

INITIAL CATERING SERVICES LIMITED  
(FORMERLY BET CATERING SERVICES LIMITED)  
REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 1997

REGISTERED NUMBER: 2505731



**INITIAL CATERING SERVICES LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**

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**INITIAL CATERING SERVICES LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**

**DIRECTORS' REPORT**

The directors submit their report and audited financial statements for the year ended 31 December 1997.

**BUSINESS AND FINANCIAL REVIEW**

The Company's principal activity continues to be the provision of catering services and the directors do not envisage any change in the activity of the Company during the next financial year.

**RESULTS AND DIVIDEND**

A summary of the results for the period is given in the profit and loss account on page 5. No dividend is proposed in respect of the financial year and £3,235,000 has been transferred to reserves (1996: £2,286,000 transferred from reserves).

**CHANGE OF COMPANY NAME**

On 10<sup>th</sup> March 1997 the name of the Company was changed from BET Catering Services Limited to Initial Catering Services Limited.

**CREDITORS PAYMENT POLICY**

It is Rentokil Initial's policy to settle the terms of payment with those with whom Rentokil Initial companies do business when agreeing the terms of a transaction, to ensure that the terms of payment are clear and to abide by the agreed terms. At the year end the balance owing to trade creditors represented 51 days of the total invoiced supplies for the year (1996: 55 days).

**POST BALANCE SHEET EVENTS**

There are no material post balance sheet events between the period end and the date the financial statements are signed.

**DIRECTORS**

The directors who served during the year were:-

Mr J.H.N. Gibson  
Mr J.K. Walker  
Mr P. Griffiths  
Mr I.J. Carruthers  
Mr S.J. Fretwell

**INITIAL CATERING SERVICES LIMITED**  
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**DIRECTORS' REPORT**  
(continued)

**DIRECTORS' INTERESTS**

None of the directors had any beneficial interest in the share capital of the Company.

The beneficial interest of the directors in the ordinary shares of Rentokil Initial Public Limited Company at 31 December 1996 and 31 December 1997 were:-

	<b><u>Ordinary</u></b> <b><u>Shares</u></b>		<b><u>Executive Option</u></b> <b><u>Scheme</u></b>		<b><u>Sharesave</u></b> <b><u>Scheme</u></b>	
	<b><u>31 Dec</u></b> <b><u>1997</u></b>	<b><u>31 Dec</u></b> <b><u>1996</u></b>	<b><u>31 Dec</u></b> <b><u>1997</u></b>	<b><u>31 Dec</u></b> <b><u>1996</u></b>	<b><u>31 Dec</u></b> <b><u>1997</u></b>	<b><u>31 Dec</u></b> <b><u>1996</u></b>
<b>Mr J.H.N. Gibson</b>	nil	nil	nil	nil	nil	nil
<b>Mr J.K. Walker</b>	nil	nil	18,000	nil	nil	nil
<b>Mr P. Griffiths</b>	27	27	20,000	nil	nil	nil
<b>Mr I.J. Carruthers</b>	nil	nil	nil	nil	nil	nil
<b>Mr S.J. Fretwell</b>	nil	nil	140,000	36,000	11,051	3,783

None of the directors exercised any options during the year.

Mr J.K. Walker was granted 18,000 options during the year.

Mr P. Griffiths was granted 20,000 options during the year.

Mr S.J. Fretwell was granted 68,000 options during the year. The balance of the movement in his executive options results from a share split during 1997.

**EMPLOYMENT POLICIES**

Initial Catering Services Limited makes its employees aware of the economic and financial factors affecting the Company via memorandums and management briefings. Managers enhance motivation and commitment of their workforce by providing opportunities for involvement and participation at a unit level.

The Company provides equal opportunities regardless of gender, marital status, ethnic origin or nationality. Wherever possible equal consideration is given to the employment of disabled persons.

In order to ensure the health and safety of employees, Initial Catering Services Limited maintains a policy of providing secure working conditions and appropriate training standards at all locations.

