

1st December 2011

OPSEC SECURITY GROUP PLC
(“OpSec” or “the Group”)

Interim results for the six months ended 30th September 2011

OpSec Security Group plc, the supplier of anti-counterfeiting technologies and services, announces interim results for the six months ended 30th September 2011.

Highlights

	2011 unaudited	2010 unaudited
Group revenue	£19.9m	£19.7m
Adjusted operating profit*	£1,420,000	£1,384,000
Loss before tax	(£1,729,000)	(£394,000)
Basic loss per share	(3.3p)	(0.8p)
Adjusted basic earnings per share*	1.4p	0.3p

* Adjusted for the effects of share based payments, exceptional items and the charge for intangible amortisation (see notes 3 and 8).

- Adjusted operating profit up by 3% to £1.42 million;
- Group revenue increased by 1.5% to £19.9 million;
 - Banknote and High Security Document revenues up 17%
 - Brand Protection revenues up 5%
 - ID Solutions revenues down by 35%
- Completion of acquisition of ID Solutions software business in the Caribbean;
- Investcorp secured majority stake in the business via a cash offer;
- New funding arrangements secured with JP Morgan Chase.

- Ends -

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OPSEC SECURITY GROUP PLC
("OpSec" or "the Company")

Interim results for the six months ended 30th September 2011

Chairman's Statement

There have been a number of significant events which have occurred since the publication of the last Annual Report. Investcorp, having made a cash offer for the Company, increased their shareholding in the Company from 30% to 54%. Following this the Company finalised new banking arrangements with JP Morgan Chase thus enabling the repayment of all sums due under Investcorp's loan facility. The acquisition of a Caribbean based software development company was also successfully completed in the period.

Group revenue for the six months ended 30th September 2011 increased by 1.5% to £19.9 million, (2010: £19.7 million) due to strong ordering from our customers in both the Brand Protection and Banknote and High Security Document sectors. Adjusted Operating Profit (see note 3) increased from £1,384,000 to £1,420,000.

There was an exceptional charge of £1,968,000 in the period which covered Company costs in respect of the cash offer for the business, acquisition costs related to the Caribbean acquisition and a change of control repayment fee on the Investcorp loan facility. The result after taxation was a loss of £1,696,000 (2010: loss of £401,000).

Banknote and High Security Documents

Whilst this market sector benefitted from strong ordering from its American customers this was partially offset by the anticipated slowdown in ordering from an Asian banknote customer secured in the previous year. Overall, revenue increased by 17% over the corresponding period of the preceding year.

Brand Protection

Revenue in this market sector, which is the largest of our three market segments, increased by 5% compared to the same period in the prior year. While it continues to win new business the majority of the growth has come from existing customers with particularly strong ordering in the apparel and Asian tobacco sectors.

ID Solutions

Revenue in the ID Solutions market sector fell by 35% compared to the same period in the prior year, due mainly to the loss of significant government customers in both North America and the UK. The recent acquisition of a business in the Caribbean has enhanced significantly our product offering and this, coupled with the historical bias towards the second half of the financial year, leads us to expect an improved revenue performance by this segment in the balance of the current year.

3dcd

The contribution from our joint venture 3dcd in the period was \$239,000 (2010: \$376,000). The previous period benefitted from a one off order for equipment.

Operations

Revenue in our American operations increased by 7% to \$19.0 million in the first half of the financial year with operating profit increasing by 75% in local currency (62% in sterling). The cost-saving and efficiency measures which we continue to implement contributed to gross margins increasing from 38.5% to 40.3%.

On 24th May 2011 the Company announced the acquisition of a small software development business focusing specifically on developing ID solutions for issuance of passports, national ID cards and other secure credentials. The business is based in the Dominican Republic with an ancillary business in Puerto Rico. Revenue for this business was \$94,000 in the four month period ended 30th September 2011 with an operating loss of \$178,000. This business has, as anticipated at the time of the acquisition, recently secured a major new customer which should ensure a much stronger performance in the second half of the financial year.

The revenue of our UK operations in the period increased by 1.4% to £7.5 million. Gross margins decreased from 40.8% to 33.0% due to the high proportion of sub contract sales and consequently operating profit decreased by 54% to £448,000.

