

Company Registration No. 2114954

**Deloitte
& Touche**



00560981

**COMPASS CONTRACT SERVICES (UK)
LIMITED**

Report and Financial Statements

30 September 2001



**Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN**

REPORT AND FINANCIAL STATEMENTS 2001

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REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

T H Briggs
F H Mackay
A P Lynch
M J Burton
D A Davenport (resigned 10 July 2002)
N J Dunlop
M J Oldfield
D G Mortimer (appointed 16 March 2001)

SECRETARY

T C Mason

REGISTERED OFFICE

Parklands Court
24 Parklands
Birmingham Great Park
Rubery
Birmingham
B45 9PZ

BANKERS

National Westminster Bank PLC
817 Bristol Road South
Birmingham
B31 2NQ

SOLICITORS

Hammond Suddards Edge
Rutland House
148 Edmund Street
Birmingham
B3 2JR

AUDITORS

Deloitte & Touche
Chartered Accountants
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2001.

ACTIVITIES

The principal activity of the company continues to be the provision of catering and related services. The company's trade is carried on in the name of its agent which is Compass Services (UK) Limited.

REVIEW OF DEVELOPMENTS

The results of the company are set out on page 6. The directors are satisfied with the result for the year and consider the future prospects of the company to be satisfactory. Readers are referred to note 25 for details of changes of parent companies since the previous annual report.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year (2000 - £Nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year ended 30 September 2001 were as shown on page 1.

The directors had no interest in the shares of the company or any other group company other than Compass Group PLC.

F H Mackay and A P Lynch are directors of Compass Group PLC, the ultimate parent, and their interests in the shares and shares options of Compass Group PLC are shown in that company's financial statements. All the other directors are also directors of the immediate parent company, Compass Group UK and Ireland Limited, and their interest in the shares and share options of Compass Group PLC are shown in that company's financial statements.

EMPLOYEES' INVOLVEMENT

The company is committed to the development of employee consultation thus increasing involvement in the company's operations.

Extensive use is made of briefing meetings, house magazines and notice boards.

The company's policy is to give full and fair consideration to the recruitment of disabled persons. Where disabled persons are employed, their training, including retraining for alternative work of employees who become disabled, and development for promotion is encouraged and assisted. Expert advice is taken on the needs of disabled employees and special equipment is provided where appropriate.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The company made no political contributions during the year. Donations to UK charities amounted to £13,650 (2000 - £13,648).

PAYMENTS TO SUPPLIERS

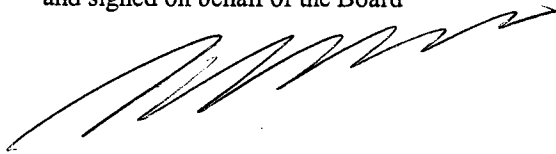
The company's policy is normally to pay all suppliers according to agreed terms of business. These terms are agreed with suppliers upon entering into binding contracts and the company's policy is to adhere to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts. The company on average pays its suppliers within 40 days (2000 - 44 days) of the date of invoice.

DIRECTORS' REPORT

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to be 'T Mason', written in a cursive style.

T Mason
Secretary

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 as at the end of the financial year and of the profit or loss of the company 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
- state whether applicable accounting standards have been followed
- 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.

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& Touche**

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMPASS CONTRACT SERVICES (UK) LIMITED

We have audited the financial statements of Compass Contract Services (UK) Limited for the year ended 30 September 2001 which comprise the profit and loss account, the balance sheet and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 as at 30 September 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

30 July 2002

Chartered Accountants and Registered Auditors

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2001

	Note	Before exceptional items £000	Exceptional items £000	2001 Total £000	2000 £000
TURNOVER	2	674,710	-	674,710	562,212
Operating costs		<u>(684,675)</u>	<u>(96,021)</u>	<u>(780,696)</u>	<u>(577,480)</u>
OPERATING LOSS	4, 5	<u>(9,965)</u>	<u>(96,021)</u>	(105,986)	(15,268)
Interest payable and similar charges	6			<u>(27,880)</u>	<u>(12,948)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION				(133,866)	(28,216)
Tax on loss on ordinary activities	7			<u>32,136</u>	<u>7,482</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION, BEING LOSS FOR THE FINANCIAL YEAR	19			<u>(101,730)</u>	<u>(20,734)</u>

All activities derive from continuing operations.

There are no recognised gains or losses other than the losses for the current and preceding financial years. Accordingly no statement of total recognised gains or losses is given.