**INITIAL CATERING SERVICES LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**

**DIRECTORS' REPORT**  
**(continued)**

**STATEMENT OF 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 and of the profit or loss of the company for that period. 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;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**AUDITORS**

The auditors, Price Waterhouse, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

**BY ORDER OF THE BOARD**



**J.K. WALKER**  
**DIRECTOR**

**DATE:** 17.2.98

**INITIAL CATERING SERVICES LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**  
  
**AUDITORS' REPORT TO THE MEMBERS OF**  
**INITIAL CATERING SERVICES LIMITED**

We have audited the financial statements on pages 5 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 & 9.

**Respective responsibilities of directors and auditors**

As described on page 3 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1997 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*

Price Waterhouse  
Chartered Accountants  
and Registered Auditors  
Windsor

Date: 17 February 1998

**INITIAL CATERING SERVICES LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**

**PROFIT AND LOSS ACCOUNT FOR THE**  
**YEAR ENDED 31 DECEMBER 1997**

		<b><u>Year ended</u></b> <b><u>31.12.97</u></b> <b><u>£000</u></b>	<b><u>9 months to</u></b> <b><u>31.12.96</u></b> <b><u>£000</u></b>
	<b><u>Notes</u></b>		
Turnover	1b), 2	89,345	62,412
Cost of Sales	3	<u>(80,849)</u>	<u>(60,851)</u>
<b>Gross Profit</b>		8,496	1,561
Administrative Expenses	3	(4,469)	(2,891)
Distribution Costs		<u>(557)</u>	<u>(674)</u>
<b>Operating Profit/(Loss)</b>		3,470	(2,004)
Interest receivable	4	<u>177</u>	—
<b>Profit/(Loss) on ordinary activities before taxation</b>	5	3,647	(2,004)
Tax on profit/(loss) on ordinary activities	7	<u>(412)</u>	<u>(282)</u>
<b>Profit/(Loss) for the financial year/period</b>	16	<u><u>3,235</u></u>	<u><u>(2,286)</u></u>

All the Company's trading and results are in respect of continuing activities.

There are no recognised gains or losses other than those included in the profit and loss account above and, therefore, no separate statement of total recognised gains and losses has been presented.

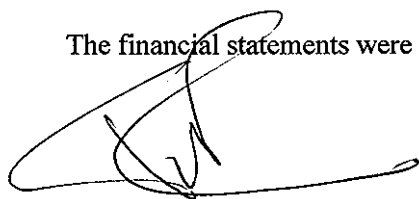
The notes on pages 8 to 18 form part of these financial statements.

**INITIAL CATERING SERVICES LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**

**BALANCE SHEET AS AT 31 DECEMBER 1997**

		<b><u>31.12.97</u></b>	<b><u>31.12.96</u></b>
		<b><u>£000</u></b>	<b><u>£000</u></b>
	<b><u>Notes</u></b>		
<b>Fixed Assets :</b>			
Tangible Assets	8	<u>1,464</u>	<u>1,652</u>
<b>Current Assets :</b>			
Stock	9	1,555	1,760
Debtors	10	11,554	11,339
Cash at bank and in hand		<u>5,436</u>	<u>3,344</u>
		18,545	16,443
<b>Current Liabilities :</b>			
Creditors :			
Amounts falling due within one year	11	<u>(14,682)</u>	<u>(16,094)</u>
<b>Net Current Assets</b>		<u>3,863</u>	<u>349</u>
<b>Total Assets Less Current Liabilities</b>		5,327	2,001
Creditors:			
Amounts falling due after more than one year	12	<u>(342)</u>	<u>(251)</u>
<b>Net Assets</b>		<u><u>4,985</u></u>	<u><u>1,750</u></u>
<b>Capital and Reserves :</b>			
Called up Share Capital	15	100	100
Profit and loss account	16	<u>4,885</u>	<u>1,650</u>
<b>Equity Shareholders' Funds</b>	17	<u><u>4,985</u></u>	<u><u>1,750</u></u>

The financial statements were approved by the Directors and signed on their behalf by:



**J.K. WALKER**  
**DIRECTOR**

**DATE:** 17.2.98

The notes on pages 8 to 18 form part of these financial statements.



