



# Consolidated Financial Statements

For the year ended 31 December 2007



**BRADY**





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<b>Company registration number:</b>	2164768
<b>Registered office:</b>	281 Cambridge Science Park Milton Road, Cambridge CB4 0WE
<b>Directors:</b>	Paul Fullagar ( <i>Non-Executive Chairman</i> ) Geoffrey Bicknell ( <i>Non-Executive</i> ) Patrick Brazel ( <i>Non-Executive</i> ) Peter Harverson ( <i>Non-Executive</i> ) Gavin Lavelle ( <i>Chief Executive Officer</i> ) Robert Brady ( <i>Chief Technology Officer</i> ) Brian Collins ( <i>Product Management Director</i> ) Tony Ratcliffe ( <i>Finance Director</i> )
<b>Secretary:</b>	Tony Ratcliffe
<b>Bankers:</b>	Barclays Bank plc Mortlock House, Vision Park Histon, Cambridge CB4 9DE
<b>Nominated Adviser:</b>	Oriel Securities Ltd 125 Wood Street London EC2V 7AN
<b>Registrars:</b>	Equiniti SEA 10846 Aspect House, Spencer Road Lancing BN99 6ZL
<b>Solicitors:</b>	K&L Gates 110 Cannon Street London EC4N 6AR  Taylor Vinters Merlin Place, Milton Road Cambridge CB4 0DP
<b>Auditors:</b>	Grant Thornton UK LLP Byron House, Cambridge Business Park Cowley Road Cambridge CB4 0WZ
<b>Financial Calendar 2008:</b>	
<b>Annual General Meeting</b>	23 April 2008
<b>Interim Results (Provisional)</b>	September 2008
<b>Preliminary Results (Provisional)</b>	March 2009

# Directors' Biographies

## Non-Executive Directors

### **Paul Fullagar, BA, ACMA, 57, Non-Executive Chairman**

Paul joined the Board as Chairman in July 2007. He was also appointed Chairman of Financial Objects plc, the banking, wealth management and energy risk software company in June 2007, where he has been a non-executive director since 2004. Paul was also Chairman of Staffware plc for 12 years, where he led the growth of the company to over 350 people, whilst it became a leader in business process automation software. The company successfully floated on AIM in 1996 and became fully listed in 2000 and was subsequently acquired by TIBCO.

### **Peter Harverson, 61, Senior Non-Executive Director**

Peter joined the Board in January 2007. He has held a number of senior international sales and marketing roles in the IT industry. These included Regional Director, Intel Corporation and Vice President Europe, Cadence Design Systems. In 1995 he joined Sun Microsystems where he was responsible for the development of the company's European Corporate Accounts programme. More latterly he became Director of Services Sales, EMEA with the charter to develop new areas of business, including professional services. Peter retired from Sun Microsystems in December 2005. He is also a non-executive director of Ubisense Ltd, Aspex Semiconductor Holdings Ltd and an adviser to Pulsic Ltd and MoSys Inc.

### **Geoffrey Bicknell, FCA, CA (Ontario), 65, Non-Executive Director**

Geoffrey joined the Board in January 2008. He has an impressive track record having held executive directorships in a number of companies both in Europe and the USA including Rockwell International, TI Group Plc, Lucas Industries, Maxima Holdings Plc and Northgate Information Solutions Plc. He is also a non-executive director of Trafficmaster plc and Acta Spa, an Italian AIM-listed company.

### **Patrick Brazel, MSc, 50, Non-Executive Director**

Patrick joined the Board in January 2008. He has many years' experience at CEO and senior management levels in the banking, financial trading and technology markets. He has acted as CEO and Chairman at a number of companies and spent almost a decade at SunGard, latterly as President of SunGard Capital Markets. He has subsequently been instrumental in the development and progress of companies such as Sentry Financial Technology LLC, Eontec Ltd and GoldTier Technology LLC. He is also Chairman of the Irish Software Association.

## Executive Directors

### **Gavin Lavelle, BSc, 48, Chief Executive Officer**

Gavin joined the Group in September 2007 following a career spanning more than 25 years in the international financial software and banking industry. In 2000 he joined SunGard after the acquisition of RioFin as CEO of Panorama and more recently CEO of SunGard Sherwood Systems. Prior to founding RioFin, he was worldwide head of equities and equity derivatives risk management at Deutsche Bank. He also worked at Banque Paribas for eight years, where he was head of equity derivatives trading.

### **Robert Brady, PhD, 52, Chief Technology Officer**

After obtaining his PhD in Physics from Cambridge University, Robert initially pursued his career in academia, including spending time working for the National Bureau of Standards in Boulder, Colorado supported by the US Office of National Research. He founded the Group in 1985, to build derivatives pricing models and risk management systems for the financial and commodity markets.

### **Brian Collins, 42, Product Management Director**

Brian joined the Group in June 2004 following the acquisition of Colplan Systems Limited. Having studied Computer Sciences at Birmingham University, Brian was one of the founding directors of Colplan Systems Limited in 1987 and became Managing Director in 2001. Brian has over twenty years experience developing and supplying commodity derivative pricing and risk analysis tools, specialising in the base metals and power markets.

### **Tony Ratcliffe, BSc, ACA, MBA, 44, Finance Director**

Tony joined the Group in May 2007. After training with KPMG, Tony has spent his career in the financial management of fast growth technology companies, both public and private. His recent roles have included CFO of Gemini Genomics plc where he led a major acquisition and a \$450m Nasdaq IPO and finance director of i2 Limited, a global law enforcement software company, where he oversaw significant growth and led the merger of the business with Choicepoint, Inc. realising over \$100m in cash for its shareholders.

# Chairman's Statement



**Paul Fullagar**  
Chairman

## Overview

The Group's principal activity is the global provision of trading, risk management and settlement solutions to the metals and commodities sectors, through the delivery of customer focused software and services.

I am pleased to provide a brief summary of the financial and operational highlights for 2007, to report on a number of Board changes and to confirm the outlook for 2008.

## Financial Highlights

- Group revenues increased by 23% to £5.7 million (2006: £4.6 million), which included £1.6 million of recurring maintenance revenues (2006: £1.3 million).
- Profit before taxation remained consistent with 2006 at £0.6 million, following the reorganisation and investment in building the Group's routes to market.
- Basic earnings per share have increased to 1.82 pence, from 1.76 pence last year.
- Cash resources at the end of the year were £6.0 million, an increase of £1.1 million on last year's £4.9 million, contributing to a very strong balance sheet.

## Operational Highlights

2007 has seen a number of successful commercial activities:

- Three significant new Trinity licence deals signed in 2007.
- Four new Trinity clients have gone live.
- First clients live on new version v600.
- 21% growth in licence revenues.
- 19% growth in recurring maintenance revenues.
- 28% growth in services revenues.

As highlighted at the time of the interim results, the Group has undertaken a reorganisation of its internal resources in order to focus its efforts aggressively towards sales order and revenue generation. The organisational changes have now been successfully implemented and the Group is well positioned to accelerate growth in its order book moving forward. Most notably, the Group has expanded its sales team both in Europe and in North America and has formed a US-based service team.

## Board

I am pleased to report that the Group has completed a number of Board changes since the previous Annual Report:

Gavin Lavelle joined the Group as Chief Executive Officer in September 2007, bringing over 25 years of experience in the international financial software and banking industry, most recently with SunGard. Following strategic and operational reviews, Gavin has already implemented a number of changes and laid the solid foundations on which the Group expects to build sustained growth in the future.

Robert Brady was appointed Chief Technology Officer in September 2007 enabling him to focus on technological and strategic initiatives.

Tony Ratcliffe joined as Finance Director in May 2007, bringing a wealth of experience gained in building and realising value in high-growth technology companies in software and other sectors.

I was very pleased to be asked to join the Board as Non-Executive Chairman in July 2007.

More recently, Geoffrey Bicknell and Patrick Brazell joined the Board in January 2008 as Non-Executive Directors. As the Group executes its ambitious plans for international growth, they both bring a great deal of experience and will play an important role on the Board. These appointments followed the retirements of Graham Simister and Neil McArthur in December 2007, after a combined 15 years of service on the Brady plc Board. I would like to thank them both for their expertise and commitment to the Group over so many years of service.

## People

I would also like to thank all of our employees for their efforts over the past year, which has seen a number of changes. Their continued commitment, loyalty and support will be vital during the planned period of growth ahead.

## Outlook

The strength of the metal markets continued throughout 2007. Increased demand for metals and commodities has provided record volumes and very profitable trading for banks, brokers and hedge funds. Our other targeted customers, producers and fabricators, have also published strong trading results. The Board is confident that the Group is well positioned in this buoyant marketplace.

The outlook for 2008 continues to remain second-half weighted as highlighted at the time of the interim results. The Board re-affirms that due to the long lead times associated with Trinity implementations and the Group's revenue recognition policy, the Group anticipates that there will be limited opportunity to recognise significant new licence revenues until the second half of 2008. However, the Group plans to mitigate this effect as far as possible by focusing on greater service revenues, particularly from existing clients, and from the sale of smaller value Opval licences or additional Trinity licence modules to existing customers.

## Conclusion

The Board continues to see a very substantial and attractive market opportunity. The Group has a leading position within the metals and mining sector and is well placed to build on this. It has a strong product offering, a solid balance sheet and has built a quality customer base and excellent reputation over the years.

The new team has undertaken a detailed review of the market opportunity and the Group's strategic and operational plans and has introduced a clear strategy to execute this plan, which is summarised in the Chief Executive's Review. The year 2007 was one of significant change and reorganisation, with the Group now being well placed to aggressively capitalise and build on this excellent opportunity. In addition, the Group will be looking for opportunities to use its strong balance sheet to build on and enhance its product and customer base through selective acquisitions.

I look forward to reporting further positive progress.

**Paul Fullagar, Chairman**  
12 March 2008

# Chief Executive's Review



**Gavin Lavelle**  
Chief Executive  
Officer

## Our Markets

The Group is focused on the metals markets, both base and precious, and on the soft commodities markets. In each area I believe that the trading conditions are currently very strong and I anticipate that they should remain so for the foreseeable future. The strong demand for raw materials, driven by growth in the emerging economies, has seen record highs in the base metals markets. Simultaneously, the credit crunch and deterioration in the equity markets has highlighted the safe haven nature of physical materials including precious metals. Record highs in soft commodities have also led to very strong trading conditions. Despite this positive environment, there have been significant trading losses, highlighting the need for effective risk management solutions and controls.

Overall, I expect that the demand in these areas should remain positive. However, one note of caution is that the slow-down or potential recession in the USA could affect the commodity markets, or at least delay the decision-making processes in some organisations.

While there has been general under-investment in these asset classes, this appears to be now changing. More banks and brokers are entering the markets, pension and hedge funds are allocating more assets and the producers are enjoying record results. All-in-all, the conditions appear bullish for further IT investment.

## Our Strategy

The Group's target markets are banks and brokers, hedge funds, trading companies, producers and fabricators. For the metals industry, our solutions now offer coverage across the entire industry, from metal concentrates, through refined metals trading, to the most complex financial derivatives. For soft commodities, our solutions can process any financially settled instruments, including complex OTC structures prevalent in that industry, to allow full analysis of trading risk.

Approximately 55% of our revenues derive from Europe, 40% from North America and the remainder from Asia. The Group will strengthen its presence in both continental Europe and the Americas still further in 2008. By strengthening our North American organisation, I am confident that the Group can drive more business in its largest potential market. Strategic Asian clients will continue to be supported in 2008 and I anticipate that the Group will be looking to strengthen its presence in this region during 2009.

