Capitol Security Services Limited

Report and financial statements for the year ended 31 March 2002

Registered No. 2654100

Capitol Security Services Limited

Report and financial statements for the year ended 31 March 2002

Capitol Security Services Limited

Company information

Registered office

St Florian House
Milton Road
Wokingham
Berkshire
RG40 1EN

Directors

R J Bradford
S Lawrie
I G Robinson
Southtown Limited

Company secretary

P T Osborne

Auditors

PricewaterhouseCoopers
1 Embankment Place
London
WC2N 6RH

Report of the directors for the year ended 31 March 2002

The directors present their report and the audited financial statements of the company for the year ended 31 March 2002.

Review of the business

The principal activity of the company is the provision of security services.

On 15 June 2001, the company acquired the security trade and assets of Commando Security Services Limited for an aggregate cash consideration of £379,000.

On 21 September 2001, the company acquired the entire issued share capital of Pentagon Security Services UK Limited for an aggregate consideration of £1,974,000, including deferred consideration of £800,000. Subsequent to the year end, in August 2002, the deferred consideration was amended to £650,000.

Both the level of business and year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

Results and dividends

The loss on ordinary activities after taxation amounted to £980,000 (2001: £1,420,000 profit). Interim dividends of £3,048,000 were paid during the year. The retained loss for the financial year amounted £4,028,000 (2001: £1,420,000 profit) which has been transferred from reserves. The directors do not recommend the payment of a final dividend.

Post balance sheet event

On 1 April 2002, as part of a group reorganisation, the company acquired the trade and assets of Guard Group Limited and Solo Security Services Limited, both subsidiary undertakings, at net book value.

Directors

The following have served as directors during the year:

R J Bradford	(appointed 2 May 2002)
S Lawrie	(appointed 24 September 2002)
I G Robinson	(appointed 6 September 2002)
Southtown Limited	
P Elliot	(resigned 16 September 2002)
C P Harvey	(resigned 30 November 2001)
S Jones	(resigned 2 May 2002)
P J Ryan	(resigned 16 September 2002)

Report of the directors
for the year ended 31 March 2002 (continued)

During the year under review no director had any beneficial interest in the share capital of the company.

Under Statutory Instrument No. 802 made under the authority of Section 324(3) of the Companies Act 1985, the directors' interests in the share capital of the ultimate parent undertaking need not be disclosed.

Employee involvement

The nature of the company's activities makes the employment of disabled persons particularly difficult. However, it is the company's policy, wherever practicable, to employ, train, develop and promote disabled persons and to find suitable employment within the company for persons who become disabled during their employment.

It is the company's policy to encourage the free exchange of information throughout all levels of management and staff. Regular meetings are held, designed to further this process.

Policy on payments to suppliers

The company's policy with regard to the payment of its suppliers is to:

- agree the terms of payment at the start of business with that supplier;
- ensure that the suppliers are made aware of the terms of payment; and
- pay in accordance with its contractual and legal obligations.

The company's average creditor payment period at 31 March 2002 was 15 days.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss for that year. In preparing those financial statements, 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, 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 which disclose with reasonable accuracy at any time the financial position of the company and to 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.

Report of the directors for the year ended 31 March 2002 (continued)

Auditors

PricewaterhouseCoopers continue in office as, in accordance with Section 386 of the Companies Act 1985, the company has made an elective resolution to dispense holding an annual general meeting.

By order of the board

I G Robinson
Director
30 September 2002

Independent auditors' report to the members of Capitol Security Services Limited

We have audited the financial statements on pages 6 to 18.

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 on page 3.

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.

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 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.

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 31 March 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
30 September 2002

Profit and loss account for the year ended 31 March 2002

	Notes	2002 Continuing £'000	2002 Acquisitions £'000	2002 Total £'000	2001 Total £'000
Turnover		27,944	628	28,572	38,300
Cost of sales		(23,380)	(545)	(23,925)	(30,914)
Gross profit		4,564	83	4,647	7,386
Administrative expenses		(5,352)	(113)	(5,465)	(5,361)
Reorganisation and restructuring costs	2	(651)	-	(651)	(40)
Operating (loss) profit	3	(1,439)	(30)	(1,469)	1,985
Dividends received from subsidiary undertakings				457	-
Provision against investment in subsidiary undertakings	12			(217)	-
Interest receivable and similar income	6			7	7
Interest payable and similar charges	7			(1)	-
(Loss) profit on ordinary activities before taxation				(1,223)	1,992
Tax on (loss) profit on ordinary activities	8			243	(572)
(Loss) profit on ordinary activities after taxation				(980)	1,420
Equity dividends	9			(3,048)	-
Retained (loss) profit for the financial year	17			(4,028)	1,420

No statement of recognised gains and losses is required as there are no recognised gains or losses other than the results detailed above.

