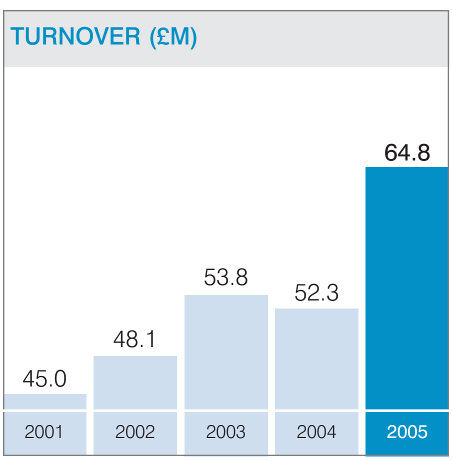
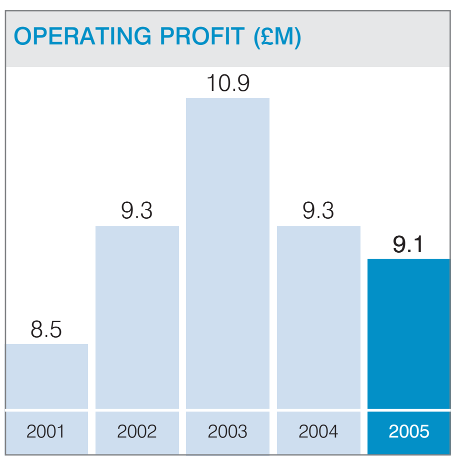
London Security plc is a leader in Europe's fire security industry. Each year, we provide fire protection for over 200,000 customers through our local presence in the United Kingdom, Belgium, Holland, Austria and Switzerland.

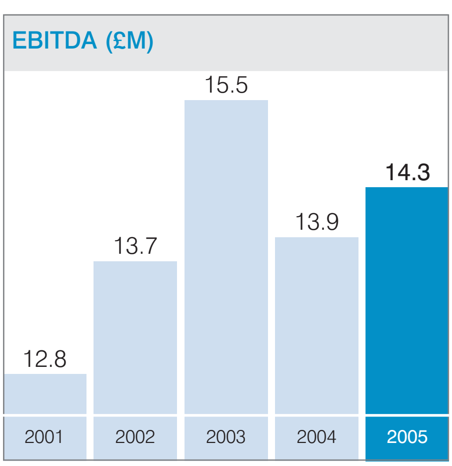
Our services and products are commercialised through the well and long established brands of Nu-Swift, Ansul, Total, Premier and Master. The unique styling of our products makes them immediately recognisable to both the industry and customers alike.

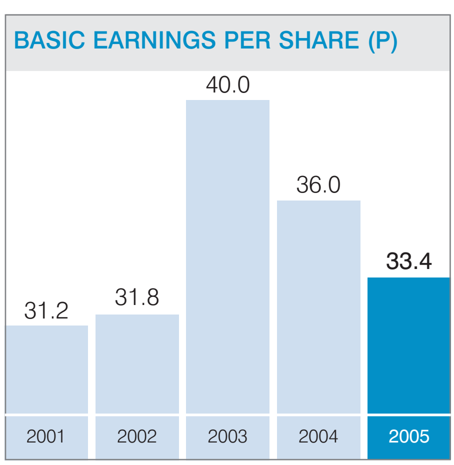
We aim to achieve the highest levels of service and product quality through continuing training of our employees to the most stringent servicing standards and the development of the highest performance rated fire products. These activities are performed whilst considering the preservation of the environment.

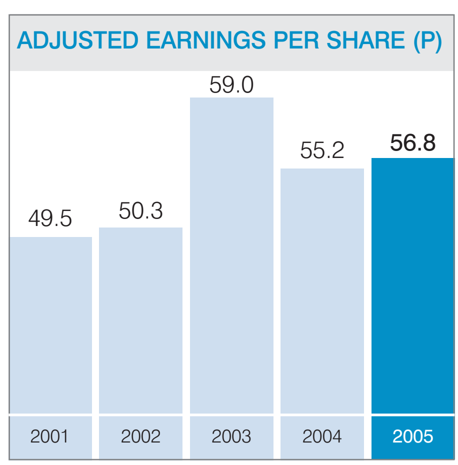
From the largest blue chip companies to governments and private individuals, our customers know that our name stands for integrity of service by the best trained and qualified individuals with quality products that have achieved the highest performance ratings.











The tables have not been adjusted for implementation of FRS 17 and FRS 21 in years 2001 to 2003.

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.

FINANCIAL HIGHLIGHTS

Financial highlights of the results for the year ended 31 December 2005:

- Turnover of £64.8 million (2004: £52.3 million)
- Earnings before interest, taxation, depreciation and amortisation ("EBITDA") of £14.3 million (2004: £13.9 million)
- Operating profit of £9.1 million (2004: £9.3 million)
- Profit on ordinary activities before taxation of £8.1 million (2004: £8.9 million)

TRADING REVIEW

The integration of MK Fire Limited and TVF (UK) Plcis progressing well with both companies reporting increases in profitability.

Group operating profit at 14% of turnover and EBITDA at 22% of turnover continue to be among industry leading results and are expected to increase further as MK Fire and TVF continue to improve. We aim to continue to acquire companies in the fire and security sectors to complement and build upon the organic growth demonstrated in recent times.

The Group disposed of its investment in Sicli Materiel Incendie S.A. realising a profit of £1.5 million.

ACQUISITIONS

In December 2004 we acquired MK Fire and TVF.

Both companies are very well represented in fire extinguisher service, fire alarm service and fire alarm installation and operate on a nationwide scale whilst having the majority of the UK business in the more prosperous South of England.

TVF holds the prestigious Royal Warrant for the maintenance of fire alarms at the Royal Household.

We continue to search for acquisitions as our main vehicle for growth.

FUTURE PROSPECTS

The outlook for 2006 is for continued steady progress and this has been reflected in the first quarter's trading.

We are continuing to expand our alarm operations in the UK and Belgium.

The Group has been developing new improved ranges of extinguishers and successfully launched these products late in 2005. As well as being better extinguishers in terms of fire ratings, ease of operation and discharge times, we expect to achieve cost efficiencies from implementation of these new ranges.

MANAGEMENT AND STAFF

2005 was a year in which the staff performed well and, on your behalf, I would like to express thanks and appreciation for their contribution.

TENDER OFFER

On 5 May 2005 the Company issued a circular to shareholders setting out details of the Tender Offer. The offer was to purchase up to 15% of the ordinary shares in issue for cancellation, at a price of £13.75 per share. Valid tenders pursuant to the Tender Offer were received for 2,155,203 ordinary shares from 229 shareholders. These shares were purchased by Brewin Dolphin Securities Limited on 1 July 2005, and subsequently acquired and cancelled by the Company at the agreed Tender Offer price.

In order to effect the Tender Offer the Board obtained approval from shareholders and confirmation by the High Court to implement a Capital Reduction which became effective on 23 June 2005. As a result of the Capital Reduction and the ordinary shares being repurchased for cancellation, the issued share capital of the Company is now 12,323,198 ordinary shares of 1p each.

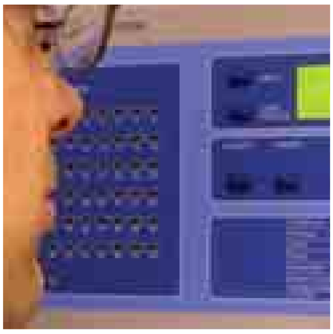
DIVIDENDS

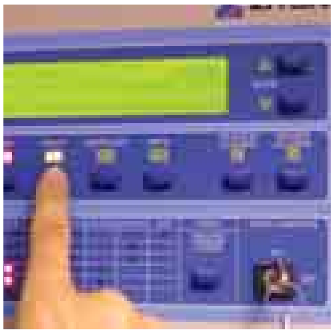
A final dividend of 12.0p (2004: Nil) per share is proposed, payable on 21 June 2006 to shareholders on the register on 26 May 2006. No interim dividend was paid in 2005 (2004: special dividend of 42.0p and interim dividend of 3.0p).

