

RENTOKIL SECURITY SERVICES LIMITED

DIRECTORS' REPORT AND ACCOUNTS

29 DECEMBER 1996

Company Registration Number 1013210



RENTOKIL SECURITY SERVICES LIMITED

DIRECTORS

Sir Clive Thompson	-	Chairman - resigned 22 November 1996
RC Payne	-	Appointed Chairman 22 November 1996
J Hillhouse		
JR Leeks		
D Stopford		
MF Tunnell		
DR Howroyd	-	Appointed 1 January 1996
R Baldwin	-	Appointed 6 January 1997
		Resigned 4 April 1997

SECRETARY

GT Brown

AUDITORS

Price Waterhouse
Southwark Towers
32 London Bridge Street
London
SE1 9SY

REGISTERED OFFICE

Felcourt
East Grinstead
West Sussex
RH19 2JY

RENTOKIL SECURITY SERVICES LIMITED

REPORT OF THE DIRECTORS

The directors submit their annual report, together with the audited accounts of the company for the 52 weeks ended 29 December 1996. Comparative data presented relates to the 53 weeks ended 31 December 1995.

PROFIT AND LOSS ACCOUNT

The profit for the period, after taxation, amounted to £3,461,000 (1995: £4,143,000). The directors do not recommend the payment of a dividend (1995: £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 10 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 Rentokil Initial group companies either at the beginning or at the end of the period.

Messrs RC Payne and D Stopford are directors of Securiguard Group plc, and their interests in group companies are shown in the accounts of Securiguard Group plc.

Mr DR Howroyd held 97,714 shares in Rentokil Initial plc at 1 January 1996 (the date of his appointment), and 97,659 shares at 29 December 1996.

Mr MF Tunnell held 8,095 shares in Rentokil Initial plc at 31 December 1995, and 10,085 shares at 29 December 1996.

SHARE OPTIONS

	MF <u>Tunnell</u>	J <u>Hillhouse</u>	JR <u>Leeks</u>	DR <u>Howroyd</u> (*)
At 31 December 1995	177,250	10,000	9,000	88,000
Granted during the period	<u>34,000</u>	<u>9,000</u>	<u>8,900</u>	<u>22,000</u>
At 29 December 1996	<u>211,250</u>	<u>19,000</u>	<u>17,900</u>	<u>110,000</u>

(*) at date of appointment

At 29 December 1996 the above directors held options under the share option scheme approved by shareholders in April 1973, May 1983, December 1984, September 1989, May 1991, May 1992 and May 1996, to subscribe for shares in Rentokil Initial plc at prices ranging from 148.508p to 402.270p expiring between 2002 and 2006 depending on the date of the grant.

The highest and lowest price of Rentokil Initial plc shares during the period was 447p and 325p respectively.

The market price of Rentokil Initial plc shares at 29 December 1996 was 437p.

RENTOKIL SECURITY SERVICES 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

1996 was a satisfactory year. The directors view the future of the company with confidence and expect 1997 to be another successful year.

POLICY IN RELATION TO PAYMENT OF SUPPLIERS

The company determines terms and conditions of payment for the supply of goods and services just as keenly as they negotiate prices and other commercial matters and to pay in accordance with agreed terms.

RENTOKIL SECURITY SERVICES 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:

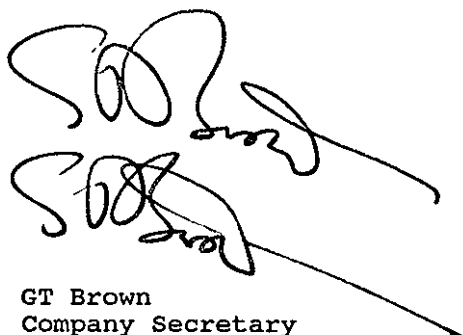
- adopt suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- follow applicable accounting standards;
- prepare the accounts on a going concern basis.

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

Price Waterhouse have indicated their willingness to continue as auditors to the company and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board

A handwritten signature in black ink, appearing to be 'GT Brown', with a long horizontal line extending from the end of the signature.