Revenue in our German operations rose by 7.9% to €1.8 million. Operating profits increased by 37.5% from €251,000 to €346,000 due to an improvement in gross margins from 52.3% to 58.1%.

New Banking Arrangements

On 31st October 2011 the Group repaid all amounts due to be repaid to Investcorp under the loan agreement. The repayment was financed through new banking facilities of up to \$11.25m arranged with JPMorgan Chase Bank. The new facilities comprise: a) a three year revolving credit facility of \$2m; b) a five year term loan of \$8m; and c) a multicurrency overdraft facility of up to \$1.25m.

Board Changes

Following the increase in Investcorp's holding in the Company to 54% Glenn Luk, who has hitherto acted as an alternate Director, joined the Board. As of today's date Dick Povey is standing down and Richard Fuller is joining the Board as a Non-Executive Director. On behalf of the Board I would like to thank Dick for his twelve years of service to the Company.

Prospects

The second half of our financial year has historically been stronger than the first half of the year, however political and economic uncertainty in regard to a number of programmes makes it difficult accurately to predict call off volumes in the balance of the year. This is magnified by the problem of forecasting whether certain significant new opportunities, particularly in the ID Solutions area of our business, will be completed and when shipments will commence.

DA Mahony
Chairman
1st December 2011

OPSEC SECURITY GROUP plc
Consolidated Income Statement

	Six months ended 30-Sept-11 Unaudited £'000	Six months ended 30-Sept-10 Unaudited £'000	Year ended 31-Mar-11 Audited £'000
Revenue	19,949	19,659	40,360
Cost of sales	(11,889)	(11,441)	(22,469)
Gross profit	8,060	8,218	17,891
Distribution and selling costs	(2,367)	(2,336)	(5,492)
Administrative expenses	(4,623)	(4,992)	(9,278)
Exceptional Administrative expenses	(1,968)	-	-
Intangible amortisation	(238)	(326)	(649)
Total administrative expenses	(6,829)	(5,318)	(9,927)
	(1,136)	564	2,472
Share of profit of jointly controlled entities	146	244	920
Operating (loss)/profit	(990)	808	3,392
Finance income	18	(168)	(202)
Finance expense	(757)	(1,034)	(1,982)
(Loss)/Profit before income tax	(1,729)	(394)	1,208
Income tax	33	(7)	153
(Loss)/Profit for the period attributable to equity holders of the parent	(1,696)	(401)	1,361
Earnings per share (pence)			
Basic eps	(3.3)	(0.8)	2.7
Diluted eps	(3.3)	(0.8)	2.5
Consolidated statement of comprehensive income			
(Loss)/Profit for the financial period	(1,696)	(401)	1,361
Other comprehensive income			
Foreign exchange translation differences	354	(1,196)	(1,219)
Other comprehensive income/(expense) for the financial period	354	(1,196)	(1,219)
Total comprehensive income/(expense) attributable to equity holders of the parent	(1,342)	(1,597)	142

OPSEC SECURITY GROUP plc
Consolidated statement of changes in equity
For the 6 months ended 30th September 2011

	Share Capital unaudited £'000	Share premium unaudited £'000	Translation reserve unaudited £'000	Retained earnings unaudited £'000	Total equity unaudited £'000
Balance at 1st April 2011	2,802	29,685	3,210	(4,998)	30,699
Loss for the period	-	-	-	(1,696)	(1,696)
Other comprehensive income/(expense)	-	-	354	-	354
Total comprehensive income/(expense) for the period	-	-	354	(1,696)	(1,342)
Transactions with owners recorded directly in equity					
Share based payments	-	-	-	204	204
Own shares sold	-	-	-	57	57
Own shares issued	198	-	-	-	198
Total contributions by and distributions to owners	198	-	-	261	459
At 30th September 2011	3,000	29,685	3,564	(6,433)	29,816

Additional breakdown of other comprehensive income is provided in the Statement of Comprehensive Income.