Approximately 50% of our revenue derives from banks and brokers, 30% from producers and fabricators and 20% from trading companies. These markets are largely addressed by direct selling, but we will be looking to further develop relationships with partners, integrators and value added resellers (VARs) in 2008.

The Group's solutions provide support for traders, operations, settlements, risk and compliance in an integrated environment. This is critically important to ensure a greater control of the business, lowering cost of ownership and minimising the possibilities of operational risk. In 2008, the Group plans to integrate its Trinity and Opval solutions in order to support the evolving needs of both existing and future clients.

Given the strength of its balance sheet, the Group has appointed an M&A advisor to assist in driving and executing our acquisition strategy. We anticipate that the turbulence in the credit markets should favour cash-rich companies such as Brady and also offer potentially advantageous valuations.

## Our Operations

### Organisation

Since joining the Group in September 2007, I have significantly strengthened and focused our team in order to take advantage of the positive trading conditions. Three new sales executives have been added to the team and I also plan to hire two further sales executives in 2008.

Furthermore, we now have a clear focus on North America, alongside Europe, for both sales and services. This includes the appointment of Brian Colgan, a seasoned professional with 25 years of experience, to lead North American services. We will continue to strengthen our North American presence in order to provide higher quality services to our clients in their own time zone.

As well as offering a potent mix of commodity market experience and software industry expertise, I am confident that the new team is now more focused, with clear responsibilities and the skills to deliver each of our business areas' objectives in a cohesive manner.

The Group's overall capability has also been augmented by the introduction of enhanced product management processes and much tighter co-ordination between our development centres.

### Marketing

Significant progress has been made in strengthening the Brady brand. This has included the appointment of Avril Adams as Head of Marketing, the appointment of a new PR agency and significantly more focus applied to press and analyst briefings, advertising, trade shows, marketing literature and client testimonials. This is already translating into more incoming requests for information which I anticipate will ultimately create more leads in 2008.

### Sales

The refinements that we have made to the value proposition and efforts in implementing targeted sales campaigns are now starting to pay dividends, having led to three significant new licence sales in 2007 (two in North America and one in Europe), all with leading organisations. This will be further enhanced by direct marketing sales campaigns, beginning with hedge funds in the first half of 2008.

Furthermore, in 2008 we plan to further expand our sales reach by working with third-party integrators and technology partners.



## Products

In a busy year for product development, our product portfolio has continued to evolve in line with the needs of our customers.

For banks, brokers and traders there have been a number of significant developments to match the functionality of our applications with the latest process and regulatory changes brought in by the London Metal Exchange ("LME"), such as management of steel contracts, LME matching and an LME Select interface to enable direct links to other regulatory and exchange organisations. We will continue to strengthen our partnership with the LME as a key part of our strategy.

For producers, the Group has completed the development of a new Concentrates module, which means that our solutions can now be used to manage both refined and unrefined material.

We are witnessing substantial growth in the trading of metal concentrates across the globe. The Group has recently completed the development of a new Concentrates module, allowing its solutions to be used to manage both refined and unrefined material. This will be further augmented in 2008 with the addition of Assaying, Tolling and Transportation functionality to further extend the Group's coverage in this market sector.

We see the capture and effective analysis of trading risk as a critical component in the volatile and fast-moving commodities markets that we service:

- the Group's P&L Attrition module provides extensive analysis of P&L movements relative to changes in market data, minimising operation down-time;
- the recently released Retrospective functionality offers a powerful forensic analysis tool through the reconstruction of any position back in time; and
- the Group's Value-at-Risk ("VaR") module targets the continued acceptance within the industry of VaR models to report enterprise risks.

The initial design of a message hub has also been completed and this will lay the foundation for high performance messaging between our own components and third party applications, using FIX protocol. This is a key component of the Group's evolution to a Service Orientated Architecture and will provide immediate benefits of increased scalability, lower cost of ownership and reduced operational risk through accurate high-performance data interfaces, opening the Group's solutions to order management and exchange connectivity.

From a technology perspective, the Group anticipates staying at the forefront of Microsoft and Oracle technology by deepening its use of .NET components and adoption of the Vista operating system. Early in 2008, Oracle 10g and Oracle Standard will be rolled-out, followed later in 2008 by Oracle 11g and the use of a Service Orientated Architecture. In addition, the Group has worked hard on significant performance improvements in key functional areas and we have seen our first clients go live on Trinity v600.

## Services

The Group's objective is to be a trusted advisor to all its clients, providing them with high quality consulting and development services and delivering projects on time and on budget. The fact that four new clients have gone live with the Group's solutions in 2007 (two in North America and two in Europe) is testimony to our team's ability to deliver significant projects around the globe.

The Group remains committed to improving customer satisfaction. This involves partnering with our clients at all levels, the roll-out of Prince 2 project management methodology for implementations, and extending automated testing of our solutions. The Group is also initiating further accreditation and training programs in 2008 and is working diligently on faster issue resolution and better documentation.

## Our Future

Given the strong growth in earnings for producers in 2007, I anticipate continued strong growth in this area in 2008. I also anticipate that broking volumes should also remain strong in 2008. While there is currently some uncertainty around banks' trading performances, the under-investment to date in these asset classes, combined with increased demand should, I believe, still manifest in further growth in technology spend during 2008. The Group is well positioned to capitalise on this opportunity. I am confident that we have laid solid foundations in 2007 for ongoing success in 2008 and beyond.

**Gavin Lavelle**  
**Chief Executive Officer**  
12 March 2008

# Financial Review



**Tony Ratcliffe**  
Finance Director

## Group Trading Performance

Revenue for the year increased by 23% to £5.7 million, of which £1.6 million of revenue derived from recurring maintenance (2006: £1.3 million). The revenue composition is summarised in the table below:

	2007 £ m	%	2006 £ m	%
Licences	2.3	40%	1.9	41%
Maintenance	1.6	28%	1.3	29%
Services	1.8	32%	1.4	30%
<b>Total</b>	<b>5.7</b>	<b>100%</b>	<b>4.6</b>	<b>100%</b>

The gross margin of 58% remained consistent with the 2006 level of 59%.

Selling and administrative expenses increased to £3.0 million from £2.3 million. This included impairment charges for goodwill of £0.07 million (2006: £0.29 million) and reorganisation costs of £0.15 million (2006: £nil). The overall increase was largely as a result of the increased investment in building the Group's routes to market.

Operating profits before reorganisation costs of £0.47 million were consistent with 2006 (2006: £0.47 million), representing an adjusted operating margin of 8% (2006: 10%). Operating profits after reorganisation costs were £0.32 million (2006: £0.47 million), representing an operating margin of 6% (2006: 10%).

## Finance Income

Interest income from the Group's cash resources amounted to £0.32 million in the year (2006: £0.17 million), the increase arising from greater cash balances and higher average interest rates earned in the year.

## Tax

The corporation tax charge for the year was £0.15 million (2006: £0.18 million), representing an effective tax rate of 24% (2006: 28%). The Group has no tax losses available for offset of future profits.

## Earnings and Dividends

Profit before tax of £0.64 million remained consistent with 2006 (2006: £0.64 million). Profit after tax was £0.49 million (2006: £0.46 million).

The weighted average number of shares in issue increased to 26.74 million (2006: 26.05 million) following a Placing of one million shares to Paul Fullagar in July 2007 and a number of small share option exercises in the year. Basic earnings per share increased to 1.82 pence from 1.76 pence per share in 2006.

The proposed final dividend for the year has increased to 1.1 pence per share (2006: maiden dividend of 1 pence per share), representing dividend growth of 10%.

## Balance Sheet

Goodwill has reduced to £0.24 million from £0.31 million. All expenditure in the year on research and development was expensed as incurred.

Trade and other receivables decreased to £2.03 million from £2.40 million. Payables decreased to £2.15 million from £2.34 million.

## Cashflow

Operating cash flow at £0.6 million (2006: £1.2 million) continued ahead of the operating profit of £0.3 million (2006: £0.5 million). Cash resources at the end of the year increased to £6.0 million (2006: £4.9 million) and compared to cash resources at 29 February 2008 of £6.7 million.

## Risk

The principal credit risk faced by the Group relates to trade receivables. This risk is much reduced because the Group's principal customers are large financial institutions, banks or companies. A significant proportion of the Group's revenues and expenses are denominated in pounds sterling. The Group has limited exchange risk and has not entered into any forward exchange contracts during the year.

## International Financial Reporting Standards (IFRS)

Consistent with the interim financial statements, these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. This has changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles ("UK GAAP"). The impact of transition to IFRS is detailed within note 3 of the financial statements.

**Tony Ratcliffe**  
Finance Director

12 March 2008

# Report of the Directors



The Directors present their report together with financial statements for the year ended 31 December 2007.

## Principal activity

The principal activity of the Group continues to be a global provider and partner of choice for trading, risk management and settlement solutions to the metals and commodities industries, through the delivery of customer focused software and services.

## Business review

A more detailed review of the Group's activities is contained within the Chairman's Statement, the Chief Executive's Review and the Financial Review. 2007 has seen a number of successful commercial activities and the Group has also undertaken a reorganisation of its internal resources in order to aggressively focus its efforts towards sales order and revenue generation. The Group's financial risk management objectives and policies, and details in respect of the Group's exposure to these risks are set out in note 26 to the financial statements.

## Directors

The present membership of the Board is set out below. All Directors served throughout the year, except as indicated.

The interests of the Directors in the shares of the Company as at 1 January 2007, or date of appointment if later, and 31 December 2007, or date of resignation if earlier were as follows:

	31 December 2007 ordinary shares of 1p each	1 January 2007 ordinary shares of 1p each
<b>Current Directors:</b>		
Paul Fullagar (appointed 2 July 2007)	1,000,000 (3.65%)	-
Geoffrey Bicknell (appointed 2 January 2008)	-	-
Robert Brady	9,068,728 (33.13%)	9,068,728 (34.60%)
Patrick Brazel (appointed 2 January 2008)	-	-
Brian Collins	850,000 (3.11%)	850,000 (3.24%)
Peter Harverson (appointed 10 January 2007)	-	-
Gavin Lavelle (appointed 3 September 2007)	685,000 (2.50%)	-
Tony Ratcliffe (appointed 1 May 2007)	50,000 (0.18%)	-
<b>Ex-Directors:</b>		
Neil McArthur (resigned 31 December 2007)	150,000 (0.55%)	150,000 (0.57%)
David Rowe (resigned 3 April 2007)	-	30,000 (0.11%)
Graham Simister (resigned 31 December 2007)	2,060,000 (7.53%)	2,060,000 (7.86%)

Details of options held by Directors at 31 December are contained within the Remuneration Report and are in addition to the interests in shares shown above.

There were no changes in the Directors' shareholdings between the year-end and 12 March 2008.

## Dividends

The Directors recommend a dividend of 1.1p per ordinary share (2006: 1p per ordinary share). The proposed final dividend, if approved at the Annual General Meeting (AGM), will be paid on 20 May 2008 to shareholders on the register at the close of business on 18 April 2008.

## Share issues

Details of the shares issued during the period are detailed in note 16 to the financial statements.

## Research and development

The Group regards ongoing investment in research and development as critical to its future profitability, with annual expenditure incurred in order to continually enhance its product offerings to ensure that its products are the most comprehensive, competitive and market leading solution for its customers. The Group invested £1,205,000 (2006: £947,000) in research and development, all of which has been charged against profits.

In accordance with Brady plc's Articles of Association, Brian Collins and Peter Harverson retire by rotation and offer themselves for re-election at the Annual General Meeting. In addition Tony Ratcliffe, Paul Fullagar, Gavin Lavelle, Geoffrey Bicknell and Patrick Brazel, being appointed since the notice of the last Annual General Meeting, offer themselves for re-election at the forthcoming Annual General Meeting.

