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Registered no: 2987170

Sodexho Gardner Merchant Alliance Limited
Annual report
for the year ended 31 August 1998



Sodexho Gardner Merchant Alliance Limited

Annual report for the year ended 31 August 1998

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Sodexho Gardner Merchant Alliance Limited

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Directors and advisers

Directors

P Bellon

B Carton

R S Herbert-Jones

D Robin

Bankers

Société Générale
Exchange House
Primrose Street
London
EC2

Secretary and registered office

N A Mead
Kenley House
Kenley Lane
Kenley
Surrey
CR8 5ED

Registered Auditors

PricewaterhouseCoopers
Abacus Court
6 Minshull Street
Manchester
M1 3ED

Directors' report for the year ended 31 August 1998

The directors present their report and the audited financial statements for the year ended 31 August 1998.

Principal activities and review of the business

The principal activity of the company is that of a holding company and it is a subsidiary of Sodexho Alliance SA, a company incorporated in France. Its principal asset is the whole of the issued share capital of Gardner Merchant Services Group Limited a company engaged, with its subsidiaries, in the provision of food and management services.

On 31 October 1997, the company acquired the entire share capital of Marriott Management Services (UK) Limited, a holding company of a group engaged in food and management services.

On 13 May 1998, the company subscribed for the entire NKR10,000 share capital of Kelvin Norge AS, a company that was incorporated on the same date. The company was set up to develop sales in the Scandinavian North Sea area principally of catering and other services to clients in the oil production industry.

Results and dividends

The directors do not recommend the payment of any ordinary dividends in respect of the year ended 31 August 1998, but a preference dividend of £1,226,000 has been accrued. The retained profit for the year, amounting to £13,436,000 (1997: loss £327,000) has been transferred to reserves.

Directors

The directors of the company at the date of signing these financial statements, all of whom have been in office throughout the year, are listed on page 1.

There were no contracts of significance subsisting during or at the end of the financial year in which a director of the company was materially interested.

Directors' interests in shares of the company

None of the directors had any interests in the share capital of the company during the year and no disclosure is required of any interests in the share capital of the ultimate holding company, Sodexho Alliance SA, by virtue of that company not being incorporated in Great Britain and in accordance with the exceptions to the Companies Act 1985 contained in Statutory Instrument 802 of 1985.

Sodexho Gardner Merchant Alliance Limited

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Share capital

On 31 December 1997, the company issued 30,700,000 redeemable preference shares of £1 to finance the acquisition of Marriott Management Services (UK) Limited.

Year 2000 and Euro

A Year 2000 and Euro strategy has been established for the Sodexho Gardner Merchant group. Details are contained in the directors' report within the financial statements of Gardner Merchant Limited.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year.

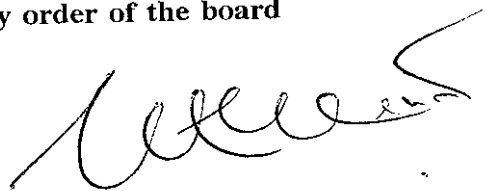
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 August 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

Following the merger of Coopers & Lybrand and Price Waterhouse on 1 July 1998, Price Waterhouse resigned and the directors appointed the merged firm of PricewaterhouseCoopers as auditors. A resolution proposing that PricewaterhouseCoopers be reappointed as auditors will be put to the members at the next Annual General Meeting.

By order of the board



N A Mead
Company secretary
3 December 1998

Report of the auditors to the members of Sodexho Gardner Merchant Alliance Limited

We have audited the financial statements on pages 5 to 12, which have been prepared under the historical cost convention and the accounting policies set out on page 7.

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.

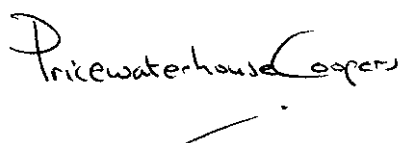
Basis of opinion

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 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 August 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Manchester
3 December 1998

**Profit and loss account
for the year ended 31 August 1998**

	Notes	1998 £'000	1997 £'000
Administrative expenses		(6)	(11)
Income from interests in subsidiary undertaking	5	36,288	22,094
Interest receivable	6	693	548
Operating profit	3	36,975	22,631
Interest payable and similar charges	7	(22,313)	(22,958)
Profit/(loss) on ordinary activities before taxation		14,662	(327)
Tax on profit/(loss) on ordinary activities	4	-	-
Profit/(loss) on ordinary activities after taxation		14,662	(327)
Preference dividend		(1,226)	-
Profit/(loss) for the financial year	14	13,436	(327)

All the activities in the year and comparative period were continuing.

