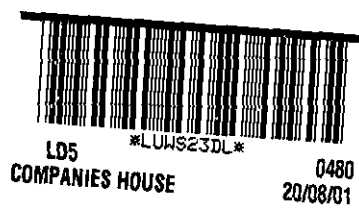


**INITIAL SECURITY LIMITED**

**DIRECTORS' REPORT AND ACCOUNTS**

**31 DECEMBER 2000**

**Company Registration Number 1013210**



# **INITIAL SECURITY LIMITED**

## **DIRECTORS**

J Hillhouse	- resigned 31 December 1999
D Stopford	- resigned 30 January 2001
AA O'Neill	
JE Preston	
CMN Ward	

## **SECRETARY**

GT Brown

## **AUDITORS**

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
10 Bricket Road  
St Albans  
Herts  
AL1 3JX

## **REGISTERED OFFICE**

Felcourt  
East Grinstead  
West Sussex  
RH19 2JY

## INITIAL SECURITY LIMITED

### REPORT OF THE DIRECTORS

The directors submit their annual report, together with the audited financial statements of the company for the 53 weeks ended 31 December 2000. Comparative data presented relates to the 52 weeks ended 26 December 1999.

### PROFIT AND LOSS ACCOUNT

The profit for the period, after taxation, amounted to £4,960,000 (1999: £2,274,000). An interim dividend of £7,118,000 (1999: £Nil) was paid during the year. The directors do not recommend the payment of a final dividend (1999: £Nil).

### PRINCIPAL ACTIVITY

The company is a specialist in the provision of security services.

### FIXED ASSETS

During the period the company purchased and disposed of a number of fixed assets. Details of these movements are shown in note 11 to the accounts.

### DIRECTORS

The directors named on page 1, except where shown, held office throughout the period. Except as stated below, none of the directors who were directors at the end of the period held any interests in the shares of the company or of Rentokil Initial plc either at the beginning or at the end of the period.

#### Rentokil Initial plc, ordinary shares of 1p each

	26 December 1999 <u>Beneficial Interest</u> Numbers	31 December 2000 <u>Beneficial Interest</u> Numbers
D Stopford	5,437	1,457
JE Preston	2,067	2,067
CMN Ward	26,046	31,157

### SHARE OPTIONS

	AA <u>O'Neill</u> Numbers	CMN <u>Ward</u> Numbers	JE <u>Preston</u> Numbers
At 26 December 1999	33,000	322,845	28,000
Granted during the period	<u>38,338</u>	<u>192,332</u>	<u>16,230</u>
At 31 December 2000	<u>71,338</u>	<u>515,177</u>	<u>44,230</u>

## **INITIAL SECURITY LIMITED**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **EMPLOYEES**

The company attaches considerable importance to keeping its employees informed of matters affecting their jobs and the progress of the business. The regular parent company magazine contributes towards this purpose. There are, in addition, several in-house publications covering local and divisional matters. Employees have frequent opportunities to meet and have discussions with their managers.

The company gives sympathetic consideration to the employment of disabled people. Whilst no special facilities are provided for training the disabled, all employees are given equal opportunities for working, training and promotion, having regard to their particular aptitudes and abilities.

#### **REVIEW OF OPERATIONS**

2000 was a successful year for the company. The directors view the future of the company with confidence and expect 2001 to be another successful year.

#### **POLICY IN RELATION TO PAYMENT OF SUPPLIERS**

The company has a variety of payment terms with its suppliers. These will be either negotiated along with other contract terms or will conform to standard terms applied by the company or by the supplier.

It is the company's policy to pay suppliers in accordance with either negotiated or standard terms provided that the relevant invoice is properly presented and is not the subject of dispute.

At 31 December 2000, the ratio, expressed in days, between the amounts invoiced to the company by suppliers and the amounts owed to trade creditors was 28 days (1999: 28 days).

