# LONDON SECURITY PLC

## ANNUAL REPORT AND ACCOUNTS 2006

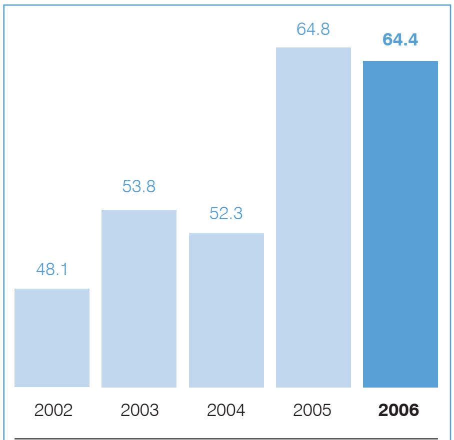
## CORPORATE STATEMENT

**London Security plc is a leader in Europe's fire security industry. Each year, we provide fire protection for over 200,000 customers through our local presence in the United Kingdom, Belgium, Holland, Austria and Switzerland.**

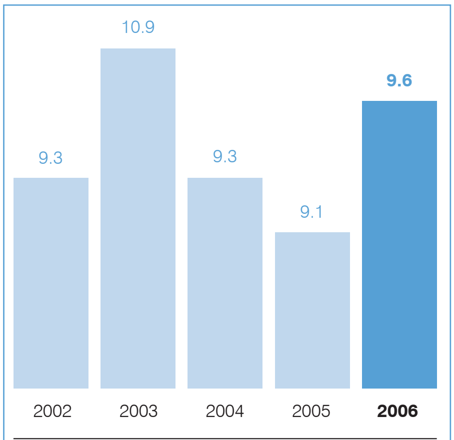
**Our services and products are commercialised through the well and long established brands of Nu-Swift, Ansul, Total, Premier and Master. The unique styling of our products makes them immediately recognisable to both the industry and customers alike.**

We aim to achieve the highest levels of service and product quality through continuing training of our employees to the most stringent servicing standards and the development of the highest performance rated fire products. These activities are performed whilst considering the preservation of the environment.

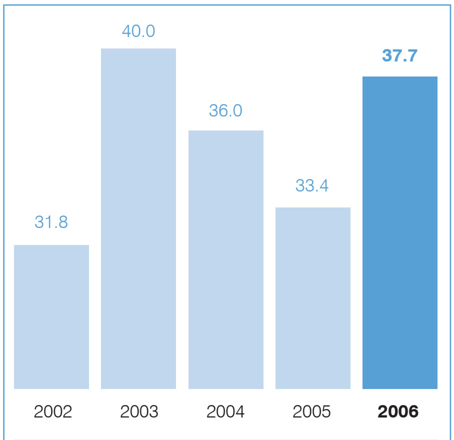
From the largest blue chip companies to governments and private individuals, our customers know that our name stands for integrity of service by the best trained and qualified individuals with quality products that have achieved the highest performance ratings.



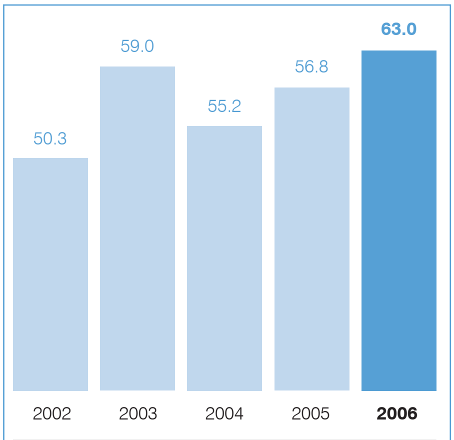
TURNOVER (£M)



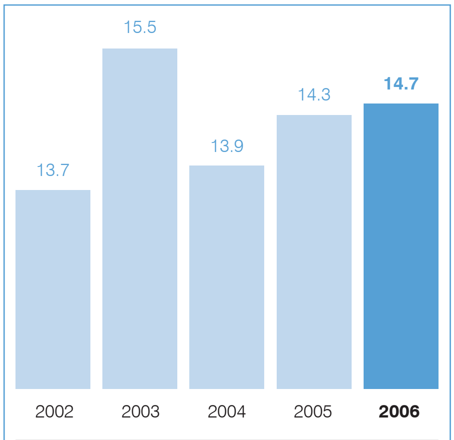
OPERATING PROFIT (£M)



BASIC EARNINGS PER SHARE (P)



ADJUSTED EARNINGS PER SHARE (P)



EBITDA (£M)

The tables have not been adjusted for implementation of FRS 17 and FRS 21 in years 2002 and 2003.

# EUROPEAN GROUP BRANDS

London Security plc continues to deliver industry leading profit margins since acquiring the Ansul and Nu-Swift businesses in December 1999. The challenges for the future are to continue to grow through acquisition and organically and to build upon our competitive advantage of being a complete fire protection solution provider.

# CHAIRMAN'S STATEMENT

## FINANCIAL HIGHLIGHTS

Financial highlights of the audited results for the year ended 31 December 2006 compared with the year ended 31 December 2005 are as follows:

- Turnover of £64.4 million (2005: £64.8 million)
- Earnings before interest, taxation, depreciation and amortisation ("EBITDA") of £14.7 million (2005: £14.3 million)
- Operating profit before amortisation of goodwill of £12.7 million (2005: £12.2 million)
- Operating profit of £9.6 million (2005: £9.1 million)
- Profit on ordinary activities before taxation of £8.3 million (2005: £8.1 million)

## TRADING REVIEW

A detailed Operational Review is set out in a separate section.

The Group's operating profit has increased by £529,000 (6%), despite one-off charges relating to reorganisation consisting of onerous lease provisions of £350,000 (2005: £Nil) and redundancy costs of £379,000 (2005: £39,000).

In mainland Europe the Group has gone from strength to strength, building upon its strong position in servicing fire extinguishers and hose reels and growing our new activities of alarms, emergency lights and modular first-aid boxes.

In the UK, the profit increase is largely due to initiatives described further in the Operational Review and improved credit control. In addition, in 2006 we have not continued with the lower margin alarm installation type of contracts which had been undertaken in 2005.

The Group has developed new ranges of fire extinguishers and successfully launched these products late in 2005 and 2006. These extinguishers show improvements in terms of fire ratings, ease of operating and discharge times, and also enabled us to achieve cost efficiencies from implementation of these new ranges.

Group operating profit at 15% of turnover and EBITDA at 23% of turnover continue to be among industry leading results and are expected to increase further as the full year effects of the various initiatives implemented in 2006 are realised.

## ACQUISITIONS

It remains a principal aim of the Group to grow through acquisition. Acquisitions are being sought throughout Europe and the Group will invest at the upper end of the price spectrum where an adequate return is envisaged.

## FINANCIAL HIGHLIGHTS

Financial highlights for the year ended 31 December 2006:

Turnover of
**£64.4 million**
(2005: £64.8 million)

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") of
**£14.7 million**
(2005: £14.3 million)

In December 2006 we acquired SAS, a Belgian fire alarm company. We will use this acquisition to develop the alarm market in Belgium and other continental countries where we have a fire activity.

In 2007, we have acquired contracts to service fire equipment from Alba Fire in Nairn, Scotland.

## MANAGEMENT AND STAFF

2006 was a year in which the staff performed well and, on your behalf, I would like to express thanks and appreciation for their contribution.

## SHARE BUY-BACK PROGRAMME

The Board continues to believe that shareholder value will be enhanced by the purchase, when appropriate, of our own shares. The earnings per share this year and in 2005 has benefited from the Tender Offer exercise that was completed in July 2005 when the Company purchased 2.2 million shares for cancellation.

Consequently, at the forthcoming Annual General Meeting, the Board will request that shareholders vote in favour of a resolution to renew the authority to purchase up to 500,000 ordinary shares.

## DIVIDENDS

The Board is not recommending the payment of a final dividend this year. Future dividend policy will be reviewed regularly by the Board.

## FUTURE PROSPECTS

The outlook for 2007 is for continued progress and this has been reflected in a significantly improved first quarter's trading.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 10 Bruton Street, 5th Floor, London W1J 6PX on 7 June 2007 at 11.00 a.m. You will find enclosed a form of proxy for use at that meeting which you are requested to complete and return in accordance with the instructions thereon. I shall, along with your Directors, look forward to meeting you at that time.

J. G. MURRAY
Chairman
27 April 2007

Operating profit before amortisation of goodwill of

**£12.7 million**
(2005: £12.2 million)

Operating profit of

**£9.6 million**
(2005: £9.1 million)

Profit on ordinary activities before taxation of

**£8.3 million**
(2005: £8.1 million)

# OPERATIONAL REVIEW

## UK

The main focus within the UK in 2006 was on preparing the business for the future. A number of initiatives were implemented in the year to this end.

All extinguisher service contracts were reviewed to ensure that appropriate resource was being given to customers based upon the profitability of each contract. Changes to contract management were introduced and this has resulted in increased revenues being generated from extinguishers serviced in the fourth quarter of 2006.

A review of the costs and benefits associated with operating a large cold-calling sales force in each UK subsidiary compared to the work generated led to the decision to reduce this business activity. A smaller team has been retained to manage customer accounts and to follow up leads.

Over the past ten years, we have acquired a number of businesses and continued to trade from the original premises. This has become difficult to manage and meant our local presence was effectively duplicated in some areas of the country. Consequently, we have closed our depots in Milton Keynes, Greenford and St. Helens which will generate further cost savings in the future. A new distribution system has been implemented which has improved delivery times to engineers and customers.

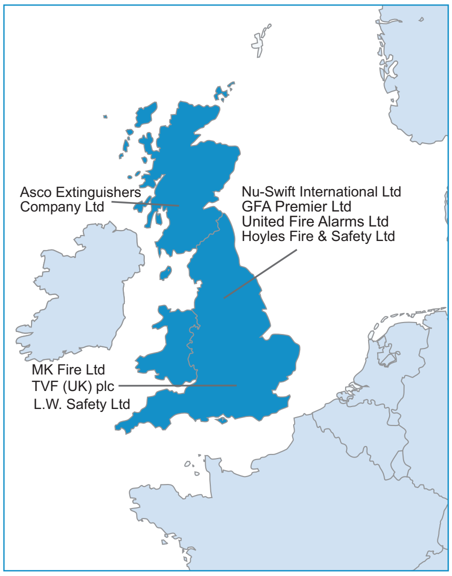
A need for more effective credit control was identified in 2005. New processes and procedures were put in place and the improved credit control resulted in a reduction in bad debt cost of £320,000 in the year.

Generally, increased profits were achieved in the second half of 2006 as a result of these business improvements and further increases are anticipated in 2007.

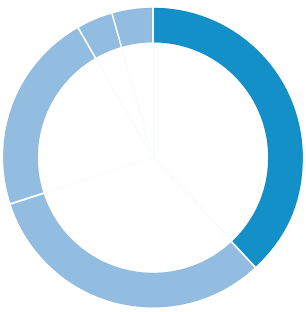
Within our alarms service division, we have introduced more efficient working practices which have improved customer service as well as profitability.

Our alarm installation division has become more focused on existing customers, system modifications and extensions.