COMPASS CONTRACT SERVICES (UK) LIMITED

**Deloitte
& Touche**

BALANCE SHEET 30 September 2001

	Note	2001 £000	2000 £000
FIXED ASSETS			
Intangible assets	8	2,201,392	-
Tangible assets	9	185,107	62,244
Investments	10	16,875	16,875
		<u>2,403,374</u>	<u>79,119</u>
CURRENT ASSETS			
Stocks	11	28,677	13,429
Debtors	12	1,350,460	126,089
Cash at bank and in hand		123,217	28,849
		<u>1,502,354</u>	<u>168,367</u>
CREDITORS: amounts falling due within one year	13	<u>(1,095,841)</u>	<u>(220,443)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>406,513</u>	<u>(52,076)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,809,887	27,043
CREDITORS: amounts falling due after more than one year	14	(2,067,836)	(175,086)
PROVISIONS FOR LIABILITIES AND CHARGES	16	<u>(30,319)</u>	<u>-</u>
NET ASSETS/(LIABILITIES)		<u>711,732</u>	<u>(148,043)</u>
CAPITAL AND RESERVES			
Called up share capital	18	961,505	-
Profit and loss account - deficit	19	<u>(249,773)</u>	<u>(148,043)</u>
EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)	20	<u>711,732</u>	<u>(148,043)</u>

These financial statements were approved by the Board of Directors on 19th July 2002
Signed on behalf of the Board of Directors



D G MORTIMER

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below. The company is reliant on the continued financial support of its parent company. The parent company has indicated that such support will be forthcoming and accordingly the financial statements have been prepared on a going concern basis.

Accounting convention

The financial statements are prepared under the historical cost convention.

Goodwill

Purchased goodwill arising on acquisition made since 1 October 1998 is capitalised and amortised through the profit and loss account on a straight line basis over its estimated useful life up to a maximum of 20 years, in accordance with FRS 10.

Purchased goodwill arising on acquisitions prior to 1 October 1998, which was previously written off to a separate goodwill reserve as a matter of accounting policy, remains written off but has now been transferred to the profit and loss account reserve, in accordance with the transitional arrangements of FRS 10. This goodwill will be charged to the profit and loss account as appropriate on the subsequent disposal of the business to which it relates.

Tangible fixed assets

All fixed assets are stated at cost less any provision for impairment.

No depreciation is provided on freehold land. On all other assets depreciation is based on the estimated lives of the assets concerned and is calculated on a straight line basis using the following rates:

Freehold buildings	2% per annum
Long leasehold property	Shorter of the life of the lease and the estimated useful life
Short leasehold property	Shorter of the life of the lease and the estimated useful life
Plant and machinery	20% to 25% per annum
Fixtures, fittings and equipment	10% to 50% per annum

Investments

Investments are valued individually at cost less provision for impairment.

Stocks

Stocks are valued at the higher of cost and net realisable value. Cost represents material purchase price.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

1. ACCOUNTING POLICIES (continued)

Leases

Rental charges on operating leases are taken to the profit and loss account on a straight line basis over the life of the lease.

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Pension costs

The company participates in defined benefit schemes operated by Compass Group plc.

The expected cost of pensions in respect of the Company's participation in the scheme is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees based on pension costs across the Compass Group as a whole. Variations from the regular costs are spread over the remaining service lives of current employees in the scheme across the Compass Group. The pensions cost is assessed in accordance with the statement of Standard Accounting Practice No. 24.

Further information in respect of pensions is shown in note 24.

Post Retirement Benefits

The Company provides concessionary benefits for a closed group of present and former employees. The cost of this benefit is charged to the profit and loss account as incurred.

Employees and their dependants continue to be entitled to the concession following retirement or redundancy. A provision for the post retirement benefit has been made in accordance with Urgent Issues Task Force abstract 6. The obligation for retired employees and an accrued element of the obligation for current employees has been charged to the Profit and Loss Account. The remaining obligation is spread over the employees' average future service working lives.

2. TURNOVER

Turnover is derived from the provision of catering management services and is exclusive of value added tax. The turnover for the year wholly relates to business undertaken within the United Kingdom.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001 £000	2000 £000
Directors' emoluments		
Emoluments (including pension contributions)	1,522	723
Remuneration of the highest paid director	464	218

The accrued pension benefit of the highest paid director was £191,474 (2000 - £63,216) per annum.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	No	No
Number of directors who are members of a defined benefit pension scheme	8	4
Number of directors who exercised share options in the period.	-	1
Average number of persons employed	No	No
Full time	17,666	16,970
Part time	11,776	13,885
	29,442	30,855
	£000	£000
Staff costs during the period (including directors)		
Wages and salaries	269,198	260,007
Social security costs	18,246	15,140
Other pension costs	10,239	8,256
	297,683	283,403

