LONDON SECURITY PLC

INTERIM STATEMENT 2007

EUROPEAN GROUP BRANDS

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

CORPORATE STATEMENT

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

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

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

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

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CHAIRMAN'S STATEMENT

These are the Group's first consolidated financial statements that have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The Group's transition date for adoption of IFRS is 1 January 2006. An analysis of the financial impact of adopting IFRS can be found in Note 8.

FINANCIAL HIGHLIGHTS

Financial highlights of the unaudited results for the six months ended 30 June 2007 compared with the restated first half of 2006 are as follows:

- Turnover of £32.8 million (2006: £33.4 million)
- Operating profit of £8.1 million (2006: £6.6 million)
- Profit on ordinary activities before taxation of £7.3 million (2006: £5.7 million)
- Earnings per share of 41.0 pence (2006: 31.0 pence)

TRADING AND PROSPECTS

The financial highlights above illustrate that 2007 has been a period of profit improvement for the Group. The Group's operating profit has increased by £1.5 million (23%), despite a decline in turnover of £0.6 million (2%). This improvement is largely due to the full year effect of various initiatives implemented in 2006, as explained in the 2006 Report and Accounts. The operating profit improvement continues the trend experienced in the second half of 2006.

In mainland Europe, the Group is introducing a new range of products enabling the Group's evolution from solely an extinguisher supplier to the customers' safety partner.

In the UK, we have carried out a cost review, following which cost efficiencies were successfully implemented in our commercial network.

It remains a principal aim of the Group to grow through acquisition. Acquisitions are being sought throughout Europe and, in the first nine months of 2007, we have continued to acquire fire protection businesses.

J.G. MURRAY
Chairman
28 September 2007

FINANCIAL HIGHLIGHTS

Financial highlights of the unaudited results for the six months ended 30 June 2007:

Turnover of	Operating profit of	Profit on ordinary activities before taxation of	Earnings per share of
£32.8 million	**£8.1 million**	**£7.3 million**	**41.0 pence**
(2006: £33.4 million)	(2006: £6.6 million)	(2006: £5.7 million)	(2006: 31.0 pence)

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS TO 30 JUNE 2007

	Six months to 30 June 2007 £'000	Six months to 30 June 2006 £'000	Year to 31 December 2006 £'000
Revenue	**32,815**	33,396	64,426
Cost of sales	**(5,308)**	(6,197)	(11,719)
Gross profit	**27,507**	27,201	52,707
Distribution costs	**(11,294)**	(12,779)	(24,490)
Administrative expenses	**(8,134)**	(7,781)	(15,481)
Operating profit	**8,079**	6,641	12,736
Operating profit before depreciation	**8,983**	7,675	14,723
Depreciation	**(904)**	(1,034)	(1,987)
Operating profit	**8,079**	6,641	12,736
Finance income	**113**	64	692
Finance costs	**(923)**	(1,028)	(2,165)
Finance costs – net	**(810)**	(964)	(1,473)
Profit before income tax	**7,269**	5,677	11,263
Income tax expense	**(2,215)**	(1,859)	(3,647)
Profit for the period	**5,054**	3,818	7,616

All profit for the period is attributable to equity shareholders.

Earnings per share			
Basic and diluted	**41.0p**	31.0p	61.9p

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2007

	As at 30 June 2007 £'000	As at 30 June 2006 £'000	As at 31 December 2006 £'000
Assets			
Non current assets			
Property, plant and equipment	**7,246**	7,629	7,053
Intangible assets	**47,090**	46,825	46,825
Deferred tax asset	**1,258**	1,310	1,258
Derivative financial instruments	**132**	—	—
	55,726	55,764	55,136
Current assets			
Inventories	**4,990**	5,328	4,593
Trade and other receivables	**15,605**	15,766	14,746
Cash and cash equivalents	**10,249**	6,658	8,676
	30,844	27,752	28,015
Total assets	**86,570**	83,516	83,151
Liabilities			
Current liabilities			
Trade and other payables	**(12,932)**	(12,272)	(11,788)
Income tax liabilities	**(2,295)**	(2,470)	(2,174)
Borrowings	**(5,071)**	(5,204)	(5,051)
Provision for liabilities and charges	**(166)**	—	(350)
	(20,464)	(19,946)	(19,363)
Non current liabilities			
Trade and other payables	**—**	—	(54)
Borrowings	**(27,964)**	(33,478)	(30,395)
Derivative financial instruments	**—**	—	(140)
Deferred tax liabilities	**(34)**	(189)	(46)
Retirement benefit obligations	**(4,167)**	(4,375)	(4,133)
Provision for liabilities and charges	**(130)**	(157)	(157)
	(32,295)	(38,199)	(34,925)
Total liabilities	**(52,759)**	(58,145)	(54,288)
Net assets	**33,811**	25,371	28,863
Shareholders' equity			
Ordinary shares	**123**	123	123
Merger reserve	**2,033**	2,033	2,033
Other reserves	**(266)**	83	(257)
Retained earnings	**31,921**	23,132	26,964
Total shareholders' equity	**33,811**	25,371	28,863