## GROUP BRANDS



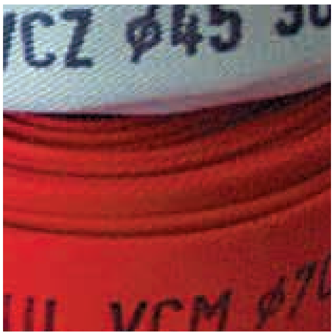

Group turnover
38.3%



UK turnover
**£24.7 million**

Market position
**2nd**

Group turnover
**38.3%**



## BELGIUM

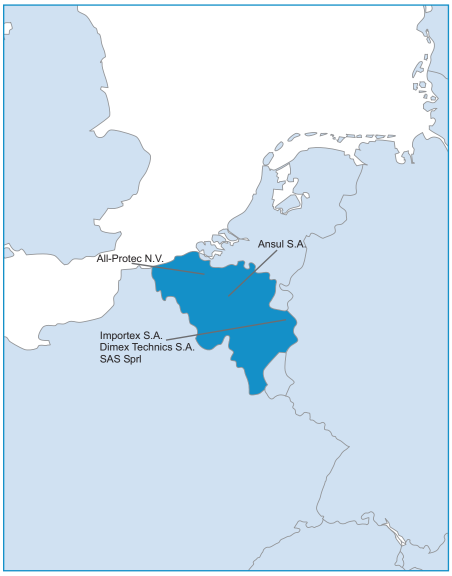
In 2006 we have seen an overall increase in turnover and profits in the Belgian subsidiaries.

Ansul turnover has increased compared to 2005 as a result of the dynamic performance of our service team, which improved on both sales volumes and values.

This performance has been replicated at Importex and Dimex, where profits have been further improved by good cost control.

SAS, a small alarm company, was acquired by Dimex in December 2006. No results are included in this period from this activity. It is anticipated that this acquisition will act as a springboard to expand activities in the promising Belgian alarm market and into other Continental countries where we already have a fire activity.

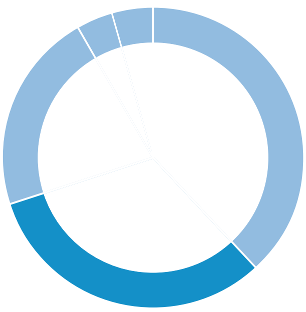
Our customer base has grown significantly in Belgium.




## GROUP BRANDS

DIMEX Technics
nu-swift
ANSUL

Group turnover
31.9%



| Belgium turnover | Market position | Group turnover |
|---|---|---|
| **£20.6 million** | **1st** | **31.9%** |

# OPERATIONAL REVIEW CONTINUED

## HOLLAND

The Group's businesses in the Netherlands continue to perform at a consistently high level.

The core business of both Ansul and Nu-Swift is the service and sale of fire equipment. Turnover has risen in this activity, in part due to a restructuring of our sales force which has proved successful. Our service engineers have also performed at record levels.

The challenge to expand in the Dutch market has been further met by expanding into ancillary activities.

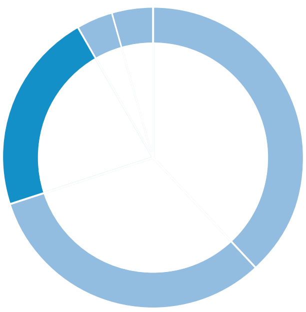
Our in-house emergency response services have also enjoyed improved sales volumes and have benefited from an operational restructuring.

The organisational development of the sales organisations has been improved by the introduction of several training programmes and the effects of this will be evident in the 2007 results. We have established that our customers appreciate the larger product range which Ansul is offering and enables us to change from being solely their extinguisher supplier into being their safety partner.


## GROUP BRANDS

nu-swift ANSUL


Group turnover
21.6%



| Holland turnover | Market position | Group turnover |
|---|---|---|
| £13.9 million | 2nd | 21.6% |




## GROUP BRANDS

TOTAL FIRE STOP Brandschutztechnik GmbH

## AUSTRIA

In 2006 we focused on customer satisfaction. We invested in improved customer relationship management and improved the communication between the sales force and the service team.

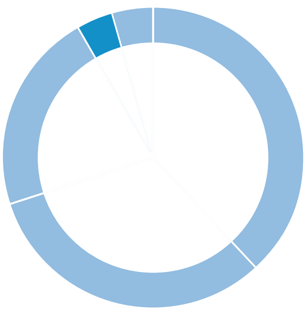
A thorough training programme was held for all service staff and a self-learning internet platform was implemented. This will ensure that annually all staff are certified to Total Fire-Stop standards.

The sales force focused on selling products and services in addition to fire extinguishers. These play an important role in turning the two-year cycle of extinguisher servicing into a one-year cycle which strengthens our position with our key customers.

We have intensified our activities to strengthen our business together with trade associations, the Austrian standards organisation and other fire equipment organisations. Common interests are being put together in order to reduce the low entry barriers into the market, regulate price involvement of local fire departments and change legislation to a one-year cycle.

Group turnover

4.0%



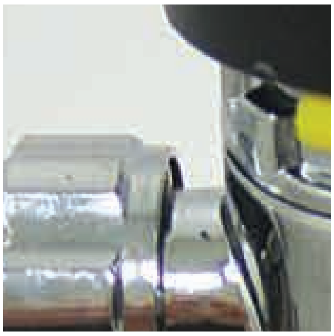
| Austria turnover | Market position | Group turnover |
|---|---|---|
| **£2.6 million** | **1st** | **4.0%** |

# OPERATIONAL REVIEW CONTINUED

## SWITZERLAND

The Swiss operations reported a substantial increase in revenues and operating profits in 2006.

The number of extinguishers and hose reels serviced in the year was comparable to the prior year. However, through improved contract management, we were able to increase revenues by over 20% in a relatively static Swiss market. The recruitment of new service engineers which we highlighted in 2005 has led to a motivated high calibre team of service engineers who have delivered substantially improved results.

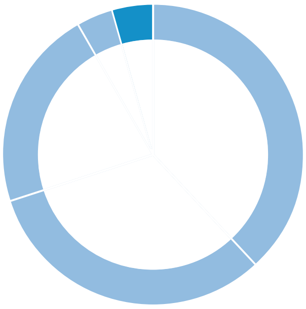




GROUP BRANDS


Group turnover

4.2%



| Switzerland turnover | Market position | Group turnover |
|---|---|---|
| **£2.7 million** | **3rd** | **4.2%** |

# FINANCIAL REVIEW

## PROFIT AND LOSS ACCOUNT

Turnover decreased by 0.6% to £64.4 million. This is due to the decision not to continue with loss-making business as described in the Operational Review. This was offset by strong growth in Belgium, Holland and Switzerland, generated largely from sales initiatives. The improvements to profit have been offset to some degree by onerous lease provisions of £350,000 (2005: £Nil) and redundancy costs of £379,000 (2005: £39,000) but the Group still had an operating profit increase of 6%.

Interest payable has reduced from £2.1 million to £1.3 million. This is primarily due to exchange movements on foreign currency loans (2006: profit of £644,000, 2005: loss of £704,000) offsetting the full year effect of interest on the increased borrowings following the Tender Offer in 2005.

## BALANCE SHEET/CASH FLOW

Stock has decreased by 6% as the Group has reviewed efficiency by rationalising its stock lines and improved purchasing prices of components.

The pension liability has reduced reflecting the investment gains in the Scheme's assets. In 2005 an exceptional payment of £1.0 million was made to the UK pension fund, this was not repeated in 2006.

The increase in amounts repaid in respect of long term loans results from the full year effect of the repayment of increased borrowings to finance the Tender Offer.

Cash flow from operating activities of £14.4 million represents 98% of EBITDA. This statistic again demonstrates the ability of the Group to convert profitability into cash flow.

## TAXATION

Excluding goodwill charges, which in the main are not tax deductible, the Group's overall effective tax rate is 44%. The Group should expect to pay similar levels of taxation going forward.

## TREASURY MANAGEMENT AND POLICY

The Board considers foreign currency translation exposure and interest rates to be the only potential treasury risks. Treasury policies and guidelines are authorised and reviewed by the Board. The Group's policy is to hedge its international assets with respect to foreign currency balance sheet translation exposure. The Group does not hedge against foreign currency transaction exposure.

The Group's borrowings of £35.6 million (£25.5 million denominated in Euros and £10.1 million denominated in Sterling) are subject to floating rates based on EURIBOR and LIBOR plus a margin of between 0.6% and 1.5%.

To minimise the impact of any large increases in EURIBOR and LIBOR and to take advantage of low market interest rates prevailing at the time, during June 2006 interest rate caps were taken out for the full amount of the Group's borrowings. The effect of these caps is to limit the Group's exposure to EURIBOR to a maximum of 4.25% and LIBOR to a maximum of 5.5%. The caps took effect from September 2006 until the loans are repaid in June 2010.

J-C. PILLOIS
Finance Director
27 April 2007

## SUMMARY OF RESULTS

| | **2006 £'000** | 2005 £'000 |
|---|---|---|
| Turnover | **64,426** | 64,811 |
| EBITDA* | **14,723** | 14,258 |
| Operating profit | **9,623** | 9,094 |
| Profit on ordinary activities before taxation | **8,290** | 8,140 |

* Earnings before interest, taxation, depreciation and amortisation.

## KEY PERFORMANCE INDICATORS ("KPIS")

The KPIs are as follows:

| | **52 weeks ended 31 December 2006** | 52 weeks ended 31 December 2005 |
|---|---|---|
| The average turnover per employee | **£83,238** | £77,340 |
| Operating profit as a percentage of turnover | **14.9%** | 14.0% |
| Operating cash flow (1) as a percentage of operating assets (2) employed | **103.25%** | 76.13% |
| Operating profit divided by interest charge | **7.6** | 4.4 |
| Net debt | **£26.8 million** | £33.0 million |

(1) Operating cash flow before defined benefit scheme contributions.
(2) Operating assets are net assets employed excluding pension liabilities, loans, deferred tax, corporation tax balances, goodwill and cash.

# DIRECTORS

## EXECUTIVE DIRECTORS

**Jaques Gaston Murray (87)**
Chairman
Mr. Murray's involvement in the fire industry began in 1961 with his investment in a business which became General-Incendie S.A., one of France's largest fire extinguisher companies. He invested in Nu-Swift and became Chairman in 1982 and the majority shareholder in 1984 when Nu-Swift acquired Associated Fire Protection Limited which owned General-Incendie S.A. Mr. Murray has a business interest in, and is Chairman of, Andrews Sykes Group plc ("Andrews Sykes"), a separately AIM quoted UK company, owning approximately 85% of the issued share capital.

**Jean-Christophe Pillois (50)**
Finance Director
Jean-Christophe Pillois trained as the equivalent of a chartered accountant with Price Waterhouse in France and joined the Nu-Swift Group in December 1983. His role incorporates responsibility for the finance activities of the Group. He is an Executive Director of Andrews Sykes.

**Emmanuel Sebag (38)**
Senior Operations Director
Emmanuel Sebag acts as Jacques Gaston Murray's assistant and is ultimately responsible for the Fire Group's operations and for identifying and negotiating acquisitions for the Group. He is a Non-Executive Director of Andrews Sykes.

**Xavier Mignolet (42)**
Operations Director
Appointed 2 August 2006. Xavier Mignolet joined the Group in 1995 and is a Director of Ansul S.A. and Importex S.A. and other subsidiary companies in Belgium. He is responsible for the Group's operations on a day-to-day basis. He is a Non-Executive Director of Andrews Sykes.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Henry Shouler (69)**
Senior Independent Non-Executive Director
Henry Shouler is a Director of PKL Holdings plc. He also has a number of other directorships in private companies.

**Michael Gailer (71)**
Independent Non-Executive Director
Michael Gailer is a Non-Executive Director of Andrews Sykes and a number of private companies.