OPSEC SECURITY GROUP plc
Consolidated statement of changes in equity
For the 6 months ended 30th September 2010

	Share Capital unaudited £'000	Share premium unaudited £'000	Translation reserve unaudited £'000	Retained earnings unaudited £'000	Total equity unaudited £'000
Balance at 1st April 2010	2,802	29,685	4,429	(5,938)	30,978
Loss for the period	-	-	-	(401)	(401)
Other comprehensive income/(expense)	-	-	(1,196)	-	(1,196)
Total comprehensive income/(expense) for the period	-	-	(1,196)	(401)	(1,597)
Transactions with owners recorded directly in equity					
Share based payments	-	-	-	250	250
Own shares sold	-	-	-	28	28
Own shares purchased	-	-	-	(239)	(239)
Total contributions by and distributions to owners	-	-	-	39	39
At 30th September 2010	2,802	29,685	3,233	(6,300)	29,420

OPSEC SECURITY GROUP plc
Consolidated statement of changes in equity
For the year ended 31st March 2011

	Share Capital audited £'000	Share premium audited £'000	Translation reserve audited £'000	Retained earnings audited £'000	Total equity audited £'000
Balance at 1st April 2010	2,802	29,685	4,429	(5,938)	30,978
Profit for the period	-	-	-	1,361	1,361
Other comprehensive income/(expense)	-	-	(1,219)	-	(1,219)
Total comprehensive income/(expense) for the period	-	-	(1,219)	1,361	142
Transactions with owners recorded directly in equity					
Share based payments	-	-	-	(210)	(210)
Issuance of shares (net of costs)	-	-	-	-	-
Own shares sold	-	-	-	28	28
Own shares purchased	-	-	-	(239)	(239)
Total contributions by and distributions to owners	-	-	-	(421)	(421)
At 31st March 2011	2,802	29,685	3,210	(4,998)	30,699

Additional breakdown of other comprehensive income is provided in the Statement of Comprehensive Income.

OPSEC SECURITY GROUP plc
Consolidated Balance Sheet

	30-Sept-11 unaudited	30-Sep-10 unaudited	31-Mar-11 Audited
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Property, plant and equipment	7,604	8,113	7,741
Intangible assets	25,543	25,465	24,927
Investment in jointly controlled entity	(39)	87	125
Other investments	-	17	18
Deferred tax assets	3,619	3,850	3,662
Total non-current assets	36,727	37,532	36,473
Current assets			
Inventory	3,221	2,878	3,593
Trade and other receivables	8,479	7,926	8,895
Cash and cash equivalents	4,226	4,621	6,250
Assets held for sale	-	926	-
Total current assets	15,926	16,351	18,738
Total assets	52,653	53,883	55,211
LIABILITIES			
Current liabilities			
Interest-bearing loans and borrowings	(4,493)	-	-
Deferred government grants	(20)	(36)	(20)
Provisions	-	(38)	-
Income tax payable	-	-	-
Trade and other payables	(10,522)	(9,202)	(10,212)
Total current liabilities	(15,035)	(9,276)	(10,232)
Non-current liabilities			
Interest-bearing loans and borrowings	(7,464)	(14,604)	(13,789)
Deferred government grants	(192)	(360)	(345)
Deferred tax liabilities	(146)	(223)	(146)
Total non-current liabilities	(7,802)	(15,187)	(14,280)
Total liabilities	(22,837)	(24,463)	(24,512)
Net assets	29,816	29,420	30,699
EQUITY			
Capital and reserves			
Issued capital	3,000	2,802	2,802
Share premium	29,685	29,685	29,685
Translation reserve	3,564	3,233	3,210
Retained earnings	(6,433)	(6,300)	(4,998)
Total equity attributable to equity holders of the parent	29,816	29,420	30,699