# Report of the Directors

## Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. The London Stock Exchange announced that AIM companies are required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, with accounting periods beginning on or after 1 January 2007. The Directors have prepared financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, for the first time for the year ended 31 December 2007 and restated the comparative financial information for 2006. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In so far as the directors are aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information.

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

## Employment policies

The Group aims to attract, retain and motivate the best staff regardless of race, religion, sexual orientation, age or disability. To that end it is committed to offering equal employment opportunities. The Group encourages share ownership through a number of share option schemes.

The Group recognises its responsibilities towards keeping employees informed of matters affecting them as employees and the economic factors affecting the performance of the Group. To this end, regular updates and consultations take place with employees.

## Disabled employees

The Group recognises its obligations towards disabled people and endeavours to provide employment where possible having regard to the physical demands of the Group's operations and the abilities of the disabled persons.

## Health and safety

The Group is committed to maintaining a safe and healthy working environment for all staff. To that end it provides appropriate training and supervision.

## Substantial shareholders

At 10 March 2008 the following, other than the Directors whose shareholdings are outlined, had notified the Company of disclosable interests in 3% or more of the nominal value of Brady plc's ordinary shares of 1p each:

	Shareholding	%
HSBC Global Custody Nominee UK Limited	6,014,003	21.96
LR Nominees Limited	962,291	3.52
Electra Kingsway VCT PLC	925,926	3.39

## Payment policy and practice

The Group's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier or to ensure the supplier is made aware of the standard payment terms. The Group's normal policy is to pay suppliers at the end of the month following the month in which goods are received. The number of days' purchases outstanding for payment at 31 December 2007 was 30 days (2006: 30 days).

## Post balance sheet events

On 2 January 2008, Geoffrey Bicknell and Patrick Brazell joined Brady plc as Non-Executive Directors following the retirement of Neil McArthur and Graham Simister on 31 December 2007.

## Auditors

The Directors who held office at 31 December 2007 confirm that, so far as they are each aware, there is no relevant audit information of which the Group's Auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's Auditors are aware of that information.

A resolution for the re-appointment of Grant Thornton UK LLP as Auditors of the Group is to be proposed at the forthcoming Annual General Meeting. In accordance with normal practice, the Directors will be authorised to determine the Auditor's remuneration.

## Annual General Meeting

The Annual General Meeting will be held at 60 Cannon Street, London, EC4N 6NP on Wednesday 23 April 2008 at 3pm. The notice of the Annual General Meeting accompanies these Financial Statements.

ON BEHALF OF THE BOARD

**Tony Ratcliffe, Secretary**

12 March 2008

# Corporate Governance



The Board take their corporate governance responsibilities seriously, and the following statements set out the principles and methods to which they adhere. The Statement of Directors' Responsibilities for preparing the financial statements is set out on page 7.

## Board

The Board of Brady plc, comprising four Non-Executive and four Executive Directors, meets formally at least ten times per year to discuss strategy, direction and financial performance. The Non-Executive Directors are invited to attend all meetings.

The Group recognises the benefit of Non-Executive Directors who bring judgement on issues of strategy, resources, performance and standards of conduct. The Non-Executive Directors are deemed as independent.

The Board has adopted a schedule of matters specifically reserved for its approval or review, including strategic operating plans, annual operating budgets, major capital expenditure and financial commitment and financial performance.

The Board have implemented monthly management reports, which are distributed electronically to the whole Board for comment.

All Directors have access to the advice and services of the Company Secretary and the Directors are able to seek independent professional advice if necessary at the Company's expense. All Directors are subject to election by the shareholders at the first Annual General Meeting following their appointment, and to re-election thereafter at intervals of no more than three years.

## Board Committees

### Remuneration Committee

The Remuneration Committee comprises Peter Harverson, Geoffrey Bicknell, Patrick Brazel and Paul Fullagar and is under the chairmanship of Peter Harverson. It meets and approves the remuneration and terms and conditions of employment for the Executive Directors. The share option schemes' rules have also been reviewed and approved by the Committee.

### Audit Committee

The Audit Committee comprises Geoffrey Bicknell, Peter Harverson, and Patrick Brazel under the chairmanship of Geoffrey Bicknell. It meets as necessary to review the draft interim and full year financial statements. It discusses the scope and planning of the audit with the Auditors before the audit and agrees their remuneration. Specific responsibilities also include the reviewing of effectiveness of internal controls; reviewing the scope and results of the external audit, reviewing the appropriateness of accounting policies and reviewing of key management judgements and risk assessments.

### Nominations Committee

The nominations committee comprises the Chairman and the Non-Executive Directors. It is responsible for monitoring the composition and balance of the Board and making recommendations to the Board on potential new Board appointments.

## Auditor independence

It is the responsibility of the Audit Committee to review and monitor the external Auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements and to develop and implement policy on the engagement of the external Auditor to supply non-audit services, taking into account relevant ethical guidance.

## Internal control

The Board of Directors has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failures to achieve the company's objectives. It should be recognised that such systems can only provide reasonable but not absolute assurance against material misstatement or loss.

## Assessment of business risk

A system to identify, assess, and evaluate business risk is embedded within the management process throughout the Company. Strategic risks are regularly reviewed by the Board. Risks relating to the key activities within the Group are assessed continuously and mitigation strategies implemented.

The Group carries out individual bid reviews prior to the commitment to any significant transaction or business commitment and carries out weekly project steering reviews to monitor the delivery of ongoing customer projects.

## Control environment

The Group's operating procedures include a comprehensive system for reporting financial and non-financial information to the Board including:

- An established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authorities;
- Clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels;
- Formal accounting policies and procedures and standard financial control procedures in place which are applicable to all areas of the Group;
- Comprehensive budgeting and financial reporting systems involving review and approval of budgets by the Board, monthly monitoring of performance against these budgets and full investigation of variances;
- There are clear procedures for monitoring the system of key controls, including an annual review of internal controls; and
- Detailed operational procedures have been developed for the business. The implications for changes in the law and regulations are taken into account within these procedures.

## Relations with shareholders

The Directors, together with the Group's advisers, hold meetings and discussions with key institutional shareholders, thereby helping to ensure that there is a mutual understanding of objectives. The Board also uses the Annual General Meeting to communicate with shareholders and encourages their attendance and participation.

# Corporate Governance

## Remuneration Report

The report of the Remuneration Committee has been approved by the Board of Directors for submission for shareholders' approval at the Annual General Meeting.

## Remuneration policy

The Remuneration Committee makes recommendations to the Board on executive remuneration policy for adoption by the Board and determines specific remuneration packages for each of the Executive Directors on behalf of the Board. Remuneration and benefits are set at appropriate levels to attract, retain and motivate high calibre individuals, not in excess of market rates for comparable companies.

## Components of Executive Directors' remuneration

### Overview

The Committee's policy is to maintain an appropriate balance between fixed elements of remuneration and performance-related elements. The Committee and Board encourage Directors and staff at all levels to acquire shares in Brady plc and to hold them for the longer term. This sense of ownership is an important element of the Group's culture and of its focus on long-term performance.

The remuneration received by each of the Directors, together with details of share interests and pension benefits, are set out on page 10.

### Salary

Salaries are reviewed annually with effect from 1 January and adjustments made, if required, to reflect competitive pay levels, changes in responsibility and Group performance.

## Bonuses

Executive Directors are eligible to participate in an annual bonus programme, which is calculated by reference to appropriate targets.

## Share options

Share options are granted to Directors to provide an element of remuneration linked to Group performance at levels appropriate to the objectives of the overall remuneration policy.

## Service contracts

The service agreement of Robert Brady can be terminated by himself or the Group provided at least twelve months notice has been given. The service agreements of all other Executive Directors can be terminated by the Director or the Group provided at least six months notice has been given.

## Non-Executive Directors' remuneration

The remuneration of the Non-Executive Directors is determined by the Board and reflects their anticipated time commitment to fulfil their duties. The Non-Executive Directors do not receive any pension benefits. The letters of appointment of all Non-Executive Directors can be terminated by the Director or the Group provided at least three months notice has been given.

## Pensions

Executive Directors contribute to a defined contribution scheme providing for a pension on retirement. No other payments to Directors are pensionable. There have been no changes in the terms of Directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for Directors. The Group operates a defined contribution group pension scheme for the benefit of employees. The assets of this scheme are administered by trustees in a fund independent from those of the Group.



## Audited information:

### Directors' remuneration

The remuneration of the Directors is as follows:

	Salary / Fee £'000	Bonus £'000	Benefit in kind £'000	2007 Total (Excl pension) £'000	2006 Total (Excl pension) £'000	2007 Pension £'000	2006 Pension £'000
<b>Current Directors:</b>							
<b>Non-Executive:</b>							
Paul Fullagar <sup>1</sup>	13	-	-	13	-	-	-
Peter Harverson <sup>2</sup>	64	-	-	64	-	-	-
<b>Executive:</b>							
Robert Brady	100	-	2	102	83	25	5
Brian Collins	83	54	-	137	100	-	-
Gavin Lavelle <sup>3</sup>	55	40	-	95	-	-	-
Tony Ratcliffe <sup>4</sup>	70	14	-	84	-	-	-
<b>Ex Directors:</b>							
Richard Kellett-Clarke <sup>5</sup>	-	-	-	-	18	-	-
Neil McArthur <sup>6</sup>	10	-	-	10	10	-	-
David Rowe <sup>7</sup>	3	-	-	3	10	-	-
Graham Simister <sup>6</sup>	40	-	-	40	40	-	-
	<b>438</b>	<b>108</b>	<b>2</b>	<b>548</b>	<b>261</b>	<b>25</b>	<b>5</b>

<sup>1</sup>Appointed 2 July 2007 <sup>2</sup>Appointed 10 January 2007 <sup>3</sup>Appointed 3 September 2007 <sup>4</sup>Appointed 1 May 2007 <sup>5</sup>Resigned 30 April 2006 <sup>6</sup>Resigned 31 December 2007 <sup>7</sup>Resigned 3 April 2007

The amounts payable to Peter Harverson comprise remuneration in respect of Director's fees of £10,000 and remuneration in respect of consultancy services of £54,000.

### Share Options

Director	Granted	Number of options	Exercise price	Exercise period
Brian Collins	4 May 06	50,000	25p	4 May 09 to 4 May 11
Gavin Lavelle	27 Sep 07	955,955	41.5p	27 Sep 08 to 26 Sep 14
Tony Ratcliffe	27 Sep 07	416,565	41.5p	4 May 08 to 26 Sep 14

The closing mid-market price of the ordinary shares was 44.6 pence at 31 December 2007. The closing mid-market price ranged from 33 pence to 69.4 pence during the year.

The expense recognised in the income statement for the Directors' share options was £26,000 (2006: £38,000).

### Resolution

A resolution to accept the Report of the Remuneration Committee will be put to shareholders at the Annual General Meeting.

**Peter Harverson**  
Chairman, Remuneration Committee

# Report of the Independent Auditor

## Report of the Independent Auditor to the members of Brady plc

We have audited the Group and parent Company financial statements (the "financial statements") of Brady plc for the year ended 31 December 2007 which comprise the principal accounting policies, the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Cash Flow statements and notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

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

## Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union 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).