ANNUAL GENERAL MEETING

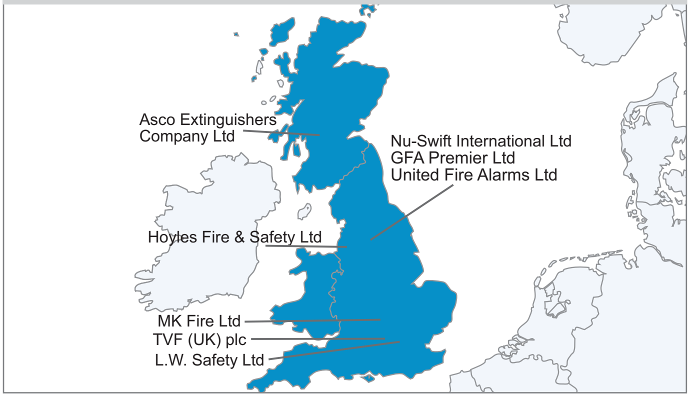
The Annual General Meeting will be held at 10 Bruton Street, 5th Floor, London on 7 June 2006 at 2.30pm. You will find enclosed a form of proxy for use at that meeting which you are requested to complete and return in accordance with the instructions thereon. I shall, along with your Directors, look forward to meeting you at that time.

J. G. MURRAY
Chairman
2 May 2006





UK



UK

In December 2004, the Group acquired two companies, MK Fire Limited and TVF (UK) Plc.

MK Fire is a company involved in fire extinguisher service, fire alarm service and fire alarm installation. The fire alarm service division performed particularly well in 2005, employees responding exceptionally well to the changes in working practices implemented following the acquisition. MK Fire's extinguisher department performed consistently. MK Fire's fire alarm installation department successfully completed two very large installations on time and on budget.

At TVF, the first priority was to improve administration procedures. The most important element of this has been the introduction of a new computer system linked to the Elland mainframe. Following a bolstering of the management team, the results at TVF improved in alarm service, extinguisher service and alarm installation.

Our more established UK businesses had a satisfactory year in a difficult market. The emphasis was further increased on customer care and, as a result, customer retention improved. This did, however, result in reduced revenue and profit.

GROUP BRANDS

UK TURNOVER

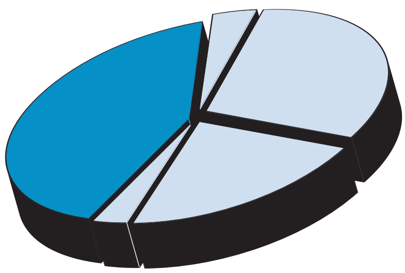
£27.2m

MARKET POSITION

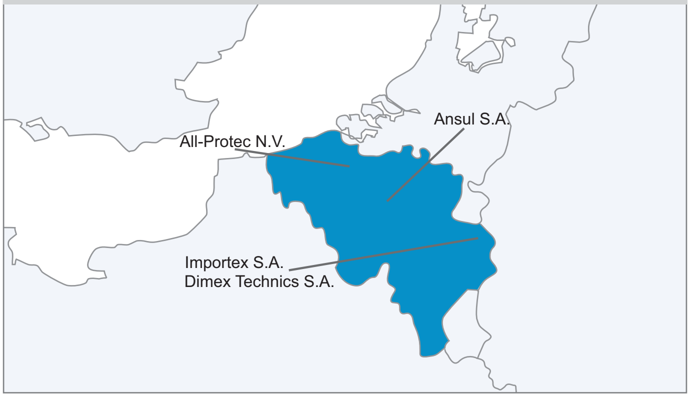
2nd

GROUP TURNOVER

41.9%



BELGIUM



BELGIUM

In 2005 all our subsidiaries benefited from the first signs of economic recovery in Belgium. This helped an overall increase of turnover and profits, which was capitalised upon by the excellent performance of our efficient sales and service teams.

In response to an increasing demand from our customers for total fire safety solutions, we decided to broaden our scope by completing our training portfolio as well as adding small pre-engineered systems to our product portfolio. The positive effects of these initiatives are expected to show from 2006. In addition, as a future growing revenue source, we expect to continue to focus on the alarm market in 2006.

In Belgium we continued to grow organically through a clear customer focus which resulted in increasing operating profits and strong operating profit margins.

In late 2005 our engineering department developed a new range of Master and Premier extinguishers. These new extinguishers are again the best available in the fire extinguisher market in terms of fire ratings and discharge times. The improved intuitive design of the extinguishers will provide our customers with improved fire protection.

GROUP BRANDS

ANSUL

DIMEX Technics

nu-swift

BELGIUM TURNOVER

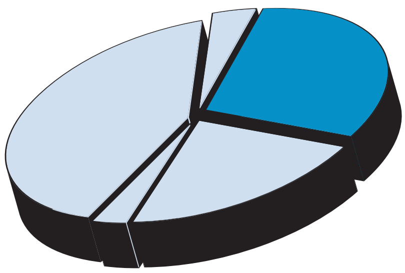
£19.6m

MARKET POSITION

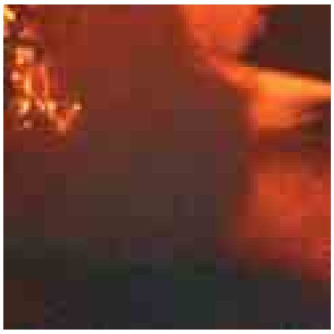
1st

GROUP TURNOVER

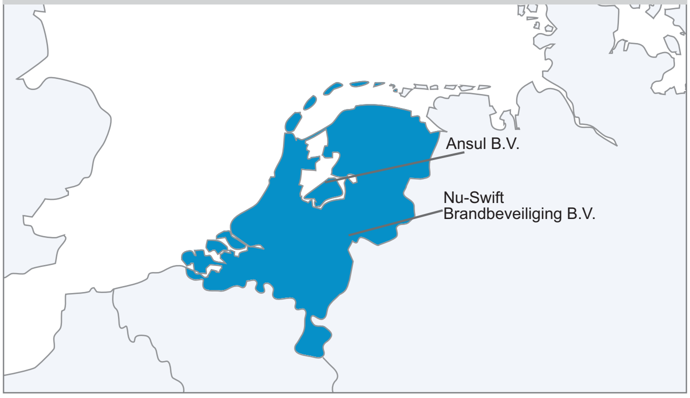
30.2%








HOLLAND



HOLLAND

The restructuring of the sales force in Nu-Swift B.V. and the implementation of an account management strategy in both Ansul and Nu-Swift had positive effects in 2005. Although the restructuring of the sales force in Nu-Swift B.V. caused a temporary setback in the results, the recovery started to show towards the end of the year and will have its full effect in 2006.

The integration of the two workshops into one modern equipped workshop was successful and led to increased quality and results. The creation of our Technical Training Centre in Arnhem gave us the opportunity to train and educate our engineers more professionally.

In 2005, Ansul B.V. and Nu-Swift B.V. exchanged the different products and services that have been developed in 2004. In doing so, both companies are now capable of providing our customers with a full fire safety concept.

The positioning and sales of our small pre-engineered systems for small data centres and professional kitchens was successful and led to an increased result in our special products sales.

Altogether, we used 2005 to restructure our sales force and streamline our product and service portfolio in order to be ready for the coming decade. During this restructuring, we also showed a modest growth in our results, partly supported through the growing faith in the Dutch economy.