There were no gains or losses other than those shown in the profit and loss account.

Sodexho Gardner Merchant Alliance Limited

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Balance sheet at 31 August 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Investments	8	<u>607,814</u>	<u>576,981</u>
Current assets			
Debtors	9	3,098	1
Tied cash deposit	10	5,760	7,235
Cash at bank and in hand		65	3,045
		<u>8,923</u>	<u>10,281</u>
Creditors: amounts falling due within one year	11	<u>(58,200)</u>	<u>(45,611)</u>
Net current liabilities		<u>(49,277)</u>	<u>(35,330)</u>
Total assets less net current liabilities		<u>558,537</u>	<u>541,651</u>
Creditors: amounts falling due after more than one year	12	<u>(206,000)</u>	<u>(233,250)</u>
		<u>352,537</u>	<u>308,401</u>
Capital and reserves			
Called up share capital	13	343,500	312,800
Profit and loss account	14	9,037	(4,399)
		<u>320,611</u>	<u>308,401</u>
Equity shareholders' funds		31,926	-
Non-equity shareholders' funds		<u>352,537</u>	<u>308,401</u>
Total shareholders' funds	15	<u>352,537</u>	<u>308,401</u>

The financial statements on pages 5 to 12 were approved by the board of directors on 3 December 1998 and were signed on its behalf by:

R S Herbert-Jones

R S Herbert-Jones
Director

**Notes to the financial statements
for the year ended 31 August 1998**

1 Principal 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.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Intermediate parent undertaking

The financial statements contain information about Sodexho Gardner Merchant Alliance Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements, as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Sodexho Alliance SA, a company registered in France.

Cash flow statement

The company has taken advantage of the exemption under FRS 1 (revised) and not published a cash flow statement. The cash flows of the group are included in the consolidated cash flow statement of the ultimate parent undertaking.

Finance costs

Interest costs are accrued for in accordance with amounts payable to the lenders on the reducing balances outstanding.

Deferred taxation

Provision is made, using the liability method, for deferred taxation arising from timing differences between profits as computed for taxation purposes and profits as stated in the financial statements, except to the extent that the liability is not expected to crystallise in the foreseeable future.

2 Directors' emoluments

No director received any remuneration in respect of his service to the company during the year. Directors' remuneration is borne by the parent company.

3 Profit/(loss) on ordinary activities before taxation

	1998 £	1997 £
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Auditors' remuneration	4,000	4,000
	<u>4,000</u>	<u>4,000</u>

4 Tax on profit/(loss) on ordinary activities

There is no corporation tax credit as the company's taxable losses will be surrendered to other group companies for no consideration.

5 Income from interests in subsidiary undertaking

	1998 £'000	1997 £'000
Dividend from Gardner Merchant Services Group Limited	36,288	22,094
	<u>36,288</u>	<u>22,094</u>

6 Interest receivable

	1998 £'000	1997 £'000
Inter-group interest on loans repayable within five years, not by instalments	184	-
Interest receivable on bank deposits	509	548
	<u>693</u>	<u>548</u>

7 Interest payable and similar charges

	1998 £'000	1997 £'000
Interest payable on:		
Loan notes	706	1,045
Inter-group interest and similar charges on loans repayable within five years, by instalments	21,607	21,913
	<u>22,313</u>	<u>22,958</u>

8 Fixed asset investments

	1998 £'000	1997 £'000
Cost of investments in subsidiary undertakings		
Opening balance	576,981	557,778
Additions	30,833	19,203
	<u>607,814</u>	<u>576,981</u>

In the opinion of the directors, the value of the investments is not less than the book amount shown above.

Sodexo Gardner Merchant Alliance Limited

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The additions during the year were as follows:

Company acquired	Date acquired	Consideration cash	Expenses	Company acquired from	% of share capital acquired
		£'000	£'000		
Marriott Management Services (UK) Limited	31 October 1997	30,673	152	Marriott Management Services Corp	100%
Kelvin Norge AS	13 May 1998	8	-	Newly incorporated	100%
Total		30,681	152		
Total additions			30,833		

Interests in group undertakings

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of the group.

