009	33,134	25,390	23,747
Gross profit	16,158	13,979	14,553	9,631	7,579
Net operating expenses	(16,265)	(12,150)	(12,647)	(8,739)	(13,377)
	(107)	1,829	1,906	892	(5,798)
Share of profit of joint ventures	678	884	3,298	690	735
Other operating income	–	–	119	–	7
Operating profit/(loss)	571	2,713	5,323	1,582	(5,056)
Add back:					
Intangible amortisation	800	126	109	–	–
Goodwill impairment	851	–	–	–	450
Share based payments	(2)	789	413	329	225
Exceptional items	857	–	–	–	4,102
Adjusted operating profit/(loss)	3,077	3,628	5,845	1,911	(279)
Adjusted operating profit/(loss) arises from:					
American operations	1,550	2,501	2,696	2,189	2,600
European operations	2,759	1,673	2,057	579	(2,482)
Corporate costs	(1,910)	(1,430)	(2,206)	(1,547)	(1,139)
Joint ventures	678	884	3,298	690	735
Other operating income	–	–	–	–	7
	3,077	3,628	5,845	1,911	(279)
Basic earnings/(loss) per share	(3.3)p	9.2p	7.7p	3.5p	(11.6)p
Adjusted basic earnings/(loss) per share	2.9p	5.9p	8.8p	4.1p	(0.6)p

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
<b>Summary consolidated balance sheet information</b>					
Non current assets	45,137	24,894	22,103	13,579	12,925
Current assets	15,629	10,061	11,406	13,023	10,279
Current liabilities	(15,979)	(6,383)	(8,915)	(4,897)	(5,193)
Non current liabilities	(12,811)	(1,989)	(1,470)	–	(22)
Net assets	31,976	26,583	23,124	21,705	17,989
<b>Summary consolidated cash flow sheet information</b>					
Net cash flow from operating activities	3,529	915	3,659	3,291	(613)
Dividends received from joint venture	705	1,163	2,589	849	932
Net capital expenditure	(2,340)	(3,195)	(3,695)	(1,111)	2,544
Acquisitions and disposals	(7,948)	–	(7,167)	–	–
Other cash flows from investing activities	84	270	(10)	130	48
Cash flows from financing activities	8,923	(1,352)	829	107	(33)
Increase/(decrease) in cash and cash equivalents in the period	2,953	(2,199)	(3,795)	3,266	2,878

Information given for the financial years ending 31<sup>st</sup> March 2005 to 31<sup>st</sup> March 2009 has been prepared using Adopted IFRSs.

# Notice of Annual General Meeting

Notice is hereby given that the 25<sup>th</sup> Annual General Meeting of OpSec Security Group plc (the "Company") will be held at the offices of Weber Shandwick Financial, Fox Court, 14 Grays Inn Road, London WC1X 8WS on 26<sup>th</sup> August 2009 at 10.00am for the purpose of conducting the following business:-

## General Business

1. To consider and approve the accounts for the year ended 31<sup>st</sup> March 2009 and the reports of the Directors and Auditors thereon.
2. To re-elect DA Mahony who retires by rotation in accordance with the articles of association of the Company as a Director of the Company.
3. To re-elect MT Turnage who retires by rotation in accordance with the articles of association of the Company as a Director of the Company.
4. To re-appoint KPMG Audit Plc as auditors of the Company.
5. To authorise the Directors to set the remuneration of the Company's auditors

## Special Business

To consider and, if thought fit, to pass the following resolutions of which resolutions 7, 8, 9 and 10 will be proposed as special resolutions of the Company and resolutions 6 and 11 as ordinary resolutions:-

6. That the Directors be authorised for the purpose of section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £681,149 provided that:-
  - 6.1 (except as provided in paragraph 6.2 below) this authority shall expire on the date of the next Annual General Meeting of the Company (or, if earlier, on the day which is 15 months from the passing of this resolution) after the date of this resolution, but may be previously revoked or varied by an ordinary resolution of the Company; and
  - 6.2 the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expiredand that all previous authorities under section 80 of the Act be revoked, but such revocation shall not have retrospective effect.
7. That the Directors be and are hereby generally and unconditionally authorised to allot equity securities as defined in section 94 of the Companies Act 1985 (the "Act") or to dispose of any shares held as treasury shares to which sections 162a to 162b of the Act apply for cash as if section 89 of the Act did not apply to any such allotment provided that this power shall be limited:-

7.1 to the allotment of equity securities in connection with a rights issue or other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them (subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or requirements of any recognised regulatory body or any stock exchange in, any territory); and

7.2 to the allotment (otherwise than pursuant to sub paragraph (7.1) above) or pursuant to such share option and/or incentive schemes as have been approved by the Company in general meeting of equity securities up to the aggregate nominal value of £133,443 (being 5% of the issued share capital at 31<sup>st</sup> March 2009)

and such power shall expire on the date of the next Annual General Meeting of the Company (or, if earlier, the day which is 15 months from the passing of this resolution) save that the Company may before such expiry make an offer or agreement which would or might require securities to be allocated after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

8. That the Company be generally and unconditionally authorised for the purposes of section 166 of the Act to make market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of its ordinary shares of 5 pence each (either for cancellation or to be held as treasury shares to which sections 162a to 162b of the Act apply) provided that:-

8.1 the maximum aggregate number of ordinary shares hereby authorised to be purchased is 5,337,770;

8.2 the minimum price which may be paid for such shares is 5 pence per ordinary share (exclusive of expenses);

8.3 the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall not be more than 5% above the average of the market values for an ordinary share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the ordinary shares are purchased; and

8.4 the Company may make a contract or contracts to purchase ordinary shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts

and unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or 15 months from the date of this resolution (whichever is earlier).