GT Brown
Company Secretary

Felcourt
East Grinstead
West Sussex
RH19 2JY

15 May 1997

**AUDITORS' REPORT TO THE MEMBERS OF
RENTOKIL SECURITY SERVICES LIMITED**

We have audited the accounts on pages 6 to 16 which have been prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets and the accounting policies set out on pages 6 and 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 4 the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 29 December 1996 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors
Southwark Towers
32 London Bridge Street
London
SE1 9SY

15 May 1997

RENTOKIL SECURITY SERVICES LIMITED

ACCOUNTING POLICIES - 29 DECEMBER 1996

Accounting Convention

The company prepares its accounts on the basis of historical cost. The company accounts have been prepared in accordance with the Companies Act 1985 as amended by the Companies Act 1989 and applicable accounting standards.

In accordance with paragraph 8c of FRS 1, the company, being the wholly owned subsidiary of another company which prepares a cash flow statement including that of this company, has not prepared such a statement itself.

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.

Investments

Investments are carried at cost less amounts written off and 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 amounts 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% reducing balance or 25%-33% straight line
plant, equipment, furniture and fittings	-	10%-25% straight line

RENTOKIL SECURITY SERVICES LIMITED

ACCOUNTING POLICIES - 29 DECEMBER 1996 (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.

Operating Leases

Operating lease costs are charged to the profit and loss account in the period in which they arise.

Finance Leases and Hire Purchase Agreements

Assets acquired under hire purchase and finance lease agreements are included in tangible fixed assets at cost and are depreciated over their useful lives. Interest is charged to the profit and loss account as it accrues and the capital element of future payments is included in creditors.

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 defined pension benefit schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of 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.

RENTOKIL SECURITY SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 29 DECEMBER 1996

	<u>1996</u> £'000	<u>53 weeks ended</u> <u>31 December 1995</u> £'000
TURNOVER (Note 1)	79,828	80,858
COST OF SALES	(70,207)	(70,151)
GROSS PROFIT	9,621	10,707
Administrative expenses	(4,459)	(3,972)
OPERATING PROFIT	5,162	6,735
Profit on disposal of fixed assets	40	75
Net interest payable (Note 2)	(131)	(626)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX (Note 3)	5,071	6,184
Taxation on profit on ordinary activities (Note 6)	(1,610)	(2,041)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	3,461	4,143
PROFIT FOR THE FINANCIAL PERIOD (Note 7)	3,461	4,143

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

Retained profits represent the total of all recognised gains and losses relating to the period and the corresponding period.

The notes on pages 10 to 16 form part of the accounts.

RENTOKIL SECURITY SERVICES LIMITED

BALANCE SHEET - 29 DECEMBER 1996

	<u>29 December 1996</u>		<u>31 December 1995</u>	
	£'000	£'000	£'000	£'000
FIXED ASSETS				
Tangible assets (Note 10)		1,893		1,842
Investments (Note 15)		<u>7,913</u>		<u>7,913</u>
		<u>9,806</u>		<u>9,755</u>
CURRENT ASSETS				
Stocks (Note 11)	458		479	
Debtors (Note 12)	24,031		18,740	
Cash at bank and in hand	<u>4</u>		<u>-</u>	
		24,493		19,219
CREDITORS (Amounts falling due within one year)				
(Note 13)		<u>(23,016)</u>		<u>(21,152)</u>
NET CURRENT ASSETS/ (LIABILITIES)		<u>1,477</u>		<u>(1,933)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>11,283</u>		<u>7,822</u>
CAPITAL AND RESERVES				
SHARE CAPITAL (Note 16)		19		19
Share premium		1		1
Revaluation reserve		24		24
PROFIT AND LOSS ACCOUNT (Note 7)		<u>11,239</u>		<u>7,778</u>
SHAREHOLDERS' FUNDS (Note 8)		<u>11,283</u>		<u>7,822</u>

The notes on pages 10 to 16 form part of the accounts.

Approved by the board on 15 May 1997


 R. Payne
 Director

RENTOKIL SECURITY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 29 DECEMBER 1996

1 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.