There is no difference between the results reported above and the equivalent results calculated on an unmodified historical cost basis.

Balance sheet
as at 31 March 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	10	**4,331**	3,758
Tangible assets	11	**300**	578
Investments	12	**3,184**	1,856
		7,815	6,192
Current assets			
Debtors	13	**6,241**	6,295
Cash at bank and in hand		**696**	2,891
		6,937	9,186
Creditors: amounts falling due within one year	14	**(15,162)**	(11,760)
Net current liabilities		**(8,225)**	(2,574)
		(410)	3,618
Capital and reserves			
Called up share capital	16	**21**	21
Profit and loss account - (deficit)	17	**(431)**	3,597
Equity shareholder's (deficit) funds	18	**(410)**	3,618

The financial statements on pages 6 to 18 were approved by the board of directors on 30 September 2002 and were signed on its behalf by:

I G Robinson
Director

Notes to the financial statements for the year ended 31 March 2002

1 Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom, except for the requirements of legislation as explained in intangible fixed assets below, and on the basis of continuing financial support from group undertakings.

The company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it is included in the consolidated financial statements of Capitol Group (UK) plc.

Intangible fixed assets

Goodwill arising on acquisitions, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is stated at cost less amortisation.

Goodwill is capitalised and treated as an asset on the balance sheet. Goodwill that is regarded as having a limited estimated useful economic life is amortised through the profit and loss account by equal instalments over such useful economic life. Goodwill that is regarded as having an indefinite life is not amortised. The estimated useful economic life is regarded as indefinite where goodwill is capable of continued measurement and the durability of the acquired business can be demonstrated. In estimating the useful economic life of goodwill arising, account has been taken of the nature of the business acquired, the stability of the industry, the extent of continuing barriers to market entry and the expected future impact of competition. Where goodwill is not amortised an annual impairment review will be performed and any impairment will be charged to the profit and loss account in the period in which it arises. The impairment review involves a comparison of the book value of goodwill with its implied fair market value, by reference to present value techniques, comprising discounted cash flows, based on future revenue and margin projections and plans, with the discount rate based on a risk weighted average cost of capital.

The businesses' recent record has generally been one of consistent growth in both turnover and operating profit. The underlying markets have generally seen consistent growth over many years and the nature of the services offered by each business is likely to continue for a significant number of years. The directors believe that each business has a proven ability to at least maintain its market position over a long period and will adapt successfully to any foreseeable technological or customer-led changes, such that the goodwill will prove to be durable.

Amortising the goodwill over a finite period, as required by the Companies Act, would not give a true and fair view because the durability of the business is such that the directors consider that the value of the goodwill will not reduce over time. Accordingly, the goodwill is not amortised as permitted by FRS 10. Instead an annual impairment test is undertaken and any impairment that is identified will be charged to the profit and loss account. It is not possible to quantify the effect of the departure from the Companies Act, because no finite life for the goodwill can be identified.

Notes to the financial statements for the year ended 31 March 2002 (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided so as to write off the cost less the estimated residual value of each asset on a straight line basis over its estimated useful life, as follows:

Leasehold properties and improvements	Over length of lease
Fixtures, fittings and equipment	20 per cent to 33 per cent per annum
Motor vehicles	25 per cent per annum

Fixed asset investments

Fixed assets investments are stated at cost less any provision required for any impairment in value.

Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Deferred taxation

Deferred taxation is provided on all timing differences, subject to certain exceptions, where the transaction or events that give rise to an obligation to pay additional tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Deferred tax assets are recognised when it is considered more likely than not that they will be recovered in the future. Deferred tax is measured using rates of tax that have been enacted at the balance sheet date. This is a change in policy arising during the year, as a result of the introduction of FRS 19. The previous policy was to provide deferred taxation using the liability method to take account of all timing differences only to the extent that such differences would reasonably be expected to reverse in the foreseeable future without being replaced. There has been no material impact on the financial statements as a result of this change in policy.

Turnover

Turnover comprises the invoiced value of services provided and goods supplied, net of value added tax.

Pension contributions

Contributions payable to defined contribution pension schemes and to employees' pension schemes are charged to the profit and loss account in the year to which they relate.

Cash flow statement

In accordance with FRS 1 (Revised) the company has not prepared a statement of cash flows for the current year as it was a wholly owned subsidiary of Carlisle Holdings Limited, who publishes consolidated financial statements which include a consolidated cash flow statement.