GROUP BRANDS

ANSUL

nu-swift

HOLLAND TURNOVER

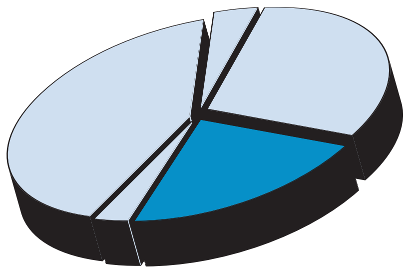
£13.3m

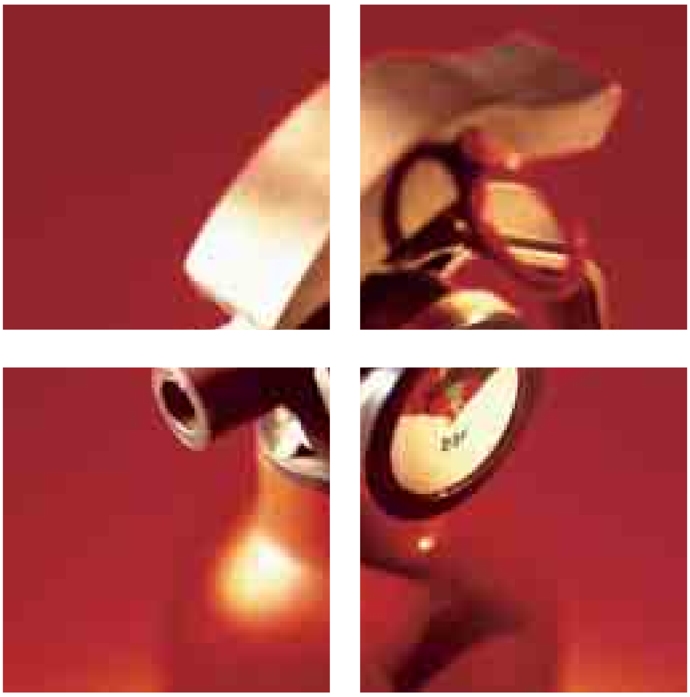
MARKET POSITION

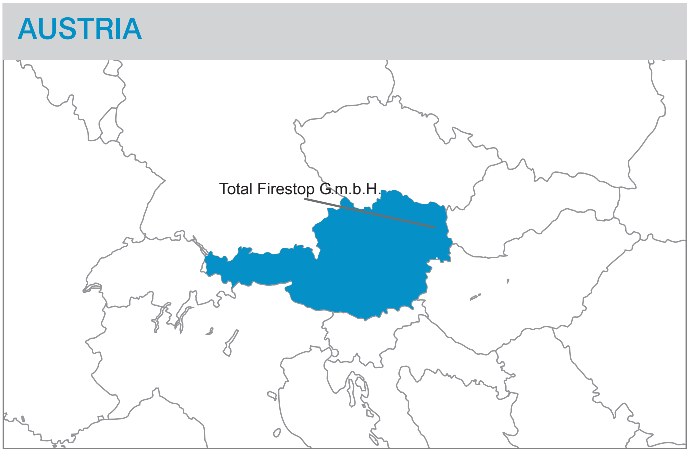
2nd

GROUP TURNOVER

20.5%







AUSTRIA

In 2005 Total Firestop increased both turnover and operating profit.

There has been a significant reduction in the types of extinguishers offered by the Group to the Austrian market. This streamlining allowed staff to concentrate on marketing the newer more efficient products. This concentration and the product improvements led to an uplift in extinguisher sales.

Changes in the extinguishers recommended by Austrian safety standards meant that some customers had to upgrade their fire equipment, in particular those with equipment in excess of 20 years of age.

We have carried out intensive technical training of all our service staff with our new highly efficient quality system. All service staff are certified according to the most recent standard. These measures promoted significantly higher customer satisfaction and acceptance.

Following the appointment of a Sales Director at the end of 2004, we have improved sales training as well as service training in 2005.

GROUP BRANDS

AUSTRIA TURNOVER

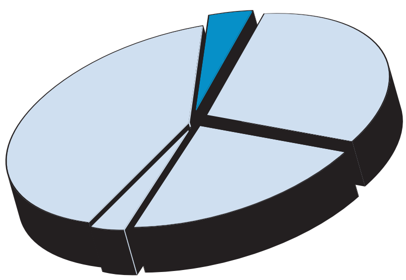
£2.7m

MARKET POSITION

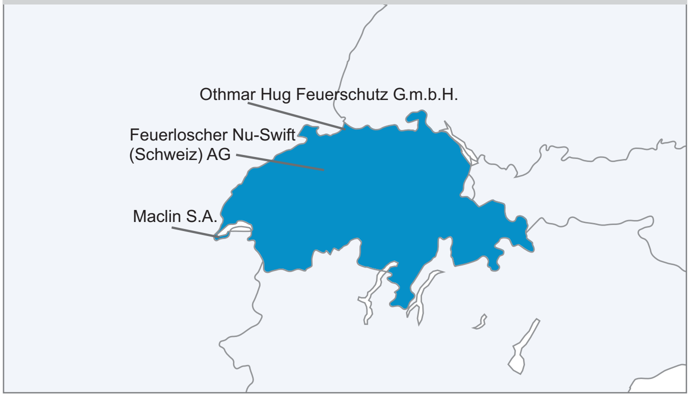
1st

GROUP TURNOVER

4.1%



SWITZERLAND



SWITZERLAND

The Swiss operations reported a slight decrease of the operating profit due to a shortage of servicemen workforce. A new recruitment process of servicemen is on its way now and we expect 2006 to be a growing year.

The operating profit margin amounted to a very good level of 22%.

We expect that 2006 will generate an increasing operating profit as a result of our continuing efforts on customer care.

GROUP BRANDS

SWITZERLAND TURNOVER

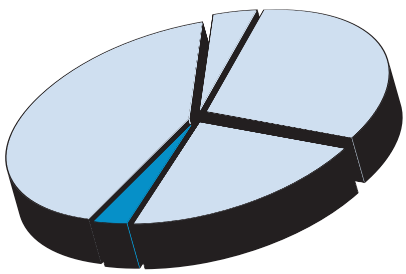
£2.2m

MARKET POSITION

3rd

GROUP TURNOVER

3.3%



SUMMARY OF RESULTS

	2005 £'000	2004 £'000
Turnover	64,811	52,332
EBITDA*	14,258	13,949
Operating profit	9,094	9,260
Profit on ordinary activities before taxation	8,140	8,882

* Earnings Before Interest, Taxation, Depreciation and Amortisation

PROFIT AND LOSS ACCOUNT

Turnover has increased by 24% to £64.8 million primarily due to first year contributions from MK Fire Limited and TVF (UK) Plc, both of which were acquired in December 2004.

Interest payable increased due to higher borrowings. The new debt borrowed to make the above acquisitions was drawn for the full year and a new £30 million borrowing was made in July 2005 to finance the Tender Offer.

BALANCE SHEET/CASH FLOW

Finance debt has increased by £25.9 million primarily as a result of the increased borrowings to finance the Tender Offer.

The debt repayment schedule has been renegotiated hence the annual debt repayment level of £5.3 million for 2006 is within budgeted cash flows and only £0.9 million more than in 2004. Stocks have risen due to the need to keep higher stock to satisfy customer demand. Trade debtors represent 70 days' sales (2004: 59 days).

In prior years cash flow from operating activities exceeded EBITDA. This has not been the case in 2005 due primarily to customers taking longer to pay and because of exceptional payments to the UK pension fund of £1.1 million. These payments were a condition of the Tender Offer and reduce the Group's ongoing liability in this regard.

TAXATION

Excluding goodwill charges, which in the main are not tax deductible, the Group's overall effective tax rate is 32%. 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 are subject to floating rate debt aligned to EURIBOR and LIBOR in proportion to anticipated income streams. The Group has interest rate caps to provide interest rate cover for 50% of the Group's debt. The Directors consider that, in the current economic climate, the level of risk does not warrant the relatively high level of costs that would be incurred taking our further financial derivatives to cover interest rate risk.

The increase in borrowings from the Tender Offer is the only change during the year, or since the year end, to the financial risks faced by the Group. There has been no change to the Group's approach to the management of those risks.

J-C. PILLOIS
Finance Director
2 May 2006

EXECUTIVE DIRECTORS

Jacques Gaston Murray (86)
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 Andrews Sykes Group plc ("Andrews Sykes"), a separately quoted UK company, owning approximately 84% of the issued share capital. He is Chairman of British Security Group Limited, a quoted company in Bermuda.

Jean-Jacques Murray (39)
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.

Jean-Christophe Pillois (49)
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 a Non-Executive Director of Andrews Sykes.

Emmanuel Sebag (37)
Operations Director

Emmanuel Sebag acts as Jacques Gaston Murray's assistant and is 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.

NON-EXECUTIVE DIRECTORS

Henry Shouler (68)
Senior Independent Non-Executive Director

Henry Shouler is a Director of PKL Holdings plc, an AIM quoted company. He also has a number of directorships in private companies.

Michael Gailer (70)
Independent Non-Executive Director

Michael Gailer is a Non-Executive Director of Andrews Sykes and a number of private companies.

SECRETARY AND REGISTERED OFFICE
Richard Pollard
Wistons Lane
Elland
West Yorkshire HX5 9DS

REGISTERED NUMBER
53417

INDEPENDENT AUDITORS
PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds LS1 4JP

REGISTRARS
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

BANKERS
Lloyds TSB Bank Plc
Dexia Bank N.V.

SOLICITORS
Walker Morris
Kings Court
12 King Street
Leeds LS1 2HL

Salans
Clements House
14/18 Gresham Street
London EC2V 7NN

STOCKBROKERS AND NOMINATED ADVISERS
Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds LS1 4LX

The Directors present their report and the audited financial statements for the year ended 31 December 2005.

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 profit after taxation for the year ended 31 December 2005 amounted to £4,477,000 (2004: £5,206,000). A final dividend of 12.0p per ordinary share is proposed, payable on 21 June 2006 to shareholders on the register at 26 May 2006.

RESEARCH AND DEVELOPMENT

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

BUSINESS REVIEW AND FUTURE PROSPECTS

A 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.