OPSEC SECURITY GROUP plc
Condensed Consolidated Statement of Cash Flows

	Six months ended 30-Sept-11 unaudited £'000	Six months ended 30-Sept-10 unaudited £'000	Year ended 31-Mar-11 Audited £'000
Cash flows from operating activities			
(Loss)/Profit for the period ⁽¹⁾	(1,696)	(401)	1,361
Depreciation	943	1,025	1,949
Amortisation/impairment of intangible assets	249	326	649
Profit on sale of property, plant and equipment	5	-	359
Release of government grants	(13)	(22)	(35)
Equity settled share based expense	204	250	(210)
Share of profit of jointly controlled entities	(146)	(244)	(920)
Finance income	(18)	168	202
Finance expenses	757	1,034	1,982
Income tax expense	(33)	7	(153)
Movement in inventory	440	213	(541)
Movement in trade and other receivables	381	(646)	(1,668)
Movement in trade and other payables	276	(1,891)	(536)
Cash flows from operating activities	1,349	(181)	2,439
Interest paid	(1,114)	(326)	(558)
Income tax paid - overseas	(16)	(89)	(96)
Net cash inflow/(outflow) from operating activities	219	(596)	1,785
Cash flows from investing activities			
Acquisition of subsidiary undertaking	(183)	(223)	(873)
Acquisition of property, plant and equipment	(654)	(369)	(980)
Proceeds from sale of investment	12	-	-
Proceeds from sale of property, plant and equipment	-	-	560
Proceeds from government grants	-	47	47
Dividends received from jointly controlled entity	321	473	1,095
Interest received	18	(168)	(202)
Net cash outflow from investing activities	(486)	(240)	(353)
Cash flows from financing activities			
Payment of finance lease liabilities	(104)	(104)	(209)
Drawdown of borrowings	-	-	-
Repayment of borrowings	(1,839)	(1,282)	(1,927)
Proceeds from issuance of new shares (net of costs)	198	-	-
Proceeds from sale of own shares	57	28	28
Purchase of own shares	-	(239)	(239)
Net cash outflow from financing activities	(1,688)	(1,597)	(2,347)
Net decrease in cash and cash equivalents	(1,955)	(2,433)	(915)
Cash and cash equivalents at the start of the period	6,250	7,376	7,376
Effect of exchange rate fluctuations on cash	(69)	(322)	(211)
Cash and cash equivalents at the end of the period	4,226	4,621	6,250

(1) The loss for the period ended 30th September 2011 includes the exceptional items set out in Note 4 below.

OpSec Security Group plc
Notes to the Interim Statement

1. Basis of preparation

This interim financial information has been prepared applying the accounting policies that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31st March 2011.

The following new standards, amendments to standards and interpretations issued by the International Accounting Standards Board became effective during the period, but have no material effect on the Group's financial statements:

IAS 24 'Related Party Disclosures (revised)'

IFRIC 14 'IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'
Improvements to IFRSs 2010

Following the change of control, and subsequent agreement with Investcorp, all amounts due under the Investcorp loan agreement became payable by 31st October 2011 and are shown within Current liabilities within this Interim Statement. Since the period end all amounts have been duly paid, financed through new banking facilities of up to \$11.25m arranged with JP Morgan Chase Bank. Accordingly, and after taking into account expected trading and cash flows for at least the next 12 months, the Directors have a reasonable expectation that the Group has adequate resources for the foreseeable future and they continue to adopt the going concern basis in this Interim Statement.

2. Status of financial information

The interim information for the six months ended 30th September 2011 has not been audited or reviewed by the auditors.

The comparative figures for the financial year ended 31st March 2011 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

OpSec Security Group plc
Notes to the Interim Statement

3. Segment Information

	Six months ended 30-Sep-11 unaudited	Six months ended 30-Sep-10 unaudited	Year ended 31-Mar-11 audited
	£'000	£'000	£'000
a) Revenue by geographic segment			
American operations	11,692	11,661	23,045
UK operations	7,478	7,376	16,123
German operations	1,543	1,366	2,686
Caribbean operations	59	-	-
Intersegment sales	(823)	(744)	(1,494)
	<u>19,949</u>	<u>19,659</u>	<u>40,360</u>
b) Revenue by market sector			
Banknote and High Security Documents	4,481	3,831	10,026
Brand Protection	13,573	12,892	25,081
ID Solutions	1,895	2,936	5,253
	<u>19,949</u>	<u>19,659</u>	<u>40,360</u>
c) Operating profit by geographic segment			
American operations	1,648	1,015	2,782
UK operations	448	964	1,991
German operations	304	211	377
Caribbean operations	(116)	-	-
Jointly Controlled Entity	146	244	920
Corporate costs	(3,420)	(1,626)	(2,678)
Operating (loss) / profit	<u>(990)</u>	<u>808</u>	<u>3,392</u>
Exclude intangible amortisation	238	326	649
Exclude exceptional items	1,968		
Exclude equity settled share based payments	204	250	(210)
Adjusted operating profit	<u>1,420</u>	<u>1,384</u>	<u>3,831</u>
d) Adjusted operating profit by geographic segment			
American operations	1,648	1,015	2,782
UK operations	448	964	1,991
German operations	304	211	377
Caribbean operations	(116)	-	-
Jointly Controlled Entity	146	244	920
Corporate costs	(1,010)	(1,050)	(2,239)
Adjusted operating profit	<u>1,420</u>	<u>1,384</u>	<u>3,831</u>