2 INTEREST

Interest payable on finance leases, bank loans, overdrafts and other loans repayable within 5 years, other than by instalments.

	<u>1996</u> £'000	<u>1995</u> £'000
Interest payable - group companies	(131)	(645)
- finance leases	<u>-</u>	<u>(2)</u>
	(131)	(647)
Interest receivable - group companies	-	6
- other	<u>-</u>	<u>15</u>
	-	21
Net interest payable	(131)	(626)

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit before tax was arrived at after charging:

	<u>1996</u> £'000	<u>1995</u> £'000
Depreciation - leased assets	-	7
- other assets	804	691
Hire of plant and machinery		
- operating leases	68	116
Hire of other assets		
- operating leases	642	495
Auditors' remuneration - audit fee	<u>34</u>	<u>35</u>
Staff costs:		
Wages and salaries	62,564	61,020
Social security costs	5,518	5,337
Other pension costs	<u>147</u>	<u>229</u>
	<u>68,229</u>	<u>66,586</u>

RENTOKIL SECURITY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 29 DECEMBER 1996 (CONTINUED)

4 DIRECTORS' REMUNERATION

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Remuneration as managers (including contributions to pension and life assurance schemes)	<u>182</u>	<u>356</u>
Chairmen's emoluments	<u>-</u>	<u>-</u>
Highest paid director's emoluments (excluding pension contributions)	<u>61</u>	<u>126</u>

Analysis of directors' emoluments:
(excluding pension contributions)

	<u>1996</u> <u>Number</u>	<u>1995</u> <u>Number</u>
£ Nil - £ 5,000	4	3
£ 20,001 - £ 25,000	-	1
£ 50,001 - £ 55,000	1	-
£ 55,001 - £ 60,000	1	-
£ 60,001 - £ 65,000	1	-
£ 65,001 - £ 70,000	-	1
£ 70,001 - £ 75,000	-	1
£125,001 - £130,000	-	1

5 EMPLOYEES

	<u>1996</u> <u>Number</u>	<u>1995</u> <u>Number</u>
The average number of employees during the period was:		
Operations	5,637	6,034
Administration	<u>144</u>	<u>144</u>
Total	<u>5,781</u>	<u>6,178</u>

RENTOKIL SECURITY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 29 DECEMBER 1996 (CONTINUED)

6 TAXATION

	<u>1996</u> £'000	<u>1995</u> £'000
Tax on profit for the period comprises:		
UK Corporation tax at 33% (1995: 33%)	1,673	2,041
Prior period item	<u>(63)</u>	<u>-</u>
	<u>1,610</u>	<u>2,041</u>

7 PROFIT AND LOSS ACCOUNT

	£'000
At 31 December 1995	7,778
Profit for the period	<u>3,461</u>
At 29 December 1996	<u>11,239</u>

8 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1996</u> £'000	<u>1995</u> £'000
Profit for the period	<u>3,461</u>	<u>4,143</u>
Net increase in shareholders' funds	3,461	4,143
Opening shareholders' funds	<u>7,822</u>	<u>3,679</u>
Closing shareholders' funds	<u>11,283</u>	<u>7,822</u>

9 DEFERRED TAX

At 29 December 1996 no provision has been made for deferred tax as, in the opinion of the directors, no material liability is expected to crystallise in the foreseeable future.

RENTOKIL SECURITY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 29 DECEMBER 1996 (CONTINUED)

10 TANGIBLE FIXED ASSETS

	Short Leasehold Property £'000	Vehicles Furniture & Fittings £'000	Plant £'000	Total £'000
<u>Cost</u>				
At 1 January 1996	122	3,091	845	4,058
Additions	5	911	97	1,013
Transfers from group companies	-	23	-	23
Disposals	(2)	(683)	(101)	(786)
Reclassifications	-	81	(81)	-
At 29 December 1996	<u>125</u>	<u>3,423</u>	<u>760</u>	<u>4,308</u>
<u>Aggregate Depreciation</u>				
At 1 January 1996	80	1,538	598	2,216
Transfers from group companies	-	18	-	18
Disposals	(2)	(523)	(98)	(623)
Reclassifications	-	50	(50)	-
Depreciation for the period	<u>11</u>	<u>669</u>	<u>124</u>	<u>804</u>
At 29 December 1996	<u>89</u>	<u>1,752</u>	<u>574</u>	<u>2,415</u>
<u>Net Book Amount</u>				
At 29 December 1996	<u>36</u>	<u>1,671</u>	<u>186</u>	<u>1,893</u>
At 31 December 1995	<u>42</u>	<u>1,553</u>	<u>247</u>	<u>1,842</u>