9. That, with effect from 00:01 hours on 1 October 2009, the Company's Articles of Association be amended by deleting from the first sentence of existing Article 50 the following words:

"and an extraordinary general meeting for the passing of a special resolution or a resolution appointing a person as a director or (save as provided by the Statutes) a resolution of which special notice has been given by the Company".

10. That with immediate effect the Articles of Association of the Company be and they are hereby amended by the addition of new Articles 96A, B, C, D (to be inserted immediately after the existing Article 96) as follows:

- 96A If there is a situation (a "Relevant Situation") in which a director is or may be either at the time or at some time in the future (or a person who if he was to be appointed as a director of the Company would or might be either at the time or at some time in the future) in breach of his duty under section 175 of the Companies Act 2006 to avoid conflicts of interest (but for any authorisation of the relevant matter(s) by the board of directors), the board of directors (other than the director, and any other director with a similar interest, who shall not be counted in the quorum at the meeting and shall not vote on the resolution) may authorise the matter or matters on such terms as it may determine, including terms regulating the continuing performance by the relevant director of his duties as a director of the Company. Any authorisation of a matter of pursuant to this Article shall extend to any actual or potential conflict of interest which may reasonably be expected to arise out of the matter authorised. It is the responsibility of the director who is or may be in breach or the other person who would or might be in breach of his duty under section 175 of the Companies Act 2006 to raise matter(s) for consideration by the board of directors. Any terms determined by the board of directors under this Article 96A may be imposed at the time of authorisation or may be imposed or varied subsequently and may be terminated by the board of directors at any time, and may include (without limitation):-
- (a) subject always to these Articles, whether the relevant directors(s) may vote (or be counted in the quorum at a meeting) in respect of any resolution connected with or relating to the relevant matter(s);
  - (b) that relevant director(s) should not receive from the Company information or participate in discussion (by the board of directors or otherwise) within the Company connected with or relating to the relevant matter(s); and
  - (c) (without prejudice to any other obligations of confidentiality) the application to the relevant director(s) of a strict duty of confidentiality to the Company in respect of any confidential information of the Company or its subsidiaries connected with or relating to the relevant matter(s).
- 96B Except as specified in Article 96A, any proposal made to the board of directors and any authorisation by it in relation to a Relevant Situation shall be dealt with in the same way as any other matter may be proposed to and resolved upon by the board of directors.
- 96C Any authorisation of a Relevant Situation given by the board of directors under Article 96A may provide that, where the relevant director obtains (other than through his position as a director or employee of the Company or any of its subsidiaries) information that is confidential to the third party, he will not be obliged to disclose it to the Company or to use it in relation to the Company's affairs in circumstances where to do so would amount to a breach of that confidence or his duty under section 175 of the Companies Act 2006 to avoid conflicts of interest.
- 96D A director, by reason of his holding office as director (or of the fiduciary relationship established by holding that office), shall not be liable to account to the Company for any remuneration, profit or other benefit connected with or resulting from any matter authorised under Article 96A and no contract, arrangement, transaction or proposal shall be liable to be avoided on the grounds of any matter authorised under Article 96A."

11. That the Company and is hereby authorised (subject to and in accordance with the Companies Act 2006) to use electronic communications and in particular may send, convey or supply any notice document or information to members by making them available on the Company's website to members who do not elect to receive them electronically or in hard copy, and this resolution will supersede any provision any provision in the Company's Articles of Association to the extent that it is inconsistent with this resolution.

Registered Office  
40 Phoenix Road  
Crowther  
Washington  
Tyne and Wear  
NE38 0AD

By order of the Board  
**MW Angus**  
Company Secretary  
2<sup>nd</sup> July 2009

## Notes

**1.** A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a member of the Company. Forms of proxy, if used, must be lodged at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 10.00am on 24<sup>th</sup> August 2009.

**2.** Only ordinary shareholders and their proxies are entitled to attend and vote at the annual general meeting.

**3.** In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.

**4.** The statement of the rights of ordinary shareholders in relation to the appointment of proxies above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by ordinary shareholders of the Company.

**5.** The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 10.00am on 22<sup>nd</sup> August 2008 or, in the event the annual general meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 10.00am on 22<sup>nd</sup> August 2008, or in the event that the annual general meeting is adjourned less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the annual general meeting.

**6.** During the period to the date for the Annual General Meeting there will be available for inspection at the Company's registered office during normal business hours on any weekday (Saturdays and public holidays excepted) and also at the place of the Annual General Meeting for 15 minutes prior to the Meeting and during the Meeting a statement of all transactions of each Director and his family in the equity share capital of the Company and any of its subsidiaries and a copy of the service agreements between any Director and the Company.