DIRECTORS

The Directors who served during the whole of the year ended 31 December 2005 were:

Executive Directors

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

Non-Executive Directors

M. Gailer, H. Shouler.

J.G. Murray and E.Sebag retire by rotation and, being eligible, offer themselves for re-election.

None of the Directors have a service contract.

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

DIRECTORS' INTERESTS

Other than the beneficial interests disclosed below, no Director in office at 31 December 2005 had any disclosable interest in the share capital of the Company or any subsidiary undertaking.

	Ordinary shares		
	At 2 May 2006	**At 31 December 2005**	At 1 January 2005
J.G. Murray	**12,088,717**	**12,088,717**	14,222,214

J.G. Murray's interests represent those of British Security Group Limited and its subsidiary, EOI Fire SARL, and affiliated companies of which he is the sole beneficial shareholder.

There has been no change in the interest set out above between 31 December 2005 and 2 May 2006.

SUBSTANTIAL SHAREHOLDINGS

At 2 May 2006, 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	80.0%
British Security Group Limited	1,188,019	9.6%
Easton Holding S.A.	429,640	3.5%

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

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 26 April 2006	At 31 December 2005	At 1 January 2005
J.G. Murray	**37,747,369**	**37,747,369**	49,608,192
J-J. Murray	**407,845**	**407,845**	757,585
J-C. Pillois	**409,206**	**409,206**	538,580
E. Sebag	**13,216**	**13,216**	17,560
M. Gailer	**10,000**	**10,000**	15,000

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.

PAYMENT TO SUPPLIERS

The Group and Company 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 2005 Group average creditor days was 51 days (2004: 49 days). The Company had no trade creditors at either year end.

DONATIONS

The Company and Group made no political donations during the year (2004: £Nil) and made charitable donations of £3,000 (2004: £3,000). These donations were made to charities local to the Company's offices.

PURCHASE OF OWN SHARES

During the year and exclusive of the Tender Offer (below) the Company purchased 7,500 of its own ordinary shares of 10p each, which represented 0.05% of the issued share capital, for consideration of £104,143. As at 1 January 2006 there remained outstanding general authority for the Directors to purchase a further 200,000 ordinary shares. Resolution 7 is to be proposed at the Annual General Meeting to extend this authority until the 2007 Annual General Meeting at the level of 200,000 shares.

The special business to be proposed at the 2006 Annual General Meeting also includes, at resolution number 6, 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 £6,162 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 5 being approved to authorise the Directors to have the power to issue ordinary shares.

TENDER OFFER

On 5 May 2005 the Company issued a circular to shareholders setting out details of the Tender Offer. The offer was to purchase up to 15% of the ordinary shares in issue for cancellation, at a price of £13.75 per share. Valid tenders pursuant to the Tender Offer were received for 2,155,203 ordinary shares from 229 shareholders. These shares were purchased by Brewin Dolphin Securities Limited on 1 July 2005, and subsequently acquired and cancelled by the Company, at the agreed Tender Offer price.

In order to effect the Tender Offer the Board obtained approval from shareholders and confirmation by the High Court to implement a Capital Reduction effective on 23 June 2005. As a result of the Capital Reduction and the ordinary shares being repurchased for cancellation, the issued share capital of the Company is now 12,323,198 ordinary shares of 1p each.

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, in conjunction with its external auditors, PricewaterhouseCoopers LLP, is continuing the process to identify the issues connected with the adoption of IFRS with effect from 1 January 2007.

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.

ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting is set out on pages 46 and 47 and all shareholders are invited to attend in person if they wish or by proxy if they are unable to attend.

By order of the Board

R. Pollard
Company Secretary
2 May 2006

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 90% owned by British Security Group Limited ("BSG"), 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 BSG (Messrs J.G. Murray, J-J. Murray, J-C. Pillois and E. Sebag) 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 BSG's subsidiary company, EOI Fire SARL ("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 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 duties at the Company's expense.

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 BSG. 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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Company recognises that it is more likely than not that it will be required to prepare its financial statements under IFRS for the financial year ending 31 December 2007. The Board intends to keep this matter under review and monitor its impact in the period to the transition date.

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).

INTERNAL FINANCIAL CONTROL CONTINUED

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.

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 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 except for the adoption of new accounting standards as set out on page 25, that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 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
2 May 2006

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 AIM quoted 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 £258,000 (2004: £242,000). This includes an amount paid to the highest paid Director of £110,000 (2004: £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 (2004: £1,400,000) for the year ended 31 December 2005 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
2 May 2006

We have audited the Group and Parent Company financial statements (the "financial statements") of London Security plc for the year ended 31 December 2005 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 Reconciliations of Movements in Group and 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 if, in our opinion, the Report of the Directors is not consistent with the financial statements, if 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 Report of the Directors, the Corporate Governance Statement and the Directors' Remuneration Report. 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 judgements 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 2005 and of the Group's profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
2 May 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £'000	2004 (restated) £'000
Turnover	2	**64,811**	52,332
Cost of sales		**(11,888)**	(7,901)
Gross profit		**52,923**	44,431
Distribution costs		**(24,640)**	(20,740)
Administrative expenses		**(19,189)**	(14,431)
Operating profit		**9,094**	9,260
EBITDA*		**14,258**	13,949
Depreciation	13	**(2,031)**	(1,903)
Amortisation of goodwill	12	**(3,133)**	(2,786)
Operating profit		**9,094**	9,260
Income from fixed asset investments		**—**	114
Profit on disposal of fixed asset investments	4	**1,474**	—
Net interest payable and similar charges	5	**(2,062)**	(418)
Other finance costs	6	**(366)**	(74)
Profit on ordinary activities before taxation	7	**8,140**	8,882
Taxation	8	**(3,663)**	(3,676)
Profit attributable to equity shareholders		**4,477**	5,206
Dividends	9	**—**	(7,956)
Profit/(loss) transferred to/(deducted from) reserves	22	**4,477**	(2,750)
Basic and diluted earnings per ordinary share	11	**33.4p**	36.0p
Dividend per ordinary share	9	**—**	55.0p

*Earnings before Interest, Taxation, Depreciation and Amortisation

All of the above results arose from continuing operations.

	Notes	2005 £'000	2004 (restated) £'000
Fixed assets			
Intangible assets	12	46,230	49,684
Tangible assets	13	7,823	8,408
Investments	14	—	70
		54,053	58,162
Current assets			
Stocks	15	4,897	4,052
Debtors	16	15,676	14,929
Cash at bank and in hand	20	8,253	7,723
		28,826	26,704
Creditors: amounts falling due within one year			
Finance debt	17	(5,330)	(5,489)
Other creditors	18	(15,247)	(16,854)
		(20,577)	(22,343)
Net current assets		8,249	4,361
Total assets less current liabilities		62,302	62,523
Creditors: amounts falling due after more than one year			
Finance debt	17	(35,958)	(9,912)
Provisions for liabilities and charges	19	(399)	(376)
Net assets excluding pension liability		25,945	52,235
Pension liability	26	(2,999)	(3,717)
Net assets including pension liability		22,946	48,518
Capital and reserves			
Called up share capital	21	123	1,447
Share premium	22	—	27,476
Capital redemption reserve	22	—	117
Merger reserve	22	2,033	2,033
Profit and loss account	22	20,790	17,445
Equity shareholders' funds		22,946	48,518

The financial statements on pages 20 to 45 were approved by the Board of Directors on 2 May 2006 and were signed on its behalf by:

J.G. Murray
Chairman

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	13	815	866
Investments	14	56,146	55,600
		56,961	56,466
Current assets			
Debtors	16	1,700	1,538
Cash at bank and in hand		—	420
		1,700	1,958
Creditors: amounts falling due within one year			
Finance debt	17	(3,940)	(1,433)
Other creditors	18	(17,134)	(15,926)
		(21,074)	(17,359)
Net current liabilities		(19,374)	(15,401)
Total assets less current liabilities		37,587	41,065
Creditors: amounts falling due after more than one year			
Finance debt	17	(30,935)	(5,373)
Net assets		6,652	35,692
Capital and reserves			
Called up share capital	21	123	1,447
Share premium account	22	—	27,476
Capital redemption reserve	22	—	117
Profit and loss account	22	6,529	6,652
Equity shareholders' funds		6,652	35,692

The financial statements on pages 20 to 45 were approved by the Board of Directors on 2 May 2006 and were signed on its behalf by:

J.G. Murray
Chairman

	Notes	2005 £'000	2004 £'000
Net cash inflow from operating activities	23	10,193	14,134
Return on investments and servicing of finance			
Interest received		120	218
Interest paid		(1,326)	(505)
Dividends received		—	114
Net cash outflow from return on investments and servicing of finance		(1,206)	(173)
Taxation			
Corporation tax paid		(3,629)	(4,710)
Capital expenditure			
Payments to acquire intangible fixed assets	12	(16)	(54)
Payments to acquire tangible fixed assets	13	(1,821)	(2,208)
Receipts from sales of tangible fixed assets		292	644
Receipt from sale of investment	4	1,544	—
Net cash outflow for capital expenditure		(1)	(1,618)
Acquisitions and disposals			
Payments to acquire subsidiary undertakings		—	(8,435)
Net cash acquired with subsidiary undertakings		—	412
Payment of deferred consideration on prior year acquisitions	25	(516)	—
Net cash outflow for acquisitions		(516)	(8,023)
Equity dividends paid to shareholders		—	(7,955)
Net cash inflow/(outflow) before use of financing		4,841	(8,345)
Financing			
Purchase of own shares		(104)	(120)
New long-term loans		30,000	7,146
Tender Offer		(30,007)	—
Repayment of long-term loans		(4,200)	(4,444)
Net cash (outflow)/inflow from financing		(4,311)	2,582
Increase/(decrease) in cash in the year	24	530	(5,763)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2005 £'000	2004 (restated) £'000
Profit for the financial year		4,477	5,206
Currency translation differences on foreign currency net investments	22	(264)	(217)
Actuarial gain/(loss) recognised in the pension scheme	26	469	(1,830)
Movement on deferred tax relating to pension asset	22	(143)	549
Total recognised gains for the year		4,539	3,708
Prior year adjustment	22	(2,431)	
Total gains recognised since last Annual Report		2,108	

RECONCILIATION OF MOVEMENTS IN GROUP EQUITY SHAREHOLDERS' FUNDS

	Notes	2005 £'000	2004 (restated) £'000
Profit for the financial year		4,477	5,206
Dividends	9	—	(7,956)
		4,477	(2,750)
Purchase of own shares	22	(104)	(120)
Currency translation differences on foreign currency net investments	22	(264)	(217)
Actuarial gain/(loss) recognised in the pension scheme	26	469	(1,830)
Movement on deferred tax relating to pension asset	22	(143)	549
Tender Offer	22	(30,007)	—
Net reduction in Group equity shareholders' funds		(25,572)	(4,368)
Opening Group equity shareholders' funds (previously £50,949,000 before deducting a prior year adjustment of £2,431,000)		48,518	52,886
Closing Group equity shareholders' funds		22,946	48,518

RECONCILIATION OF MOVEMENTS IN COMPANY EQUITY SHAREHOLDERS' FUNDS

	Notes	2005 £'000	2004 (restated) £'000
Profit for the financial year		1,071	9,107
Dividends	9	—	(7,956)
		1,071	1,151
Purchase of own shares	22	(104)	(120)
Tender Offer	22	(30,007)	—
Net (reduction in)/addition to Company equity shareholders' funds		(29,040)	1,031
Opening Company equity shareholders' funds		35,692	34,661
Closing Company equity shareholders' funds		6,652	35,692

1 PRINCIPAL ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom and under the historical cost convention. A summary of the more important accounting policies, which have been consistently applied with the exception of new accounting standards adopted as noted, is set out below.

Adoption of New Accounting Standards

The Company has adopted FRS 17 'Retirement benefits', FRS 21 'Events after the balance sheet date', FRS 22 'Earnings per share' and the presentation requirements of FRS 25 'Financial instruments: Disclosure and presentation'. The adoption of FRS 17 and FRS 21 resulted in a prior year adjustment, details of which are set out in note 22 to the financial statements. FRS 22 resulted in additional earnings per share being presented in the Notes to the Financial Statements only and no longer on the face of the profit and loss account. Adoption of the presentation requirements of FRS 25 did not result in any changes.

Basis of Consolidation

The Group financial statements incorporate the financial statements of the Parent Company and its subsidiaries made up to 31 December 2005.

The results of subsidiaries acquired or disposed of are included in the profit and loss account from the date of acquisition or up to the date of disposal. All acquisitions are accounted for using acquisition accounting.

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.

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

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.

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.

2 TURNOVER

Turnover may be analysed geographically by origin as follows:

	2005 £'000	2004 £'000
United Kingdom	**27,160**	14,808
Belgium	**19,558**	19,357
Holland	**13,259**	13,245
Austria	**2,670**	2,560
Switzerland	**2,164**	2,362
	64,811	52,332

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.

3 EMPLOYEES AND DIRECTORS

Staff costs, including Directors' emoluments

	2005 £'000	2004 (restated) £'000
Wages and salaries	**23,856**	18,425
Social security costs	**3,782**	3,426
Other pensions costs (note 26)	**688**	394
	28,326	22,245

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

By geographical area

	2005 Number	2004 Number
United Kingdom	**389**	199
Rest of Europe	**449**	453
	838	652

Directors' emoluments

	2005 £'000	2004 £'000
Aggregate emoluments	**258**	242

The amount paid to the highest paid Director was £110,000 (2004: £110,000). None of the Directors participate in the Group's pension arrangements.

4 PROFIT ON DISPOSAL OF FIXED ASSET INVESTMENT

On 23 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

	2005 £'000	2004 £'000
Interest payable:		
Bank loans, overdrafts and other loans repayable within five years	**1,326**	505
Amortisation of finance arrangement costs	**78**	60
Cost of interest rate capping	**9**	9
Exchange loss on foreign currency balances	**65**	81
Exchange loss/(gain) on foreign currency loans	**704**	(19)
	2,182	636
Bank interest receivable	**(120)**	(218)
	2,062	418

6 OTHER FINANCE COSTS

	2005 £'000	2004 £'000
Expected return on pension scheme assets	**466**	426
Interest on pension scheme liabilities	**(832)**	(500)
Net charge	**(366)**	(74)

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):

	2005 £'000	2004 £'000
Depreciation on tangible owned fixed assets	**1,929**	1,903
Depreciation on tangible fixed assets held under hire purchase contracts	**102**	—
Amortisation on intangible fixed assets	**3,133**	2,786
Research and development costs	**50**	40
Loss/(profit) on disposal of tangible fixed assets	**1**	(230)
Hire charges under operating leases:		
– Plant and machinery	**7**	30
– Other	**172**	178

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION CONTINUED

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 external auditors at costs as detailed below:

	2005 £'000	2004 £'000
Audit services:		
– Statutory audit (Company £26,000; 2004: £19,000)	173	142
Further assurance services (Company £5,000; 2004: £Nil)	16	—
Tax services		
– Compliance services	30	46
– Advisory services	84	3
Other services	21	18
	324	209

Non-audit fees for Company and UK subsidiaries only comprised fees for tax compliance services of £8,000 (2004: £31,000) and fees for tax advisory services of £84,000 (2004: £3,000).

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2005 £'000	2004 (restated) £'000
United Kingdom		
– Corporation tax at 30% (2004: 30%)	(79)	523
– Adjustment in respect of prior periods	31	(37)
	(48)	486
Foreign tax		
– Corporation taxes	3,676	3,422
Total current tax	3,628	3,908
Deferred tax		
Original and reversal of timing differences		
Representing:		
– United Kingdom	172	(86)
– Foreign tax	(137)	(146)
Total deferred tax	35	(232)
Total tax charge	3,663	3,676

8 TAX ON PROFIT ON ORDINARY ACTIVITIES CONTINUED

The tax for the period is higher (2004: higher) than the standard rate of corporation tax in the United Kingdom (30%) (2004: 30%). The differences are explained below:

	2005 £'000	2004 (restated) £'000
Profit on ordinary activities before taxation	8,140	8,882
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2004: 30%)	2,442	2,665
Effects of:		
– Expenses not deductible for tax purposes	880	747
– Adjustment to tax in respect of prior periods	31	(37)
– Adjustment in respect of foreign tax rates	253	466
– Depreciation in excess of capital allowances	(28)	(18)
– Other timing differences	50	85
Current tax charge	3,628	3,908

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

9 DIVIDENDS

	2005 £'000	2004 (restated) £'000
Equity – ordinary		
Special dividend paid £Nil (2004: 42.0p) per share	—	6,074
Interim paid £Nil (2004: 3.0p) per share	—	434
Final paid £Nil (2004: 10.0p) per share	—	1,448
	—	7,956

A final dividend of 12.0p per share has been proposed in respect of the year ended 31 December 2005. This has not been accrued in line with the FRS 21.