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS TO 30 JUNE 2007

	Six months to 30 June 2007 £'000	Six months to 30 June 2006 £'000	Year ended 31 December 2006 £'000
Cash flows from operating activities			
Cash generated from operations	**8,361**	6,425	14,380
Interest paid	**(1,017)**	(962)	(1,866)
Income tax paid	**(2,150)**	(2,214)	(3,307)
Net cash generated from operating activities	**5,194**	3,249	9,207
Cash flows from investing activities			
Acquisition of subsidiary undertaking	**—**	—	(248)
Purchases of property, plant and equipment	**(1,289)**	(981)	(1,836)
Proceeds from sale of property, plant and equipment	**238**	187	650
Purchases of intangible assets	**(272)**	(32)	(32)
Interest received	**113**	64	147
Net cash used in investing activities	**(1,210)**	(762)	(1,319)
Cash flows from financing activities			
Repayments of borrowings	**(2,366)**	(2,540)	(5,858)
Capital repayment of finance leases	**(45)**	(66)	(131)
Equity dividends paid	**—**	(1,476)	(1,476)
Net cash used in financing activities	**(2,411)**	(4,082)	(7,465)
Net increase/(decrease) in cash in the period	**1,573**	(1,595)	423
Cash and cash equivalents at beginning of the period	**8,676**	8,253	8,253
Cash and cash equivalents at the end of the period	**10,249**	6,658	8,676

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Six months to 30 June 2007 £'000	Six months to 30 June 2006 £'000	Year ended 31 December 2006 £'000
Profit for the financial period	**5,054**	3,818	7,616
Currency translation differences on foreign currency net investments	**(9)**	83	(259)
Actuarial gain recognised in pension scheme (Note 6)	**—**	—	52
Movement on deferred tax relating to pension scheme	**—**	—	(16)
Net (losses)/gains not recognised in the income statement	**(9)**	83	(223)
Total recognised income for the year attributable to equity shareholders	**5,045**	3,901	7,393

NOTES

1 GENERAL INFORMATION

London Security plc is a leader in Europe's fire security industry, providing fire protection for over 200,000 customers through a local presence in the United Kingdom, Belgium, the Netherlands, Austria and Switzerland.

The Company is a public limited liability company incorporated and domiciled in England. The registered office is Wistons Lane, Elland, West Yorkshire HX5 9DS.

The Company has its primary listing on the Alternative Investment Market (AIM) of the London Stock Exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

Prior to 2007, the Group prepared its audited financial statements and unaudited interim financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). From 1 January 2007, the Group is required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and implemented in the UK and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The date of transition to IFRS for the Group was 1 January 2006 and the Group prepared its opening IFRS balance sheet as at that date.

This interim financial report has been prepared in accordance with the accounting policies described below. The IFRS and International Financial Reporting Interpretations Committee ('IFRIC') interpretations that will be applicable as at 31 December 2007, including those that will be applicable on an optional basis, are not yet known with certainty at the time of preparing this report, however, no significant changes are expected between the accounting policies adopted in preparing this report and those that will be adopted in the 2007 audited financial statements.

The comparative figures in respect of 2006 have been restated to reflect the revised accounting policies. Reconciliations and explanations of the effect of adopting IFRS compliant accounting policies on the Group's equity (net assets), profits and cash flows are provided in Note 8 in this report.

This interim financial report has been prepared under the historical cost convention, as modified by the accounting for derivative financial instruments at fair value through profit or loss. In addition, this interim financial report does not comply with IAS 34 'Interim Financial Reporting', which is not currently required to be applied under the AIM Rules.