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

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

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

## Basis of audit opinion

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

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

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**GRANT THORNTON UK LLP**  
REGISTERED AUDITOR  
CHARTERED ACCOUNTANTS

**Cambridge**  
12 March 2008

# Consolidated Income Statement



For the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
<b>Revenue</b>		<b>5,711</b>	4,636
Cost of sales		(2,401)	(1,894)
<b>Gross profit</b>		<b>3,310</b>	2,742
Selling and administrative expenses		(2,988)	(2,273)
<b>Operating result</b>		<b>322</b>	469
Finance income	19	317	169
<b>Profit for the year before taxation</b>		<b>639</b>	638
Tax expense	20	(153)	(180)
<b>Net profit for the year</b>		<b>486</b>	458
Attributable to shareholders of Brady plc		<b>486</b>	458
<b>Earnings per share (pence)</b>	21		
Basic		<b>1.82</b>	1.76
Diluted		<b>1.64</b>	1.69

All of the above relate to continuing operations.

The accompanying accounting policies and notes form an integral part of these financial statements.

# Consolidated Balance Sheet

31 December 2007

	Notes	2007 £'000	2006 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	7	243	314
Long-term financial assets	8	15	15
Property, plant and equipment	10	<u>287</u>	<u>139</u>
		545	468
<b>Current assets</b>			
Trade and other receivables	13	2,031	2,401
Cash and cash equivalents	14	<u>5,957</u>	<u>4,917</u>
		7,988	7,318
<b>Total assets</b>		<b><u>8,533</u></b>	<b><u>7,786</u></b>
<b>Equity</b>			
Share capital	16	274	262
Share premium account		3,762	3,121
Merger reserve		680	680
Equity reserve		216	161
Capital reserve		1	1
Retained earnings		<u>1,447</u>	<u>1,223</u>
<b>Total equity</b>		<b><u>6,380</u></b>	<b><u>5,448</u></b>
<b>Liabilities</b>			
<b>Current</b>			
Trade and other payables	15	1,778	2,031
Current tax payable		<u>375</u>	<u>307</u>
		2,153	2,338
<b>Total liabilities</b>		<b><u>2,153</u></b>	<b><u>2,338</u></b>
<b>Total equity and liabilities</b>		<b><u>8,533</u></b>	<b><u>7,786</u></b>

The financial statements were approved by the Board of Directors on 12 March 2008 and signed on its behalf by:

**Gavin Lavelle**  
Chief Executive Officer

**Tony Ratcliffe**  
Finance Director

The accompanying accounting policies and notes form an integral part of these financial statements.

# Company Balance Sheet



31 December 2007

	Notes	2007 £'000	2006 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	7	337	403
Long-term financial assets	8	15	15
Investments	9	56	56
Property, plant and equipment	10	<u>287</u>	<u>139</u>
		695	613
<b>Current assets</b>			
Trade and other receivables	13	2,016	2,386
Cash and cash equivalents	14	<u>5,943</u>	<u>4,903</u>
		7,959	7,289
<b>Total assets</b>		<b><u>8,654</u></b>	<b><u>7,902</u></b>
<b>Equity</b>			
Share capital	16	274	262
Share premium account		3,762	3,121
Merger reserve		680	680
Equity reserve		216	161
Capital reserve		1	1
Retained earnings		<u>1,504</u>	<u>1,276</u>
<b>Total equity</b>		<b>6,437</b>	<b>5,501</b>
<b>Liabilities</b>			
<b>Current</b>			
Trade and other payables	15	1,842	2,094
Current tax payable		<u>375</u>	<u>307</u>
		2,217	2,401
<b>Total liabilities</b>		<b><u>2,217</u></b>	<b><u>2,401</u></b>
<b>Total equity and liabilities</b>		<b><u>8,654</u></b>	<b><u>7,902</u></b>

The financial statements were approved by the Board of Directors on 12 March 2008 and signed on its behalf by:

**Gavin Lavelle**  
Chief Executive Officer

**Tony Ratcliffe**  
Finance Director

The accompanying accounting policies and notes form an integral part of these financial statements.

# Changes in Equity

31 December 2007

## Consolidated Statement of Changes in Equity

Equity attributable to shareholders of Brady plc:

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Equity reserve £'000	Capital reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 January 2006</b>	260	3,062	680	70	1	765	4,838
Profit for the year and total recognised income and expenditure for the year	-	-	-	-	-	458	458
Allotment of shares following exercise of share options	2	59	-	-	-	-	61
Increase in equity reserve in relation to options issued	-	-	-	91	-	-	91
<b>Balance at 31 December 2006</b>	262	3,121	680	161	1	1,223	5,448
Profit for the year and total recognised income and expenditure for the year	-	-	-	-	-	486	486
Dividends	-	-	-	-	-	(262)	(262)
Increase in equity reserve in relation to options issued	-	-	-	55	-	-	55
Allotment of shares following placing of shares	10	590	-	-	-	-	600
Allotment of shares following exercise of share options	2	51	-	-	-	-	53
<b>Balance at 31 December 2007</b>	<b>274</b>	<b>3,762</b>	<b>680</b>	<b>216</b>	<b>1</b>	<b>1,447</b>	<b>6,380</b>

The accompanying accounting policies and notes form an integral part of these financial statements.

## Company Statement of Changes in Equity

Equity attributable to shareholders of Brady plc:

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Equity reserve £'000	Capital reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 January 2006</b>	260	3,062	680	70	1	848	4,921
Profit for the year and total recognised income and expenditure for the year	-	-	-	-	-	428	428
Allotment of shares following exercise of share options	2	59	-	-	-	-	61
Increase in equity reserve in relation to options issued	-	-	-	91	-	-	91
<b>Balance at 31 December 2006</b>	262	3,121	680	161	1	1,276	5,501
Profit for the year and total recognised income and expenditure for the year	-	-	-	-	-	490	490
Dividends	-	-	-	-	-	(262)	(262)
Increase in equity reserve in relation to options issued	-	-	-	55	-	-	55
Allotment of shares following placing of shares	10	590	-	-	-	-	600
Allotment of shares following exercise of share options	2	51	-	-	-	-	53
<b>Balance at 31 December 2007</b>	<b>274</b>	<b>3,762</b>	<b>680</b>	<b>216</b>	<b>1</b>	<b>1,504</b>	<b>6,437</b>

# Consolidated and Company Cash Flow Statement



For the year ended 31 December 2007

	2007 £'000	2006 £'000
<b>Operating activities</b>		
Profit for the year after tax	486	458
Depreciation of property, plant and equipment	103	80
Impairment charges of intangible assets	71	287
Interest receivable	(317)	(169)
Employee equity settled share options	55	91
Changes in trade and other receivables	255	(1,132)
Change in trade and other payables	(185)	1,250
Taxes refunded	115	327
<b>Cash inflow from operating activities</b>	<u>583</u>	<u>1,192</u>
<b>Investing activities</b>		
Additions to property, plant and equipment	(251)	(110)
Interest received	317	169
<b>Cash inflow from investing activities</b>	<u>66</u>	<u>59</u>
<b>Financing activities</b>		
Proceeds from share issues	653	61
Dividends paid	(262)	-
<b>Cash inflow from financing activities</b>	<u>391</u>	<u>61</u>
Net changes in cash and cash equivalents	1,040	1,312
Cash and cash equivalents, beginning of year	4,917	3,605
<b>Cash and cash equivalents, end of year</b>	<u><b>5,957</b></u>	<u><b>4,917</b></u>

The accompanying accounting policies and notes form an integral part of these financial statements.

# Notes to the Financial Statements

## For the year ended 31 December 2007

### 1. Nature of operations and general information

Brady plc and its subsidiaries' principal activity is the provision of risk management and settlement solutions to the metals and commodities industries, through the delivery of customer focused software and services.

The Group provides the leading trading and risk management software for global commodity markets. On a single platform, the Group provides a complete integrated solution supporting entire commodities trading operations.

Brady plc, a limited liability company, is the Group's ultimate parent company. It is registered in England and Wales. The address of Brady plc's registered office, which is also its principal place of business, is 281 Cambridge Science Park, Milton Road, Cambridge, CB4 0WE.

The financial statements for the year ended 31 December 2007 (including the restated comparatives for the year ended 31 December 2006) were approved by the Board of Directors on 12 March 2008.

Brady plc's shares are listed on the London Stock Exchange's Alternative Investment Market (AIM). Brady plc's consolidated full year financial statements are presented in British pounds (£), which is also the functional currency of the ultimate parent company.

### 2. Accounting policies

#### Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The financial statements have been prepared under the historical cost convention except where they have been modified to include the revaluation of certain assets and liabilities. The measurement bases and principal accounting policies for the Group are set out below.

All accounting estimates and assumptions that are used in preparing the financial statements are consistent with the Group's latest approved budget forecasts where applicable. Judgments have been based on the information available at each balance sheet date. Although these estimates are based on the best information available to management, actual results may ultimately differ from those estimates. Accounting judgments and estimates are detailed within the relevant accounting policies.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles ("UK GAAP"). The comparative information has been restated in accordance with IFRS. The changes in accounting policies are explained in note 3, together with the reconciliation of opening balances. The date of transition to IFRS was 1 January 2006. The Group has taken advantage of certain exemptions available under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The exemptions used are explained under the respective accounting policy.

#### Basis of consolidation

The Group financial statements consolidate those of Brady plc and of its subsidiary undertakings at the balance sheet date. Subsidiary undertakings are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from the activities, which is considered to represent control. The Group obtains and exercises control through voting rights.

Profits or losses on intra-Group transactions are eliminated in full. Acquisitions of subsidiaries are dealt with by the purchase method.

#### Business combinations

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Acquisition costs are the fair values at the date of exchange of assets given liabilities incurred or assumed and equity instruments issued by the Group in exchange for control and any costs directly attributable to the business combination.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, then the identifiable assets, liabilities, contingent liabilities and the cost of combination are re-assessed. Following the re-assessment, any profit or loss in excess is recognised immediately.

The Group has elected not to apply IFRS 3 *Business Combinations* retrospectively to business combinations prior to the date of transition, 1 January 2006. Accordingly the classification of the combination remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at the date of transition as they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement.

When Brady plc acquired Colplan Systems Limited in 2004, there was a share-for-share exchange. The UK GAAP merger relief criteria were met and so a merger reserve was recognised. Due to the election not to apply IFRS 3 *Business Combinations* retrospectively to business combinations prior to the date of transition, the merger reserve has remained unchanged on transition to IFRS.

#### Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired and is capitalised.

Goodwill is subject to annual impairment testing. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. The recoverable amount is tested annually or when events or changes in circumstances indicate that it may be impaired. The recoverable amount is the higher of the fair value less costs and the value in use in the Group. An impairment loss is recognised to the extent that the carrying value exceeds



the recoverable amount. In determining a value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the goodwill that have not already been included in the estimate of future cash flows.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, then the identifiable assets, liabilities, contingent liabilities and the cost of combination are re-assessed. Following the re-assessment, any profit or loss in excess is recognised immediately.

Goodwill previously written-off under UK GAAP prior to the adoption of IFRS for the restated balance sheet of 1 January 2006 has not been reinstated. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

#### Revenue

Revenue comprises the value of sales (excluding trade discounts and VAT) of goods and services in the normal course of business. The Group has four sources of revenue and the policy on revenue recognition of each is as follows:

- Licence fee revenues are recognised on practical acceptance of the software, when all obligations have been substantially completed. This is when the customer has accepted the product, the risks and rewards of ownership have been transferred, it is probable that the economic benefits of the transaction will flow to the Group, all costs and revenue in relation to the transaction can reliably be measured and the Group has no further managerial involvement over the goods to the degree usually associated with ownership. To the extent that payments have been received in advance for licences, where practical acceptance has not yet been reached, these amounts are recognised as deferred income;
- Consulting and professional service fee revenues are recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits of the work performed will flow to the Group and the costs involved in providing the service can be measured reliably;
- Maintenance and rental income are recognised by reference to the stage of completion of the transaction at the balance sheet date, the costs to fulfil the remaining maintenance or rental period can be measured reliably, the amount of revenue can be measured reliably and it is probable that the maintenance or rental period will be completed; and
- Where revenue arises from customer specific-software development, or where specific customisation or modification of the software is required, then revenue is recognised as the revenue and costs of the contract progresses, the stage of completion of the contract can be reliably measured and it is probable that the remaining obligations on the project will be satisfied and so economic benefits will flow to the Group.