The company's principal subsidiary undertakings are as follows:

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held either directly or indirectly %
Subsidiary undertakings			
Gardner Merchant Services Group Limited	England and Wales	Ordinary £1 shares	100
Tillery Valley Foods Limited	England and Wales	Ordinary £1 shares	100
		Redeemable ordinary £1 shares	100
		Preference £1 shares	100
Gardner Merchant Management Services (UK) Limited	England and Wales	Ordinary £1 shares	100
Kelvin Norge AS	Norway	Ordinary NKR 100	100
Kelvin Support Services Limited	Scotland	Ordinary £1 shares	100

9 Debtors

	1998 £'000	1997 £'000
Amount owed by subsidiary undertaking	3,085	-
VAT recoverable	13	1
	<u>3,098</u>	<u>1</u>

10 Tied cash deposit

	1998 £'000	1997 £'000
Amount deposited with bank pursuant to a deed of deposit and security in respect of the GMSG loan notes creditor (see note 11)	5,760	7,235

11 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
GMSG loan notes (see note 11)	5,760	7,235
Tillery Valley loan notes and deferred consideration (see note 11)	2,750	15,208
Amount owed to subsidiary undertaking	14,024	1,480
Loan from parent undertaking (see note 12)	24,500	14,000
Other amounts owed to parent undertaking	10,978	7,337
Taxation	46	51
Accruals	142	300
	<u>58,200</u>	<u>45,611</u>

The GMSG loan notes were issued under an instrument dated 1 February 1995 in part consideration for the acquisition of Gardner Merchant Services Group Limited. The rate of interest payable is LIBOR less one half of one percent. The notes are redeemable upon notice from the noteholders between 28 February 1996 and 28 February 2005.

The Tillery Valley loan notes were issued under an instrument dated 6 November 1996 in part consideration of the acquisition of Tillery Valley Foods Limited. At 31 August 1998, loan notes outstanding amounted to £1,800,000 which fall due within one year.

12 Creditors : amounts falling due after more than one year

	1998 £'000	1997 £'000
Tillery Valley loan notes and deferred consideration (see note 11)	-	2,750
Loan from parent undertaking	206,000	230,500
	<u>206,000</u>	<u>233,250</u>
Repayable as follows:		
Between one and two years	33,000	27,250
Between two and five years	173,000	124,000
After more than five years	-	82,000
	<u>206,000</u>	<u>233,250</u>

The company has entered into a swap arrangement with its bankers to manage the currency exposure associated with both principal and interest on the above loan, which is denominated in French Francs, whereby the loan agreement French Franc rate of 6% has been exchanged for a sterling swap rate of 8.88%.

13 Called up share capital

	1998 £'000	1997 £'000
Authorised		
312,800,000 ordinary shares of £1 each	312,800	312,800
30,700,000 redeemable preference shares of £1 each	30,700	-
	<u>343,500</u>	<u>312,800</u>
Allotted, called up and fully paid		
312,800,000 ordinary shares of £1 each	312,800	312,800
30,700,000 redeemable preference shares of £1 each	30,700	-
	<u>343,500</u>	<u>312,800</u>

The redeemable preference shares were issued on 31 December 1997 and are redeemable at par on 31 October 2003.

14 Profit and loss account

	£'000
Retained loss at 1 September 1997	(4,399)
Retained profit for the year	13,436
Retained profit at 31 August 1998	<u>9,037</u>

15 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit/(loss) for the financial year	14,662	(327)
Preference dividends	(1,226)	-
Preference shares issued	30,700	-
Opening shareholders' funds	308,401	308,728
Closing shareholders' funds	<u>352,537</u>	<u>308,401</u>

16 Group banking security and guarantees

The company's shares in Gardner Merchant Services Group Limited have been pledged as security in respect of the group's borrowing facility with its principal bankers.

In addition, the company has guaranteed the obligations of its subsidiaries under the group's banking arrangements.

17 Related party disclosures

As a wholly owned subsidiary undertaking, the company has taken advantage of the exemption available under FRS8 not to disclose details of transactions with other members of the Sodexo Alliance SA Group.

18 Ultimate parent company and ultimate controlling party

In the opinion of the directors the company's ultimate controlling party is the ultimate parent company, Sodexo Alliance SA, a company incorporated in France. Copies of that company's consolidated financial statements may be obtained from The Secretary, Sodexo Alliance SA, 3 Avenue Newton, 78180 Montigny-le-Bretonneux, France.