The financial information included in this interim financial report for the six months ended 30 June 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and is unaudited. The restated comparative figures for 2006 are also unaudited. A copy of the Group's statutory accounts for the year ended 31 December 2006, which were prepared in accordance with UK GAAP, and on which the auditors gave an unqualified opinion and did not make a statement under section 237 of the Companies Act 1985, has been filed with the Registrar of Companies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.1 BASIS OF PREPARATION CONTINUED

This interim financial report 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. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Group has taken advantage of the following exemptions on transition to IFRS as permitted by paragraph 13 of IFRS 1:

- The requirements of IFRS 3 'Business Combinations' have not been applied to business combinations that occurred before the date of transition to IFRS.
- The carrying values of freehold properties are based on previously adopted UK GAAP valuations and these are now taken as deemed cost on transition to IFRS.
- The foreign exchange translation reserve has been set to nil on transition to IFRS.

2.2 CONSOLIDATION

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The Directors are of the opinion that there is one operation, the provision and maintenance of fire protection equipment, operating in one geographical market, Europe.

NOTES CONTINUED

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds Sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(c) Group companies

The results and financial position of all the Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised as a separate component of equity, and are reported within the statement of other recognised income and expense.

In accordance with IFRS 1, the translation reserve has been set at zero at the date of transition to IFRS.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 PROPERTY, PLANT AND EQUIPMENT

Property is carried at deemed cost at the date of transition to IFRS based on the previous UK GAAP valuations. Plant and equipment held at the date of transition and subsequent additions to property, plant and equipment are stated at purchase cost including directly attributable costs, less accumulated depreciation.

Costs are recognised when it is probable that future economic benefits associated with the items will flow to the Group and the costs of the item can be measured reliably.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.5 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

– Buildings	2 – 6%
– Plant, machinery and vehicles	10 – 33%
– Fixtures, fittings and equipment	10%
– Share in aircraft	5%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 INTANGIBLE ASSETS

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately indefinable cash flows.

Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Trademarks and licences

Trademarks and licences are shown at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (15–20 years).

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

(d) Service contracts

Acquired service contracts are capitalised on the basis of the costs incurred to acquire. Amortisation is calculated using the straight-line method to allocate the cost of the contracts over 20 years.

NOTES CONTINUED

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.7 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Group's borrowings of £33.0 million (£24.2 million denominated in Euros and £8.8 million denominated in Sterling) are subject to floating rates based on LIBOR and EURIBOR plus a margin of between 0.6% and 1.5%. The Group uses financial derivatives to cap the total exposure to LIBOR to a maximum of 5.5% and EURIBOR to a maximum of 4.25%. The caps took effect from September 2006 until the loans are repaid in June 2010.

The Group's policy is not to hedge its international assets with respect to foreign currency balance sheet translation exposure, nor against foreign currency transactions. The Group does not enter into any forward exchange contracts and it does not use financial instruments for speculative purposes.

Derivative financial instruments are initially measured at cost, and are re-measured at fair value at the balance sheet date with any valuation adjustment being reflected in the income statement.

2.8 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ('FIFO') method. The cost of finished goods and work in progress comprises, raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for obsolete, slow moving or defective items where appropriate.

2.9 TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'administrative expenses'.

2.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own shares, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.12 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.14 EMPLOYEE BENEFITS

Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated triennially by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The interest cost and the expected return on the assets are shown within finance cost and finance income respectively within the income statement. Actuarial gains and losses are recognised immediately in the consolidated statement of recognised income and expense. Net defined benefit pension scheme deficits are presented separately on the balance sheet within non current liabilities before tax relief. The attributable deferred tax asset is included within deferred tax and is subject to the recognition criteria as set out in the accounting policy on deferred taxation.

NOTES CONTINUED

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.14 EMPLOYEE BENEFITS CONTINUED

Pension obligations continued

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

2.15 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.16 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) Outright sale of equipment

Revenue from the outright sale of equipment is recognised upon delivery to the customer.

(b) Installation and service

Revenue from the installation and servicing of equipment is recognised when the installation or service has been performed.

(c) Maintenance

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.

(d) Equipment leases

Revenue from the equipment leased to customers under an operating lease is recognised over the term of the lease on a pro rata basis.

(e) Interest income

Interest income on any short term deposit is recognised in the income statement as it accrues.

2.17 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.18 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Board considers foreign currency translation exposure and interest rates to be the only potential financial risks. Risk management is carried out under treasury policies and guidelines authorised and reviewed by the Board of Directors.

(a) Foreign exchange risk

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

(b) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. These borrowings were issued at variable rates based on EURIBOR and LIBOR and expose the Group to cash flow interest rate risk.