**INITIAL CATERING SERVICES LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
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**CASH FLOW STATEMENT**  
**YEAR ENDED 31 DECEMBER 1997**

	<u>Notes</u>	<u>Year ended</u> <u>31.12.97</u> <u>£000</u>	<u>9 months to</u> <u>31.12.96</u> <u>£000</u>
Net cash inflow from operating activities	18	3,106	288
<b>Returns on investments and servicing of finance:</b>			
Interest received		191	18
Interest paid on finance leases		(27)	(18)
		<u>164</u>	<u>-</u>
<b>Taxation:</b>			
UK corporation tax paid		(921)	<u>-</u>
<b>Capital expenditure and financial investment:</b>			
Payments to acquire tangible fixed assets		(202)	(371)
Receipts from sales of fixed assets		39	53
		<u>(163)</u>	<u>(318)</u>
<b>Financing:</b>			
Repayment of principal under finance leases		<u>(94)</u>	<u>(66)</u>
<b>Increase/(Decrease) in cash</b>	19	<u><u>2,092</u></u>	<u><u>(96)</u></u>

The notes on pages 8 to 18 form part of these financial statements.

**INITIAL CATERING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1997**

**1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

- a) Basis of preparation of financial statements - The financial statements are prepared according to the historical cost convention.
- b) Turnover - Turnover represents amounts receivable for goods and services supplied to customers by the Company, excluding value added tax and net of trade discounts. Turnover includes amounts receivable for goods and management fees where the Company acts as agent.
- c) Fixed assets and depreciation - Fixed assets are depreciated on a straight line basis by reference to cost, the anticipated useful lives of the assets concerned, and residual value. The following rates have been used:

Motor vehicles	-	25% on cost
Plant and Machinery	-	20% on cost
Fixtures and Fittings	-	20% on cost

- d) Stocks - Stocks are valued at latest purchase prices, which are not materially different from the lower of cost and net realisable value.
- e) Pensions - The Company participates in group pension schemes operated by Rentokil Initial plc. Most of the pension schemes are of the defined benefit type and the assets are held in separate trustee administered independent funds. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution being determined by the actuary. In the intervening years, the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effect of variations from regular costs is spread over the expected remaining working lifetime of members of the scheme after making suitable allowances for further withdrawals. The latest actuarial assessment of the scheme was at 5 April 1996. Particulars of the valuation of the group schemes are contained in the financial statements of Rentokil Initial plc.
- f) Deferred taxation - The charge for corporation tax is based on the profit for the twelve months and takes into account taxation deferred because of differences between the treatment of certain items for taxation and accounting purposes. Provision is made for other timing differences to the extent that it is probable that a liability or asset will crystallise.

**INITIAL CATERING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1997**

**1. ACCOUNTING POLICIES (CONTINUED)**

- g) **Finance and Operating leases** - Operating leases are charged to the profit and loss account on a straight line basis irrespective of when the payments are due. Leasing agreements which transfer substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.
- h) **Group Accounts** - The company has not prepared consolidated accounts on the basis that it is exempt from having to do so under Section 228 of the Companies Act 1985 as it is a majority owned subsidiary of Rentokil Initial plc, a company registered in England and Wales. These financial statements present information about the company as an individual undertaking and not about its group.

**2. TURNOVER**

Turnover is attributable to catering services provided in the United Kingdom.

**3. EXCEPTIONAL ITEMS**

	<b><u>Year ended 31.12.97</u></b>	<b><u>9 Months to 31.12.96</u></b>
	<b>£000</b>	<b>£000</b>
The following items included within operating profit qualify as exceptional by virtue of their size:		
Included in cost of sales:		
Ill health retirement costs	-	(348)
Industrial relations costs	-	(388)
Cost of writing off irrecoverable debtors	-	(492)
Rephased labour cost	-	(112)
Stock revaluation	-	(221)
Adjustment to release of legal claim receipts	-	(905)
Included in administrative expenses:		
Legal fees incurred in the previous year	<u>-</u>	<u>(150)</u>