#### Interest

Interest is recognised using the effective interest method, which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying value of the financial asset.

#### Dividends

Dividends are recognised when the shareholders' right to receive payment is established.

#### Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Development costs incurred are capitalised only when all the following conditions are satisfied:

- Completion of the intangible asset is technically feasible;
- The Group intends to complete the intangible asset and use or sell it;
- The Group has the ability to use the asset or sell it;
- The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software products are continuously monitored by the Directors. To date, no development expenditure has been capitalised.

#### Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment, if applicable. Depreciation is calculated to write off the depreciable amount (cost less residual value) of all property, plant and equipment by equal instalments over their expected useful economic lives. The rates generally applicable are:

- |                            |             |
|----------------------------|-------------|
| • Improvements to property | 25% on cost |
| • Computer equipment       | 33% on cost |
| • Computer software        | 33% on cost |
| • Fixtures and fittings    | 25% on cost |

Material residual value estimates are updated as required, but at least annually. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

# Notes to the Financial Statements

continued

## Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

## Financial assets

Financial assets are divided into the following categories: loans and receivables; available-for-sale financial assets; and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured subsequently at fair value, with changes in value recognised in equity, through the statement of changes in equity. Gains and losses arising

from investments classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired. In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

The designation of financial assets is re-evaluated and an assessment for impairment is undertaken at least at each balance sheet date.

## Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded initially at fair value, net of direct issue costs.

At each balance sheet date all financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

A financial liability is de-recognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

## Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the income statement.

The Group has taken advantage of the exemption of IFRS 1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS.

## Employee benefits

Defined contribution pension scheme: The pension cost charged against operating profits is the contributions payable to the group personal pension scheme in respect of the accounting period.

Short-term employee benefits, including holiday entitlement are included in current pension and other employee obligations at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

## Leased assets

All leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

## Share options

All share-based payment arrangements granted that had not vested prior to 1 January 2006 are recognised in the financial statements. The Group operates a number of employee share schemes under which it makes equity-settled share-based payments to certain employees. None of the Group's plans feature any options for a cash settlement.



Where employees are rewarded using share-based payments, the fair values of employees' services are determined by reference to the fair value of equity instruments issued by the Group. The fair value of these instruments (options) is determined using the binomial valuation model. The share-based payment is recognised as an expense in the income statement, together with a corresponding credit to a share-based payment reserve in equity. This expense is incurred on a straight-line basis based on the Group's estimate of the number of shares that will vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded in the share premium account.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

#### Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares;
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;
- "Merger reserve" represents the merger reserve set up in relation to the accounting for the acquisition of Colplan Systems Limited in 2004 that was present under UK GAAP and exempt from reclassification on transition to IFRS;
- "Capital reserve" represents the capital reserve set up to account for shares redeemed or purchased wholly out of distributable profits that was present under UK GAAP and exempt from reclassification on transition to IFRS;
- "Equity reserve" represents the reserve in relation to share options issued but not yet exercised; and
- "Retained earnings" represents retained profits.

### 3. Transition to IFRS

#### Overall considerations

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Group established its IFRS accounting policies on its transition date, 1 January 2006, and applied these to the IFRS opening balance sheet at its date of transition, 1 January 2006.

The principal changes to UK GAAP accounting policies are:

IFRS 3 *Business Combinations* requires that goodwill be subject to annual impairment reviews rather than amortisation. IFRS 3 also prohibited the amortisation of goodwill, resulting in a reversal of 2006 amortisation previously recognised under UK GAAP. Amortisation pre-transition is not reversed, in line with the IFRS 1 exemption applied to pre-transition business combinations.

IAS 19 *Employee Benefits* requires the recording of holiday pay accruals. This means that the Group has recognised a liability at the balance sheet date in respect of holiday not taken by employees.

The net effect in the Consolidated Income Statement for the comparative year may be summarised as follows:

	<b>2006</b> <b>£'000</b>
<b>Selling and administrative expenses:</b>	
Under UK GAAP	2,106
Elimination of amortisation of goodwill	(127)
IAS 36 <i>Impairment of Assets</i>	286
IAS 19 <i>Employee Benefits</i>	<u>8</u>
Restated under IFRS	<u>2,273</u>
<b>Net profit for the year:</b>	
Under UK GAAP	625
Elimination of amortisation of goodwill	127
IAS 36 <i>Impairment of Assets</i>	(286)
IAS 19 <i>Employee Benefits</i>	<u>(8)</u>
Restated under IFRS	<u>458</u>

The effect on the Company income statement for 2006 is the same as for the Group.

# Notes to the Financial Statements

continued

## 3. Transition to IFRS (continued)

The net effect on the Consolidated Balance Sheet as at 1 January 2006 may be summarised as follows:

	Under UK GAAP £'000	IAS 36 Impairment of assets £'000	IAS 19 Employee benefits £'000	Restated under IFRS £'000
<b>Assets</b>				
<b>Non-current</b>				
Goodwill	939	(338)	-	601
Long-term financial assets	15	-	-	15
Property, plant and equipment	109	-	-	109
	<u>1,063</u>	<u>(338)</u>	<u>-</u>	<u>725</u>
<b>Current</b>				
Trade and other receivables	1,290	-	-	1,290
Cash and cash equivalents	3,605	-	-	3,605
	<u>4,895</u>	<u>-</u>	<u>-</u>	<u>4,895</u>
<b>Total assets</b>	<u>5,958</u>	<u>(338)</u>	<u>-</u>	<u>5,620</u>
<b>Equity</b>				
Share capital	260	-	-	260
Share premium account	3,062	-	-	3,062
Merger reserve	680	-	-	680
Equity reserve	70	-	-	70
Capital reserve	1	-	-	1
Retained earnings	1,135	(338)	(32)	765
<b>Total equity</b>	<u>5,208</u>	<u>(338)</u>	<u>(32)</u>	<u>4,838</u>
<b>Liabilities</b>				
<b>Non-current</b>				
Provision for liabilities	3	-	-	3
<b>Current</b>				
Trade and other payables	747	-	32	779
<b>Total liabilities</b>	<u>750</u>	<u>-</u>	<u>32</u>	<u>782</u>
<b>Total equity and liabilities</b>	<u>5,958</u>	<u>(338)</u>	<u>-</u>	<u>5,620</u>



### 3. Transition to IFRS (continued)

The net effect on the Consolidated Balance Sheet as at 31 December 2006 may be summarised as follows:

	Under UK GAAP £'000	IAS 36 Impairment of assets £'000	IAS 19 Employee benefits £'000	Restated under IFRS £'000
<b>Assets</b>				
<b>Non-current</b>				
Goodwill	811	(497)	-	314
Long-term financial assets	15	-	-	15
Property, plant and equipment	139	-	-	139
	<u>965</u>	<u>(497)</u>	<u>-</u>	<u>468</u>
<b>Current</b>				
Trade and other receivables	2,401	-	-	2,401
Cash and cash equivalents	4,917	-	-	4,917
	<u>7,318</u>	<u>-</u>	<u>-</u>	<u>7,318</u>
<b>Total assets</b>	<u>8,283</u>	<u>(497)</u>	<u>-</u>	<u>7,786</u>
<b>Equity</b>				
Share capital	262	-	-	262
Share premium account	3,121	-	-	3,121
Merger reserve	680	-	-	680
Equity reserve	161	-	-	161
Capital reserve	1	-	-	1
Retained earnings	1,760	(497)	(40)	1,223
<b>Total equity</b>	<u>5,985</u>	<u>(497)</u>	<u>(40)</u>	<u>5,448</u>
<b>Liabilities</b>				
<b>Current</b>				
Trade and other payables	1,991	-	40	2,031
Current tax payable	307	-	-	307
<b>Total liabilities</b>	<u>2,298</u>	<u>-</u>	<u>40</u>	<u>2,338</u>
<b>Total equity and liabilities</b>	<u>8,283</u>	<u>(497)</u>	<u>-</u>	<u>7,786</u>

# Notes to the Financial Statements

continued

### 3. Transition to IFRS (continued)

The net effect on the Company Balance Sheet as at 1 January 2006 may be summarised as follows:

	Under UK GAAP £'000	IAS 36 Impairment of assets £'000	IAS 19 Employee benefits £'000	Restated under IFRS £'000
<b>Assets</b>				
<b>Non-current</b>				
Goodwill	978	(338)	-	640
Long-term financial assets	15	-	-	15
Investments	120	-	-	120
Property, plant and equipment	109	-	-	109
	<u>1,222</u>	<u>(338)</u>	<u>-</u>	<u>884</u>
<b>Current</b>				
Trade and other receivables	1,272	-	-	1,272
Cash and cash equivalents	3,594	-	-	3,594
	<u>4,866</u>	<u>-</u>	<u>-</u>	<u>4,866</u>
<b>Total assets</b>	<u>6,088</u>	<u>(338)</u>	<u>-</u>	<u>5,750</u>
<b>Equity</b>				
Share capital	260	-	-	260
Share premium account	3,062	-	-	3,062
Merger reserve	680	-	-	680
Equity reserve	70	-	-	70
Capital reserve	1	-	-	1
Retained earnings	1,218	(338)	(32)	848
<b>Total equity</b>	<u>5,291</u>	<u>(338)</u>	<u>(32)</u>	<u>4,921</u>
<b>Liabilities</b>				
<b>Non-current</b>				
Provision for liabilities	3	-	-	3
<b>Current</b>				
Trade and other payables	794	-	32	826
<b>Total liabilities</b>	<u>797</u>	<u>-</u>	<u>32</u>	<u>829</u>
<b>Total equity and liabilities</b>	<u>6,088</u>	<u>(338)</u>	<u>-</u>	<u>5,750</u>



### 3. Transition to IFRS (continued)

The net effect on the Company Balance Sheet as at 31 December 2006 may be summarised as follows:

	Under UK GAAP £'000	IAS 36 Impairment of assets £'000	IAS 19 Employee benefits £'000	Restated under IFRS £'000
<b>Assets</b>				
<b>Non-current</b>				
Goodwill	900	(497)	-	403
Long-term financial assets	15	-	-	15
Investments	56	-	-	56
Property, plant and equipment	139	-	-	139
	<u>1,110</u>	<u>(497)</u>	<u>-</u>	<u>613</u>
<b>Current</b>				
Trade and other receivables	2,386	-	-	2,386
Cash and cash equivalents	4,903	-	-	4,903
	<u>7,289</u>	<u>-</u>	<u>-</u>	<u>7,289</u>
<b>Total assets</b>	<u>8,399</u>	<u>(497)</u>	<u>-</u>	<u>7,902</u>
<b>Equity</b>				
Share capital	262	-	-	262
Share premium account	3,121	-	-	3,121
Merger reserve	680	-	-	680
Equity reserve	161	-	-	161
Capital reserve	1	-	-	1
Retained earnings	1,813	(497)	(40)	1,276
<b>Total equity</b>	<u>6,038</u>	<u>(497)</u>	<u>(40)</u>	<u>5,501</u>
<b>Liabilities</b>				
<b>Current</b>				
Trade and other payables	2,054	-	40	2,094
Current tax payable	307	-	-	307
<b>Total liabilities</b>	<u>2,361</u>	<u>-</u>	<u>40</u>	<u>2,401</u>
<b>Total equity and liabilities</b>	<u>8,399</u>	<u>(497)</u>	<u>-</u>	<u>7,902</u>

# Notes to the Financial Statements

continued

### 3. Transition to IFRS (continued)

The impairment charge recognised against goodwill on transition to IFRS on 1 January 2006 was £338,000. The impairment charge incurred against goodwill in 2006 was £286,000.