## **INITIAL SECURITY LIMITED**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these accounts, the directors are required to:

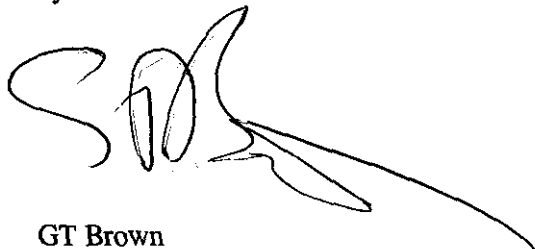
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- follow applicable accounting standards;
- prepare the accounts on a going concern basis.

The directors are responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **AUDITORS**

PricewaterhouseCoopers have indicated their willingness to continue in office for the coming year.

By order of the board

A handwritten signature in black ink, appearing to be 'GT Brown', with a long horizontal flourish extending to the right.

GT Brown  
Company Secretary

Garland Road  
East Grinstead  
West Sussex  
RH19 2DR

28 March 2001

## **AUDITORS' REPORT TO THE MEMBERS OF INITIAL SECURITY LIMITED**

We have audited the accounts on pages 6 to 17 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report. As described on page 4, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
10 Bricket Road  
St Albans  
Herts  
AL1 3JX

28 March 2001

**INITIAL SECURITY LIMITED****PROFIT AND LOSS ACCOUNT****FOR THE 53 WEEKS ENDED 31 DECEMBER 2000**

	<u>2000</u> £'000	<u>1999</u> £'000
TURNOVER (Note 2)	104,357	100,105
Cost of sales	(92,249)	(88,784)
GROSS PROFIT	12,108	11,321
Administrative expenses	(6,925)	(6,941)
OPERATING PROFIT	5,183	4,380
Profit on disposal of tangible fixed assets	61	129
Income from investments in subsidiary undertakings (Note 24)	<u>1,406</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION	6,650	4,509
Interest payable (Note 3)	(167)	(1,182)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 4)	6,483	3,327
Tax on profit on ordinary activities (Note 7)	(1,523)	(1,053)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	4,960	2,274
Dividends paid	(7,118)	<u>-</u>
RETAINED (LOSS)/PROFIT FOR THE PERIOD (Note 8)	<u>(2,158)</u>	<u>2,274</u>

The results for the period are wholly attributable to the continuing operations of the company.

The company had no recognised gains and losses during the period other than those recorded in the above profit and loss account; accordingly, no separate statement of total recognised gains and losses has been prepared.

There is no difference between the profit on ordinary activities before taxation and the retained loss for the period and their historical cost equivalents.

The notes on pages 8 to 17 form part of the accounts.

# INITIAL SECURITY LIMITED

## BALANCE SHEET - 31 DECEMBER 2000

	<u>31 December 2000</u>		<u>26 December 1999</u>	
	£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>				
Tangible assets (Note 11)	2,200		2,074	
Investments (Note 17)	<u>8,646</u>		<u>8,646</u>	
		<u>10,846</u>		<u>10,720</u>
<b>CURRENT ASSETS</b>				
Stocks (Note 12)	535		485	
Debtors (Note 13)	<u>42,527</u>		<u>35,538</u>	
		43,062		36,023
<b>CREDITORS</b> (Amounts falling due within one year) (Note 14)		<u>(50,134)</u>		<u>(40,757)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(7,072)</u>		<u>(4,734)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,774		5,986
<b>CREDITORS</b> (Amounts falling due after more than one year) (Note 15)		<u>(376)</u>		<u>(430)</u>
<b>NET ASSETS</b>		<u>3,398</u>		<u>5,556</u>
<b>EQUITY CAPITAL AND RESERVES</b>				
Share capital (Note 18)		19		19
Share premium account		1		1
Revaluation reserve		-		24
Profit and loss account (Note 8)		<u>3,378</u>		<u>5,512</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b> (Note 9)		<u>3,398</u>		<u>5,556</u>

Approved by the board on 28 March 2001

  
J. Preston  
DIRECTOR

The notes on pages 8 to 17 form part of the accounts.



# INITIAL SECURITY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000

### 1 ACCOUNTING POLICIES

#### Basis of Preparation

The financial statements are prepared in accordance with applicable accounting standards and under the historical cost convention. The particular accounting policies adopted by the directors are described below.

