

Initial Security Limited

Registered Number: 1013210

**Directors' Report and Financial Statements
For The Period Ended 30 December 2001**



Initial Security Limited

Company Information

Directors	D Stopford	- resigned 30 January 2001
	AA O'Neill	
	JE Preston	- resigned 8 July 2002
	CMN Ward	
	G Evans	- appointed 8 July 2002

Secretary	GT Brown
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Registered office	Felcourt East Grinstead West Sussex RH19 2JY
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Registered number	1013210
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Auditors	PricewaterhouseCoopers 10 Bricket Road St. Albans Herts. AL1 3JX
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Bankers	HSBC 69 Pall Mall London SW1Y 5EY
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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 30 December 2001. Comparative data presented relates to the 53 weeks ended 31 December 2000.

Profit and loss account

The profit for the period, after taxation, amounted to £1,850,000 (2000: £4,960,000). No interim dividend was paid during the year (2000: £7,118,000). The directors do not recommend the payment of a final dividend (2000: £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 financial statements.

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

	31 December 2000 Beneficial interest Numbers	30 December 2001 Beneficial interest Numbers
JE Preston	2,067	2,067
CMN Ward	31,157	21,825

Share options

	AA O'Neill Numbers	CMN Ward Numbers	JE Preston Numbers
At 1 January 2001	71,338	515,177	44,230
Granted during the period	33,617	155,763	14,051
Cancelled during the period	-	(4,845)	-
At 30 December 2001	104,955	666,095	58,281

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

2001 was a successful year for the company. The directors view the future of the company with confidence and expect 2002 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 30 December 2001, the ratio, expressed in days, between the amounts invoiced to the company by suppliers and the amounts owed to trade creditors was 26 days (2000: 28 days).

Initial Security Limited

Report of the Directors (continued)

Statement of Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 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; and
- prepare the financial statements 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 financial statements 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 and a resolution to confirm their reappointment will be proposed at the company's annual general meeting.

By order of the Board.



GT Brown
Company Secretary

Garland Road
East Grinstead
West Sussex
RH19 2DR

16th October 2002

Independent auditors' report to the members of Initial Security Limited

PricewaterhouseCoopers
10 Bricket Road
St Albans AL1 3JX
Telephone +44 (0) 1727 844155
Facsimile +44 (0) 1727 845039

We have audited the financial statements on pages 6 to 18, which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 9.

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 4.

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 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 required for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

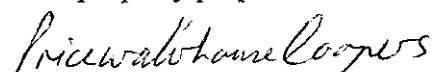
Basis of audit opinion

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 30 December 2001 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
28th October 2002

Initial Security Limited

Profit and loss account for the 52 weeks ended 30 December 2001

	Notes	2001 £'000	2000 £'000
Turnover	2	106,808	104,357
Cost of sales		(97,431)	(92,249)
Gross profit		9,377	12,108
Administrative expenses		(6,613)	(6,925)
Operating profit		2,764	5,183
(Loss)/Profit on disposal of tangible fixed assets		(45)	61
Income from investments in subsidiary undertakings	24	-	1,406
Profit on ordinary activities before interest and taxation		2,719	6,650
Other interest receivable and similar income	3	67	-
Interest payable and similar charges	3	(143)	(167)
Profit on ordinary activities before taxation	4	2,643	6,483
Tax on profit on ordinary activities	7	(793)	(1,523)
Profit on ordinary activities after taxation		1,850	4,960
Dividends paid		-	(7,118)
Retained profit/(loss) for the period	8	1,850	(2,158)

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.

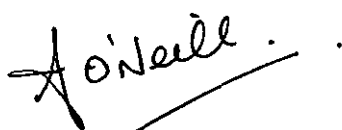
There is no difference between the profit on ordinary activities before taxation and the retained profit/(loss) for the period and its historical cost equivalent.

Initial Security Limited

Balance sheet as at 30 December 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Goodwill	17	2,439	-
Tangible assets	11	2,782	2,200
Investments	17	8,842	8,646
		14,063	10,846
Current assets			
Stocks	12	504	535
Debtors	13	34,267	42,527
		34,771	43,062
Creditors – amounts falling due within one year	14	(43,260)	(50,134)
Net current liabilities		(8,489)	(7,072)
Total assets less current liabilities		5,574	3,774
Creditors – amounts falling due after more than one year	15	(326)	(376)
Net assets		5,248	3,398
Capital and reserves			
Called up share capital	18	19	19
Share premium account		1	1
Profit and loss account	8	5,228	3,378
Total shareholders' funds	9	5,248	3,398

Approved by the Board on 28th October 2002.



AA O'Neill
Director

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001

1. Accounting policies

a) Basis of preparation

The financial statements are prepared in accordance with applicable accounting standards and under the historical cost convention. The following are the principal accounting policies, which have been applied by the company.

FRS18 has been adopted in the current period but this did not require any change in accounting policy.

b) 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.

c) 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.

d) Leasehold property

Leasehold land and buildings are stated at cost less depreciation; cost is amortised in equal 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.

e) 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

f) 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 30 December 2001 (continued)

1. Accounting policies (continued)

g) 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.

h) 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.

i) 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 charge 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.

j) 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".

k) 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 an impairment is deemed to occur.

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001 (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 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.