The Group manages its cash flow interest rate risk by using interest rate caps. The effect of these caps is to limit the Group's exposure to EURIBOR to a maximum of 4.25% and LIBOR to a maximum of 5.5%. The caps took effect from September 2006 until the loans are repaid in June 2010.

3.2 FAIR VALUE ESTIMATION

The fair value of interest rate caps is calculated as the present value of the estimated future cash flows.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(b) Pension scheme assumptions and mortality tables

The carrying value of the defined benefit pension scheme is valued using actuarial valuations. These valuations are based on assumptions including the selection of the most appropriate mortality table for the profile of the members in the scheme and the financial assumptions concerning discount rates and inflation. All these are estimates of future events and are therefore uncertain. The choices are based on advice received from the scheme's actuaries which are checked from time to time with benchmark surveys.

NOTES CONTINUED

5 EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on the profit on ordinary activities after taxation of £5,054,000 (2006: £3,818,000) and on 12,294,798 (2006: 12,323,198) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

For diluted earnings per ordinary share, the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The revised weighted average number of shares is 12,294,798 (2006: 12,323,198). After taking into account the effect of dilutive securities, the basic EPS and adjusted EPS figures are unaltered.

	Six months to 30 June 2007 £'000	Six months to 30 June 2006 £'000	Year ended 31 December 2006 £'000
Profit on ordinary activities after taxation	**5,054**	3,818	7,616
Basic earnings per ordinary share	**41.0p**	31.0p	61.9p

6 ACTUARIAL VALUATION OF PENSION SCHEME

In common with many other companies, the Group has not prepared an actuarial valuation of pension scheme assets and liabilities for the 2007 interim statement. In accordance with IAS 19 such a valuation will be prepared for the purposes of the Group's 2007 Report and Accounts.

7 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months to 30 June 2007 £'000	Six months to 30 June 2006 £'000	Year ended 31 December 2006 £'000
Profit for the financial period	**5,054**	3,818	7,616
Dividends	**—**	(1,476)	(1,476)
Currency translation differences on foreign currency net investments	**(9)**	83	(259)
Purchase of own shares	**(97)**	—	—
Actuarial gain recognised in pension scheme (Note 6)	**—**	—	52
Movement on deferred tax relating to pension scheme	**—**	—	(16)
Net increase in shareholders' funds	**4,948**	2,425	5,917
Shareholders' funds at the beginning of the period	**28,863**	22,946	22,946
Shareholders' funds at the end of the period	**33,811**	25,371	28,863

8 EXPLANATION OF TRANSITION TO IFRS

The following analysis explains the financial impact of the Group's adoption of IFRS. The date of transition was 1 January 2006.

RECONCILIATION OF EQUITY AS AT 1 JANUARY 2006 (DATE OF TRANSITION TO IFRS)

	Note	Previous UK GAAP £'000	Effect of IFRS transition £'000	IFRS £'000
Assets				
Non current assets				
Property, plant and equipment	(i)	7,823	(59)	7,764
Intangible assets	(e), (i)	46,230	528	46,758
Deferred tax asset	(a)	—	1,310	1,310
Derivative financial instruments		—	—	—
		54,053	1,779	55,832
Current assets				
Inventories		4,897	—	4,897
Trade and other receivables	(i)	15,676	(469)	15,207
Cash and cash equivalents		8,253	—	8,253
		28,826	(469)	28,357
Total assets		82,879	1,310	84,189
Liabilities				
Current liabilities				
Trade and other payables	(d)	(15,247)	2,856	(12,391)
Current tax liabilities	(d)	—	(2,856)	(2,856)
Borrowings		(5,330)	—	(5,330)
		(20,577)	—	(20,577)
Non current liabilities				
Trade and other payables		—	—	—
Borrowings		(35,958)	—	(35,958)
Deferred tax liabilities	(b)	—	(189)	(189)
Retirement benefit obligations	(a)	(2,999)	(1,310)	(4,309)
Provision for liabilities and charges	(b)	(399)	189	(210)
		(39,356)	(1,310)	(40,666)
Total liabilities		(59,933)	(1,310)	(61,243)
Net assets		22,946	—	22,946
Shareholders' equity				
Ordinary shares		123	—	123
Merger reserve		2,033	—	2,033
Retained earnings		20,790	—	20,790
Total shareholders' equity		22,946	—	22,946