**INITIAL CATERING SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**

**4. INTEREST RECEIVABLE**

	<u>Year ended 31.12.97</u>	<u>9 Months to 31.12.96</u>
	£000	£000
Interest receivable	204	18
Finance lease charges	(27)	(18)
Interest receivable	<u>177</u>	<u>—</u>

**5. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION**

Profit/(Loss) on ordinary activities before taxation is stated after charging the following:-

	<u>Year ended 31.12.97</u>	<u>9 Months to 31.12.96</u>
	£000	£000
Operating lease payments:		
Hire of plant & machinery	11	23
Other operating leases	255	201
Depreciation - owned assets	510	355
- leased assets	94	59
Auditors' remuneration	48	47
Profit on sale of fixed assets	<u>17</u>	<u>6</u>

Non-audit fees paid to the auditors in the year amounted to £23,000 (1996: £2,000).

**6. DIRECTORS AND EMPLOYEES**

The average number of persons (including directors) employed by the Company during the period was:-

	<u>Year ended 31.12.97</u>	<u>9 Months to 31.12.96</u>
	Number	Number
By activity:		
Catering	11,948	11,912
Administration	23	53
	<u>11,971</u>	<u>11,965</u>

**INITIAL CATERING SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**

**6. DIRECTORS AND EMPLOYEES (CONTINUED)**

The aggregate payroll of these persons was as follows:

	<u>Year ended 31.12.97</u>	<u>9 Months to 31.12.96</u>
	£000	£000
Wages and salaries	41,495	30,354
Social security costs	1,402	912
Other pension costs	632	352
	<u>43,529</u>	<u>31,618</u>

Directors' emoluments:

	<u>Year ended 31.12.97</u>	<u>9 Months to 31.12.96</u>
	£000	£000
Aggregate emoluments	101	83
Company contributions paid to money purchase pension scheme	1	4
	<u>102</u>	<u>87</u>

Retirement benefits are accruing for one director (1996: one) under both a money purchase and a defined benefit pension scheme.

**7. TAXATION**

The taxation charge based on the profit for the year comprises:

	<u>Year ended 31.12.97</u>	<u>9 Months to 31.12.96</u>
	£000	£000
UK corporation tax at 31.5% (1996: 33%)		
- current period	(746)	(282)
- prior period	334	-
	<u>(412)</u>	<u>(282)</u>

**INITIAL CATERING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1997**

**8. TANGIBLE FIXED ASSETS**

	<b><u>Motor Vehicles</u></b>	<b><u>Plant &amp; Machinery</u></b>	<b><u>Fixtures &amp; Fittings</u></b>	<b><u>Total</u></b>
	<b><u>£000</u></b>	<b><u>£000</u></b>	<b><u>£000</u></b>	<b><u>£000</u></b>
<b><u>Cost</u></b>				
At 31 December 1996	893	1,570	290	2,753
Additions	236	191	11	438
Disposals	(108)	(14)	(3)	(125)
	—	—	—	—
At 31 December 1997	<u>1,021</u>	<u>1,747</u>	<u>298</u>	<u>3,066</u>
<b><u>Depreciation</u></b>				
At 31 December 1996	326	644	131	1,101
Charge for the period	202	345	57	604
Disposals	(91)	(10)	(2)	(103)
	—	—	—	—
At 31 December 1997	<u>437</u>	<u>979</u>	<u>186</u>	<u>1,602</u>
<b><u>Net Book Value</u></b>				
At 31 December 1997	<u>584</u>	<u>768</u>	<u>112</u>	<u>1,464</u>
At 31 December 1996	<u>567</u>	<u>926</u>	<u>159</u>	<u>1,652</u>

The net book value of tangible fixed assets includes an amount of £492,907 (1996: £351,801) in respect of assets held under finance leases.