## NON-EXECUTIVE DIRECTORS

**Jean-Jacques Murray (40)**
Non-Executive Director
Jean-Jacques Murray is the son of Jacques Gaston Murray. His responsibility is the control and strategic direction of the Group. He is a Non-Executive Director of Andrews Sykes.

**Joel Simmonds (39)**
Non-Executive Director
Appointed 9 February 2007. Joel Simmonds, a chartered surveyor, has been in charge of managing J.G. Murray's real estate group since 2002. He is a Non-Executive Director of Andrews Sykes.

**Marie-Claire Leon (43)**
Non-Executive Director
Appointed 9 February 2007. Marie-Claire Leon has been responsible for managing various projects around the world with J.G. Murray. She is a Non-Executive Director of Andrews Sykes.

# COMPANY ADVISERS

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REGISTERED NUMBER
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NOMINATED ADVISERS
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Leeds LS1 4LX

# REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

London Security plc is an investment holding company and its Board co-ordinates the Group's activities. The principal activities of the subsidiaries of the Group are the manufacture, sale and rental of fire protection equipment and the provision of associated maintenance services.

## RESULTS AND DIVIDENDS

The consolidated profit and loss account shows a profit attributable to equity shareholders for the year ended 31 December 2006 of £4,643,000 (2005: £4,477,000). The Board is not recommending the payment of a final dividend this year.

## RESEARCH AND DEVELOPMENT

The Group continues to maintain its involvement in research and development activities, thus ensuring that the existing products and production facilities take advantage of the latest technological advances in the field.

## BUSINESS REVIEW AND FUTURE PROSPECTS

The information that fulfils the requirements of the Business Review (as required by Section 234ZZB of the Companies Act 1985), which is incorporated in this Directors' Report by reference, including the review of the Group's business and future prospects is included in the Chairman's Statement and the Operational and Financial Reviews on pages 2 to 9. Key performance indicators are shown on page 9.

## DIRECTORS

The Directors who served during the whole of the year ended 31 December 2006, except where stated, were:

### EXECUTIVE DIRECTORS

J.G. Murray, J-C. Pillois and E. Sebag.

X. Mignolet was appointed as an Executive Director of the Company on 2 August 2006.

### NON-EXECUTIVE DIRECTORS

M. Gailer, H. Shouler and J-J. Murray were Directors through the whole of the year ended 31 December 2006.

J. Simmonds and M-C. Leon were appointed as Non-executive Directors of the Company on 9 February 2007.

J-J. Murray and M. Gailer retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting. X. Mignolet, J. Simmonds and M-C. Leon, being appointed during the year since the last Annual General Meeting, offer themselves for election at the Annual General Meeting. There is also an ordinary resolution to be proposed at the Annual General Meeting to vary the maximum number of Directors by increasing the number from seven to twelve.

None of the Directors have a service contract with the Company.

Brief biographical details of the Directors are set out on page 10.

## DIRECTORS' INTERESTS

Other than the beneficial interests disclosed below, no other Director in office at 31 December 2006 had any disclosable interest in the share capital of the Company or any subsidiary undertaking.

| | Ordinary shares of 1p each | | |
|---|---|---|---|
| | **At 27 April 2007** | **At 31 December 2006** | At 1 January 2006 |
| J.G. Murray | **12,117,987** | **12,088,717** | 12,088,717 |

J.G. Murray's interests represent those of EOI Fire SARL and affiliated companies of which he is the sole beneficial shareholder.

## SUBSTANTIAL SHAREHOLDINGS

At 27 April 2007, the Company had been notified of the following interests of 3% or more in the share capital of the Company:

| | Number of shares | Percentage of share capital |
|---|---|---|
| EOI Fire SARL | 9,861,954 | 80.22% |
| Tristar Fire Corp. | 1,188,019 | 9.66% |
| Easton Holding S.A. | 429,640 | 3.49% |

In so far as it is aware, the Company has no institutional shareholders.

## DIRECTORS' SHARE OPTIONS

The Directors held the following options to subscribe for ordinary shares at 31 December 2006 under the Group's Inland Revenue unapproved share option scheme:

| | Number of ordinary shares at 31 December 2006 and at date of appointment | Dates normally exercisable | Exercise price (£) |
|---|---|---|---|
| X. Mignolet | 30,000 | 14/01/06 – 14/01/13 | 11.50 |

## ANDREWS SYKES GROUP PLC

The Companies Act 1985 requires disclosure of Directors' interests in any corporate body in the same group. As J.G. Murray controls in excess of 50% of Andrews Sykes Group plc, the following disclosure is required.

The Directors had the following beneficial interests in the share capital of Andrews Sykes Group plc:

| | Ordinary shares | | |
|---|---|---|---|
| | **At 27 April 2007** | **At 31 December 2006** | At 1 January 2006 |
| J.G. Murray | **37,727,369** | **37,727,369** | 37,747,369 |
| J-J. Murray | **407,845** | **407,845** | 407,845 |
| J-C. Pillois | **409,206** | **409,206** | 409,206 |
| E. Sebag | **13,216** | **13,216** | 13,216 |
| M. Gailer | **10,000** | **10,000** | 10,000 |

## HEALTH, SAFETY AND THE ENVIRONMENT

The maintenance and improvement of working standards to safeguard the health and well being of staff and customers alike is a continuing priority. Health and Safety Officers are appointed at each Group location and they receive periodic training to keep abreast of both legislative requirements and technological advances. It is Group policy to operate in a reasonable manner with regard to the environment. The Group has achieved its objective of obtaining ISO 14001 accreditation throughout the majority of the Group.

## EMPLOYMENT OF DISABLED PERSONS

The Group makes every reasonable effort to give disabled applicants, and existing employees becoming disabled, equal opportunities for work, training and career development in keeping with their individual aptitudes and abilities.

## EMPLOYEE INVOLVEMENT

The Group recognises the need to ensure effective communications with employees to encourage involvement in the Group's performance and achieve a common awareness of factors affecting that performance. Policies and procedures have been developed to suit the needs of each subsidiary undertaking, which take into account factors such as numbers employed and location, and include newsletters and communication meetings.

# REPORT OF THE DIRECTORS CONTINUED

## PAYMENT TO SUPPLIERS

The Company and Group agree payment terms with all suppliers when they enter into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any standard or external code which deals specifically with the payment of suppliers.

At 31 December 2006 Group average creditor days were 51 days (2005: 51 days). The Company had no trade creditors at either year end.

## DONATIONS

The Company and Group made no political donations during the year (2005: £Nil) and made charitable donations of £3,699 (2005: £3,000). These donations were made to charities local to the Company's offices.

## PURCHASE OF OWN SHARES AND AUTHORITIES TO ISSUE SHARES

In February 2007, the Company purchased 8,400 of its own ordinary shares of 1p each, which represented 0.07% of the issued share capital for a cash consideration of £96,600. As at 27 April 2007 there remained outstanding general authority for the Directors to purchase a further 191,600 ordinary shares. Resolution 11 is to be proposed at the Annual General Meeting to extend this authority until the 2008 Annual General Meeting at the level of 500,000 shares.

The special business to be proposed at the 2007 Annual General Meeting also includes, at resolution number 10, a special resolution to authorise the Directors to issue shares for cash, other than pro rata to existing shareholdings, in connection with any offer by way of rights not strictly in accordance with statutory pre-emption rights or otherwise, up to a maximum nominal value of £6,157 being 5% of the Company's issued ordinary share capital. This authority will expire on the earlier of the date of next year's Annual General Meeting or 15 months after the passing of the resolution. The passing of that resolution is subject to resolution 9, being an ordinary resolution, being approved to authorise the Directors to have the power to issue ordinary shares.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

On 7 October 2004 the London Stock Exchange announced the deferral of the mandatory adoption of IFRS for companies quoted on AIM until the financial year commencing 1 January 2007. The Group is continuing the process to identify the issues connected with the adoption of IFRS with effect from 1 January 2007. The Group will prepare its interim results for the six months ending 30 June 2007 in accordance with IFRS by 30 September 2007. Those results will also include transitional information required to be disclosed by IFRS including the restatement of the 2006 accounts.

## STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

The Directors of the Company at the date of this report confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken all steps he or she ought to have taken as a Director in order to make himself or herself aware of any audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

## INDEPENDENT AUDITORS

A resolution is to be proposed at the Annual General Meeting in accordance with Section 384 of the Companies Act 1985 for the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company and authorising the Directors to set their remuneration.

## ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting is set out on pages 43 and 44 and all shareholders are invited to attend in person if they wish or by proxy if they are unable to attend. A form of proxy is enclosed for you to complete according to the instructions printed on it and send to the Company's registrars. All proxies must be received by the registrar by 11.00 a.m. on 5 June 2007. Appointment of a proxy will not prevent you from attending and voting at the meeting if you subsequently find that you are able to do so.

By order of the Board

R. POLLARD
Company Secretary
27 April 2007

# CORPORATE GOVERNANCE STATEMENT

As a Company whose securities are traded on the Alternative Investment Market ("AIM"), the Company is not required to adhere to the provisions of the 2003 FRC Combined Code on Corporate Governance and all of the disclosures made in this report are voluntary.

The purpose of this voluntary statement is to describe the Company's approach to corporate governance and, in particular, to explain, review and report upon the effectiveness of how the Company has applied the principles set out in Section 1 of the Combined Code issued in July 2003 which are commensurate with its size.

## COMPOSITION

The Board is composed of a mixture of Executive and Non-Executive members in order to provide the division of responsibilities and balance which are considered appropriate to the Company's individual circumstances.

The Company is 80% owned by EOI Fire SARL ("EOI") which is itself controlled by the Chairman of the Company, J.G. Murray. In the absence of a substantial third party shareholder, it is considered unnecessary and, to a large degree unrealistic, to separate the roles of Chairman and Chief Executive. All the Executive Directors are connected with EOI as are M-C. Leon, J-J. Murray and J. Simmonds (Non-Executive Directors) and are therefore not considered to be independent as required by the Combined Code.

To limit the effect of the majority shareholder, the Company and EOI, entered into a relationship agreement dated 10 December 1999 in which EOI has provided certain assurances to the Company with regard to its relationship with the Company. The agreement confirms that the business and affairs of the Company shall be managed by the Board in accordance with the Company's Memorandum and Articles of Association and with applicable laws and all relevant statutory provisions for the benefit of the shareholders as a whole. Any transactions or other relationships between any member of the EOI Group and the Company would be at arm's length and on a normal commercial basis. The above Directors declare their interest and take no part in decisions where appropriate.

H. Shouler and M. Gailer are considered to be Independent Non-Executive Directors. H. Shouler is the recognised Senior Independent Non-Executive Director.

Due to the small size of the Board and close involvement of the majority shareholder, the Directors have no current intentions to appoint a third Independent Non-Executive Director.

## OPERATIONS

Due to the relatively small size of the Company and the nature of its businesses, the Executive Directors are more directly involved in the day-to-day activities than would be the case in a larger more diversified organisation.

The full Board meets regularly to review current trading and to make key operational and strategic decisions and has extensive access to detailed information in addition to the monthly management accounts and other reports that are circulated on a monthly basis. A schedule is maintained of matters specifically reserved for decision by the full Board, which includes matters of business strategy, business acquisitions, business disposals, approval of budgets and approval of financial statements. Interim meetings or appropriate sub-committees are established when decisions at full Board level are required between scheduled meetings.

All Directors have access to the Company Secretary who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. Each Director has the right to take independent professional advice in connection with his or her duties at the Company's expense.