OpSec Security Group plc
Notes to the Interim Statement

4. Operating expenses

	Six months ended 30-Sep-11 unaudited	Six months ended 30-Sep-10 unaudited	Year ended 31-Mar-11 audited
	£'000	£'000	£'000
<i>Distribution and Selling Costs</i>			
Selling and marketing costs	<u>2,367</u>	<u>2,336</u>	<u>5,492</u>
<i>Administrative Expenses</i>			
Technical support	471	582	1,155
Research and development costs	1,051	1,093	2,129
Administrative expenses	3,101	3,317	5,994
Exceptional administrative expenses	1,968	-	-
Intangible amortisation	238	326	649
	<u>6,829</u>	<u>5,318</u>	<u>9,927</u>
<i>Total Operating Expenses</i>	<u>9,196</u>	<u>7,654</u>	<u>15,419</u>
 <i>Exceptional items included within administrative expenses</i>			
Transaction fees for Caribbean acquisition	274	-	-
Cash Offer legal fees	103	-	-
Prepayment penalty	1,591	-	-
	<u>1,968</u>	<u>-</u>	<u>-</u>

The prepayment penalty was paid to Investcorp and was triggered by the change of control that resulted from the cash offer for the business.

5. Share of operating profit of jointly controlled entity

The share of operating profit of joint ventures represents the Group's share of the results of 3dcd for the six months ended 30th September 2011. The operating profit of 3dcd is subject to taxation in the accounts of its partners.

6. Acquisitions

On 24th May 2011 the Company acquired 100% of the equity of Marohu Investments S.R.L. and Advantics Corporation in Puerto Rico, (together 'Advantics'). Advantics is a small software development business focusing specifically on developing ID solutions for issuance of passports, national ID cards and other secure credentials. The business is primarily based in the Dominican Republic with an ancillary business in Puerto Rico.

The total consideration comprises initial consideration of \$303,000 and contingent consideration of up to \$5.7m. The estimated fair value of the contingent consideration is \$750,000. This gives rise to goodwill of \$505,000 and other intangible assets of \$434,000.

The acquisition contributed £59,000 to revenue and made a net loss before taxation of £116,000 for the period.

OpSec Security Group plc
Notes to the Interim Statement

7. Finance income and expense

	Six months ended 30-Sep-11 unaudited	Six months ended 30-Sep-10 unaudited	Year ended 31-Mar-11 audited
	£'000	£'000	£'000
<i>Financial income</i>			
Interest income	7	2	6
Foreign exchange gains on foreign currency deposits	11	(170)	(208)
	<u>18</u>	<u>(168)</u>	<u>(202)</u>
<i>Financial expenses</i>			
Interest expense	(577)	(734)	(1,382)
Amortisation of debt advisor fees	(180)	(300)	(600)
	<u>(757)</u>	<u>(1,034)</u>	<u>(1,982)</u>

8. Taxation

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

9. Earnings per share

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

	Six months ended 30-Sep-11 unaudited	Six months ended 30-Sep-10 unaudited	Year ended 31-Mar-11 audited
	£'000	£'000	£'000
<i>Earnings</i>			
Earnings for the financial period	(1,696)	(401)	1,361
Exceptional items	1,968	-	-
Intangible amortisation	237	326	649
Share-based payments	204	250	(210)
Adjusted earnings for the financial period	<u>713</u>	<u>175</u>	<u>1,800</u>
<i>Weighted average number of shares</i>			
	No. of shares	No. of shares	No. of shares
For Basic earnings per share	52,155,030	52,110,473	50,940,927
Effect of share options and other awards	89,361	1,934,832	2,927,242
For Diluted earnings per share	<u>52,244,391</u>	<u>54,045,305</u>	<u>53,868,169</u>