Notes to the financial statements for the year ended 31 March 2002 (continued)

2 Reorganisation and restructuring costs

	2002	2001
	£'000	£'000
Continuing operations:		
Redundancy costs	358	-
Property costs	221	-
Abortive acquisition costs	72	1
	651	1
Acquisitions:		
Reorganisation costs	-	39
	651	40

3 Operating (loss) profit

	2002	2001
	£'000	£'000
Operating (loss) profit is stated after charging:		
Depreciation of tangible fixed assets	245	233
Operating lease rentals		
- land and buildings	387	240
- plant and equipment	491	431
Auditors' remuneration	48	48

4 Staff costs and numbers

Staff costs during the year were:

	2002	2001
	£'000	£'000
Wages and salaries	23,276	29,548
Social security costs	1,918	2,402
Other pension costs	129	83
	25,323	32,033

Notes to the financial statements for the year ended 31 March 2002 (continued)

4 Staff costs and numbers (continued)

The average number of employees during the year was:

	2002 Number	2001 Number
Operational	**2,157**	2,616
Management and administration	**95**	111
	2,252	2,727

5 Directors' emoluments

	2002 £'000	2001 £'000
Remuneration (including benefits in kind)	**274**	369
Compensation for loss of office	**45**	-
Pension contributions	**25**	32
	344	401

The emoluments of the highest paid director (excluding compensation for loss of office) were £78,000 (2001: £116,000), plus pension contributions towards a defined contribution pension scheme of £10,000 (2001: £15,000).

The number of directors for whom contributions were made towards defined contribution pension schemes was 4 (2001: 5).

6 Interest receivable and similar income

	2002 £'000	2001 £'000
Other interest receivable	**7**	7

7 Interest payable and similar charges

	2002 £'000	2001 £'000
Bank loans and overdrafts	**1**	-

Notes to the financial statements for the year ended 31 March 2002 (continued)

8 Tax on (loss) profit on ordinary activities

	2002	2001
	£'000	£'000
Group relief receivable in respect of current year	**(230)**	-
UK corporation tax at 30 per cent (2001: 30 per cent)	**-**	660
Adjustment in respect of prior years	**(663)**	(134)
Group relief payable in respect of prior years	**650**	46
	(243)	572

	2002	2001
	£'000	£'000
(Loss) profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	**(367)**	598
Effects of:		
Expenses not deductible for tax purposes	**180**	58
UK dividends received not subject to tax	**(137)**	-
Capital allowances for the year in excess of depreciation and other timing differences	**94**	4
Adjustment to tax charge in previous periods - net	**(13)**	(88)
	(243)	572

9 Equity dividends

During the year, the company paid interim dividends of £3,048,000 (2001: £nil).

10 Intangible fixed assets

	Goodwill
	£'000
Cost	
At 1 April 2001	3,758
Additions (note 21)	379
Transferred from fixed asset investments (note 12)	300
Adjustment in respect of prior year acquisitions	(106)
At 31 March 2002	**4,331**

Notes to the financial statements for the year ended 31 March 2002 (continued)

11 Tangible fixed assets

	Short leasehold land and buildings £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 2001	79	943	30	1,052
Additions at cost	16	116	1	133
Disposals	(43)	(446)	(21)	(510)
At 31 March 2002	52	613	10	675
Depreciation				
At 1 April 2001	16	446	12	474
Charge for the year	12	232	1	245
Disposals	(10)	(330)	(4)	(344)
At 31 March 2002	18	348	9	375
Net book values				
At 31 March 2002	**34**	**265**	**1**	**300**
At 31 March 2001	63	497	18	578

12 Fixed asset investments

	Interest in group undertakings £'000
At 1 April 2001	1,856
Additions	1,976
Transferred to intangible fixed assets (note 10)	(300)
Dividend received from subsidiary undertaking	(131)
	3,401
Provision against cost of investment	(217)
At 31 March 2002	**3,184**

On 21 September 2001, the company acquired the entire issued share capital of Pentagon Security Services UK Limited for an aggregate consideration of £1,974,000, including deferred consideration of £800,000, and during the year made other additions of £2,000. Subsequent to the year end, in August 2002, the deferred consideration was amended to £650,000.

Notes to the financial statements for the year ended 31 March 2002 (continued)

12 Fixed asset investments (continued)

The following were subsidiary undertakings at the end of the year:

Bourne Security Limited
Ecosse Northern Securities Limited
Guard Group Limited
Pentagon Security Services UK Limited
Solo Security Services Limited
Akita Security Limited (non-trading)
Retail Protection Services Limited (non-trading)

All subsidiary undertakings are incorporated and operating in Great Britain and registered in England and Wales. The company holds 100% of the issued share capital, in each case comprising ordinary shares of £1 each. The principal activity of each subsidiary, unless otherwise stated, is the provision of security services.