#### Consolidated Accounts

The company is exempt from the requirement to prepare group accounts, as it is a wholly owned subsidiary of Rentokil Initial plc and as such these accounts present financial information about the company as an individual undertaking.

#### Cash flow statement and related party disclosures

The company is a wholly owned subsidiary of Rentokil Initial plc and is included in the consolidated financial statements of Rentokil Initial plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions (but not balances) with entities that are part of the Rentokil Initial plc group or investees of the Rentokil Initial plc group (see note 23).

#### Investments

Investments held as fixed assets are stated at cost less provision for any impairment. In the opinion of the directors the value of such investments is not less than that shown in the balance sheet.

#### Leasehold Property

Leasehold land and buildings are stated at cost less depreciation; cost is amortised in equal annual instalments over the periods of the leases subject to a minimum annual provision of 1% of cost.

When properties are sold the difference between sales proceeds and net book amount is dealt with in the profit and loss account.

#### Other Tangible Fixed Assets

Other tangible fixed assets are stated at cost less depreciation. Provision for depreciation of all tangible fixed assets of the company is made to write off the cost of fixed assets over their estimated useful lives, principally over the following periods:

motor vehicles	- 25%-33% straight line
plant, equipment, furniture and fittings	- 10%-25% straight line

# INITIAL SECURITY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 (CONTINUED)

### 1 ACCOUNTING POLICIES (Continued)

#### Stocks

Stocks are stated at the lower of cost or net realisable value, using the first-in, first-out principle. Cost includes all direct expenditure and related overheads incurred to the date of the balance sheet.

#### Deferred Tax

Provision for deferred tax receivable and payable is made at rates currently expected when income, expenditure or depreciation falls into different periods for accounting and for taxation purposes, to the extent that it is probable that a tax benefit or charge will crystallise.

#### Cost of Sales and Administrative Expenses

Service, selling and other direct costs are classified as cost of sales. Administrative expenses comprise indirect and head office costs.

#### Leased assets

Where the company retains substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases. Future instalments payable under finance leases, net of finance charges, are included in borrowings with the corresponding asset values recorded in fixed assets and depreciated over the shorter of their estimated useful lives or their leases terms. Lease payments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element which reduces the outstanding obligation for future instalments.

Payments under operating leases are charged to the profit and loss account, as incurred, over the lease term.

#### Pension Costs

The company operates both defined contribution and defined benefit schemes. Under the defined contribution schemes contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The cost of pensions in respect of the Rentokil Initial plc funded defined benefit schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of both current and former employees in the schemes. Variations from the regular costs are spread over the average future service lives of the employees in the schemes. The pension costs are assessed in accordance with the advice of independent consulting actuaries.

# INITIAL SECURITY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 (CONTINUED)

### 2 TURNOVER

Turnover represents the invoiced value of goods sold and services rendered during the period exclusive of value added tax, substantially all of which is derived from the United Kingdom.

### 3 INTEREST

An analysis of interest payable on finance leases, bank loans, overdrafts and other loans repayable within 5 years, other than by instalments is set out below.

	<u>2000</u> £'000	<u>1999</u> £'000
Interest payable		
- group companies	(11)	(1,041)
- bank overdrafts	(96)	(86)
- finance leases	<u>(60)</u>	<u>(55)</u>
	(167)	(1,182)

### 4 OPERATING PROFIT

Is stated after charging:

	<u>2000</u> £'000	<u>1999</u> £'000
Depreciation of owned assets	668	972
Depreciation of assets held under finance leases	320	233
Operating lease rentals - plant and machinery	27	77
Operating lease rentals - other assets	772	810
Auditors' remuneration - audit fee	60	74
- other	<u>21</u>	<u>—</u>
Staff costs:		
Wages and salaries	85,703	80,700
Social security costs	7,064	6,927
Other pension costs	<u>178</u>	<u>156</u>
	<u>92,945</u>	<u>87,783</u>

# INITIAL SECURITY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 (CONTINUED)

### 5 DIRECTORS' REMUNERATION

	<u>2000</u> £'000	<u>1999</u> £'000
Aggregate emoluments (in respect of qualifying services to the company)	<u>294</u>	<u>165</u>
Highest paid director (in respect of qualifying services to the company)		
- Total amount of emoluments	163	98
- Accrued pension benefits under the defined benefit scheme	14	12
The number of directors to whom retirement benefits are accruing under a defined benefit scheme are as follows	<u>2</u>	<u>3</u>

None of the directors exercised any share options during the period.

