

Initial Security Limited

Registered Number: 1013210

Directors' Report and Financial Statements
For The Period Ended 28 December 2003



Initial Security Limited

Company Information

Directors	AA O'Neill CMN Ward G Evans
Secretary	GT Brown
Registered office	Felcourt East Grinstead West Sussex RH19 2JY
Registered number	1013210
Auditors	PricewaterhouseCoopers LLP 10 Bricket Road St. Albans Herts. AL1 3JX
Bankers	HSBC 69 Pall Mall London SW1Y 5EY

Initial Security Limited

Report of the Directors

The directors submit their annual report, together with the audited financial statements of the company for the 52 weeks ended 28 December 2003. Comparative data presented relates to the 52 weeks ended 29 December 2002.

Profit and loss account

The profit for the period, after taxation, amounted to £3,442,000 (2002: £2,913,000). An interim dividend of £2,200,000 (2001: £7,500,000) was paid during the period. The directors do not recommend the payment of a final dividend.

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 financial statements.

Directors and their interests

The directors named on page 1 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

	28 December 2003 Beneficial interest Number	29 December 2002 Beneficial interest Number
CMN Ward	34,754	34,754

Share options

Rentokil Initial plc, ordinary shares of 1p each

	AA O'Neill Number	CMN Ward Number
At 29 December 2002	133,071	788,171
Granted during the period	25,183	111,462
At 28 December 2003	158,254	899,633

Neither director exercised any share options in the period.

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

2003 was a successful year for the company. The directors view the future of the company with confidence and expect 2004 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 28 December 2003, the ratio, expressed in days, between the amounts invoiced to the company by suppliers and the amounts owed to trade creditors was 26 (2002: 24 days).

Statement of Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 28 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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.

Initial Security Limited

Report of the Directors (continued)

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment 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 stroke extending to the right.

GT Brown
Company Secretary

Garland Road
East Grinstead
West Sussex
RH19 2DR

7 May 2004

Independent auditors' report to the members of Initial Security Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the 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 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 our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

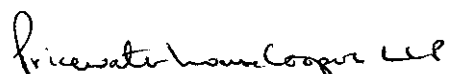
Basis of audit opinion

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 at 28 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
St. Albans

7 May 2004

Initial Security Limited

Profit and loss account for the 52 weeks ended 28 December 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	122,600	119,546
Cost of sales		(109,690)	(107,741)
Gross profit		12,910	11,805
Administrative expenses		(7,693)	(7,704)
Operating profit	3	5,217	4,101
Profit on disposal of tangible fixed assets		16	50
Profit on ordinary activities before interest and taxation		5,233	4,151
Interest receivable and similar income	6	99	191
Interest payable and similar charges	6	(195)	(396)
Profit on ordinary activities before taxation		5,137	3,946
Tax on profit on ordinary activities	7	(1,695)	(1,033)
Profit on ordinary activities after taxation	8	3,442	2,913
Dividends	8	(2,200)	(7,500)
Retained profit/(loss) for the period		1,242	(4,587)

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.

The notes on pages 8 to 17 form part of these financial statements.

Initial Security Limited

Balance sheet as at 28 December 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Goodwill	17	10,184	10,341
Tangible assets	10	2,241	2,374
Investments	16	1,029	929
		13,454	13,644
Current assets			
Stocks	11	407	447
Debtors	12	18,359	27,254
Cash at bank and in hand		5	-
		18,771	27,701
Creditors – amounts falling due within one year	13	(29,773)	(40,191)
Net current liabilities		(11,002)	(12,490)
Total assets less current liabilities		2,452	1,154
Creditors – amounts falling due after more than one year	14	(387)	(331)
Net assets		2,065	823
Capital and reserves			
Called up share capital	18	19	19
Share premium account		1	1
Profit and loss account	8	2,045	803
Total shareholders' funds	9	2,065	823

The financial statements were approved by the board of directors and were signed on its behalf by:



G Evans
Director

7 May 2004

The notes on pages 8 to 17 form part of these financial statements.

Initial Security Limited

Notes to the financial statements for the period ended 28 December 2003

1. Accounting policies

Basis of preparation

The financial statements are prepared in accordance with applicable accounting standards and under the historical cost convention.

The Company is dependent on continuing finance being made available by its ultimate parent company to enable it to continue operating and meet its liabilities as they fall due. The parent company has agreed to provide sufficient funds to the Company for these purposes. The directors accordingly consider it appropriate to prepare financial statements on a going concern basis.

The following are the principal accounting policies, which have been applied by the company.

Consolidated financial statements

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

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 instalments over the shorter of 10 years or the life of the lease.

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	-	10-15% straight line

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.