13 Debtors

	2002	2001
	£'000	£'000
Amounts falling due within one year		
Trade debtors	3,804	3,495
Amounts owed by group undertakings	1,461	851
Other debtors	-	136
Prepayments and accrued income	976	1,813
	6,241	6,295

14 Creditors: amounts falling due within one year

	2002	2001
	£'000	£'000
Trade creditors	97	200
Amounts owed to group undertakings	9,800	4,587
Corporation tax	153	806
Social security and other taxes	1,320	2,230
Other creditors	1,490	848
Accruals and deferred income	2,302	3,089
	15,162	11,760

Notes to the financial statements for the year ended 31 March 2002 (continued)

15 Deferred tax asset

	Provided		Unprovided	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Accelerated capital allowances	-	-	**113**	24
Other timing differences	-	-	**26**	-
	-	-	**139**	24

16 Called up share capital

	2002	2001
	£'000	£'000
Authorised		
100,000 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
21,100 ordinary shares of £1 each	**21**	21

17 Profit and loss account

	£'000
At 1 April 2001	3,597
Retained loss for the financial year	(4,028)
At 31 March 2002	**(431)**

18 Reconciliation of movements in equity shareholders' funds

	2002	2001
	£'000	£'000
(Loss) profit for the financial year	**(980)**	1,420
Dividends	**(3,048)**	-
Net movement in shareholders' funds	**(4,028)**	1,420
Shareholders' funds at beginning of year	**3,618**	2,198
Shareholders' (deficit) funds at end of year	**(410)**	3,618

Notes to the financial statements for the year ended 31 March 2002 (continued)

19 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:	2002	2001
	£'000	£'000
Land and buildings		
- expiring within one year	20	41
- expiring between two and five years	51	17
- expiring after five years	205	210
	276	268
Plant and equipment		
- expiring within one year	48	44
- expiring between two and five years	305	163
	353	207
	629	475

20 Contingencies

An unlimited composite banking guarantee exists between the company and certain subsidiary undertakings and various fellow group undertakings in respect of banking facilities provided to the group in the UK.

The company, together with certain subsidiary undertakings and various fellow group undertakings, has provided a UK guarantee for the financing obligations of Carlisle Finance (Iceland) ltd., a fellow group undertaking incorporated in Iceland. The guarantee provides a first priority lien on the share capital of each guarantor and on certain other property and assets, including receivables, of each guarantor.

At 31 March 2002, under the company's standard banking arrangements, certain bonds, guarantees and indemnities, in the ordinary course of business, have been issued by the banks on behalf of the company to the value of £30,000.

Notes to the financial statements for the year ended 31 March 2002 (continued)

21 Acquisitions

Commando Security Services

On 15 June 2001, the security trade and assets of Commando Security Services Limited were purchased for an aggregate cash consideration of £379,000, which has been accounted for as an acquisition.

The fair value of the assets purchased at the date of acquisition were as follows:

	Book value	Adjustments	Fair value
	£'000	£'000	£'000
Net assets acquired			
Tangible fixed assets	6	(6)	-
Goodwill arising (note 10)			379
Consideration			379
Consideration was satisfied by:			
Cash (including acquisition costs)			379

The book value of the assets and liabilities has been derived from the unaudited management accounts as at 30 June 2001 which has been taken as the accounting date of the acquisition.

In its last financial period to 30 September 2000, Commando recorded a profit after taxation of £21,000. For the period from 1 October 2000 to the date of acquisition by the company, Commando's unaudited management accounts show: turnover of £995,000, operating profit of £25,000, profit before taxation of £25,000, taxation of £nil and net profit of £25,000. There was no difference between net profit and total recognised gains for the period.

22 Post balance sheet event

On 1 April 2002, as part of a group reorganisation, the company acquired the trade and assets of Guard Group Limited and Solo Security Services Limited, both subsidiary undertakings, at net book value.

23 Related party transactions

The company has taken advantage of the exemption within Financial Reporting Standard 8 not to disclose transactions with other group companies.

Notes to the financial statements for the year ended 31 March 2002 (continued)

24 Ultimate parent undertaking

The company's immediate parent undertaking is Capitol Group plc.

As at 31 March 2002, the smallest group in which the company is consolidated was Capitol Group (UK) plc, a company incorporated in Great Britain and registered in England and Wales. Copies of the consolidated financial statements of Capitol Group (UK) plc can be obtained from its registered office at St Florian House, Milton Road, Wokingham, Berkshire RG40 1EN.

As at 31 March 2002, the company's ultimate parent undertaking was Carlisle Holdings Limited, a company registered in Belize. Lord Ashcroft beneficially owned and controlled 68.5 percent of Carlisle Holdings Limited. Copies of the consolidated financial statements of Carlisle Holdings Limited can be obtained from its registered office at 60 Market Square, Belize City, Belize, Central America.