	2001 £'000	2000 £'000
Interest receivable	67	-
Interest payable		
- group companies	-	(11)
- bank overdrafts	(91)	(96)
- finance leases	(52)	(60)
	(143)	(167)

4. Operating profit

Is stated after charging:

	2001 £'000	2000 £'000
Depreciation of owned assets	626	668
Depreciation of assets held under finance leases	349	320
Operating lease rentals		
- plant and machinery	-	27
- other assets	632	772
Auditors' remuneration		
- audit fee	55	60
- other	17	21
Staff costs:		
Wages and salaries	96,260	85,703
Social security costs	7,469	7,064
Other pension costs	178	178
	103,907	92,945

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001 (continued)

5. Directors' remuneration

	2001 £'000	2000 £'000
Aggregate emoluments (in respect of qualifying services to the company)	224	294
Highest paid director (in respect of qualifying services to the company)		
- total amount of emoluments	122	163
- accrued pension benefits under the defined benefit scheme	15	14
The number of directors to whom retirement benefits are accruing under a defined benefit scheme are as follows	2	2

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

6. Employees

	2001 £'000	2000 £'000
The average number of employees during the period was:		
Operations	6,506	6,308
Administration	117	179
	6,623	6,487

7. Taxation

	2001 £'000	2000 £'000
Tax on profit for the period comprises:		
UK corporation tax at 30%	793	1,523

8. Profit and loss account

	£'000
At 31 December 2000	3,378
Retained profit for the period	1,850
At 30 December 2001	5,228

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001 (continued)

9. Reconciliation of movements in shareholders' funds

	2001	2000
	£'000	£'000
Profit for the period	1,850	4,960
Dividends paid	-	(7,118)
Net increase/(decrease) in shareholders' funds	1,850	(2,158)
Opening shareholder's funds	3,398	5,556
Closing shareholder's funds	5,248	3,398

10. Deferred tax

The company has not recorded the deferred tax asset of £162,000 at 30th December 2001 (2000: £265,000) relating to timing differences in respect of depreciation charges and capital allowances, as it is not expected to crystallise in the foreseeable future.

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001 (continued)

11. Tangible fixed assets

	Short leasehold property £'000	Vehicles, Furniture & fittings £'000	Plant £'000	Total £'000
Cost				
At 1 January 2001	347	4,170	416	4,933
Additions	220	1,366	154	1,740
Disposals	-	(677)	(2)	(679)
At 30 December 2001	567	4,859	568	5,994
Accumulated depreciation				
At 1 January 2001	140	2,336	257	2,733
Disposals	-	(494)	(2)	(496)
Charge for the period	41	862	72	975
At 30 December 2001	181	2,704	327	3,212
Net book amount				
At 30 December 2001	386	2,155	241	2,782
At 31 December 2000	207	1,834	159	2,200

The net book value of vehicles acquired under finance lease included in the above amounts is £557,000 (2000: £684,000). This is made up of cost £1,320,000 less aggregate depreciation of £763,000.

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001 (continued)

12. Stocks

	2001 £'000	2000 £'000
Finished goods	504	535

13. Debtors

	2001 £'000	2000 £'000
Trade debtors	20,991	18,895
Amounts owed by group undertakings	10,620	20,187
Other debtors	2,210	2,877
Prepayments and accrued income	446	568
	34,267	42,527

14. Creditors – amounts falling due within one year

	2001 £'000	2000 £'000
Obligations under finance leases and hire purchase contracts	302	352
Bank overdraft	5,781	8,980
Trade creditors	500	483
Amounts owed to group undertakings	24,364	29,146
Other tax and social security	6,564	5,728
Corporation tax	949	1,523
Other creditors	4,501	3,531
Accruals and deferred income	299	391
	43,260	50,134

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001 (continued)

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

	2001 £'000	2000 £'000
Obligations under finance leases and hire purchase contracts	326	376

16. Obligations under leases

	2001 £'000	2000 £'000
Amounts payable:		
- within 1 year	333	383
- within 2-5 years	343	409
Less: finance charges allocated to future periods	(48)	(64)
	628	728

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

	2001 Land and buildings £'000	2000 Land and buildings £'000
Operating lease which expire:		
- within 1 year	78	4
- within 2-5 years	200	251
- after 5 years	263	435
	541	690

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001 (continued)

17. Investments

	2001 £'000	2000 £'000
Investments	8,842	8,646

The investments balance at 31 December 2000 represented interests in the following companies.

	% 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	Security services

The increase in investments in 2001 of £196,000 represents interests in the following company.

	% Held	Activity
Guardrite plc	100	Security services

Subsequent to the acquisition of Guardrite Plc for £2,635,000, the trade and net assets of Guardrite were transferred to the company. In recognition of the fact that the trade of Guardrite has been transferred to Initial Security Limited, that element of the cost of investment in Guardrite in excess of the net book value of assets remaining in that company has been reclassified as goodwill (£2,439,000).

18. Share capital

	Authorised Number	Allotted and fully paid Number	£'000
At 31 December 2000 and 30 December 2001			
Ordinary shares of £1 each	20,000	19,000	19

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001 (continued)

19. Contingent liabilities

The company is party to a composite cross guarantee entered into by certain group companies where, at 30 December 2001, total bank borrowings were £18,701,000 (2000: £18,701,000) and hire purchase liabilities were £1,399,000 (2000: £1,399,000).

20. Capital commitments

At 30 December 2001 there were no capital commitments (2000: £Nil).

21. 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 £178,000 (2000: £178,000). 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.

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.

Initial Security Limited

Notes to the financial statements for the period ended 30 December 2001 (continued)

24. Income from investments in subsidiary undertakings

Income from investments in subsidiary undertakings £Nil (2000: £1,406,000).

25. 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.