10 PROFIT FOR THE FINANCIAL YEAR

London Security plc has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The profit after taxation of the Parent Company included within the consolidated profit is £1,071,000 (2004: profit of £9,107,000).

11 EARNINGS PER SHARE

The calculation of basic earnings per ordinary share ("EPS") is based on the profit on ordinary activities after taxation of £4,477,000 (2004: £5,206,000) and on 13,389,966 (2004: 14,469,566) 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 revised weighted average number of shares is 13,404,033 (2004: 14,482,899). After taking into account the effect of dilutive securities, the basic EPS and adjusted EPS figures are unaltered.

11 EARNINGS PER SHARE CONTINUED

The calculation of adjusted earnings per ordinary share is based on 13,389,966 (2004: 14,469,566) ordinary shares being the weighted average number of ordinary shares in issue in the year and on adjusted earnings which are calculated as follows:

	2005		2004 (restated)	
	£'000	pence	£'000	pence
Profit on ordinary activities after taxation	4,477	33.4	5,206	36.0
Eliminate effect of:				
Amortisation of goodwill	3,133	23.4	2,786	19.2
Adjusted profit on ordinary activities after taxation	7,610	56.8	7,992	55.2

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 2005	63,194
Additions	16
Adjustment in respect of prior year acquisitions (see note 25)	(234)
Exchange differences	(423)
At 31 December 2005	**62,553**
Amortisation	
At 1 January 2004	13,510
Charge for the year	3,133
Exchange differences	(320)
At 31 December 2005	**16,323**
Net book amount	
At 31 December 2005	**46,230**
Net book amount	
At 31 December 2004	49,684

The Directors have reviewed the goodwill arising on the acquisitions of MK Fire Limited and TVF (UK) Plc in December 2004 for impairment as required by FRS 10 'Goodwill and intangible assets' and concluded that no impairment has resulted.

Additions relate to contracts to provide fire extinguisher maintenance acquired in the year.

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 2005	5,922	13,057	6,759	3,286	29,024
Additions	41	543	973	264	1,821
Disposals	—	(250)	(1,042)	(274)	(1,566)
Exchange adjustment	(115)	(229)	(73)	(253)	(670)
At 31 December 2005	**5,848**	**13,121**	**6,617**	**3,023**	**28,609**
Depreciation					
At 1 January 2005	3,417	12,074	2,548	2,577	20,616
Disposals	—	(209)	(793)	(271)	(1,273)
Charge for the year	105	373	1,241	312	2,031
Exchange adjustment	(89)	(220)	(37)	(242)	(588)
At 31 December 2005	**3,433**	**12,018**	**2,959**	**2,376**	**20,786**
Net book amount					
At 31 December 2005	**2,415**	**1,103**	**3,658**	**6477**	
Net book amount					
At 31 December 2004	2,505	983	4,211	709	8,408

Freehold land and buildings as at 31 December 2005 have been included on an historical cost basis.

Motor vehicles include vehicles under hire purchase contracts with a cost of £462,000 (2004: £583,000) and a net book value of £305,000 (2004: £425,000).

Plant and machinery includes fire extinguishers leased to customers under operating lease contracts with a cost of £7,013,000 (2004: £7,097,000) and a net book value of £402,000 (2004: £371,000).

Company	Share in aircraft £'000
Cost	
At 1 January and **31 December 2005**	**1,019**
Depreciation	
At 1 January 2004	153
Charge for the year	51
At 31 December 2005	**204**
Net book amount	
At 31 December 2005	**815**
Net book amount	
At 31 December 2004	866

14 INVESTMENTS

Group	Shares in unlisted company £'000
Cost	
At 1 January 2005	70
Disposals (see note 4)	(70)
At 31 December 2005	—

Company	Shares in subsidiary undertakings £'000	Long-term loans to subsidiary undertakings £'000	Total £'000
Cost			
At 1 January 2005	9,190	46,410	55,600
Debt capitalisation	27,000	(27,000)	—
Adjustments to consideration paid on prior year acquisitions (see note 25)	(234)	—	(234)
Additional long-term loans provided to subsidiary undertakings	—	780	780
At 31 December 2005	**35,956**	**20,190**	**56,146**

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

During the year, the Company capitalised £27 million of its long-term loan to Fire Protection Holdings Limited as ordinary shares of £1 each at par.

15 STOCKS

	Group	
	2005 £'000	2004 £'000
Raw materials and consumables	**2,468**	1,755
Work in progress	**290**	157
Finished goods	**2,139**	2,140
	4,897	4,052

16 DEBTORS

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Amounts falling due within one year:				
Trade debtors	**12,391**	11,634	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**612**	786
Amounts owed by related undertakings	**272**	234	**242**	—
Other debtors	**468**	683	**142**	356
Prepayments and accrued income	**1,410**	1,228	**14**	9
Taxation recoverable	**1,135**	1,150	**690**	387
	15,676	14,929	**1,700**	1,538

17 FINANCE DEBT

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans and overdrafts (secured on the assets of certain Group undertakings)	41,352	15,298	35,033	6,806
Unamortised finance arrangement costs	(270)	(225)	(158)	—
	41,082	15,073	34,875	6,806
Hire purchase creditors	206	328	—	—
	41,288	15,401	34,875	6,806
Repayable by instalments as follows:				
Between two and five years:				
Bank loans and overdrafts	30,541	4,420	27,031	3,940
Hire purchase creditors	5	67	—	—
	30,546	4,487	27,031	3,940
Between one and two years:				
Bank loans and overdrafts	5,333	5,309	3,904	1,433
Hire purchase creditors	79	116	—	—
	5,412	5,425	3,904	1,433
Total due after more than one year	35,958	9,912	30,935	5,373
Within one year on demand:				
Bank loans and overdrafts	5,208	5,344	3,940	1,433
Hire purchase creditors	122	145	—	—
	5,330	5,489	3,940	1,433
	41,288	15,401	34,875	6,806

Interest rates (including the bank's margin) on the loans in existence during the year averaged 4.2% (2004: 5.0%) per annum. Bank loans and overdrafts are stated net of unamortised finance arrangement costs of £270,000 (2004: £225,000) of which £157,000 (2004: £113,000) is to be amortised after more than one year.

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2005 £'000	2004 (restated) £'000	2005 £'000	2004 (restated) £'000
Trade creditors	2,239	2,501	—	—
Amounts owed to subsidiary undertakings	—	—	16,853	14,833
Amounts owed to related undertakings	430	348	—	—
Other creditors	2,785	2,650	77	77
Corporation tax	2,856	2,860	—	—
Other taxation and social security	3,595	3,778	—	—
Deferred purchase consideration (see note 25)	—	750	—	750
Accruals	1,263	1,795	204	266
Deferred income	2,079	2,172	—	—
	15,247	16,854	17,134	15,926

19 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Pensions £'000	Other provision £'000	Deferred taxation £'000	Total £'000
At 1 January 2005 as previously reported	1,286	—	376	1,662
Prior year adjustment	(1,286)	—	—	(1,286)
At 1 January 2005 as restated	—	—	376	376
Currency movement	—	—	(7)	(7)
Reclassification from accruals	—	43	—	43
Amount charged to the profit and loss account	—	305	(36)	269
Amount utilised in the year	—	(138)	(144)	(282)
Provision at 31 December 2005	**—**	**210**	**189**	**399**

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	**2005 £'000**	2004 (restated) £'000	**2005 £'000**	2004 £'000
Deferred taxation				
The provided and unprovided deferred taxation liability/(asset) comprises:				
– Short-term timing differences – Europe	170	309	—	—
– Accelerated capital allowances	19	57	(224)	(229)
– Short-term timing differences – United Kingdom	—	10	(184)	(240)
– Capital gains on revaluation	—	—	105	105
– Losses	—	—	(1,883)	(1,664)
Deferred taxation provision/(asset)	189	376	(2,186)	(2,028)
Deferred tax asset on pension liability (note 26)	(1,310)	(1,605)		
	(1,121)	(1,229)		

	£'000
At 1 January 2005 as previously reported	376
Prior year adjustment	(1,605)
At 1 January 2005 as restated	(1,229)
Currency movement	(7)
Amount charged to the profit and loss account	116
Amount utilised in the year	(144)
Amount (credited)/charged to the statement of total recognised gains and losses	143
Provision at 31 December 2005 including deferred tax on pension liability	**(1,121)**