The transition to IFRS has not involved any material adjustments to the cash flow statement, except for the revised presentation.

#### IFRS exemptions

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. These financial statements have been prepared on the basis of taking the following exemptions

- Business combinations prior to 1 January 2006, the Group's date of transition to IFRS, have not been restated to comply with IFRS 3 *Business Combinations*;

- Cumulative translation differences on foreign operations are deemed to be nil at 1 January 2006, any gains and losses recognised in the consolidated income statement on subsequent disposal of foreign operations will exclude translation differences arising prior to the transition date; and
- IFRS 2 *Share based Payment* has only been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

#### Standards and Interpretations currently in issue but not yet effective

The following new Standards and Interpretations, which are yet to become mandatory, have not been applied in the consolidated financial statements.

Standard or Interpretation	Effective for in reporting periods starting on or after
IFRIC 11, IFRS 2 <i>Group and Treasury Share Transactions</i>	1 March 2007
IFRIC 14, IAS 19 <i>The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	1 January 2008
IFRIC 12, <i>Service Concession Arrangements</i>	1 January 2008
IFRIC 13, <i>Customer Loyalty Programmes</i>	1 July 2008
IAS 1, <i>Presentation of Financial Statements (revised 2007)</i>	1 January 2009
IAS 23, <i>Borrowing Costs (revised 2007)</i>	1 January 2009
Amendment to IAS32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial statements - Puttable Financial Instruments and obligations arising on Liquidation</i>	1 January 2009
IFRS 8, <i>Operating Segments</i>	1 January 2009
IFRS 3, <i>Business Combinations (Revised 2008)</i>	1 July 2009
IAS 27, <i>Consolidated and Separate Financial Statements (Revised 2008)</i>	1 July 2009

Based on the Group's current business model and accounting policies, management does not expect material impacts on the consolidated financial statements when the Interpretations become effective, except the amendment to IAS 1 that will impact on the presentation of the financial statements. The Group does not intend to apply any of these pronouncements early.



#### 4. Segment reporting

The Group has one principal activity and makes sales to a variety of global destinations. An analysis of sales revenue by geographical market is given below:

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
United Kingdom	2,350	2,259
Rest of Europe	750	487
North America	2,503	1,763
Rest of World	108	127
	<u><b>5,711</b></u>	<u><b>4,636</b></u>

Within this one activity, the Group generates revenue from software licence sales, recurring maintenance fees and the provision of consulting and development services. Revenues can be analysed as below:

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Software licence sales	2,282	1,880
Recurring maintenance fees	1,582	1,323
Consulting services	1,185	1,210
Development services	662	223
	<u><b>5,711</b></u>	<u><b>4,636</b></u>

The management of the Group do not analyse the net assets according to revenue type.

#### 5. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation for the Group is stated after charging:

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Research and development	1,205	947
Depreciation and impairment:		
Property, plant and equipment, owned	103	80
Impairment of goodwill	71	287
Reorganisation costs	146	-
Auditors' remuneration:		
Audit services	24	20
Non-audit services	20	11
Share based payments expense	55	91
	<u><b>55</b></u>	<u><b>91</b></u>

Fees payable to the Group's Auditor for other services comprised tax services of £8,000 (2006: £8,000) and other services of £12,000 (2006: £3,000).

# Notes to the Financial Statements

continued

## 6. Profit for the financial year

The parent Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own income statement in these financial statements. The profit for the financial year was £490,000 (2006: £428,000).

## 7. Goodwill

The main changes in the carrying amounts of goodwill result from the impairment of previously recognised goodwill. The net carrying amount of goodwill can be analysed as follows:

Group	Goodwill on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount	1,107	90	1,197
Accumulated impairment	<u>(506)</u>	<u>(90)</u>	<u>(596)</u>
Carrying amount at 1 January 2006	601	-	601
Gross carrying amount	1,107	90	1,197
Accumulated impairment	<u>(793)</u>	<u>(90)</u>	<u>(883)</u>
Carrying amount at 31 December 2006	314	-	314
Gross carrying amount	1,107	90	1,197
Accumulated impairment	<u>(864)</u>	<u>(90)</u>	<u>(954)</u>
Carrying amount at 31 December 2007	<u>243</u>	<u>-</u>	<u>243</u>

Changes in the net carrying amount of goodwill can be summarised as follows:

	Goodwill on consolidation £'000
Carrying amount at 1 January 2006	601
Impairment loss recognised	<u>(287)</u>
Carrying amount at 31 December 2006	314
Impairment loss recognised	<u>(71)</u>
Carrying amount at 31 December 2007	<u>243</u>

Subsequent to the annual impairment tests, the carrying value of goodwill is allocated to the following cash-generating unit:

Group	2007 £'000	2006 £'000
Opval product, following the acquisition of Colplan Systems Limited	<u>243</u>	<u>314</u>



## 7. Goodwill (continued)

Company	Purchased goodwill £'000
Gross carrying amount	1,251
Accumulated impairment	<u>(611)</u>
Carrying amount at 1 January 2006	<u>640</u>
Gross carrying amount	1,301
Accumulated impairment	<u>(898)</u>
Carrying amount at 31 December 2006	<u>403</u>
Gross carrying amount	1,301
Accumulated impairment	<u>(964)</u>
Carrying amount at 31 December 2007	<u><b>337</b></u>

Changes in the net carrying amount of goodwill can be summarised as follows:

Company	Purchased goodwill £'000
Carrying amount at 1 January 2006	640
Impairment loss recognised	<u>(237)</u>
Carrying amount at 31 December 2006	403
Impairment loss recognised	<u>(66)</u>
Carrying amount at 31 December 2007	<u><b>337</b></u>

Subsequent to the annual impairment tests, the carrying value of goodwill is allocated to the following cash-generating unit:

Company	2007 £'000	2006 £'000
Opval product, following the acquisition of Colplan Systems Limited	<u><b>337</b></u>	<u>403</u>

# Notes to the Financial Statements

continued

## 7. Goodwill (continued)

The recoverable amounts for the cash-generating unit given on page 28 were determined based on value-in-use calculations, at a level where there are largely independent cash inflows. Management prepares detailed five-year cashflow forecasts, with no terminal value, and determines a suitable interest rate in order to calculate the present value of such cashflows, which represents the recoverable amount. Any impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount and this impairment loss is used to reduce the carrying amount of any goodwill allocated to that cash-generating unit.

Apart from the considerations in determining the value in use of the cash-generating unit described above, the management of the Group is not currently aware of any probable changes that would necessitate changes in its key estimates.

## 8. Long-term financial assets

The amounts recognised in the balance sheet relate to the following investment types:

Group and Company	Long-term available-for-sale financial assets	
	2007 £'000	2006 £'000
Participation in Brady Italia Srl	<u>15</u>	<u>15</u>

The investment in Brady Italia Srl represents a participating interest only and there is no exercise of significant influence. The investment has been valued at cost. There is no active market and so the investment cannot be valued at quoted price. Therefore the investment would ordinarily be valued using a valuation technique to establish the fair value of the investment. However, no market interest rate is known for this investment or similar investments and so, given the immaterial nature of the investment, it has been valued at cost.

## 9. Investments

The amounts recognised in the Company's balance sheet relate to the following:

Company	Shares in Group undertakings £'000
Cost: At 1 January 2007 and at 31 December 2007	<u>56</u>
Amortisation: At 1 January 2007 and 31 December 2007	<u>-</u>
Net book amount: at 31 December 2007 and 31 December 2006	<u>56</u>



## 9. Investments (continued)

Company	Shares in Group undertakings £'000
Cost:	
At 1 January 2006	138
Transfer to purchased goodwill on hive-up of Tradesoft BV	<u>(82)</u>
At 31 December 2006	56
Amortisation:	
At 1 January 2006	19
Transfer to purchased goodwill on hive-up of Tradesoft BV	<u>(19)</u>
At 31 December 2006	<u>-</u>
Net book amount: at 31 December 2006	<u><b>56</b></u>

Subsidiary	Country of registration	Class of share capital	Proportion held by the Company	Nature of business
Brady USA, Inc.	US	Ordinary	100%	Dormant
Brady Canada, Inc.	Canada	Ordinary	100%	Dormant
Tradesoft BV	Holland	Ordinary	100%	Dormant
Colplan Systems Limited	UK	Ordinary	100%	Dormant
Brady Italia Srl	Italy	Ordinary	40%	Software vendor

Brady USA, Inc. and Brady Canada, Inc. were newly established subsidiaries in 2007 but neither company had commenced trading as at the balance sheet date.

# Notes to the Financial Statements

continued

## 10. Property, plant and equipment

The Group and the Company	Improvements to property £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Total £'000
<b>Cost:</b>				
At 1 January 2007	51	74	569	694
Additions	78	53	120	251
Disposals	-	(54)	(1)	(55)
At 31 December 2007	<u>129</u>	<u>73</u>	<u>688</u>	<u>890</u>
<b>Depreciation:</b>				
At 1 January 2007	47	68	440	555
Provided in the year	8	7	88	103
Eliminated on disposals	-	(54)	(1)	(55)
At 31 December 2007	<u>55</u>	<u>21</u>	<u>527</u>	<u>603</u>
<b>Net book amount:</b>				
at 31 December 2007	<u>74</u>	<u>52</u>	<u>161</u>	<u>287</u>
at 31 December 2006	<u>4</u>	<u>6</u>	<u>129</u>	<u>139</u>

Additions and disposals in 2006 are summarised below:

The Group and the Company	Improvements to property £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Total £'000
Additions	-	1	109	110
Disposals	-	-	(53)	(53)



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

Summaries of carrying amounts are shown below:

The Group and the Company	Improvements to property £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Total £'000
Gross carrying amount	51	73	512	636
Accumulated depreciation and impairment	(43)	(65)	(419)	(527)
Carrying amount at 1 January 2006	<u>8</u>	<u>8</u>	<u>93</u>	<u>109</u>
Gross carrying amount	51	74	569	694
Accumulated depreciation and impairment	(47)	(68)	(440)	(555)
Carrying amount at 31 December 2006	<u>4</u>	<u>6</u>	<u>129</u>	<u>139</u>
Gross carrying amount	129	73	688	890
Accumulated depreciation and impairment	(55)	(21)	(527)	(603)
Carrying amount at 31 December 2007	<u>74</u>	<u>52</u>	<u>161</u>	<u>287</u>

## 11. Leases

The Group and Company had no finance lease arrangements. The Group's and Company's minimum operating lease payments are as follows:

The Group and the Company	Within 1 year £'000	Between 1 and 5 years £'000	After more than 5 years £'000	Total £'000
31 December 2006	95	475	119	689
31 December 2007	<u>95</u>	<u>475</u>	<u>24</u>	<u>594</u>

Lease payments recognised as an expense during the year amount to £95,000 (2006: £95,000). No sublease income is expected as all assets held under lease agreements are used exclusively by the Group.

The rental contract for the office building rented since 1993 at 281 Cambridge Science Park, Cambridge has a lease which expires in 2014. The rental contract for the office building rented since 9 February 1998 at Skylines, Limeharbour, London, had a ten year lease that expired in February 2008 and was not renewed. In December 2007, the Group entered into an agreement, with a twelve-month minimum commitment, in relation to serviced office premises in Cannon Street, London.

Operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding further leasing.