NOTES CONTINUED

8 EXPLANATION OF TRANSITION TO IFRS CONTINUED

RECONCILIATION OF EQUITY AS AT 31 DECEMBER 2006 (DATE OF LAST UK GAAP STATEMENTS)

	Note	Previous UK GAAP £'000	Effect of IFRS transition £'000	IFRS £'000
Assets				
Non current assets				
Property, plant and equipment	(i)	7,103	(50)	7,053
Intangible assets	(e), (i)	43,260	3,565	46,825
Deferred tax asset	(a)	—	1,258	1,258
		50,363	4,773	55,136
Current assets				
Inventories		4,593	—	4,593
Trade and other receivables	(i)	15,148	(402)	14,746
Cash and cash equivalents		8,676	—	8,676
		28,417	(402)	28,015
Total assets		78,780	4,371	83,151
Liabilities				
Current liabilities				
Trade and other payables	(d)	(13,962)	2,174	(11,788)
Current tax liabilities	(d)	—	(2,174)	(2,174)
Borrowings		(5,051)	—	(5,051)
Provision for liabilities and charges	(c)	—	(350)	(350)
		(19,013)	(350)	(19,363)
Non current liabilities				
Trade and other payables		(54)	—	(54)
Borrowings		(30,395)	—	(30,395)
Derivative financial instruments	(h)	—	(140)	(140)
Deferred tax liabilities	(b)	—	(46)	(46)
Retirement benefit obligations	(a)	(2,875)	(1,258)	(4,133)
Provision for liabilities and charges	(b),(c)	(553)	396	(157)
		(33,877)	(1,048)	(34,925)
Total liabilities		(52,890)	(1,398)	(54,288)
Net assets		25,890	2,973	28,863
Shareholders' equity				
Ordinary shares		123	—	123
Merger reserve		2,033	—	2,033
Other reserves (translation)	(g)	—	(257)	(257)
Retained earnings	(e),(g),(h)	23,734	3,230	26,964
Total shareholders' equity		25,890	2,973	28,863

8 EXPLANATION OF TRANSITION TO IFRS CONTINUED

RECONCILIATION OF PROFIT FOR THE YEAR ENDED 31 DECEMBER 2006 (DATE OF LAST UK GAAP STATEMENTS)

	Note	Previous UK GAAP £'000	Effect of IFRS transition £'000	IFRS £'000
Revenue		64,426	—	64,426
Cost of sales		(11,719)	—	(11,719)
Gross profit		52,707	—	52,707
Distribution costs		(24,490)	—	(24,490)
Administrative expenses	(e)	(18,594)	3,113	(15,481)
Operating profit		9,623	3,113	12,736
EBITDA		14,723	—	14,723
Depreciation		(1,987)	—	(1,987)
Amortisation of goodwill		(3,113)	(3,113)	—
Operating profit		9,623	—	12,736
Finance income	(f)	—	692	692
Finance costs	(f),(h)	(1,333)	(832)	(2,165)
Finance costs – net		(1,333)	(140)	(1,473)
Profit before income tax		8,290	2,973	11,263
Income tax expense		(3,647)	—	(3,647)
Profit for the year		4,643	2,973	7,616

NOTES CONTINUED

8 EXPLANATION OF TRANSITION TO IFRS CONTINUED

RECONCILIATION OF EQUITY AS AT 30 JUNE 2006

	Note	Previous UK GAAP £'000	Effect of IFRS transition £'000	IFRS £'000
Assets				
Non current assets				
Property, plant and equipment	(i)	7,676	(47)	7,629
Intangible assets	(e), (i)	44,710	2,115	46,825
Deferred tax asset	(a)	—	1,310	1,310
		52,386	3,378	55,764
Current assets				
Inventories		5,328	—	5,328
Trade and other receivables	(i)	16,268	(502)	15,766
Cash and cash equivalents		6,658	—	6,658
		28,254	(502)	27,752
Total assets		80,640	2,876	83,516
Liabilities				
Current liabilities				
Trade and other payables	(d)	(14,742)	2,470	(12,272)
Current tax liabilities	(d)	—	(2,470)	(2,470)
Borrowings		(5,204)	—	(5,204)
		(19,946)	—	(19,946)
Non current liabilities				
Borrowings		(33,478)	—	(33,478)
Deferred tax liabilities	(b)	—	(189)	(189)
Retirement benefit obligations	(a)	(3,065)	(1,310)	(4,375)
Provision for liabilities and charges	(b)	(346)	189	(157)
		(36,889)	(1,310)	(38,199)
Total liabilities		(56,835)	(1,310)	(58,145)
Net assets		23,805	1,566	25,371
Shareholders' equity				
Ordinary shares		123	—	123
Merger reserve		2,033	—	2,033
Other reserves (translation)	(g)	—	83	83
Retained earnings		21,649	1,483	23,132
Total shareholders' equity		23,805	1,566	25,371