11 STOCKS

	1996 £'000	1995 £'000
Finished goods	<u>458</u>	<u>479</u>

RENTOKIL SECURITY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 29 DECEMBER 1996 (CONTINUED)

12	DEBTORS	<u>1996</u> £'000	<u>1995</u> £'000
	Trade debtors	12,066	10,480
	Amounts owed by fellow subsidiaries	9,803	5,154
	Other debtors	748	364
	Prepayments and accrued income	<u>1,414</u>	<u>2,742</u>
		<u>24,031</u>	<u>18,740</u>

13	CREDITORS (amounts falling due within one year)	<u>1996</u> £'000	<u>1995</u> £'000
	Bank overdraft	3,166	854
	Trade creditors	351	483
	Amounts owed to parent company	8,250	8,246
	Amounts owed to fellow subsidiaries	1,497	466
	Other tax and social security	5,455	5,706
	Corporation tax	1,673	2,075
	Other creditors	2,271	2,928
	Accruals and deferred income	<u>353</u>	<u>394</u>
		<u>23,016</u>	<u>21,152</u>

14 OPERATING LEASE COMMITMENTS

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

	<u>1996</u>		<u>1995</u>	
	<u>Land and</u>	<u>Other</u>	<u>Land and</u>	<u>Other</u>
	<u>Buildings</u>		<u>Buildings</u>	
	£'000	£'000	£'000	£'000
Operating leases which expire				
Within 1 year	14	46	16	50
Within 2-5 years	69	2	69	39
After 5 years	<u>466</u>	<u>-</u>	<u>408</u>	<u>-</u>
	<u>549</u>	<u>48</u>	<u>493</u>	<u>89</u>

RENTOKIL SECURITY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 29 DECEMBER 1996 (CONTINUED)

15 INVESTMENTS

£'000

At 31 December 1995 and at
29 December 1996

7,913

The investment at 29 December 1996 represents interests in the following Securiguard Group plc 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
Servicelink Aviation International Limited	100	Security Services

16 SHARE CAPITAL

	<u>Authorised Number</u>	<u>Allotted and fully paid Number</u>	<u>£</u>
At 31 December 1995 and 29 December 1996			
Ordinary shares of £1 each	<u>20,000</u>	<u>19,000</u>	<u>19,000</u>

17 CONTINGENT LIABILITIES

There are contingent liabilities in respect of litigation. None of the actions is expected to give rise to any material loss except as provided for in these accounts.

The company is party to a composite cross guarantee entered into by certain group companies where, at 29 December 1996, total bank borrowings were £7,271,000 (1995: £1,558,000) and hire purchase liabilities were £8,000 (1995: £8,000).

RENTOKIL SECURITY SERVICES LIMITED

NOTES TO THE ACCOUNTS - 29 DECEMBER 1996 (CONTINUED)

18 CAPITAL COMMITMENTS

Expenditure authorised by the directors:

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Contracts placed	<u>70</u>	<u>53</u>

19 PENSION COMMITMENTS

There are two Rentokil Initial funded defined benefit UK pension schemes. These were last valued by actuaries as at 1 April 1994 and details of the valuations are shown in the accounts of Rentokil Initial plc. Contributions to the scheme are based on pension costs across the UK companies as a whole. The valuations showed that there are sufficient assets in both of the funds at least to secure the benefits of existing pensioners and to provide retirement benefits accrued to date for past and present members on the basis of their current salaries and credited periods of service.

20 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.

21 RELATED PARTY TRANSACTIONS

Rentokil Initial plc is also the company's ultimate controlling company. 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.