# Notes to the Financial Statements

continued

## 12. Deferred tax

There were no deferred tax assets or liabilities recognised by the Group or the Company at 31 December 2007 or 31 December 2006.

## 13. Trade and other receivables

	The Group		The Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade debtors	1,202	1,890	1,188	1,876
Other debtors	19	253	18	252
Prepayments and accrued income	810	258	810	258
	<u>2,031</u>	<u>2,401</u>	<u>2,016</u>	<u>2,386</u>

All amounts are short-term. The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £79,000 (2006: £nil) has been recorded accordingly in the Group and Company financial statements.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	The Group		The Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Not more than 1 month	360	324	360	324
More than one month but not more than 3 months	3	44	3	44
More than 3 months but not more than 6 months	-	20	-	20
More than 6 months but not more than 1 year	-	197	-	197
More than one year	-	459	-	459
	<u>363</u>	<u>1,044</u>	<u>363</u>	<u>1,044</u>



#### 14. Cash and cash equivalents

Cash and cash equivalents include the following components:

	The Group		The Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Cash at bank and in hand	<u>5,957</u>	<u>4,917</u>	<u>5,943</u>	<u>4,903</u>

#### 15. Trade and other payables

	The Group		The Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade creditors	170	390	159	378
Amounts owed to Group undertakings	-	-	75	75
Social security and other taxes	197	169	197	169
Other creditors	244	13	244	13
Accruals and deferred income	<u>1,167</u>	<u>1,459</u>	<u>1,167</u>	<u>1,459</u>
	<u>1,778</u>	<u>2,031</u>	<u>1,842</u>	<u>2,094</u>

All amounts are short-term. The carrying values are considered to be a reasonable approximation of fair value. The amount of deferred service income included in the above has been estimated by management after consideration of the services performed and of the service arrangements entered into.

#### 16. Equity

##### Share capital

	2007 £'000	2006 £'000
Authorised 50,000,000 ordinary shares of 1p each	<u>500</u>	<u>500</u>
Allotted, called up and fully paid 27,375,016 (2006: 26,209,016) ordinary shares of 1p each	<u>274</u>	<u>262</u>

# Notes to the Financial Statements

continued

## 16. Equity (continued)

### Allotments during the year

The Company made allotments of 166,000 ordinary 1p shares during the year on the exercise of various share options and issued 1,000,000 ordinary 1p shares at a price of 60p per share in relation to a placing of shares to Paul Fullagar. This increased the Company's ordinary shares issued and fully paid at the end of the year by 1,166,000 (2006: 57,149).

### Share premium account

An amount of £641,340 (2006: £49,000), being the difference between the total consideration of £653,000 and the total nominal value of £11,660 for the shares issued during the year had been included in the share premium account.

## 17. Employee remuneration

### Employee benefits expense

Expenses recognised for employee benefits is analysed below for the Group and the Company:

Staff costs, including Executive Directors, during the year were as follows:

	The Group and the Company	
	2007 £'000	2006 £'000
Wages and salaries	2,897	2,086
Social security costs	300	220
Share based payments	55	91
Other pension costs	122	111
	<u>3,374</u>	<u>2,508</u>

The average number of employees, including all Directors, during the year was as follows:

	The Group and the Company	
	2007 Number	2006 Number
Sales, services and customer support	21	17
Development	25	24
Finance and administration	3	3
Directors	7	5
	<u>56</u>	<u>49</u>



## 17. Employee remuneration (continued)

### Share-based employee remuneration

The number of ordinary shares for which Group employees held options and the period for which the options are exercised are as follows:

Date of grant	Scheme Type	Period when exercisable	Price in pence	2007 Number	2006 Number
12 March 1997	Approved	2000 - 2007	25p	-	20,000
22 December 1997	Approved	2000 - 2007	25p	-	40,000
22 July 1998	Approved	2001 - 2008	30p	40,000	60,000
04 November 1998	Unapproved	1998 - 2008	30p	50,000	50,000
24 December 1998	Approved	2001 - 2008	30p	26,500	63,000
30 July 1999	Unapproved	1999 - 2009	30p	50,000	50,000
02 March 2004	Unapproved	2005 - 2012	45p	144,444	144,444
02 March 2004	Unapproved	2006 - 2012	45p	144,445	144,445
02 March 2004	Unapproved	2007 - 2012	45p	144,445	144,445
31 March 2004	Approved	2007 - 2009	45p	110,666	165,666
31 March 2004	EMI	2007 - 2009	45p	300,000	300,000
31 March 2004	Unapproved	2004 - 2010	45p	50,000	50,000
28 April 2004	Unapproved	2004 - 2010	45p	15,000	15,000
28 April 2004	Unapproved	2005 - 2010	45p	35,000	35,000
20 May 2004	Unapproved	2005 - 2012	81p	50,000	50,000
01 August 2005	Unapproved	2005 - 2013	61p	150,000	150,000
04 May 2006	Approved	2009 - 2011	25p	185,000	195,000
04 May 2006	EMI	2009 - 2011	25p	670,000	710,000
04 May 2006	Unapproved	2009 - 2011	25p	130,000	130,000
04 May 2006	Unapproved	2006 - 2013	25p	200,000	200,000
11 September 2006	Unapproved	2006 - 2010	27p	33,333	33,333
13 December 2006	Unapproved	2009 - 2011	38.5p	60,000	60,000
27 September 2007	Unapproved	2008 - 2014	41p	343,129	-
27 September 2007	Unapproved	2009 - 2014	41p	343,130	-
27 September 2007	Unapproved	2010 - 2014	41p	343,130	-
27 September 2007	Unapproved	2011 - 2014	41p	343,131	-
				<b>3,961,353</b>	<b>2,810,333</b>

# Notes to the Financial Statements

continued

## 17. Employee remuneration (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2006	
	Weighted average exercise price per share	Options	Weighted average exercise price per share	Options
	in pence	number	in pence	number
Outstanding at 1 January	35.7p	2,810,333	42.9p	2,118,500
Granted	41.5p	1,372,520	25.7p	1,328,333
Lapsed	27.0p	(55,500)	47.1p	(396,500)
Exercised	32.7p	(166,000)	25.0p	(240,000)
Outstanding at 31 December	<b>38.0p</b>	<b>3,961,353</b>	35.7p	2,810,333
Exercisable at 31 December	<b>43.1p</b>	<b>1,549,333</b>	42.1p	1,715,333

The weighted average share price at date of exercise of options exercised during the year was 55.6p (2006: 30.7p). The weighted average fair value of options issued during the year was 3p (2006: 7p).

At 31 December, Brady plc had the following outstanding options and exercise prices:

	2007			2006		
	Average exercise price per share	Options	Weighted average remaining contractual life	Average exercise price per share	Options	Weighted average remaining contractual life
Expiry dates	in pence	number	in months	in pence	number	in months
2007	-	-	-	25.0p	60,000	9
2008	30.0p	116,500	10	30.0p	173,000	22
2009	43.4p	460,666	15	43.5p	515,666	28
2010	40.5p	133,333	35	40.5p	133,333	46
2011	25.8p	1,045,000	41	25.7p	1,095,000	53
2012	51.6p	633,334	52	51.6p	633,334	64
2013	25.0p	200,000	65	25.0p	200,000	77
2014	41.5p	1,372,520	80	-	-	-
At 31 December	<b>38.0p</b>	<b>3,961,353</b>	<b>54</b>	35.7p	2,810,333	50



## 17. Employee remuneration (continued)

Brady plc operates Approved and EMI share option schemes as well as issuing a number of unapproved share options.

The Approved Share Option Scheme was set up on 11 June 1996 and was approved by the Inland Revenue on 16 July 1996. This scheme entitles the employee to subscribe for up to £30,000 of shares based on the price of the share at the date of grant.

Employees eligible to options under the EMI Share Option Scheme are restricted to a maximum of £100,000 of shares, based on the market price at the date of grant less any options already granted under the Approved Share Option Scheme.

The maximum term under current arrangements ends on 27 September 2014. Upon vesting, each option allows the holder to purchase one ordinary share at the exercise price determined at the grant date.

Brady plc's Articles of Association, as amended in July 2007, provide that Directors may not grant share options over more than 18% of the nominal value of the Company's issued share capital without an ordinary resolution.

### Pension and other employee obligations

The liabilities recognised for pensions and other employee remuneration in the balance sheet consist of the following:

	2007 £'000	2006 £'000
<b>Current pension and other employee obligations</b>		
Current pension obligations	17	9
Other short-term employee obligations	89	-
	<u>106</u>	<u>9</u>

## 18. Directors' remuneration

Details of Directors' remuneration are contained within the Remuneration Report, under the heading of Audited information.

The interests of the Directors in the shares of the Company are detailed within the Directors' Report.

## 19. Finance income

The following amounts have been included in the income statement as finance income for the years presented:

	2007 £'000	2006 £'000
Interest income on financial assets carried at amortised cost	<u>317</u>	<u>169</u>

Share options held by Directors are listed in the Remuneration Report.

The closing mid-market price of the ordinary shares was 44.6 pence at 31 December 2007. The closing mid-market price ranged from 33 pence to 69.4 pence during the year.

Management have used a Binomial model to estimate the value of options granted in the current and prior years. Significant inputs into the model include the weighted average share price at the grant date, the exercise prices shown above, weighted average volatility of 30% (2006: 20%), dividend yield of nil, an expected option life of 0-3 years, based on the terms of grant, and an annual risk-free interest rate of 5% (2006: 5%).

The key input to the model was the assumed share price volatility which management estimate to be 30% (2006: 20%), by reference to companies in similar industries and stage of development. As a relatively newly listed company, management do not consider that there is sufficient information on the volatility of the Company's share price on which to base an estimate of expected future volatility. Also, the historical share price volatility is not considered to be a realistic indicator of future share price volatility.

# Notes to the Financial Statements

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## 20. Income tax expense

The relationship between the expected tax expense based on the effective tax rate of the Group at 30% (2006: 30%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2007 £'000	2006 £'000
Result for the year before taxation	639	638
Tax rate	30%	30%
Expected tax expense	192	191
Expenses not deductible for tax purposes	55	71
Differences between capital allowances and depreciation	(3)	3
Other temporary differences	(91)	(80)
Utilisation of tax losses	-	(5)
Current tax expense, net	<u>153</u>	<u>180</u>
<b>Comprising:</b>		
Current tax charge for the year	153	183
Deferred tax expense for the year	-	(3)
	<u>153</u>	<u>180</u>

During the year the Company received a tax refund of £115,000 (2006: £83,000) in relation to R&D tax credits.

## 21. Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Brady plc divided by the weighted average number of shares in issue during the year. All earnings per share calculations relate to continuing operations of the Group.

	Profits attributable to shareholders	Weighted average number of shares	Basic profit per share amount in pence
Year ended 31 December 2007	486,000	26,742,316	1.82
Year ended 31 December 2006	<u>458,000</u>	<u>26,054,202</u>	<u>1.76</u>

The calculation of the diluted earnings per share is based on the profits attributable to the shareholders of Brady plc divided by the weighted average number of shares in issue during the year, as adjusted for dilutive share options. All earnings per share calculations relate to continuing operations of the Group.

	Dilutive Options	Anti-dilutive Options	Dilutive Profit per share amount in pence
Year ended 31 December 2007	2,852,423	200,000	1.64
Year ended 31 December 2006	<u>1,117,444</u>	<u>1,204,000</u>	<u>1.69</u>



## 21. Earnings per share (continued)

The reconciliation of average number of ordinary shares used for basic and diluted earnings per share is as below:

	2007 £'000	2006 £'000
Weighted average number of ordinary shares used for basic earnings per share	26,742,316	26,054,202
Weighted average number of ordinary shares under option	2,852,423	1,117,444
Weighted average number of ordinary shares used for diluted earnings per share	<u>29,594,739</u>	<u>27,171,646</u>

## 22. Dividends

	2007 £'000	2006 £'000
Dividend on ordinary shares proposed after the year end	<u>301</u>	<u>262</u>

During 2007, Brady plc paid dividends of £262,000 to its equity shareholders (2006: £nil). This represented a payment of 1 pence per share (2006: nil).