8 EXPLANATION OF TRANSITION TO IFRS CONTINUED

RECONCILIATION OF PROFIT FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Note	Previous UK GAAP £'000	Effect of IFRS transition £'000	IFRS £'000
Revenue		33,398	—	33,398
Cost of sales		(6,197)	—	(6,197)
Gross profit		27,201	—	27,201
Distribution costs		(12,779)	—	(12,779)
Administrative expenses	(e)	(9,347)	1,566	(7,781)
Operating profit		5,075	1,566	6,641
EBITDA		7,675	—	7,675
Depreciation		(1,034)	—	(1,034)
Amortisation of goodwill		(1,566)	(1,566)	—
Operating profit		5,075	—	6,641
Finance income	(f)	—	64	64
Finance costs	(f)	(964)	(64)	(1,028)
Finance costs – net		(964)	—	(964)
Profit before income tax		4,111	1,566	5,677
Income tax expense		(1,859)	—	(1,859)
Profit for the period		2,252	1,566	3,818

NOTES

(a) IAS 19 'Employee benefits'

IAS 19 requires pension assets or liabilities and the associated deferred tax balance to be presented separately on the balance sheet. Under FRS 17 these balances were presented net.

(b)(d) IAS 12 'Income taxes'

IAS 12 is conceptually different to UK GAAP and deferred tax is recognised on "temporary differences" rather than "timing differences".

Timing differences, which focus on profit and loss movements, represent the difference between the taxable amount and the pre-tax accounting profit that originate in one reporting period and reverse in one or more subsequent periods.

Temporary differences, which focus on balance sheet movements, are the differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

In many cases the deferred tax position will be the same under both IAS 12 and FRS 19.

IAS 12 requires current tax liabilities, deferred tax liabilities and deferred tax assets to be disclosed separately on the face of the balance sheet.

NOTES CONTINUED

8 EXPLANATION OF TRANSITION TO IFRS CONTINUED

NOTES CONTINUED

(c) IAS 37 'Provisions, contingent liabilities and contingent assets'

IAS 37 requires provisions to be separately identified on the face of the balance sheet analysed between current and non current liabilities.

(e)(i) IFRS 3 'Business combinations'

IFRS 3 has been applied prospectively from 1 January 2006.

IFRS 3 has a strict definition of what constitutes a business within the context of a business combination. IFRS 3 requires that all the acquiree's intangible assets at the acquisition date should be recognised separately in the consolidated financial statements if they meet the definition of an intangible asset in IAS 38 'Intangible assets' and if their fair value can be measured reliably.

Under IAS 38, there is a rebuttable presumption that the intangible asset's fair value can be measured reliably if it has a finite useful life.

Application of IFRS 3 resulted in no change to the split of intangibles and goodwill attributable to acquisitions post 1 January 2006.

Under both IFRS and UK GAAP, goodwill arising on an acquisition is treated as an asset; however, under IFRS goodwill is not amortised, instead, it is subject to an annual impairment review. On transition, the Group was required to review the carrying value of goodwill for impairment which showed that no impairment loss had occurred.

(f) IAS 1 'Presentation of financial statements'

IAS 1 requires interest paid and received to be shown separately on the face of the income statement and reclassified as finance costs and finance income.

(g) IAS 21 'The effects of changes in foreign exchange rates'

IAS 21 requires exchange differences on a monetary item forming part of a reporting entity's net investment in a foreign operation to be recognised in a separate component of equity in the reporting entity's consolidated financial statements.

(h) IAS 39 'Financial instruments: recognition and measurement'

IAS 39 covers the recognition, measurement and derecognition of financial instruments. In accordance with IAS 39 the fair value of interest rate caps has been recognised.

The Group has re-assessed its provisioning policies in accordance with IAS 39. There is no change on adoption, and provisions continue to be calculated based on experience, and the provisioning level will continue to be reassessed as experience emerges.

(i) Cash flow statement

The cash flow statement has been reclassified in line with IFRS 1 and IAS 7.

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