Initial Security Limited

Notes to the financial statements for the period ended 28 December 2003 (continued)

1. Accounting policies (continued)

Deferred tax

Deferred taxation has been recognised as a liability or asset if a transaction has occurred at the balance sheet date that gives rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset is recognised to the extent that the transfer of economic benefits in the future are more likely than not to occur. Deferred tax asset and liabilities have not been discounted.

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 lease 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 managers of the company are eligible to be members of retirement benefit schemes operated by the group in the United Kingdom. The funds of the schemes are administered by trustees and are completely separate from the funds of the company and of the group. Information relating to the schemes is contained in the financial statements of Rentokil Initial plc. The contributions to the pension schemes are based on pension costs across the group as a whole.

The company is unable to identify its share of the underlying assets and liabilities of the group schemes on a consistent and reasonable basis and as such, contributions made to the schemes during the year have been accounted for as if they were defined contribution schemes in accordance with paragraph 9 of FRS17 "Retirement Benefits".

Goodwill

Goodwill is subject to an annual impairment review and a charge is taken to the profit and loss account in the period in which impairment is deemed to occur.

Initial Security Limited

Notes to the financial statements for the period ended 28 December 2003 (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. Operating profit

Is stated after charging:

	2003 £'000	2002 £'000
Depreciation of owned assets	671	660
Depreciation of assets held under finance leases	356	395
Operating lease rentals - other assets	524	593
Auditors' remuneration - audit fee	66	64
Staff costs:		
Wages and salaries	99,042	97,915
Social security costs	8,649	7,844
Other pension costs	246	276
	107,937	106,035

4. Directors' remuneration

	2003 £'000	2002 £'000
Aggregate emoluments (in respect of qualifying services to the company)	253	219
Aggregate value of contributions paid to a money purchase pension scheme (in respect of qualifying services to the company)	5	3
	Number	Number
The number of directors to whom retirement benefits are accruing under a money purchase scheme (in respect of qualifying services) are	1	1
The number of directors to whom retirement benefits are accruing under a defined benefit scheme (in respect of qualifying services) are	1	1
	£'000	£'000
Highest paid director (in respect of qualifying services to the company)		
- total amount of emoluments	163	136
- accrued pension benefits under the defined benefit scheme	22	16

The highest paid director did not exercise share options in the period.

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Notes to the financial statements for the period ended 28 December 2003 (continued)

5. Employees

	2003 Number	2002 Number
The average number of employees during the period was:		
Operations	6,583	6,812
Administration	132	130
	<u>6,715</u>	<u>6,942</u>

6. Interest

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

	2003 £'000	2002 £'000
Interest receivable	99	191
Interest payable		
- bank overdrafts	(157)	(350)
- finance leases	(38)	(46)
	<u>(195)</u>	<u>(396)</u>

7. Taxation

(a) Analysis of charge in the period

	2003 £'000	2002 £'000
Current tax:		
UK corporation tax on profits of the period	1,604	1,184
Adjustment in respect of previous periods	(80)	24
Total current tax	<u>1,524</u>	<u>1,208</u>
Deferred tax:		
Origination and reversal of timing differences (ACA and other)	171	(175)
Total deferred tax (note 12)	<u>171</u>	<u>(175)</u>
Tax on profit on ordinary activities	<u>1,695</u>	<u>1,033</u>

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Notes to the financial statements for the period ended 28 December 2003 (continued)

7. Taxation (continued)

(b) Factors affecting tax charge in the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%) (2002: 30%). The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	5,137	3,946
Profit on ordinary activities multiplied by standard rate in the UK 30%	1,541	1,184
Effects of:		
Expenses not deductible for tax purposes	44	-
Accelerated capital allowances and other timing differences	19	-
Adjustments to tax charge in respect of previous period	(80)	24
Current tax charge for the period	1,524	1,208

8. Profit and loss account

	£'000
At 29 December 2002	803
Profit for the financial period	3,442
Dividends paid	(2,200)
At 28 December 2003	2,045

9. Reconciliation of movements in shareholders' funds

	2003 £'000	2002 £'000
Profit for the period	3,442	2,913
Dividends	(2,200)	(7,500)
Net increase/(decrease) in shareholders' funds	1,242	(4,587)
Opening shareholders' funds as previously stated	823	5,248
Prior period adjustment – FRS 19	-	162
Opening shareholders' funds as restated	823	5,410
Closing shareholders' funds	2,065	823

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Notes to the financial statements for the period ended 28 December 2003 (continued)

10. Tangible fixed assets

	Short leasehold property £'000	Vehicles, furniture & fittings £'000	Plant £'000	Total £'000
Cost				
At 29 December 2002	495	4,260	556	5,311
Additions	7	945	35	987
Reclassification	(13)	13	-	-
Disposals	(26)	(1,229)	(261)	(1,516)
At 28 December 2003	463	3,989	330	4,782
Accumulated depreciation				
At 29 December 2002	101	2,462	374	2,937
Reclassification	(2)	2	-	-
Disposals	(10)	(1,168)	(245)	(1,423)
Charge for the period	49	911	67	1,027
At 28 December 2003	138	2,207	196	2,541
Net book amount				
At 28 December 2003	325	1,782	134	2,241
At 29 December 2002	394	1,798	182	2,374

The net book value of vehicles acquired under finance lease included in the above amounts is £606,000 (2002: £579,000). This is made up of cost £1,513,000 less aggregate depreciation of £907,000.