**INITIAL CATERING SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1997**

**9. STOCK**

	<u>31.12.97</u>	<u>31.12.96</u>
	<u>£000</u>	<u>£000</u>
Raw materials and consumables	1,472	1,685
Garments in use	83	41
Work in progress	<u>-</u>	<u>34</u>
	<u>1,555</u>	<u>1,760</u>

**10. DEBTORS**

Amounts falling due within one year :

	<u>31.12.97</u>	<u>31.12.96</u>
	<u>£000</u>	<u>£000</u>
Trade debtors	8,118	8,169
Amounts owed by group companies	532	248
Other debtors	1,924	1,822
Prepayments and accrued income	980	1,100
	<u>11,554</u>	<u>11,339</u>

**11. CREDITORS**

Amounts falling due within one year:

	<u>31.12.97</u>	<u>31.12.96</u>
	<u>£000</u>	<u>£000</u>
Trade creditors	6,104	6,371
Amounts owed to group companies	1,056	701
Corporation tax	746	1,255
Other taxation and social security	2,759	3,302
Accruals	3,866	4,365
Obligations under finance leases	151	100
	<u>14,682</u>	<u>16,094</u>

**INITIAL CATERING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1997**

**12. CREDITORS**

Amounts falling due after more than one year:

	<u>31.12.97</u>	<u>31.12.96</u>
	<u>£000</u>	<u>£000</u>
Obligations under finance leases	<u>342</u>	<u>251</u>

The net finance lease obligations to which the Company is committed are:

	<u>31.12.97</u>	<u>31.12.96</u>
	<u>£000</u>	<u>£000</u>
Repayable:		
In one year or less	151	100
Between one and five years	<u>342</u>	<u>251</u>
	<u>493</u>	<u>351</u>

**13. OPERATING LEASES**

At 31 December 1997 the Company had annual commitments under non-cancellable operating leases as follows:

	<u>31.12.97</u>	<u>31.12.96</u>	<u>31.12.97</u>	<u>31.12.96</u>
	<u>Land &amp;</u>	<u>Land &amp;</u>	<u>Other</u>	<u>Other</u>
	<u>Buildings</u>	<u>Buildings</u>		
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Leases expiring:				
Within one year	49	6	7	6
Between two and five years	<u>201</u>	<u>234</u>	<u>2</u>	<u>7</u>
	<u>250</u>	<u>240</u>	<u>9</u>	<u>13</u>

**14. DEFERRED TAXATION**

	<u>Amount</u>	<u>Total Potential</u>
	<u>Provided</u>	<u>Asset</u>
	<u>31.12.97</u>	<u>31.12.96</u>
	<u>£000</u>	<u>£000</u>
Tax effect of timing differences :		
Excess of depreciation over capital allowances	-	28
Other	-	(20)
	<u>-</u>	<u>166</u>
	<u>-</u>	<u>194</u>
	<u>-</u>	<u>928</u>



**INITIAL CATERING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1997**

**15. SHARE CAPITAL**

	<u>31.12.97</u> £000	<u>31.12.96</u> £000
<b><u>Authorised</u></b>		
75,000 "B" Ordinary Shares of £1 each	75	75
25,000 "A" Ordinary Shares of £1 each	<u>25</u>	<u>25</u>
	<u>100</u>	<u>100</u>
<b><u>Allotted called up and fully paid:</u></b>		
75,000 "B" Ordinary Shares of £1 each	75	75
25,000 "A" Ordinary Shares of £1 each	<u>25</u>	<u>25</u>
	<u>100</u>	<u>100</u>

"A" and "B" ordinary shares rank equally in respect of dividend rights, voting rights and priority on winding up.

The number of shares held by the immediate parent undertaking BET Developments Limited is 75,000 "B" ordinary shares.

**16. PROFIT AND LOSS ACCOUNT**

	£000
At 31 December 1996	1,650
Profit for the financial year	<u>3,235</u>
At 31 December 1997	<u>4,885</u>

**17. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

	<u>31.12.97</u> £000	<u>31.12.96</u> £000
Profit/(Loss) for the financial year/period	3,235	(2,286)
Opening equity shareholders' funds	<u>1,750</u>	<u>4,036</u>
Closing equity shareholders' funds	<u>4,985</u>	<u>1,750</u>