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

Company	Amount provided 2005 £'000	Amount provided 2004 £'000	Amount unprovided 2005 £'000	Amount unprovided 2004 £'000
Deferred taxation				
The unprovided deferred taxation asset comprises:				
– Losses	—	—	(1,883)	(1,664)
Deferred taxation asset	—	—	(1,883)	(1,664)

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 2005 £'000	Floating rate financial liabilities 2005 £'000	Total 2005 £'000	Weighted average interest rate 2005	Fixed rate financial liabilities 2004 £'000	Floating rate financial liabilities 2004 £'000	Total 2004 £'000	Weighted average interest rate 2004
Currency								
Sterling	206	12,351	12,557	5.5%	328	10,451	10,779	5.6%
Euro	—	29,001	29,001	3.7%	—	4,847	4,847	2.9%
	206	41,352	41,558	4.2%	328	15,298	15,626	4.8%

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 March 2003 the Group entered into interest rate caps for a period of four years on Sterling borrowings of £2.5 million and Euro borrowings of €7.0 million (£4.8 million equivalent) at interest rates of 5.0% and 4.5% respectively excluding the bank margin at a cost of £33,000. In July 2005 the Group entered into interest rate caps for a period of three years on Sterling borrowings of £6.6 million and Euro borrowings of €22.0 million (£15.0 million equivalent) at interest rates of 5% and 3% respectively excluding the bank margin at a cost of £107,000. The borrowing covered by the caps 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 2005 including the bank's interest margin where appropriate.

Interest Rate Risk Profile of Financial Assets

Cash at bank and in hand	2005 £'000	2004 £'000
Currency		
Sterling	1,115	1,729
Swiss Franc	2,923	1,672
Euro	4,215	4,322
At 31 December	8,253	7,723

Maturity of Financial Liabilities

The maturity profile of the carrying amount of the Group's financial liabilities at 31 December 2005 and 2004 is analysed in note 17.

20 FINANCIAL INSTRUMENTS CONTINUED

Borrowing Facilities

The Group had an undrawn committed borrowing facility of £5 million (2004: £Nil).

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 2005 and 2004. 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 2005, 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 lower than the book value of £141,000 by £28,000 (2004: higher by £11,000).

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)			
2005	Sterling £'000	Euro £'000	Swiss Francs £'000	Total £'000
Functional currency of the Group operation:				
Sterling	**—**	**(26,388)**	**—**	**(26,388)**
	—	**(26,388)**	**—**	**(26,388)**
2004				
Functional currency of the Group operation:				
Sterling	—	(1,038)	—	(1,038)
	—	(1,038)	—	(1,038)

21 CALLED UP SHARE CAPITAL

	2005 number	**2005 £'000**	2004 number	2004 £'000
Authorised				
Ordinary shares of 10p each	**—**	**—**	20,000,000	2,000
Ordinary shares of 1p each	**67,539,188**	**675**	—	—
	67,539,188	**675**	20,000,000	2,000
Allotted				
Ordinary shares of 10p each	**—**	**—**	14,476,407	1,447
Ordinary shares of 1p each	**12,323,198**	**123**	—	—
	12,323,198	**123**	14,476,407	1,447

The allotted share capital has been reduced for shares held by the Company awaiting cancellation. During the year, the Company purchased 7,500 of its own ordinary shares of 10p each, which represented 0.05% of the issued share capital, for a cash consideration of £104,143. In addition the allotted share capital was reduced by the exercise of the Tender Offer. Further details regarding the Tender Offer are given in the Report of the Directors on page 14.

21 CALLED UP SHARE CAPITAL CONTINUED

On 4 July 2005, following approval by the shareholders at the Extraordinary General Meeting on 31 May 2005 and approval of the High Court on 21 June 2005, the Company reduced the nominal value of its ordinary shares of 10p each to ordinary shares of 1p each releasing £1,324,000 to distributable reserves.

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 outstanding options under this scheme at 31 December 2005 were as follows:

Date granted	At 1 January 2005	Granted in year	At 31 December 2005	Exercise price (£)	Dates normally exercisable
14/01/03	90,000	—	**90,000**	11.50	14/01/06–14/01/13

The mid-market price of the Company's shares at 31 December 2005 was £13.75 and the range during the year was £13.25 to £15.25.

22 SHARE PREMIUM ACCOUNT AND RESERVES

Group	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2005 as previously reported	27,476	117	2,033	19,876
Prior year adjustment				
– FRS 17	—	—	—	(2,431)
At 1 January 2005 as restated	27,476	117	2,033	17,445
Exchange adjustments	—	—	—	(264)
Purchase of own shares	—	—	—	(104)
Cancellation of share premium account	(27,476)	—	—	27,476
Cancellation of capital redemption reserve	—	(117)	—	117
Capital reduction	—	—	—	1,324
Tender Offer (including costs of £373,000)	—	—	—	(30,007)
Actuarial gain on pension scheme	—	—	—	469
Movement on deferred tax relating to pension asset	—	—	—	(143)
Retained profit for the year	—	—	—	4,477
At 31 December 2005	**—**	**—**	**2,033**	**20,790**

Company	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 2005	27,476	117	6,652
Purchase of own shares	—	—	(104)
Cancellation of share premium account	(27,476)	—	27,476
Cancellation of capital redemption reserve	—	(117)	117
Capital reduction	—	—	1,324
Tender Offer (including costs of £373,000)	—	—	(30,007)
Retained profit for the year	—	—	1,071
At 31 December 2005	**—**	**—**	**6,529**

22 SHARE PREMIUM ACCOUNT AND RESERVES CONTINUED

On 4 July 2005, following approval of the shareholders at the Extraordinary General Meeting on 31 May 2005 and approval of the High Court on 21 June 2005, the Company cancelled its share premium account and capital redemption reserve creating a realised profit of £27,593,000. In addition, the Company reduced its ordinary shares of 10p each to ordinary shares of 1p each realising a profit of £1,324,000.

Details regarding the Tender Offer are given in the Report of the Directors on page 14.

Prior Year Adjustment and Impact of New Standards

The prior year adjustment relates to the implementation of FRS 17.

The adoption of FRS 17 has resulted in a decrease in staff costs by £1.0 million (2004: increase of £0.2 million) and an increase in other finance costs of £0.3 million (2004: £0.1 million), an increase in the tax charge by £0.2 million (2004: decrease of £0.1 million), increase in profit for the year by £0.5 million (2004: £Nil) and an increase in total recognised gains and losses of £0.3 million (2004: decrease of £1.3 million). The adoption of FRS 21 has resulted in an increase in shareholders' funds of £1.4 million at 1 January 2004 due to the write back of the dividend proposed at 31 December 2003 now being recognised in the profit and loss account for the year ended 31 December 2004. The adoption of FRS 21 did not result in any change to opening shareholders' funds.

Analysis of Prior Year Adjustment

	FRS 17 £'000	FRS 21 £'000	Total £'000
Adjustment to opening shareholders' funds at 1 January 2004	833	(1,448)	(615)
Adjustment to profit and loss for the year ended 31 December 2004	317	1,448	1,765
Adjustment to Statement of Total Recognised Gains and Losses for the year ended 31 December 2004	1,281	—	1,281
	2,431	**—**	**2,431**

The net prior year adjustment of £2.4 million is disclosed on the face of the Statement of Total Recognised Gains and Losses.

23 CASH FLOW FROM OPERATING ACTIVITIES

Group	2005 £'000	2004 (restated) £'000
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**9,094**	9,260
Amortisation of goodwill	**3,133**	2,786
Depreciation	**2,031**	1,903
Loss/(profit) on disposal of fixed assets	**1**	(230)
Exchange differences	**(848)**	(295)
Difference between pension charge and cash contributions	**(968)**	142
(Increase)/decrease in debtors	**(762)**	476
(Decrease)/increase in creditors	**(810)**	9
Increase in provisions	**167**	43
(Increase)/decrease in stocks	**(845)**	40
Net cash inflow from operating activities	**10,193**	14,134

24 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 1 January 2005 £'000	Cash flow £'000	Non-cash items £'000	At 31 December 2005 £'000
Cash in hand and at bank	7,723	530	—	**8,253**
Debt due within one year	(5,344)	223	(87)	**(5,208)**
Debt due after one year	(9,729)	(26,145)	—	**(35,874)**
Finance leases	(328)	122	—	**(206)**
Total	(7,678)	(25,270)	(87)	**(33,035)**

Reconciliation of Decrease in Cash to Movement in Net Debt

	2005 £'000	2004 £'000
Increase/(decrease) in cash	**530**	(5,763)
Increase in debt	**(25,800)**	(2,702)
Change in net debt from cash flows	**(25,270)**	(8,465)
Non-cash changes	**(87)**	(110)
Acquisitions	**—**	(328)
Net debt at 1 January	**(7,678)**	1,225
Net debt at 31 December	**(33,035)**	(7,678)

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

25 ACQUISITIONS

In December 2004 the Group purchased MK Fire Limited and TVF (UK) Plc. In the financial statements for the year ended 31 December 2005, the Group declared the fair values acquired as provisional pending finalisation of the purchase consideration and determination of fair values. During the year ended 31 December 2005, the Group agreed the final consideration to be paid with the vendors and determined the final fair values of the net assets acquired.