11. Stocks

	2003 £'000	2002 £'000
Finished goods	407	447

12. Debtors

	2003 £'000	2002 £'000
Trade debtors	16,641	18,092
Amounts owed by group undertakings	1,113	3,062
Other debtors	10	182
Prepayments and accrued income	429	5,581
Deferred tax	166	337
	18,359	27,254

Initial Security Limited

**Notes to the financial statements
for the period ended 28 December 2003 (continued)**

12. Debtors (continued)

Analysis of deferred tax asset:

	2003 £'000	2002 £'000
Accelerated capital allowances	118	158
Other timing differences	48	179
Deferred tax asset	166	337

The movement on deferred taxation comprises:

	2003 £'000	2002 £'000
At beginning of the period	337	162
Deferred tax (charge)/credit in profit and loss account (note 7)	(171)	175
At end of the period	166	337

There are no unrecognised deferred tax assets or liabilities.

13. Creditors – amounts falling due within one year

	2003 £'000	2002 £'000
Obligations under finance leases and hire purchase contracts	292	308
Bank overdraft	198	2,211
Trade creditors	262	480
Amounts owed to group undertakings	16,675	24,847
Other tax and social security	6,406	7,489
Corporation tax	1,603	654
Other creditors	2,934	3,410
Accruals and deferred income	1,403	792
	29,773	40,191

None of the intercompany balances are interest bearing.

14. Creditors – amounts falling due after more than one year

	2003 £'000	2002 £'000
Obligations under finance leases and hire purchase contracts	387	331

Initial Security Limited

Notes to the financial statements for the period ended 28 December 2003 (continued)

15. Obligations under leases

	2003 £'000	2002 £'000
Amounts payable:		
- within 1 year	319	336
- within 2-5 years	405	348
Less: finance charges allocated to future periods	(45)	(46)
	679	638

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

	2003 Land and Buildings £'000	2002 Land and Buildings £'000
Operating leases which expire:		
- within 1 year	47	68
- within 2-5 years	96	105
- after 5 years	305	410
	448	583

16 Investments

	2003 £'000	2002 £'000
Investments	1,029	929

The investments balance at 28 December 2003 represented interests in the following companies, all of which are incorporated in Great Britain.

	% Held	Activity
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 Limited	100	Security services
Sigma Group Limited	100	Dormant
Guardrite plc	100	Dormant

Initial Security Limited

Notes to the financial statements for the period ended 28 December 2003 (continued)

17. Goodwill

	2003 £'000	2002 £'000
At start of period	10,341	2,439
Impairment during the period	(157)	-
Reclassified from investments	-	7,913
Deferred consideration not paid	-	(11)
At end of period	10,184	10,341

18. Share capital

	Authorised Number	Allotted and fully paid Number	£'000
At 29 December 2002 and 28 December 2003			
Ordinary shares of £1 each	20,000	19,000	19

19. Capital commitments

At 28 December 2003 there were no capital commitments (2002: £Nil).

20. Pension commitments

The company participates in group pension schemes operated by Rentokil Initial plc. The pension schemes are funded and of the defined benefit type and their assets are held in separate trustee administered funds. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Particulars of the valuation are contained in the financial statements of Rentokil Initial plc. The company is unable to identify its share of the underlying assets and liabilities of the group schemes on a consistent and reasonable basis and as such, contributions made to the schemes during the year have been accounted for as if they were defined contribution schemes in accordance with paragraph 9 of FRS17 "Retirement Benefits". The total pension cost for the company was £219,778 (2002: £276,000). Details concerning any surplus or deficit in the group schemes can be found in the consolidated financial statements of Rentokil Initial plc which are publicly available.

The company also participates in a defined contribution scheme. The pension cost charge for the period was £27,035 (2002: £3,656). Outstanding contributions at the balance sheet date were £874 (2002: £2,966).

Initial Security Limited

Notes to the financial statements for the period ended 28 December 2003 (continued)

21. 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.

22. 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.

23. Cashflow statement

A cashflow statement has not been provided as the company has taken advantage of the exemption contained in Financial Reporting Standard 1 (Revised) "Cashflow Statements" as consolidated financial statements in which the company is included are publicly available.