**INITIAL CATERING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1997**

**18. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	<u>12 Months to 31.12.97</u>	<u>9 Months to 31.12.96</u>
	<u>£000</u>	<u>£000</u>
Operating profit/(loss)	3,470	(2,004)
Depreciation	604	414
Profit on disposal of tangible fixed assets	(17)	(6)
Decrease in stocks	205	131
(Increase)/Decrease in debtors	(202)	967
(Decrease)/Increase in creditors	(954)	786
Net cash inflow from operating activities	<u>3,106</u>	<u>288</u>

**19. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

	<u>31.12.97</u>	<u>31.12.96</u>
	<u>£000</u>	<u>£000</u>
Increase/(decrease) in cash in the period	2,092	(96)
Cash flow from movement in lease financing	<u>94</u>	<u>66</u>
Change in net funds resulting from cash flows	2,186	(30)
New finance leases	(236)	(163)
Movement in net funds in the period	1,950	(193)
Net funds at 1 January 1997	<u>2,993</u>	<u>3,186</u>
Net funds at 31 December 1997	<u>4,943</u>	<u>2,993</u>

**20. ANALYSIS OF CHANGES IN NET FUNDS**

	<u>31.12.96</u>	<u>Cash</u>	<u>Other non-cash</u>	<u>31.12.97</u>
	<u>£000</u>	<u>Flow</u>	<u>movements</u>	<u>£000</u>
		<u>£000</u>	<u>£000</u>	
Cash	3,344	2,092	-	5,436
Finance leases	(351)	94	(236)	(493)
	<u>2,993</u>	<u>2,186</u>	<u>(236)</u>	<u>4,943</u>

**INITIAL CATERING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1997**

**21. SUBSIDIARY UNDERTAKING**

The Company's subsidiary, BET Catering Limited, which is 100% owned is registered in England and Wales. The principal activity of BET Catering Limited is the provision of administrative and other services.

In the opinion of the directors, the value of the Company's interest in the subsidiary is not less than the £100 of share capital disclosed in the BET Catering Limited financial statements. The amount, due to its size, is not stated on the face of the balance sheet of the Company.

Financial information in respect of BET Catering Limited at 31 December 1997 is as follows:

	<b>£000</b>
Capital and reserves	449
Profit for the year	<u>206</u>

**22. CAPITAL COMMITMENTS**

As at 31 December 1997 there were no capital commitments.

**23. CONTINGENT LIABILITIES**

	<b><u>31.12.97</u></b>	<b><u>31.12.96</u></b>
	<b>£000</b>	<b>£000</b>
Amount of bonds, guarantees and indemnities for contract performance	<u>694</u>	<u>550</u>

**24. RELATED PARTY TRANSACTIONS**

The Company provides catering services for a fellow subsidiary undertaking, Initial Healthcare Services Limited. The amount credited in respect of the year was £860,092 (9 months ended 31.12.96: £1,614,341). The amount due from the related party as at 31 December 1997 was £91,696 (31.12.96: £172,424).

The Company receives payroll services from a fellow subsidiary undertaking, Initial Contract Services Limited. The amount charged in respect of the year was £140,354 (9 months ended 31.12.96: £134,351). The amount due to the related party as at 31 December 1997 was £10,360 (31.12.96: £nil).

The Company receives insurance services from its ultimate parent undertaking, Rentokil Initial plc. The amount charged in respect of the year was £609,658 (9 months ended 31.12.96: £487,031). The amount due to the related party as at 31 December 1997 was £nil (31.12.96: £nil).

**INITIAL CATERING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 1997**

**24. RELATED PARTY TRANSACTIONS (CONTINUED)**

The Company receives administration and other services from its subsidiary undertaking, BET Catering Limited. The amount charged in respect of the year was £2,369,387 (9 months ended 31.12.96: £1,665,107). The amount due to the related party as at 31 December 1997 was £1,019,107 (31.12.96: £668,623).

**25. ULTIMATE PARENT UNDERTAKING**

The Company's immediate parent undertaking is BET Developments Limited. The Company's ultimate parent undertaking is Rentokil Initial plc, a company registered in England and Wales and copies of their financial statements may be obtained from:- The Secretary, Rentokil Initial plc, Felcourt, East Grinstead, West Sussex RH19 2JY.