The Directors propose the payment of a dividend in 2008 of £301,000 equating to 1.1 pence per share (2007: £262,000 equating to 1 pence per share). As the distribution of dividends by the Company requires approval of the shareholders, no liability in this respect is recognised in the 2007 consolidated financial statements. No income tax consequences are expected to arise as a result of this transaction at the Group level.

### 23. Related party transactions and controlling related party

The Group's related parties comprise its Board of Directors. Unless otherwise stated, none of the transactions incorporate special terms and conditions.

The Directors are the Group's controlling and ultimate controlling related parties by virtue of their shareholding and directorships in Brady plc.

### 24. Contingent liabilities

There are no material contingent liabilities subsisting at 31 December 2007 or 31 December 2006.

### 25. Capital commitments

Neither the Group nor the Company had any capital commitments at 31 December 2007 or 31 December 2006.

### 26. Risk management objectives and policies

#### Financial instruments

The Group uses various financial instruments; these include cash and bank deposits and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

# Notes to the Financial Statements

continued

## 26. Risk management objectives and policies (continued)

### Interest rate risk

The Group's exposure to market risk for the changes in interest rates relates primarily to the Group's bank deposits. The exposure to interest rate fluctuations on its deposits is managed by placing these at fixed rates of interest with varying maturity dates.

The aggregate amount of cash deposits on fixed interest terms as at 31 December 2007 was £2,000,000 (2006: £4,209,000). The weighted average

fixed interest rate on the cash deposits was 6.70% (2006: 5.19%) and the weighted average period for which the rate is fixed is 1 month (2006: 1 month).

The aggregate amount of cash deposits on variable interest terms as at 31 December 2007 was £3,957,000 (2006: £708,000). For cash deposits held with the Group's clearing bankers, the variable rate is indexed to Barclays Bank plc's base rate and for cash deposits held within Barclays Global Investors' Liquidity First Fund, the variable rate is derived from the fund's performance.

The following table illustrates the sensitivity of the net profit for the year and equity to a reasonably possible change in interest rates of +1% and -1% (2006: +/- 1%), with effect from the beginning of the year.

	2007		2006	
	£'000	£'000	£'000	£'000
Net profit for the year - Group	522	450	482	434
Equity - Group	6,416	6,344	5,472	5,424
Net profit for the year - Company	526	454	506	404
Equity - Company	<u>6,473</u>	<u>6,401</u>	<u>5,525</u>	<u>5,477</u>

### Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs.

As at 31 December 2007, the Group and Company's financial liabilities have contractual maturities as summarised below:

	Current		Non-current	
	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
Trade and other payables - Group	1,778	375	-	-
Trade and other payables - Company	<u>1,842</u>	<u>375</u>	<u>-</u>	<u>-</u>



## 26. Risk management objectives and policies (continued)

This compares to the maturity of the Group's and Company's financial liabilities in the previous reporting year as summarised below:

	Current		Non-current	
	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
Trade and other payables - Group	2,031	307	-	-
Trade and other payables - Company	<u>2,094</u>	<u>307</u>	<u>-</u>	<u>-</u>

### Credit risk

The Group and Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2007 £'000	2006 £'000
Available-for-sale financial assets	15	15
Cash and cash equivalents	5,957	4,917
Trade and other receivables	<u>2,031</u>	<u>2,401</u>
	<u><b>8,003</b></u>	<u><b>7,333</b></u>

The Group's management considers that all the above financial assets that are not impaired for each of the balance sheet dates under review are of good credit quality, including those that are past due. See note 13 for fuller information of financial assets that are past due.

The Group's principal financial assets are cash deposits and trade receivables. Risks associated with cash deposits are limited as the banks used have high credit ratings assigned by international credit rating agencies.

The principal credit risk lies with trade debtors. In order to manage credit risk, the Directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history.

The Group and Company have no un-drawn committed overdraft facilities.

Short-term debtors and creditors are excluded from the above statements.

# Notes to the Financial Statements

continued

## 26. Risk management objectives and policies (continued)

### Currency risk

The Group and Company are exposed to transaction foreign exchange risk. Transaction exposures, including those associated with forecast transactions, are managed through the use of bank accounts held in foreign currencies. The Group and Company's trade receivables as at 31 December 2007 include an amount of £137,000 (2006: £250,000) denominated in US Dollars. As at 31 December 2007, cash at bank and in hand included £56,000 (2006: £139,000) denominated in US Dollars, and £65,000 (2006: £10,000) denominated in Euros.

The following table illustrates the sensitivity of the net profit for the year and equity in regards to the financial assets and financial liabilities and the Pound Sterling to US Dollar exchange rate and Pound Sterling to Euro exchange rate.

It assumes a +/- 5% change of the Pound Sterling to US Dollar exchange rate for 2007 (2006: +/- 5%) and a +/- 5% change of the Pound Sterling to Euro exchange rate for 2007 (2006: +/- 5%). The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Pound Sterling had strengthened against the US Dollar and Euro by 5% (2006: 5%) then this would have had the following impact:

	2007		2006	
	US Dollar £'000	Euro £'000	US Dollar £'000	Euro £'000
Net profit for the year - Group	476	483	439	457
Equity - Group	6,370	6,377	6,361	6,379
Net profit for the year - Company	480	487	409	427
Equity - Company	<u>6,427</u>	<u>6,434</u>	<u>5,482</u>	<u>5,500</u>

If Pound Sterling had weakened against the US Dollar and Euro by 5% (2006: 5%) then this would have had the following impact:

	2007		2006	
	US Dollar £'000	Euro £'000	US Dollar £'000	Euro £'000
Net profit for the year - Group	496	489	467	460
Equity - Group	6,390	6,383	6,399	6,381
Net profit for the year - Company	500	493	447	429
Equity - Company	<u>6,447</u>	<u>6,440</u>	<u>5,520</u>	<u>5,502</u>



## 27. Summary of financial assets and liabilities by category

The carrying amounts of the assets and liabilities as recognised at the balance sheet date of the years under review may also be categorised as follows:

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
<b>Non-current assets</b>				
Available-for-sale financial assets	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>
<b>Current assets</b>				
Trade and other receivables, loans and receivables	2,031	2,401	2,016	2,386
Cash and cash equivalents	<u>5,957</u>	<u>4,917</u>	<u>5,943</u>	<u>4,903</u>
	<b><u>7,988</u></b>	<b><u>7,318</u></b>	<b><u>7,959</u></b>	<b><u>7,289</u></b>
<b>Current liabilities</b>				
Trade payables, financial liabilities measured at amortised cost	<u>2,153</u>	<u>2,338</u>	<u>2,217</u>	<u>2,401</u>

# Notes to the Financial Statements

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## 28. Capital management policies and procedures

The Group and Company's capital management objectives are to ensure the Group and Company's ability to continue as a going concern and to provide an adequate return to shareholders, by pricing its offerings commensurately with the level of risk.

Although Brady plc is not constrained by any externally imposed capital requirements, its goal is to maximise its capital-to-overall financing structure ratio.

The Group and Company monitor capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the balance sheet.

The Group and Company set the amount of capital in proportion to its overall financing structure and manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group and Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets. Capital for the reporting years under review is summarised as follows:

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
<b>Capital</b>				
Total equity	6,380	5,448	6,437	5,501
Less cash and cash equivalents	5,957	4,917	5,943	4,903
	<u>423</u>	<u>531</u>	<u>494</u>	<u>598</u>
<b>Overall financing</b>				
Total equity	6,380	5,448	6,437	5,501
Plus borrowings	-	-	-	-
	<u>6,380</u>	<u>5,448</u>	<u>6,437</u>	<u>5,501</u>
<b>Capital-to-overall financing ratio</b>	<u>1:15</u>	<u>1:10</u>	<u>1:13</u>	<u>1:9</u>

## 29. Post balance sheet events

On 2 January 2008, Geoffrey Bicknell and Patrick Brazell joined Brady plc as Non-Executive Directors following the retirement of Neil McArthur and Graham Simister on 31 December 2007.

## 30. Authorisation of financial statements

No adjusting or significant non-adjusting events have occurred between the balance sheet date and the date of authorisation on 12 March 2008 by the Board.

# Annual General Meeting



Notice is hereby given that the Annual General Meeting of Brady plc will be held at 60 Cannon Street, London, EC4N 6JP on Wednesday 23 April 2008 at 3pm for the following purposes:

## Ordinary Resolutions:

1. To receive and consider the Annual Report and audited financial statements for the year ended 31 December 2007, the Directors' Report and the Auditors' Report on those financial statements.
2. To declare a dividend recommended by the directors of 1.1 pence per ordinary share for the year ended 31 December 2007 to be paid on 20 May 2008 to members whose names appear on the register at the close of business on 18 April 2008.
3. To approve the Remuneration Report.
4. To re-appoint as Director Brian Collins who retires by rotation under the Articles of Association.
5. To re-appoint as Director Peter Harverson who retires by rotation under the Articles of Association.
6. To re-appoint as Director Tony Ratcliffe who was appointed since the last Annual General Meeting under the Articles of Association to fill a vacancy on the Board.
7. To re-appoint as Director Paul Fullagar who was appointed since the last Annual General Meeting under the Articles of Association to fill a vacancy on the Board.
8. To re-appoint as Director Gavin Lavelle who was appointed since the last Annual General Meeting under the Articles of Association to fill a vacancy on the Board.
9. To re-appoint as Director Geoffrey Bicknell who was appointed since the last Annual General Meeting under the Articles of Association to fill a vacancy on the Board.
10. To re-appoint as Director Patrick Brazel who was appointed since the last Annual General Meeting under the Articles of Association to fill a vacancy on the Board.
11. To re-appoint as Auditors Grant Thornton UK LLP to hold office from the conclusion of this Annual General Meeting until the conclusion of the next general meeting of the Company at which financial statements are laid and to authorise the Directors to determine their remuneration.

## Special Resolution:

12. That the Directors be and are hereby authorised and empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of Section 94(2) of the Act) for cash pursuant to the authority already conferred as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock-exchange;
- b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £28,000 of the authorised but unissued share capital of the Company,

and shall expire on the earlier of 15 months from the date hereof and the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save 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 in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired.

By order of the Board  
**Tony Ratcliffe, Company Secretary**  
12 March 2008

## Notes:

1. A shareholder entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. The proxy need not be a shareholder of the Company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed must be deposited at the offices of Equiniti, SEA 10846, Aspect House, Spencer Road, Lancing, BN99 6ZL not less than 48 hours before the time for holding the meeting. Completion and return of the Form of Proxy will not preclude shareholders from attending and voting at the Annual General Meeting.
3. For the purposes of determining who is entitled to attend or vote (whether on a poll or otherwise) at the AGM a person must be entered on the register of members by 6.00pm on 21 April 2008 and shall be entitled to vote only those shares registered in that person's name at that time. Any changes to entries on the register of members after 6.00pm on 21 April 2008 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.
4. The register of interests of the Directors and their families in the issued share capital of the Company and copies of the Directors' service contracts will be available for inspection at the registered office of the Company during usual business hours (Saturdays, Sundays, and public holidays excepted) from the date of this Notice until the conclusion of the Annual General Meeting.

# Notes





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