# CORPORATE GOVERNANCE STATEMENT CONTINUED

## BOARD COMMITTEES

The Board maintains two standing committees comprising Executive and Non-Executive Directors. Both committees have written constitutions and terms of reference.

The remuneration committee comprises H. Shouler, M. Gailer and J-J. Murray. The committee is chaired by H. Shouler. The remuneration committee reviews the performance of Executive Directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. No Director is permitted to participate in decisions concerning his own remuneration.

Details of Directors' remuneration are set out in the Directors' Remuneration Report on page 18.

The audit committee currently comprises H. Shouler, M. Gailer, J-J. Murray and J-C. Pillois. H. Shouler and M. Gailer are independent of management and EOI Fire SARL. The committee is chaired by H. Shouler. The audit committee is responsible for ensuring that the financial performance of the Company is properly monitored, controlled and reported on. It meets regularly and meets the auditors twice a year.

The audit committee considers the need to introduce an internal audit function each year. After taking into consideration the current size and complexity of the Group, the committee believes that it would not be cost effective to have an internal audit function and the committee feels that sufficient comfort is obtained through the scope and quality of management's ongoing monitoring of risks.

Due to the small size of the Board, the Directors consider that a nomination committee need not be established.

## APPOINTMENT AND REMOVAL OF BOARD MEMBERS

The appointment of Directors involves selection by the full Board and Directors so appointed must be re-elected at the following Annual General Meeting. All Directors are subject to retirement by rotation and at least one third of Directors must offer themselves for re-election at each Annual General Meeting. The rotation is structured so that all Directors submit themselves for re-election at least every three years.

The removal of Board members, and the Company Secretary, is a matter for the Board as a whole.

## RELATIONS WITH SHAREHOLDERS

The relationship between the Company and its majority shareholder is discussed on page 15.

The Company monitors its share register to ensure that dialogue is entered into with other shareholders as appropriate. All proxy votes are counted and the results are announced in respect of each resolution at the Annual General Meeting.

The Company's last Annual General Meeting was conducted in accordance with the Combined Code.

## INTERNAL FINANCIAL CONTROL

The Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls. This extended the existing requirement in respect of internal financial controls to cover all controls.

The Directors have considered the Combined Code requirement to review and report upon the effectiveness of the Group's system of internal controls and have concluded that the benefits gained in meeting this requirement are outweighed by the costs involved. The Directors have therefore continued to report upon internal financial controls only in accordance with the ICAEW's guidance "Internal Control and Financial Reporting" (the Rutteman guidance), and to report non-compliance with "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance). Key elements of the Group's system of internal financial controls are as follows:

- Control environment – the Directors have put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. This is reinforced by the direct supervision of the Executive Directors supported by appropriate policy statements.
- Risk management – the Executive Directors are responsible for identifying risks facing the business and for putting in place procedures to mitigate and monitor risks. Risks are assessed and monitored at Board level on an ongoing basis, as well as during the annual business planning process.
- Information systems – the Group has a comprehensive system of financial reporting. The annual budget is approved by the Board. Actual results and variances compared with the budget are reported to the Board monthly, supported by detailed management commentaries. Revised forecasts for the period are prepared and reported to the Board each quarter.
- Control procedures – policies and procedures manuals are maintained at all significant business locations. In particular, there are clearly defined policies for capital expenditure including appropriate authorisation levels. Larger capital projects and major investments and divestment decisions require Board approval.
- Monitoring systems – internal controls are monitored by management review.

## INTERNAL FINANCIAL CONTROL CONTINUED

The Directors confirm that they have reviewed the effectiveness of the system of internal financial controls.

With the exception of certain matters set out in this Report in relation to the appointment of a separate Chairman and Chief Executive, the independence of Directors, the requirement to have written Directors' service contracts, the absence of a nomination committee enabling a formal procedure for the appointment of new Directors, having only two independent Non-Executive Directors, the appointment of an Executive Director to the remuneration committee and two Executive Directors to the audit committee, the Board considers that it has complied throughout the year with the provisions of Section 1 of the Combined Code issued in July 2003.

## GOING CONCERN

After making enquiries, the Directors consider that the Company and Group 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.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently, that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These financial statements will be published on the Company's website, in addition to the paper version posted to shareholders. The maintenance and integrity of the London Security plc website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

R. POLLARD
Company Secretary
27 April 2007

# DIRECTORS' REMUNERATION REPORT

The Company has followed the provisions in Schedule B of the Combined Code with respect to Directors' remuneration except that due to the small size of the Board, the remuneration committee does not consist exclusively of independent Non-Executive Directors. As the Company is quoted on AIM, it is not required to make disclosures specified by the Remuneration Report Regulations 2002.

## REMUNERATION COMMITTEE

The remuneration committee comprises H. Shouler, M. Gailer and J-J. Murray, the majority being Non-Executive Directors of the Company who are independent of management. The committee is chaired by H. Shouler. The remuneration of Non-Executive Directors is set by a committee of the other Directors. No Director is involved in deciding his own remuneration.

## POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

It is the Company's policy to provide the packages needed to attract, retain and motivate Directors of the quality required, bearing in mind the size and resources of the Company and its position relative to other companies.

## DIRECTORS' REMUNERATION

Directors' emoluments totalled £383,000 (2005: £258,000). This includes an amount paid to the highest paid Director of £171,000 (2005: £110,000).

The costs relating to the Head Office and other expenses of the Executive Directors are limited under a Services Agreement dated 10 December 1999. The total costs amounted to £1,500,000 (2005: £1,500,000) for the year ended 31 December 2006 as per the Services Agreement.

None of the Directors participate in Group pension arrangements.

On behalf of the Board

H. SHOULER
Chairman of the Remuneration Committee
27 April 2007

# INDEPENDENT AUDITORS' REPORT
## TO THE MEMBERS OF LONDON SECURITY PLC

We have audited the Group and Parent Company financial statements (the ''financial statements'') of London Security plc for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Group Equity Shareholders' Funds, the Reconciliation of Movements in Company Equity Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Chairman's Statement, the Operational Review and the Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Operational Review, the Financial Review, the Directors' Report and other information referred to on the contents page. 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 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 financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 31 December 2006 and of the Group's profit and cash flows for the year then ended;
- 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.

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
Leeds
27 April 2007

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

| | Notes | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| **Turnover** | 2 | **64,426** | 64,811 |
| Cost of sales | | **(11,719)** | (11,888) |
| **Gross profit** | | **52,707** | 52,923 |
| Distribution costs | | **(24,490)** | (24,640) |
| Administrative expenses | | **(18,594)** | (19,189) |
| **Operating profit** | | **9,623** | 9,094 |
| EBITDA* | | **14,723** | 14,258 |
| Depreciation | 13 | **(1,987)** | (2,031) |
| Operating profit before amortisation of goodwill | | **12,736** | 12,227 |
| Amortisation of goodwill | 12 | **(3,113)** | (3,133) |
| **Operating profit** | | **9,623** | 9,094 |
| Profit on disposal of fixed asset investments | 4 | **—** | 1,474 |
| Net interest payable and similar charges | 5 | **(1,263)** | (2,062) |
| Other finance costs | 6 | **(70)** | (366) |
| **Profit on ordinary activities before taxation** | 7 | **8,290** | 8,140 |
| Taxation | 8 | **(3,647)** | (3,663) |
| **Profit attributable to equity shareholders** | | **4,643** | 4,477 |
| Dividends | 9 | **(1,476)** | — |
| **Profit transferred to reserves** | 22 | **3,167** | 4,477 |
| **Basic and diluted earnings per ordinary share** | 11 | **37.7p** | 33.4p |
| **Dividend paid per ordinary share** | 9 | **12.0p** | — |

* Earnings before Interest, Taxation, Depreciation and Amortisation.

All of the above results arose from continuing operations.

# CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

| | Notes | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 12 | 43,260 | 46,230 |
| Tangible assets | 13 | 7,103 | 7,823 |
| | | 50,363 | 54,053 |
| **Current assets** | | | |
| Stocks | 15 | 4,593 | 4,897 |
| Debtors | 16 | 15,148 | 15,676 |
| Cash at bank and in hand | 20 | 8,676 | 8,253 |
| | | 28,417 | 28,826 |
| **Creditors:** amounts falling due within one year | | | |
| Finance debt | 17 | (5,051) | (5,330) |
| Other creditors | 18 | (13,962) | (15,247) |
| | | (19,013) | (20,577) |
| **Net current assets** | | 9,404 | 8,249 |
| **Total assets less current liabilities** | | 59,767 | 62,302 |
| **Creditors:** amounts falling due after more than one year | | | |
| Finance debt | 17 | (30,395) | (35,958) |
| Other creditors | 25 | (54) | — |
| **Provisions for liabilities and charges** | 19 | (553) | (399) |
| **Net assets excluding pension liability** | | 28,765 | 25,945 |
| Pension liability | 26 | (2,875) | (2,999) |
| **Net assets including pension liability** | | 25,890 | 22,946 |
| **Capital and reserves** | | | |
| Called up share capital | 21 | 123 | 123 |
| Merger reserve | 22 | 2,033 | 2,033 |
| Profit and loss account | 22 | 23,734 | 20,790 |
| **Equity shareholders' funds** | | 25,890 | 22,946 |

The financial statements on pages 20 to 42 were approved by the Board of Directors on 27 April 2007 and were signed on its behalf by:

J.G. MURRAY
Chairman
27 April 2007

# COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2006

| | Notes | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 13 | 764 | 815 |
| Investments | 14 | 56,216 | 56,146 |
| | | 56,980 | 56,961 |
| **Current assets** | | | |
| Debtors | 16 | 2,611 | 1,700 |
| Cash at bank and in hand | | 998 | — |
| | | 3,609 | 1,700 |
| **Creditors:** amounts falling due within one year | | | |
| Finance debt | 17 | (3,563) | (3,940) |
| Other creditors | 18 | (23,885) | (17,134) |
| | | (27,448) | (21,074) |
| **Net current liabilities** | | (23,839) | (19,374) |
| **Total assets less current liabilities** | | 33,141 | 37,587 |
| **Creditors:** amounts falling due after more than one year | | | |
| Finance debt | 17 | (26,890) | (30,935) |
| **Net assets** | | 6,251 | 6,652 |
| **Capital and reserves** | | | |
| Called up share capital | 21 | 123 | 123 |
| Profit and loss account | 22 | 6,128 | 6,529 |
| **Equity shareholders' funds** | | 6,251 | 6,652 |

The financial statements on pages 20 to 42 were approved by the Board of Directors on 27 April 2007 and were signed on its behalf by:

J.G. MURRAY
Chairman
27 April 2007

# CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

| | Notes | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 23 | **14,380** | 10,193 |
| **Return on investments and servicing of finance** | | | |
| Interest received | | **147** | 120 |
| Interest paid | | **(1,866)** | (1,326) |
| **Net cash outflow from return on investments and servicing of finance** | | **(1,719)** | (1,206) |
| **Taxation** | | | |
| Corporation tax paid | | **(3,307)** | (3,629) |
| **Capital expenditure** | | | |
| Payments to acquire intangible fixed assets | | **—** | (16) |
| Payments to acquire tangible fixed assets | 13 | **(1,868)** | (1,821) |
| Receipts from sales of tangible fixed assets | | **650** | 292 |
| Receipt from sale of investment | 4 | **—** | 1,544 |
| **Net cash outflow for capital expenditure** | | **(1,218)** | (1) |
| **Acquisitions and disposals** | | | |
| Payments to acquire subsidiary undertakings | 25 | **(248)** | — |
| Payment of deferred consideration on prior year acquisitions | | **—** | (516) |
| **Net cash outflow for acquisitions** | | **(248)** | (516) |
| **Equity dividends paid to shareholders** | 9 | **(1,476)** | — |
| **Net cash inflow before use of financing** | | **6,412** | 4,841 |
| **Financing** | | | |
| Purchase of own shares | | **—** | (104) |
| New long term loans | | **—** | 30,000 |
| Tender Offer | | **—** | (30,007) |
| Repayment of long term loans | | **(5,858)** | (4,078) |
| Capital repayment of finance leases | | **(131)** | (122) |
| **Net cash outflow from financing** | | **(5,989)** | (4,311) |
| **Increase in cash in the year** | 24 | **423** | 530 |

# CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2006

| | Notes | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| Profit for the financial year | | 4,643 | 4,477 |
| Currency translation differences on foreign currency net investments | 22 | (259) | (264) |
| Actuarial gain recognised in the pension scheme | 26 | 52 | 469 |
| Movement on deferred tax relating to pension scheme | 22 | (16) | (143) |
| **Total recognised gains for the year** | | **4,420** | 4,539 |

# RECONCILIATION OF MOVEMENTS IN GROUP EQUITY SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2006

| | Notes | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| Profit for the financial year | | 4,643 | 4,477 |
| Dividends | 9 | (1,476) | — |
| | | 3,167 | 4,477 |
| Purchase of own shares | | — | (104) |
| Currency translation differences on foreign currency net investments | 22 | (259) | (264) |
| Actuarial gain recognised in the pension scheme | 26 | 52 | 469 |
| Movement on deferred tax relating to pension scheme | 22 | (16) | (143) |
| Tender Offer | | — | (30,007) |
| Net addition to/(reduction in) Group equity shareholders' funds | | 2,944 | (25,572) |
| Opening Group equity shareholders' funds | | 22,946 | 48,518 |
| **Closing Group equity shareholders' funds** | | **25,890** | 22,946 |

# RECONCILIATION OF MOVEMENTS IN COMPANY EQUITY SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2006

| | Notes | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| Profit for the financial year | | 1,075 | 1,071 |
| Dividends | 9 | (1,476) | — |
| | | (401) | 1,071 |
| Purchase of own shares | | — | (104) |
| Tender Offer | | — | (30,007) |
| Net reduction in Company equity shareholders' funds | | (401) | (29,040) |
| Opening Company equity shareholders' funds | | 6,652 | 35,692 |
| **Closing Company equity shareholders' funds** | | **6,251** | 6,652 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

## 1 PRINCIPAL ACCOUNTING POLICIES

### BASIS OF ACCOUNTING
These financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been consistently applied, is set out below.

### BASIS OF CONSOLIDATION
The Group financial statements incorporate the financial statements of the Parent Company and its subsidiaries made up to 31 December 2006. The results of subsidiaries acquired or disposed of are included in the profit and loss account from the date of acquisition and up to the date of disposal. All acquisitions are accounted for using acquisition accounting and profits or losses on intra-group transactions are eliminated. The Group has adopted uniform accounting policies across the Group.

### GOODWILL
Goodwill arises where the purchase cost of a subsidiary exceeds the fair values attributable to the underlying separable net assets as at the date of acquisition. Goodwill is capitalised and amortised through the profit and loss account over its useful economic life which is normally up to 20 years. Goodwill is reviewed for impairment at the end of the first full year after acquisition and in other years if events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment assessed is charged to the profit and loss account.

### CURRENCY TRANSLATION
The balance sheets of overseas subsidiaries and items denominated in foreign currency in the balance sheets of United Kingdom companies are translated into Sterling at the rates of exchange ruling at the balance sheet date. The profit and loss accounts of overseas subsidiaries are translated into Sterling at the average rates of exchange ruling during the year. Gains or losses on foreign exchange are dealt with in arriving at operating profit except those relating to the translation of assets, liabilities and reserves of overseas subsidiaries which are shown as a movement on Group reserves.

### TANGIBLE FIXED ASSETS
The cost of tangible fixed assets is their purchase cost or internal production costs, together with any incidental costs of acquisition.

Depreciation is provided for on all tangible fixed assets, other than freehold land, on the straight line method at rates calculated to write off the cost or valuation less estimated residual values over the estimated lives of the assets. The annual rates are as follows:

| | |
|---|---|
| Freehold buildings | 2 – 6% |
| Plant, machinery and motor vehicles | 10 – 33% |
| Fixtures, fittings and equipment | 10% |
| Share in aircraft | 5% |

Fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in value is charged to the profit and loss account.

### STOCKS
Stocks and work in progress are valued at the lower of cost and net realisable value after making adequate provision for obsolete and slow moving stock. Cost is calculated on a first in first out basis and comprises raw materials, direct labour and an appropriate proportion of overheads.

### INVESTMENTS
Investments in subsidiary undertakings and unlisted investments are included at cost unless, in the opinion of the Directors, an impairment has occurred, in which case the deficiency is provided for and charged in the Company's profit and loss account.

### TURNOVER
Group turnover represents amounts invoiced to customers net of returns and value added tax.

### REVENUE RECOGNITION
The Group derives its revenue from a number of sources – the outright sale of fire fighting equipment, the servicing and maintaining of this equipment and the provision of fire fighting equipment under rental contracts. The revenue recognition policies for each of these sources is as follows:

- revenue from the outright sale of equipment is recognised upon delivery to a customer;
- revenue from the installation and servicing of equipment is recognised when the installation or service has been performed;
- revenue from the provision of maintenance services is recognised over the term of the maintenance contract on a pro rata basis with the unexpired portion held in deferred income; and
- revenue from the equipment leased to customers under an operating lease is recognised over the term of the lease on a pro rata basis.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2006

## 1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### DEFERRED TAX
Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax at a future date, at rates expected to apply when they crystallise, based on current tax rates and law. Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### FINANCE ARRANGEMENT COSTS
Costs of arranging bank loans and interest rate caps are treated as a deduction from the loan liability and are amortised over the lives of the relevant loans.

### RESEARCH AND DEVELOPMENT EXPENDITURE
Research and development expenditure is written off in the year in which it is incurred.

### DEFINED BENEFIT PENSION SCHEMES
Triennial actuarial valuations are prepared by independent professionally qualified actuaries. The last valuation was performed as at 6 April 2004. These valuations determine the level of contributions required to fund the benefits set out in the rules of the scheme and allow for the periodic increase in pension payments. Following the full adoption of FRS 17, the regular service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service is charged to operating profit in the year.

A credit representing the expected return on the assets of the scheme during the year is included within other finance costs. This is based on the market value of the assets of the scheme at the start of the financial year. A charge within other finance charges representing the expected increase in the liabilities of the scheme during the year is included within other finance costs. This arises from the liabilities of the scheme being one year closer to payment.

The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet net of deferred tax. Differences between actual and expected returns on assets during the year are recognised in the Statement of Total Recognised Gains and Losses in the year, together with differences arising from changes in assumptions and experience gains and losses.

### DEFINED CONTRIBUTION PENSION SCHEMES
The contributions payable by the Group are charged to the profit and loss account in respect of the year to which they relate. The assets of these schemes are managed and held independently of the Group.

### LEASES
Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

### HIRE PURCHASE AGREEMENTS
Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a sum of digits basis.

### ONEROUS LEASE PROVISION
Provision is made for the future rent expense and related costs of leasehold property (net of estimated sublease income) where the property is sublet or vacant and currently not planned to be used for continuing operations.

## 2 TURNOVER
Turnover may be analysed geographically by origin as follows:

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| United Kingdom | **24,671** | 27,160 |
| Belgium | **20,567** | 19,558 |
| Holland | **13,873** | 13,259 |
| Austria | **2,644** | 2,670 |
| Switzerland | **2,671** | 2,164 |
| | **64,426** | 64,811 |

The Directors consider that the Group's activities constitute both one class of business and, given the relative characteristics of each country in which the Group operates, one geographical market. The Directors consider that a geographical analysis of turnover by destination is not materially different from turnover by origin.

## 3 EMPLOYEES AND DIRECTORS

### STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Wages and salaries | 23,817 | 23,856 |
| Social security costs | 4,411 | 3,782 |
| Other pensions costs (note 26) | 666 | 688 |
| | 28,894 | 28,326 |

The average monthly number of persons, including Executive Directors, employed by the Group during the year was:

### BY GEOGRAPHICAL AREA

| | 2006 Number | 2005 Number |
|---|---|---|
| United Kingdom | 330 | 389 |
| Rest of Europe | 444 | 449 |
| | 774 | 838 |

### DIRECTORS' EMOLUMENTS

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Aggregate emoluments | 383 | 258 |

The amount paid to the highest paid Director was £171,000 (2005: £110,000). None of the Directors participate in the Group's pension arrangements.

## 4 PROFIT ON DISPOSAL OF FIXED ASSET INVESTMENT

During the year ended 31 December 2005, the Group disposed of its trade investment in Sicli Materiel Incendie S.A. for a consideration of Swiss Francs 3.5 million (£1,544,000) realising a profit on disposal of £1,474,000.

## 5 NET INTEREST PAYABLE AND SIMILAR CHARGES

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Interest payable and similar charges:** | | |
| Bank loans, overdrafts and other loans repayable within five years | 1,857 | 1,326 |
| Amortisation of finance arrangement costs | 147 | 78 |
| Cost of interest rate capping | 9 | 9 |
| Exchange loss on foreign currency balances | 41 | 65 |
| Exchange (gain)/loss on foreign currency loans | (644) | 704 |
| | 1,410 | 2,182 |
| Bank interest receivable | (147) | (120) |
| | 1,263 | 2,062 |

## 6 OTHER FINANCE COSTS

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Expected return on pension scheme assets | 545 | 466 |
| Interest on pension scheme liabilities | (615) | (832) |
| Net charge | (70) | (366) |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2006

## 7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION
This is stated after charging/(crediting):

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Depreciation on tangible owned fixed assets | **1,912** | 1,929 |
| Depreciation on tangible fixed assets held under hire purchase contracts | **75** | 102 |
| Amortisation on intangible fixed assets | **3,113** | 3,133 |
| Research and development costs | **20** | 50 |
| (Profit)/loss on disposal of tangible fixed assets | **(152)** | 1 |
| Hire charges under operating leases: | | |
| – Plant and machinery | **—** | 7 |
| – Other | **70** | 172 |

### SERVICES PROVIDED BY THE GROUP'S EXTERNAL AUDITORS AND NETWORK FIRMS
During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Audit services:** | | |
| Fees payable to Company auditor for the audit of Parent Company and consolidated accounts | **18** | 26 |
| **Non-audit services:** | | |
| Fees payable to the Company's auditors and its associates for other services: | | |
| The audit of the Company's subsidiaries pursuant to legislation | **142** | 147 |
| Other services supplied pursuant to legislation (Company: £Nil; 2005: £5,000) | **—** | 16 |
| Services relating to taxation: | | |
| – Compliance services | **29** | 30 |
| – Advisory services | **190** | 84 |
| All other services | **23** | 21 |
| | **402** | 324 |

Non-audit fees for Company and UK subsidiaries only comprised fees for tax compliance services of £29,000 (2005: £8,000) and fees for tax advisory services of £190,000 (2005: £84,000).