The provisional fair value of the net assets acquired of MK Fire Limited and TVF (UK) Plc, subsequent adjustments and the final fair values acquired were as follows:

	Provisional fair values £'000	Adjustments £'000	Final fair values £'000
Tangible fixed assets	692	—	692
Stock	449	—	449
Debtors	3,164	—	3,164
Creditors	(2,536)	—	(2,536)
Provisions	(21)	—	(21)
Cash	412	—	412
Hire purchase creditors	(328)	—	(328)
Fair value of net assets acquired	1,832	—	1,832
Goodwill	7,353	(234)	7,119
Consideration	9,185	(234)	8,951

25 ACQUISITIONS CONTINUED

Satisfied by:

	Provisional consideration £'000	Adjustments £'000	Final consideration £'000
Cash	8,250	—	8,250
Deferred consideration	750	(234)	516
Accrued acquisition costs	185	—	185
	9,185	(234)	8,951

The reduction in deferred consideration followed agreement with the vendors of the net assets at the date of acquisition. The final consideration of £316,000 in respect of MK Fire Limited and £200,000 in respect of TVF (UK) Plc was paid on 22 December 2005 and 21 December 2005 respectively.

26 PENSIONS

Group

The Group operates a number of pension schemes. Details of the major schemes are set out below. The Group has adopted FRS 17 'Retirement benefits' issued in November 2000.

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. 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 2005 and then recalculated using the assumptions set out on page 42. The Schemes' assets are stated at their market value at 31 December 2005.

26 PENSIONS CONTINUED

Group CONTINUED

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

	2005	2004	2003
Discount rate	**4.00%–4.80%**	5.30%–5.75%	5.50%–5.75%
Inflation rate	**2.00%–2.90%**	2.00%–2.90%	2.00%–2.80%
Salary increase rate	**1.75%–3.90%**	2.00%–3.90%	2.00%–4.25%
Increases for pensions in payment	**2.60%**	2.60%	2.50%
Revaluation of deferred pensions	**2.90%**	2.90%	2.80%

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

	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	Long-term return expected at 31 December 2003	Value at 31 December 2003 £'000
Equities	**7.20%**	**4,880**	7.00%	4,118	7.00%	3,688
Assets with guaranteed interest with insurer	**4.00%**	**1,387**	3.25%–4.75%	1,330	3.25%–4.75%	1,230
Bonds	**4.50%**	**4,227**	5.30%	2,646	5.50%	2,455
Cash	**4.00%**	**177**	4.50%	56	5.00%	30
		10,671		8,150		7,403
Present value of the Schemes' liabilities		**(14,980)**		(13,472)		(10,725)
Deficit in the Schemes		**(4,309)**		(5,322)		(3,322)
Related deferred tax asset		**1,310**		1,605		1,009
Net pension deficit		**(2,999)**		(3,717)		(2,313)

The following disclosures relate to the Schemes:

Analysis of the Amount Charged to Operating Profit

	2005 £'000	2004 £'000
Current service cost	**631**	319
Total operating charge	**631**	319

Movement in Deficit During the Year

	2005 £'000	2004 £'000
Deficit at the start of the year	**(5,322)**	(3,322)
Current service cost	**(631)**	(319)
Contributions	**1,541**	223
Other finance income	**(366)**	(74)
Actuarial gain/(loss)	**469**	(1,830)
Deficit at the end of the year	**(4,309)**	(5,322)

26 PENSIONS CONTINUED

Group CONTINUED

Analysis of the Amount Recognised in the Statement of Total Recognised Gains and Losses

	2005 £'000	2004 £'000
Actual return less expected return on pension scheme assets	958	287
Experience gains and losses arising on the scheme liabilities	—	(726)
Changes in assumptions underlying the present value of the scheme liabilities	(489)	(1,391)
Actuarial gain/(loss) recognised in the Statement of Total Recognised Gains and Losses	469	(1,830)

History of Experience Gains and Losses

	2005	2004	2003	2002
Difference between the actual and expected return on scheme assets				
Amount (£'000)	958	287	540	(1,802)
Percentage of scheme assets	9%	4%	8%	(30%)
Experience gains and losses on scheme liabilities				
Amount (£'000)	—	(726)	—	—
Percentage of scheme liabilities	—	(6%)	—	—
Total amount recognised in Statement of Total Recognised Gains and Losses				
Amount (£'000)	469	(1,830)	(367)	(2,032)
Percentage of scheme liabilities	3%	(14%)	(4%)	(24%)

The Group's profit and loss reserve at 31 December 2005 is as follows:

	2005 £'000	2004 £'000
Profit and loss reserve including pension liability	20,790	17,570
Pension liability	2,999	3,717
Profit and loss reserve excluding pension liability	23,789	21,287

The contributions paid by the Group to the defined contribution stakeholder pension scheme in operation within the United Kingdom, as well as a defined contribution pension scheme for two United Kingdom Executives, amounted to £57,000 in the year ended 31 December 2005 (2004: £49,000).

Total pension costs charged to the profit and loss account for all schemes in which the Group participates amounts to £688,000 for the year ended 31 December 2005 (2004: £394,000).

Company

The contributions paid by the Company to the defined contribution stakeholder pension scheme in operation within the United Kingdom, as well as a defined contribution pension scheme for two United Kingdom Executives, amounted to £21,000 in the year ended 31 December 2005 (2004: £Nil).

27 OPERATING LEASE RENTAL COMMITMENTS ON LAND AND BUILDINGS

	Group 2005 £'000	Group 2004 £'000
Annual commitments for leases expiring:		
– Within one year	92	87
– Between two and five years inclusive	143	226
	235	313

28 GROUP UNDERTAKINGS

The following subsidiary undertakings are all wholly owned in ordinary share capital:

	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*
MK 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*
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 Fire Protection Holdings Limited the shares in all Group undertakings are held by subsidiary undertakings.

A full list of subsidiary undertakings at 31 December 2005 will be annexed to the Company's next annual general return as a full list is considered by the Directors to be excessive.

29 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company regards British Security Group Limited, a company registered in Bermuda, as its ultimate parent undertaking through its 90% holding in London Security plc. The Directors regard J.G. Murray as the ultimate controlling party through his controlling interest in British Security Group Limited.

30 RELATED PARTY TRANSACTIONS

During the year the Group has incurred costs amounting to £1,500,000 (2004: £1,400,000) 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 £161,000 (2004: £357,000) of expenditure on behalf of J.G. Murray during the year, of which £44,000 has been reimbursed in the period and the remaining £117,000 is to be reimbursed by a related undertaking.

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 2006 at 2:30pm for the following purposes:

To consider the following resolutions as ordinary resolutions:

1. To receive the financial statements for the year ended 31 December 2005 and the reports of the Directors and auditors and the Remuneration Report for that period.
2. To re-elect Mr. J.G. Murray, who retires by rotation under article 23.2 of the Company's articles of association, as a Director.
3. To re-elect Mr. E. Sebag, who retires by rotation under article 23.2 of the Company's articles of association, as a Director.
4. 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.
5. 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:

6. That, subject to the passing of resolution numbered 5 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 pursuant to the general authority conferred by the resolution passed at the 2000 Annual General Meeting for the purposes of section 80 of the Act 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 £6,162 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.

7. 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 200,000 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
2 May 2006

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 Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU 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

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Website: www.asco.uk.com

GFA Premier Limited
Wistons Lane
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Tel: 01422 377521
Fax: 01422 377524

Hoyles Fire & Safety Limited
Sandwash Close
Rainford Industrial Estate
Rainford St. Helens
Merseyside WA11 8LY
Tel: 01744 885161
Fax: 01744 882410
E-mail: customer.service@hoylesfire.co.uk
Website: www.hoylesfire.co.uk

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Website: www.lwsafety.com

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MK Fire Limited
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Fax: 01908 220778
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Website: www.mkfire.co.uk

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Website: www.tvfplc.co.uk

United Fire Alarms Limited
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