### 6 EMPLOYEES

	<u>2000</u> Number	<u>1999</u> Number
The average number of employees during the period was:		
Operations	6,308	5,300
Administration	<u>179</u>	<u>194</u>
Total	<u>6,487</u>	<u>5,494</u>

### 7 TAXATION

	<u>2000</u> £'000	<u>1999</u> £'000
Tax on profit for the period comprises:		
UK corporation tax at 30% (1999: 30.25%)	<u>1,523</u>	<u>1,053</u>

# INITIAL SECURITY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 (CONTINUED)

### 8 PROFIT AND LOSS ACCOUNT

	£'000
At 26 December 1999	5,512
Retained loss for the period	(2,158)
Transfer from revaluation reserve	<u>24</u>
At 31 December 2000	<u>3,378</u>

### 9 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2000</u> £'000	<u>1999</u> £'000
Profit for the period	4,960	2,274
Dividends paid	<u>(7,118)</u>	<u>-</u>
Net (decrease)/increase in shareholders' funds	(2,158)	2,274
Opening shareholders' funds	<u>5,556</u>	<u>3,282</u>
Closing shareholders' funds	<u>3,398</u>	<u>5,556</u>

### 10 DEFERRED TAX

The unprovided deferred tax debtor at 31 December 2001 is £868,000 (1999: £576,000)

INITIAL SECURITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 (CONTINUED)

11 TANGIBLE FIXED ASSETS

	<u>Short Leasehold Property</u> £'000	<u>Vehicles Furniture &amp; Fittings</u> £'000	<u>Plant</u> £'000	<u>Total</u> £'000
<u>Cost</u>				
At 26 December 1999	211	4,248	1,010	5,469
Transfer from other group companies	-	15	-	15
Additions	157	984	78	1,219
Disposals	(21)	(1,077)	(672)	(1,770)
At 31 December 2000	347	4,170	416	4,933
<u>Aggregate Depreciation</u>				
At 26 December 1999	114	2,423	858	3,395
Transfer from other group companies	-	8	-	8
Disposals	(21)	(965)	(672)	(1,658)
Depreciation for the period	47	870	71	988
At 31 December 2000	140	2,336	257	2,733
<u>Net Book Amount</u>				
At 31 December 2000	207	1,834	159	2,200
At 26 December 1999	97	1,825	152	2,074

The net book value of vehicles acquired under finance lease included in the above amounts is £683,619 (1999: £646,000). This is made up of cost £1,304,802 less aggregate depreciation of £621,183.

# **INITIAL SECURITY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 (CONTINUED)**

### **12 STOCKS**

	<u>2000</u> £'000	<u>1999</u> £'000
Finished goods	<u>535</u>	<u>485</u>

### **13 DEBTORS**

	<u>2000</u> £'000	<u>1999</u> £'000
Trade debtors	18,895	15,168
Amounts owed by group companies	20,187	17,091
Other debtors	2,877	1,962
Prepayments and accrued income	<u>568</u>	<u>1,317</u>
	<u>42,527</u>	<u>35,538</u>

### **14 CREDITORS (amounts falling due within one year)**

	<u>2000</u> £'000	<u>1999</u> £'000
Obligations under finance leases and Hire purchase contracts	352	269
Bank overdraft	8,980	7,601
Trade creditors	483	344
Amounts owed to group companies	29,146	22,012
Other tax and social security	5,728	5,007
Corporation tax	1,523	1,047
Other creditors	3,531	4,181
Accruals and deferred income	<u>391</u>	<u>296</u>
	<u>50,134</u>	<u>40,757</u>