## 8 TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **United Kingdom** | | |
| – Corporation tax at 30% (2005: 30%) | — | (79) |
| – Adjustment in respect of prior periods | 131 | 31 |
| | 131 | (48) |
| **Foreign tax** | | |
| – Corporation taxes | 3,659 | 3,676 |
| Total current tax | 3,790 | 3,628 |
| **Deferred tax** | | |
| Original and reversal of timing differences | | |
| Representing: | | |
| – United Kingdom | (52) | 172 |
| – Foreign tax | (91) | (137) |
| Total deferred tax | (143) | 35 |
| Total tax charge | 3,647 | 3,663 |

The tax for the year is higher (2005: higher) than the standard rate of corporation tax in the United Kingdom (30%) (2005: 30%). The differences are explained below:

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Profit on ordinary activities before taxation | 8,290 | 8,140 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2005: 30%) | 2,487 | 2,442 |
| Effects of: | | |
| – Expenses not deductible for tax purposes | 686 | 880 |
| – Adjustment to tax in respect of prior periods | 131 | 31 |
| – Adjustment in respect of foreign tax rates | 456 | 253 |
| – Depreciation in excess of capital allowances | (47) | (28) |
| – Other timing differences | 77 | 50 |
| Current tax charge | 3,790 | 3,628 |

The Group expects to pay similar levels of taxation going forward.

## 9 DIVIDENDS

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Equity – ordinary** | | |
| Final paid £0.12 (2005: £Nil) per share | 1,476 | — |
| | 1,476 | — |

The Board is not recommending the payment of a final dividend this year.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2006

## 10 PROFIT FOR THE FINANCIAL YEAR
London Security plc has not presented its own profit and loss account as the Directors have taken advantage of the exemption available under Section 230 of the Companies Act 1985. The profit for the financial year of the Company included within the consolidated profit is £1,075,000 (2005: £1,071,000).

## 11 EARNINGS PER SHARE
The calculation of basic earnings per ordinary share ("EPS") is based on the profit on ordinary activities after taxation of £4,643,000 (2005: £4,477,000) and on 12,303,198 (2005: 13,389,966) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

For diluted earnings per ordinary share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The only potential ordinary shares in the Group are in respect of the unapproved share option scheme (see note 21). The revised weighted average number of shares is 12,304,394 (2005: 13,404,033). After taking into account the effect of dilutive securities, the basic EPS and adjusted EPS figures are unaltered.

The calculation of adjusted earnings per ordinary share is based on 12,303,198 (2005: 13,389,966) ordinary shares being the weighted average number of ordinary shares in issue in the year and on adjusted earnings which are calculated as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | £'000 | Pence | £'000 | Pence |
| Profit on ordinary activities after taxation | **4,643** | **37.7** | 4,477 | 33.4 |
| Eliminate effect of: | | | | |
| – Amortisation of goodwill | **3,113** | **25.3** | 3,133 | 23.4 |
| Adjusted profit on ordinary activities after taxation | **7,756** | **63.0** | 7,610 | 56.8 |

The adjusted EPS figures are given in order that shareholders may understand the effect of goodwill amortisation on the results for the year.

## 12 INTANGIBLE FIXED ASSETS

| Group | Goodwill £'000 |
|---|---|
| **Cost** | |
| At 1 January 2006 | 62,553 |
| Additions (note 25) | 228 |
| Exchange differences | (334) |
| **At 31 December 2006** | **62,447** |
| **Amortisation** | |
| At 1 January 2005 | 16,323 |
| Charge for the year | 3,113 |
| Exchange differences | (249) |
| **At 31 December 2006** | **19,187** |
| **Net book amount** | |
| **At 31 December 2006** | **43,260** |
| Net book amount | |
| At 31 December 2005 | 46,230 |

Additions relate to the acquisition of the entire share capital of SAS Sprl, a company incorporated in Belgium. SAS Sprl was acquired by a Group subsidiary, Dimex Technics S.A., for a cash consideration of £302,000, which gave rise to £228,000 of goodwill on consolidation (see note 25). The proximity of the acquisition to the year end meant no amortisation was charged in 2006.

## 13 TANGIBLE FIXED ASSETS

| Group | Freehold land and buildings £'000 | Plant and machinery £'000 | Motor vehicles and share in aircraft £'000 | Fixtures, fittings and equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2006 | 5,848 | 13,121 | 6,617 | 3,023 | 28,609 |
| Reclassification | (30) | 105 | 487 | 468 | 1,030 |
| Additions | 72 | 507 | 1,037 | 252 | 1,868 |
| On acquisition of subsidiary undertaking (see note 25) | — | 14 | — | — | 14 |
| Disposals | (198) | (567) | (1,364) | (121) | (2,250) |
| Exchange adjustment | (114) | (345) | (161) | (7) | (627) |
| **At 31 December 2006** | **5,578** | **12,835** | **6,616** | **3,615** | **28,644** |
| **Depreciation** | | | | | |
| At 1 January 2006 | 3,433 | 12,018 | 2,959 | 2,376 | 20,786 |
| Reclassification | (17) | 120 | 442 | 485 | 1,030 |
| Disposals | (58) | (447) | (1,141) | (106) | (1,752) |
| Charge for the year | 101 | 421 | 1,152 | 313 | 1,987 |
| Exchange adjustment | (85) | (308) | (80) | (37) | (510) |
| **At 31 December 2006** | **3,374** | **11,804** | **3,332** | **3,031** | **21,541** |
| **Net book amount** | | | | | |
| **At 31 December 2006** | **2,204** | **1,031** | **3,284** | **584** | **7,103** |
| Net book amount | | | | | |
| At 31 December 2005 | 2,415 | 1,103 | 3,658 | 647 | 7,823 |

Freehold land and buildings have been included on an historical cost basis.

Motor vehicles include vehicles under hire purchase contracts with a cost of £294,000 (2005: £462,000) and a net book value of £143,000 (2005: £303,000).

Plant and machinery includes fire extinguishers leased to customers under operating lease contracts with a cost of £6,966,000 (2005: £7,013,000) and a net book value of £449,000 (2005: £402,000).

| Company | Share in aircraft £'000 |
|---|---|
| **Cost** | |
| At 1 January and **31 December 2006** | **1,019** |
| **Depreciation** | |
| At 1 January 2006 | 204 |
| Charge for the year | 51 |
| **At 31 December 2006** | **255** |
| **Net book amount** | |
| **At 31 December 2006** | **764** |
| Net book amount | |
| At 31 December 2005 | 815 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2006

## 14 INVESTMENTS

| Company | Shares in subsidiary undertakings £'000 | Long term loans to subsidiary undertakings £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2006 | 35,956 | 20,190 | 56,146 |
| Additional long term loans provided to subsidiary undertakings | — | 70 | 70 |
| **At 31 December 2006** | **35,956** | **20,260** | **56,216** |

A schedule of Group undertakings, all of which are wholly owned subsidiary undertakings, is included in note 28.

## 15 STOCKS

| | Group | |
|---|---|---|
| | 2006 £'000 | 2005 £'000 |
| Raw materials and consumables | 2,309 | 2,468 |
| Work in progress | 168 | 290 |
| Finished goods | 2,116 | 2,139 |
| | 4,593 | 4,897 |

## 16 DEBTORS

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| **Amounts falling due within one year:** | | | | |
| Trade debtors | 12,117 | 12,391 | — | — |
| Amounts owed by subsidiary undertakings | — | — | 1,854 | 612 |
| Amounts owed by related undertakings | 432 | 272 | 368 | 242 |
| Other debtors | 670 | 468 | 205 | 142 |
| Prepayments and accrued income | 1,693 | 1,410 | — | 14 |
| Taxation recoverable | 236 | 1,135 | 184 | 690 |
| | 15,148 | 15,676 | 2,611 | 1,700 |

## 17 FINANCE DEBT

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| Bank loans and overdrafts (secured on the assets of certain Group undertakings) | 35,494 | 41,352 | 30,576 | 35,033 |
| Unamortised finance arrangement costs (included within prepayments and accrued income) | (123) | (270) | (123) | (158) |
| | 35,371 | 41,082 | 30,453 | 34,875 |
| Hire purchase creditors | 75 | 206 | — | — |
| | 35,446 | 41,288 | 30,453 | 34,875 |
| Repayable by instalments as follows: | | | | |
| **Between two and five years:** | | | | |
| Bank loans and overdrafts | 25,401 | 30,541 | 23,327 | 27,031 |
| Hire purchase creditors | — | 5 | — | — |
| | 25,401 | 30,546 | 23,327 | 27,031 |
| **Between one and two years:** | | | | |
| Bank loans and overdrafts | 4,985 | 5,333 | 3,563 | 3,904 |
| Hire purchase creditors | 9 | 79 | — | — |
| | 4,994 | 5,412 | 3,563 | 3,904 |
| Total due after more than one year | 30,395 | 35,958 | 26,890 | 30,935 |
| **Within one year:** | | | | |
| Bank loans and overdrafts | 4,985 | 5,208 | 3,563 | 3,940 |
| Hire purchase creditors | 66 | 122 | — | — |
| Total due within one year | 5,051 | 5,330 | 3,563 | 3,940 |
| | 35,446 | 41,288 | 30,453 | 34,875 |

Interest rates (including the bank's margin) on the bank loans in existence during the year averaged 4.9% (2005: 4.2%) per annum. Bank loans and overdrafts are stated net of unamortised finance arrangement costs of £123,000 (2005: £270,000) of which £88,000 (2005: £157,000) is to be amortised after more than one year.

## 18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| Trade creditors | 1,625 | 2,239 | — | — |
| Amounts owed to subsidiary undertakings | — | — | 23,464 | 16,853 |
| Amounts owed to related undertakings | 438 | 430 | — | — |
| Other creditors | 2,835 | 2,785 | 118 | 77 |
| Corporation tax payable | 2,174 | 2,856 | — | — |
| Other taxation and social security | 3,219 | 3,595 | — | — |
| Accruals | 1,667 | 1,263 | 303 | 204 |
| Deferred income | 2,004 | 2,079 | — | — |
| | 13,962 | 15,247 | 23,885 | 17,134 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2006

## 19 PROVISIONS FOR LIABILITIES AND CHARGES

| Group | Onerous leases £'000 | Other provision £'000 | Deferred taxation £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2006 | — | 210 | 189 | 399 |
| Amount charged to the profit and loss account | 350 | — | (143) | 207 |
| Amount utilised in the year | — | (53) | — | (53) |
| **Provision at 31 December 2006** | **350** | **157** | **46** | **553** |

### ONEROUS LEASES
Provision has been made for the future rent expense and related costs of a number of leasehold properties (net of estimated sublease income) where the property is sublet or vacant and currently not planned to be used for continuing operations. The provision has not been discounted as the Directors do not consider the difference to be material. The Directors expect to utilise the provision within the next two years.

### OTHER PROVISION
The other provision relates to after sales costs. The provision is expected to be fully utilised in the next two years and has not been discounted as the Directors consider the difference not to be material.

| | Amount provided | | Amount unprovided | |
|---|---|---|---|---|
| Group | **2006 £'000** | 2005 £'000 | **2006 £'000** | 2005 £'000 |
| **Deferred taxation** | | | | |
| The provided and unprovided deferred taxation liability/(asset) comprises: | | | | |
| – Short term timing differences – Europe | **74** | 170 | **—** | — |
| – Accelerated capital allowances | **(1)** | 19 | **(252)** | (224) |
| – Short term timing differences – United Kingdom | **(27)** | — | **37** | (184) |
| – Capital gains on revaluation | **—** | — | **105** | 105 |
| – Losses | **—** | — | **(2,021)** | (1,883) |
| Deferred taxation provision/(asset) | **46** | 189 | **(2,131)** | (2,186) |
| Deferred tax asset on pension liability (note 26) | **(1,258)** | (1,310) | | |
| | **(1,212)** | (1,121) | | |

| | £'000 |
|---|---|
| At 1 January 2006 | (1,121) |
| Currency movement | 36 |
| Amount charged to the profit and loss account | (143) |
| Amount charged to the consolidated statement of total recognised gains and losses | 16 |
| **Provision at 31 December 2006 including deferred tax on pension liability** | (1,212) |

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences will reverse, based on tax rates and laws substantively enacted at the balance sheet date being a rate of 30%.

No provision has been made for deferred tax on gains recognised on revaluing property or on the sale of property where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. No deferred tax assets have been recognised as it is not considered to be more likely than not that they will be recovered. At present, it is not envisaged that any tax for the above such matters will become payable or recoverable in the foreseeable future.

## 19 PROVISIONS FOR LIABILITIES AND CHARGES CONTINUED

### OTHER PROVISION CONTINUED

| Company | Amount provided 2006 £'000 | Amount provided 2005 £'000 | Amount unprovided 2006 £'000 | Amount unprovided 2005 £'000 |
|---|---|---|---|---|
| **Deferred taxation** | | | | |
| The unprovided deferred taxation asset comprises: | | | | |
| – Losses | — | — | (2,021) | (1,883) |
| Deferred taxation asset | — | — | (2,021) | (1,883) |

## 20 FINANCIAL INSTRUMENTS

Details of the Board's policy on treasury management and interest rate risk are included in the Financial Review on page 9.

The Group's policy is not to trade in financial instruments.

Short term debtors and creditors have been excluded from all of the following disclosures as permitted under FRS 13 'Derivatives and other financial instrument disclosures'.

### INTEREST RATE RISK PROFILE OF FINANCIAL LIABILITIES

| | Fixed rate financial liabilities 2006 £'000 | Floating rate financial liabilities 2006 £'000 | Total 2006 £'000 | Weighted average interest rate 2006 | Fixed rate financial liabilities 2005 £'000 | Floating rate financial liabilities 2005 £'000 | Total 2005 £'000 | Weighted average interest rate 2005 |
|---|---|---|---|---|---|---|---|---|
| **Currency** | | | | | | | | |
| Sterling | 75 | 10,019 | 10,094 | 6.6% | 206 | 12,351 | 12,557 | 5.5% |
| Euro | — | 25,475 | 25,475 | 5.0% | — | 29,001 | 29,001 | 3.7% |
| | 75 | 35,494 | 35,569 | 5.5% | 206 | 41,352 | 41,558 | 4.2% |

All the Group's provisions and creditors falling due within one year (other than bank or other borrowings) are excluded from the table above due to the exclusion of short term items or because they do not meet the definitions of a financial liability, such as provisions, tax and pension balances.

The Group's policy is to hedge interest rate risk using interest rate caps and swaps to the extent that this is appropriate in relation to the Directors' interest rate expectations. In June 2006 the Group entered into interest rate caps for a period of four years on Sterling borrowings of £11.1 million and Euro borrowings of €40.0 million (£26.8 million equivalent) at interest rates of 5.5% and 4.25% respectively excluding the bank margin, at a cost of £164,000. The borrowing covered by the caps is 100% of the Group's floating rate financial liabilities and reduces in proportion to the loans outstanding at capital repayment dates. These caps are released to the profit and loss account over the life of the cap.

Floating rate financial liabilities bear interest at rates based on interest rate fixings at 31 December 2006 plus the bank's interest margin where appropriate.

### INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS

| Cash at bank and in hand | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Currency** | | |
| Sterling | 3,413 | 1,115 |
| Swiss Franc | 1,496 | 2,923 |
| Euro | 3,767 | 4,215 |
| At 31 December | 8,676 | 8,253 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2006

## 20 FINANCIAL INSTRUMENTS CONTINUED

### MATURITY OF FINANCIAL LIABILITIES

The maturity profile of the carrying amount of the Group's financial liabilities at 31 December 2006 and 2005 is analysed in note 17.

### BORROWING FACILITIES

The Group had an undrawn committed borrowing facility of £5 million (2005: £5 million).

### FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FRS 13 requires that a comparison is provided of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31 December 2006 and 2005. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale.

In respect of finance debt, as all positions maintained are for periods under three months and most fixings were made on 30 December 2006, there is no material difference between its fair value and book value.

In addition, the carrying value of cash at bank and in hand represents its fair value due to its short maturity, and the fair value of the interest rate caps is higher than the book value by £6,000 (2005: lower by £28,000).

In respect of the assets held under hire purchase agreements, these are held as tangible fixed assets at cost less accumulated depreciation. There is no material difference between the fair value of these assets and their net book value.

### CURRENCY EXPOSURES/HEDGES

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

| | Net foreign currency monetary assets/(liabilities) | | | |
|---|---|---|---|---|
| | Sterling £'000 | Euro £'000 | Swiss Francs £'000 | Total £'000 |
| **2006** | | | | |
| **Functional currency of the Group operation:** | | | | |
| **Sterling** | **—** | **(23,346)** | **—** | **(23,346)** |
| 2005 | | | | |
| Functional currency of the Group operation: | | | | |
| Sterling | — | (26,388) | — | (26,388) |

## 21 CALLED UP SHARE CAPITAL

| | 2006 Number | 2006 £'000 | 2005 Number | 2005 £'000 |
|---|---|---|---|---|
| **Authorised** | | | | |
| Ordinary shares of 1p each | **67,539,188** | **675** | 67,539,188 | 675 |
| **Allotted, called up and fully paid** | | | | |
| Ordinary shares of 1p each | **12,303,198** | **123** | 12,303,198 | 123 |

Certain senior Executives hold options to subscribe for shares in the Company under the unapproved share option scheme. The share options are exercisable three years after the date of grant subject to EBITDA exceeding £13,694,000 in the preceding year's financial statements. The share price at date of grant and the exercise price was £11.50.

The only outstanding options at 31 December 2006 are those under the unapproved share option scheme granted to employees as follows:

| Date granted | At 1 January 2006 | Cancelled in the year | At 31 December 2006 | Exercise price (£) | Dates normally exercisable |
|---|---|---|---|---|---|
| 14/01/03 | 90,000 | (34,500) | **55,500** | 11.50 | 14/01/2006 – 14/01/2013 |

The mid-market price of the Company's shares at 31 December 2006 was £11.50 and the range during the year was £11.25 to £12.25.

The 34,500 share options cancelled in the year were waived in exchange for salary payments totalling £62,000.

## 22 SHARE PREMIUM ACCOUNT AND RESERVES

| Group | Merger reserve £'000 | Profit and loss account £'000 |
|---|---|---|
| At 1 January 2006 | 2,033 | 20,790 |
| Exchange adjustments | — | (259) |
| Actuarial gain on pension scheme | — | 52 |
| Movement on deferred tax relating to pension asset | — | (16) |
| Retained profit for the year | — | 3,167 |
| **At 31 December 2006** | **2,033** | **23,734** |

The merger reserve is not a distributable reserve.

| Company | Profit and loss account £'000 |
|---|---|
| At 1 January 2006 | 6,529 |
| Retained profit for the year | (401) |
| **At 31 December 2006** | **6,128** |

## 23 CASH FLOW FROM OPERATING ACTIVITIES

| Group | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Reconciliation of operating profit to net cash inflow from operating activities** | | |
| Operating profit | **9,623** | 9,094 |
| Amortisation of goodwill | **3,113** | 3,133 |
| Depreciation | **1,987** | 2,031 |
| (Profit)/loss on disposal of fixed assets | **(152)** | 1 |
| Exchange differences | **546** | (848) |
| Difference between pension charge and cash contributions | **(384)** | (968) |
| Increase in debtors | **(329)** | (762) |
| Decrease in creditors | **(661)** | (810) |
| Increase in provisions | **257** | 167 |
| Decrease/(increase) in stocks | **380** | (845) |
| Net cash inflow from operating activities | **14,380** | 10,193 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2006

## 24 RECONCILIATION OF MOVEMENT IN NET DEBT

| | At 1 January 2006 £'000 | Cash flow £'000 | Non-cash items £'000 | At 31 December 2006 £'000 |
|---|---|---|---|---|
| Cash in hand and at bank | 8,253 | 423 | — | **8,676** |
| Debt due within one year | (5,208) | 370 | (147) | **(4,985)** |
| Debt due after one year | (35,874) | 5,488 | — | **(30,386)** |
| Finance leases | (206) | 131 | — | **(75)** |
| Total | (33,035) | 6,412 | (147) | **(26,770)** |

## RECONCILIATION OF DECREASE IN CASH TO MOVEMENT IN NET DEBT

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Increase in cash | **423** | 530 |
| Decrease/(increase) in debt | **5,989** | (25,800) |
| Change in net debt from cash flows | **6,412** | (25,270) |
| Non-cash changes | **(147)** | (87) |
| Net debt at 1 January | **(33,035)** | (7,678) |
| Net debt at 31 December | **(26,770)** | (33,035) |

Non-cash changes relate to the amortisation of finance arrangement costs.

## 25 ACQUISITIONS

On 19 December 2006 the Group purchased the entire issued share capital of SAS Sprl, a company incorporated, and which operates, in Belgium. The book and provisional fair value of the net assets acquired were as follows:

| | Book and provisional fair values £'000 |
|---|---|
| Tangible fixed assets | 14 |
| Stock | 76 |
| Debtors | 42 |
| Creditors | (58) |
| Fair value of net assets acquired | 74 |
| Goodwill (note 12) | 228 |
| Consideration | 302 |

Satisfied by:

| | Provisional consideration £'000 |
|---|---|
| Cash | 248 |
| Deferred consideration | 54 |
| | 302 |

The Directors do not consider the acquisition of SAS Sprl to be material to the Group or to have had a material impact on the results of the Group for the year ended 31 December 2006 given the proximity of the acquisition to the year end. Consequently, the results for the year ended 31 December 2006 have not been allocated between continuing operations and acquisitions, as required by FRS 3 'Reporting financial performance', and the impact of the acquisition on the cash flows of the Group, as required by FRS 1 'Cash flow statements', have also not been disclosed.

## 26 PENSIONS

### GROUP

The Group operates a number of pension schemes. Details of the major schemes are set out below.

The Nu-Swift Limited Group operates a funded defined benefit pension scheme, which was closed to new entrants with effect from 1 December 2002, providing benefits based on final pensionable earnings. The assets of the scheme are held separately from those of the Group, being invested with Legal and General Investment Management. The total pension cost of the Group is determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was as at 6 April 2004. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 7% per annum, that salary increases would average 4% per annum and that present and future pensions would increase at the rate of 3% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £6,411,000 and that the actuarial value of those assets represented 79% of the benefits that had accrued to members.

In addition there is a defined contribution stakeholder pension scheme in operation within the United Kingdom, as well as a defined contribution pension scheme for two United Kingdom Executives.

The Ansul Group operates a number of funded pension schemes, the majority of which are prescribed by the State. Included within these is a funded pension scheme for which the majority of the Belgian employees are eligible, providing benefits based on final pensionable earnings. The assets of the scheme are held separately from those of the Ansul Group being invested with Swiss Life. The total pension cost of the Ansul Group scheme is determined by an independent qualified actuary.

Nu-Swift Brandbeveiliging B.V. operates a defined benefit pension scheme for its Dutch employees providing benefits based on final pensionable earnings. The assets of the scheme are held separately from those of Nu-Swift Brandbeveiliging B.V. The total cost of the scheme is determined by an independent qualified actuary.