# INITIAL SECURITY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 (CONTINUED)

### 15 CREDITORS (amounts falling due after more than one year)

	<u>2000</u>	<u>1999</u>
	£'000	£'000
Obligations under finance leases and hire		
Purchase contracts	<u>376</u>	<u>430</u>

### 16 OBLIGATIONS UNDER LEASES

	<u>2000</u>	<u>1999</u>
	£'000	£'000
Amounts payable		
- within one year	383	317
- within 2-5 years	409	466
Less: finance charges allocated to future periods	<u>(64)</u>	<u>(84)</u>
	<u>728</u>	<u>699</u>

The company has annual lease commitments under non-cancellable leases as detailed below:

	<u>2000</u>		<u>1999</u>	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases which expire:				
Within 1 year	4	-	122	-
Within 2-5 years	251	-	180	-
After 5 years	<u>435</u>	<u>-</u>	<u>381</u>	<u>-</u>
	<u>690</u>	<u>-</u>	<u>683</u>	<u>-</u>



## INITIAL SECURITY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 (CONTINUED)

#### 17 INVESTMENTS

£'000

At 26 December 1999 and 31 December 2000 8,646

The investment at 31 December 2000 represents interests in the following companies.

	<u>% Held</u>	<u>Activity</u>
Rentokil Dormant (No.1) Limited	100	Dormant
Securiguard Services (Eastern) Limited	100	Dormant
Securiguard Services (London) Limited	100	Dormant
Securiguard Scotland Limited	100	Dormant
Securiguard Technical Systems Limited	100	Dormant
Securiguard Services (Northern) Limited	100	Dormant
Securiguard Services (Wales) Limited	100	Dormant
Initial Aviation Security Services Limited	100	Security Services
Sigma Group Limited	100	Security Services

#### 18 SHARE CAPITAL

	<u>Authorised Number</u>	<u>Allotted and fully paid Number</u>	<u>£'000</u>
At 26 December 1999 and 31 December 2000			
Ordinary shares of £1 each	<u>20,000</u>	<u>19,000</u>	<u>19</u>

#### 19 CONTINGENT LIABILITIES

The company is party to a composite cross guarantee entered into by certain group companies where, at 31 December 2000, total bank borrowings were £18,701,000 (1999: £13,423,000) and hire purchase liabilities were £1,399,000 (1999: £1,420,000).

## **INITIAL SECURITY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2000 (CONTINUED)**

#### **20 CAPITAL COMMITMENTS**

At 31 December 2000 there were no capital commitments (1999: £Nil).

#### **21 PENSION COMMITMENTS**

The company participates in the Rentokil Initial plc pension scheme. The most recent actuarial valuation was at 1 April 1999. It was carried out using the projected unit method and the principal assumptions made by the actuary were that investment returns would be 6% per annum and pensions would increase at 2.5% per annum or at the rate provided in the rules of the UK scheme. The assumed yield on UK equity investments was 2.8%.

The total pensions cost to the company in the year was £178,000 (1999: £156,000) (contributions are based on pension costs across the group as a whole).

The market value of the scheme's assets totalled £690.5m as at 1 April 1999 and the actuarial value of those assets represented 113% of the benefits accrued to members after allowing for expected future increases in pensionable salaries. The actuarial surplus is being spread over the average future service lives of employees in the scheme.

#### **22 ULTIMATE PARENT COMPANY**

The company's immediate parent company is Servicelink (UK) Limited. The company's ultimate parent company is Rentokil Initial plc, which forms the only group into which the financial statements of the company are consolidated. The consolidated financial statements of Rentokil Initial plc are available from Felcourt, East Grinstead, West Sussex, RH19 2JY.

#### **23 OTHER RELATED PARTY TRANSACTIONS**

Rentokil Initial plc is also the company's ultimate controlling party. The company has not undertaken any transactions with related parties during the period, other than transactions with fellow members of the Rentokil Initial plc group. Such transactions are exempt from disclosure under FRS8.

#### **24 INCOME FROM INVESTMENTS IN SUBSIDIARY UNDERTAKINGS**

Income from investments in subsidiary undertakings £1,406,000 (1999: nil) represents a gross dividend received from Initial Aviation Security Ltd.