In respect of the Nu-Swift Limited Group, Nu-Swift Brandbeveiliging B.V. and Ansul schemes (the "Schemes"), the valuations used for FRS 17 in order to assess the liabilities of the Schemes are based on actuarial valuations at 6 April 2004, 4 April 2006 and 31 December 2005 respectively. The results of these valuations have been projected to 31 December 2006 and then recalculated using the assumptions set out below. The Schemes' assets are stated at their market value at 31 December 2006.

The financial assumptions used to calculate liabilities of the Schemes under FRS 17 are:

| | **2006** | 2005 | 2004 |
|---|---|---|---|
| Discount rate | **4.25% – 5.10%** | 4.00% – 4.80% | 5.30% – 5.75% |
| Inflation rate | **2.00% – 3.00%** | 2.00% – 2.90% | 2.00% – 2.90% |
| Salary increase rate | **3.00% – 4.00%** | 1.75% – 3.90% | 2.00% – 3.90% |
| Increases for pensions in payment | **2.70%** | 2.60% | 2.60% |
| Revaluation of deferred pensions | **3.00%** | 2.90% | 2.90% |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2006

## 26 PENSIONS CONTINUED
### GROUP CONTINUED

The assets in the Schemes and the expected rates of return were:

| | Long term return expected at 31 December 2006 | Value at 31 December 2006 £'000 | Long term return expected at 31 December 2005 | Value at 31 December 2005 £'000 | Long term return expected at 31 December 2004 | Value at 31 December 2004 £'000 |
|---|---|---|---|---|---|---|
| Equities | 7.60% | 5,282 | 7.20% | 4,880 | 7.00% | 4,118 |
| Assets with guaranteed interest with insurer | 4.00% | 1,477 | 4.00% | 1,387 | 3.25% – 4.75% | 1,330 |
| Bonds | 4.85% | 4,420 | 4.50% | 4,227 | 5.30% | 2,646 |
| Cash | 5.00% | 85 | 4.00% | 177 | 4.50% | 56 |
| | | 11,264 | | 10,671 | | 8,150 |
| Present value of the Schemes' liabilities | | (15,397) | | (14,980) | | (13,472) |
| Deficit in the Schemes | | (4,133) | | (4,309) | | (5,322) |
| Related deferred tax asset | | 1,258 | | 1,310 | | 1,605 |
| Net pension deficit | | (2,875) | | (2,999) | | (3,717) |

The following disclosures relate to the Schemes:

### ANALYSIS OF THE AMOUNT CHARGED TO OPERATING PROFIT

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Current service cost | 590 | 631 |
| Total operating charge | 590 | 631 |

### MOVEMENT IN DEFICIT DURING THE YEAR

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Deficit at the start of the year | (4,309) | (5,322) |
| Current service cost | (590) | (631) |
| Contributions | 784 | 1,541 |
| Other finance cost | (70) | (366) |
| Actuarial gain | 52 | 469 |
| Deficit at the end of the year | (4,133) | (4,309) |

### ANALYSIS OF THE AMOUNT RECOGNISED IN THE STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Actual return less expected return on pension scheme assets | 71 | 958 |
| Experience gains and losses arising on the scheme liabilities | — | — |
| Changes in assumptions underlying the present value of the scheme liabilities | (19) | (489) |
| Actuarial gain recognised in the Consolidated Statement of Total Recognised Gains and Losses | 52 | 469 |

## 26 PENSIONS CONTINUED

### HISTORY OF EXPERIENCE GAINS AND LOSSES

| | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Difference between the actual and expected return on scheme assets | | | | |
| Amount (£'000) | 71 | 958 | 287 | 540 |
| Percentage of scheme assets | 1.0% | 9.0% | 4.0% | 8.0% |
| Experience gains and losses on scheme liabilities | | | | |
| Amount (£'000) | — | — | (726) | — |
| Percentage of scheme liabilities | — | — | (6.0%) | — |
| Total amount recognised in Statement of Total Recognised Gains and Losses | | | | |
| Amount (£'000) | 52 | 469 | (1,830) | (367) |
| Percentage of scheme liabilities | 0.3% | 3.0% | (14.0%) | (4.0%) |

The Group's profit and loss reserve at 31 December 2006 is as follows:

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Profit and loss reserve including pension liability | 23,734 | 20,790 |
| Pension liability | 2,875 | 2,999 |
| Profit and loss reserve excluding pension liability | 26,609 | 23,789 |

The contributions paid by the Group to the defined contribution stakeholder pension schemes in operation within the United Kingdom amounted to £76,000 in the year ended 31 December 2006 (2005: £57,000).

Total pension costs charged to the profit and loss account for all schemes in which the Group participates amounts to £666,000 for the year ended 31 December 2006 (2005: £688,000).

### COMPANY

The contributions paid by the Company to the defined contribution stakeholder pension scheme in operation within the United Kingdom amounted to £16,000 in the year ended 31 December 2006 (2005: £21,000).

## 27 OPERATING LEASE RENTAL COMMITMENTS ON LAND AND BUILDINGS

### GROUP

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Annual commitments for leases expiring: | | |
| – Within one year | 91 | 92 |
| – Between two and five years inclusive | 77 | 143 |
| | 168 | 235 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2006

## 28 GROUP UNDERTAKINGS
The subsidiary undertakings of the Company, in which the Group wholly owns the entire issued and voting ordinary share capital, are as follows:

| | Activity | Country of registration or incorporation and operation |
|---|---|---|
| All-Protec N.V. | Fire protection | Belgium |
| Ansul B.V. | Fire protection | Holland |
| Ansul S.A. | Fire protection | Belgium |
| ASCO Extinguishers Company Limited | Fire protection | Scotland and England |
| Dimex Technics S.A. | Fire protection | Belgium |
| Feuerloscher Nu-Swift (Schweiz) AG | Fire protection | Switzerland* |
| Fire Protection Holdings Limited | Sub-holding | England |
| GFA Premier Limited | Fire protection | England |
| Hoyles Fire & Safety Limited | Fire protection | England |
| Hoyles Limited | Sub-holding | England |
| Importex S.A. | Fire protection | Belgium |
| L W Safety Limited | Fire protection | England |
| Maclin S.A. | Fire protection | Switzerland* |
| M K Fire Limited | Fire protection | England |
| Nu-Swift (Engineering) Limited | Fire protection | England |
| Nu-Swift Brandbeveiliging B.V. | Fire protection | Holland* |
| Nu-Swift International Limited | Fire protection | England |
| Nu-Swift Limited | Sub-holding | England |
| Othmar Hug Feuerschutz G.m.b.H. | Fire protection | Switzerland* |
| SAS Sprl | Fire protection | Belgium |
| Toldwell Limited | Sub-holding | England |
| Total Firestop G.m.b.H. | Fire protection | Austria |
| Total TF AG | Fire protection | Switzerland* |
| TVF (UK) Plc | Fire protection | England |
| United Fire Alarms Limited | Alarms | England |

*Auditors other than PricewaterhouseCoopers LLP and network member firms.

With the exception of the Company's 100% interest in Fire Protection Holdings Limited, the shares in the remaining Group undertakings are held by subsidiary undertakings.

## 29 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY
The Company regards EOI Fire SARL, a company registered in Luxembourg, as its ultimate parent undertaking through its 80% interest in London Security plc. The Directors regard J.G. Murray as the ultimate controlling party through his controlling interest in EOI Fire SARL.

## 30 RELATED PARTY TRANSACTIONS
During the year the Group has incurred costs amounting to £1,500,000 (2005: £1,500,000) in respect of the Executive Directors including the Head Office and other expenses under the Services Agreement referred to in the Directors' Remuneration Report. Balances disclosed in notes 16 and 18 as being due from and to related undertakings are with companies controlled by J.G. Murray.

The Group has taken advantage of the exemption available under FRS 8 'Related party disclosures' from disclosing transactions between related parties within the Group.

The Company has incurred £189,600 (2005: £161,000) of expenditure on behalf of J.G. Murray during the year, which is to be reimbursed by a related undertaking.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN THAT the Annual General Meeting of London Security plc will be held at 10 Bruton Street, 5th Floor, London W1J 6TX on 7 June 2007 at 11.00 a.m. for the following purposes:

To consider the following resolutions as ordinary resolutions:

1. To receive the financial statements for the year ended 31 December 2006 and the reports of the Directors and auditors and the Remuneration Report for that period.
2. That the maximum number of Directors of the Company from time to time shall be twelve.
3. To re-elect J-J. Murray as a Director, who retires by rotation under article 23.2 of the Company's articles of association.
4. To re-elect M. Gailer as a Director, who retires by rotation under article 23.2 of the Company's articles of association.
5. To elect X. Mignolet as a Director, who was appointed on 2 August 2006.
6. To elect J. Simmonds as a Director, who was appointed on 9 February 2007.
7. To elect M-C. Leon as a Director, who was appointed on 9 February 2007.
8. That PricewaterhouseCoopers LLP be re-appointed as auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors.
9. That the Directors be generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal value equal to the whole of the authorised but unissued share capital of the Company immediately following the passing of this resolution provided that such authority shall (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) expire at the conclusion of five years from the date this resolution is passed provided that such authority shall allow the Company to make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution has not expired.

As special business to consider the following resolutions as special resolutions:

10. That, subject to the passing of resolution numbered 9 above, the Directors be and are empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of Section 94 of the Act) of the Company for cash as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to:
    (i) the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of ordinary shares and other persons entitled to participate in such offer in proportion (as nearly as may be) to their respective holdings of ordinary shares, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory body or any stock exchange in any territory; and

    (ii) the allotment (other than pursuant to (i) above) of equity securities up to an aggregate nominal amount of £6,157 and such power shall expire on the date of the next Annual General Meeting of the Company or 15 months after the date of the passing of this resolution (whichever is the earlier) but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement as if the power conferred by this resolution had not expired.

# NOTICE OF ANNUAL GENERAL MEETING CONTINUED

11. That the Company be and is generally and unconditionally authorised to make one or more market purchases (as defined in Section 163 (3) of the Act) on the London Stock Exchange of ordinary shares of 1p each in the capital of the Company ("ordinary shares") provided that:

    (i) the maximum aggregate number of ordinary shares authorised to be purchased is 500,000 shares;

    (ii) the minimum price which may be paid for such shares is 1p per share;

    (iii) the maximum price (exclusive of expenses) which may be paid for such shares is not more than 5% above the average of the middle market quotations for the five business days immediately preceding the day on which the purchase is contracted to take place;

    (iv) the authority conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months after the passing of this resolution (whichever is the earlier); and

    (v) the Company may make a contract to purchase its own shares under the authority conferred 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 its own shares in pursuance of any such contract.

By order of the Board

R. POLLARD
Secretary
27 April 2007

REGISTERED OFFICE
Wistons Lane
Elland
West Yorkshire
HX5 9DS

NOTES

1. Any member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy is enclosed. Any form of proxy and power of attorney or other authority under which it is signed or a certified or office copy of such power or authority, in order to be valid, must reach Capita Registrars, Proxy Processing Centre, Telford Road, Bicester, Oxfordshire OX26 4LD not less than 48 hours before the time of the Meeting. Completion of a proxy does not preclude a member from subsequently attending and voting at the Meeting in person if he so wishes.

3. The register of Directors' interests in the share capital of the Company will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and Public Holidays excluded) from the date of this Notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for at least 15 minutes prior to and until the conclusion of the Annual General Meeting.

# GROUP COMPANIES

UNITED KINGDOM

**ASCO EXTINGUISHERS COMPANY LIMITED**
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