4. OPERATING LOSS

	2001 £000	2000 £000
Operating loss is after charging:		
Raw materials and consumables	290,125	247,956
Other external charges	4,828	30,961
Staff costs (note 3)	297,683	283,403
Depreciation and amortisation		
Owned assets	10,762	10,561
Leased assets	307	123
Rentals under operating leases		
Property lease rentals	5,614	2,911
Other operating leases	8,067	4,415
Auditors' remuneration		
Audit services	80	60
Group management charges	78,497	23,717
Exceptional items	96,021	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

5. EXCEPTIONAL OPERATING ITEMS – CONTINUING OPERATIONS

	2001 £000	2000 £000
Reorganisation		
- costs incurred	52,321	-
- assets written off	43,700	-
	<u>96,021</u>	<u>-</u>

During the year Compass Group PLC acquired Granada Restaurants which is being combined with the existing UK operations. Costs relate to the reorganisation of the business and the writing off of the net book amount of duplicate assets.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £000	2000 £000
Bank loans and overdrafts	1,929	1,094
Other loans – other group companies	25,951	11,854
	<u>27,880</u>	<u>12,948</u>

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2001 £000	2000 £000
Taxation provided at 30% (2000 - 30%) based on the profit for the period, comprises:		
UK Corporation tax	(40,079)	-
Deferred taxation	3,468	(8,073)
Overseas taxation	478	-
	<u>(36,133)</u>	<u>(8,073)</u>
Adjustment in respect of prior period:		
Deferred taxation	3,983	(892)
Corporation tax	14	1,483
	<u>(32,136)</u>	<u>(7,482)</u>

The tax credit for the year is disproportionate to the loss for the year due to depreciation on assets not qualifying for capital allowances and disallowable expenditure.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2001

8. INTANGIBLE ASSETS

	Goodwill £000
Cost	
At 1 October 2000	-
Additions arising from acquisitions	2,201,392
	<hr/>
At 30 September 2001	2,201,392
	<hr/>
Accumulated amortisation	
At 1 October 2000	-
Charge for the year	--
	<hr/>
At 30 September 2001	-
	<hr/>
Net book value	
At 30 September 2001	2,201,392
	<hr/>
At 30 September 2000	-
	<hr/>

Additions to goodwill arising from acquisition relates to the transfer of the trade of fellow subsidiary companies at market value (see note 21).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2001

9. TANGIBLE FIXED ASSETS

	Freehold properties £000	Long leasehold property £000	Short leasehold property £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost						
At 1 October 2000	214	-	-	60,517	39,324	100,055
Additions	-	-	-	41,183	933	42,116
Transfer from fellow subsidiaries	1,031	1,633	1,871	170,417	67,671	242,623
Disposals	-	-	-	(37,319)	(2,462)	(39,781)
At 30 September 2001	1,245	1,633	1,871	234,798	105,466	345,013
Accumulated depreciation						
At 1 October 2000	14	-	-	16,719	21,078	37,811
Charge for the year	-	-	-	10,257	812	11,069
Transfer from fellow subsidiaries	429	1,128	874	77,527	35,571	115,529
Disposals	-	-	-	(2,983)	(1,520)	(4,503)
At 30 September 2001	443	1,128	874	101,520	55,941	159,906
Net book value						
At 30 September 2001	802	505	997	133,278	49,525	185,107
At 30 September 2000	200	-	-	43,798	18,246	62,244

The net book value of the company's fixed assets includes £ Nil (2000 - £307,000) in respect of assets held under finance leases and hire purchase contracts. The net book value of the company's freehold land is £200,000 (2000 - £200,000).

10. INVESTMENTS HELD AS FIXED ASSETS

	Shares in participating interests £000	Shares in group undertakings £000	Total £000
Cost			
At 1 October 2000 and 30 September 2001	16,875	6,123	22,998
Provision for impairment			
At 30 September 2000 and 30 September 2001	-	6,123	6,123
Net book value			
At 30 September 2001 and 30 September 2000	16,875	-	16,875

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

10. INVESTMENTS HELD AS FIXED ASSETS (continued)

THE FOLLOWING COMPANIES WERE SUBSIDIARIES:

Company	Activity	% Holding of nominal value
All Points Catering Limited	Dormant	100%
All Points Purchasing Limited	Dormant	100%
Bateman Healthcare Services Limited	Dormant	99%
Chartwells Limited	Dormant	100%
Compass Couriers Limited	Dormant	50%
Compass Office Cleaning Services Limited	Dormant	100%
Compass Offshore Catering Limited	Dormant	99%
Compass Services (UK) Limited	Contract caterers	99%
Eurest Airport Services Limited	Dormant	50%
Eurest Offshore Support Services Limited	Dormant	99%
Hamard Group Limited	Dormant	99%
Linmark Catering Services Limited	Dormant	99%
Meal Service Company Limited	Dormant	99%
Midland Catering Limited	Dormant	100%
Pennine Services Limited	Dormant	99%
Roux Fine Dining Limited	Dormant	100%
Security Office Cleaners Limited	Dormant	50%
The Bateman Catering Organization Limited	Dormant	99%
Waseley Eight (previously Compass Services (Midlands) Limited)	Dormant	100%
Waseley Five (previously Compass Services Limited)	Dormant	100%
Waseley Four (previously Compass Contract Services Limited)	Dormant	100%
Waseley Nine (previously Eurest Defence Support Services Limited)	Dormant	100%
Waseley One (previously Compass Catering Services Limited)	Dormant	100%
Waseley Six (previously Compass Cleaning Services Limited)	Dormant	100%
Waseley Three (previously Compass Planning & Design Limited)	Dormant	100%
Waseley Two (previously Compass Services For Hospitals Limited)	Dormant	100%

PARTICIPATING INTERESTS:

Twickenham Experience Limited	Hospitality services	16%
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The investment in Twickenham Experience Limited covers 40% of voting rights and has a 30 June year end.

All the above companies were registered in England and Wales, with the exception of Compass Offshore Catering Limited, which was registered in Scotland.

Group accounts are not submitted as the company is a wholly owned subsidiary of Compass Group PLC, which is registered in England and Wales. Similarly, advantage has been taken of the exemption allowed under FRS 1 for a cash flow statement not to be presented.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

11. STOCKS

	2001 £000	2000 £000
Raw materials and consumables	23,390	10,842
Work-in-progress	5,287	2,587
	<u>28,677</u>	<u>13,429</u>

There is no material difference between the above values and the estimated replacement cost.

12. DEBTORS

	2001 £000	2000 £000
Called up share capital not paid	961,495	-
Trade debtors	139,117	60,235
Amounts owed by group companies	27,524	51,616
Prepayments	86,369	-
Other debtors	42,213	2,838
Deferred tax (note 15)	65,851	11,400
Corporation tax recoverable	27,891	-
	<u>1,350,460</u>	<u>126,089</u>
Included above in other debtors are amounts recoverable after more than one year amounting to:	<u>4,252</u>	<u>26</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £000	2000 £000
Bank overdraft	2,348	1,466
Obligations under finance leases and hire purchase contracts	941	156
Trade creditors	196,147	57,453
Amounts owed to group companies	580,770	146,751
Taxation, including social security	44,290	11,146
Other creditors	50,159	3,162
Accruals and deferred income	221,186	309
	<u>1,095,841</u>	<u>220,443</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2001

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2001	2000
	£000	£000
Deferred consideration	2,667	8,000
Obligations under finance leases and hire purchase contracts	2,274	257
Convertible inter-company bond	1,078,938	-
Amounts due to fellow subsidiaries	976,244	166,829
Other	7,713	-
	<u>2,067,836</u>	<u>175,086</u>

The deferred consideration payment dates are £2,667,000 on 1 October 2001, a further £2,667,000 on the later of 1 October 2001 and 15 days after the finalisation of the audited accounts of the company for the year ending 30 June 2001 and a further £2,666,000 15 days after the finalisation of the audited accounts of the company for the year ending 30 June 2002. The amounts due within one year are disclosed within 'Other creditors'.

The amounts due to fellow subsidiaries are semi-permanent in nature and correspondingly a repayment schedule has not been established.

15. DEFERRED TAXATION

	£000
Balance at 1 October 2000	(11,400)
Profit and loss account credit	7,451
Transfer from fellow subsidiaries	(61,902)
Balance at 30 September 2001	<u>(65,851)</u>

The amounts fully provided in the accounts are as follows:

	2001	2000
	£000	£000
Capital allowances in excess of depreciation	(445)	325
Other timing differences	(65,406)	(11,725)
	<u>(65,851)</u>	<u>(11,400)</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2001

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Post Retirement Benefits £000	Onerous Contracts £000	Total £000
Balance at 1 October 2000	-	-	-
Transfer from fellow subsidiaries	772	29,547	30,319
Balance at 30 September 2001	772	29,547	30,319

The post retirement benefit provision represents the capital value of the benefit for all eligible retired employees and the accrued element of the obligation for employees in service. The post retirement benefit is unfunded.

17. BORROWINGS

	2001 £000	2000 £000
Bank overdraft	2,348	1,466
Obligations under finance leases and hire purchase contracts	3,215	413
Convertible bond	1,078,938	-
	<u>1,084,501</u>	<u>1,879</u>
Due within one year	3,289	1,622
Due after more than one year	1,081,212	257
	<u>1,084,501</u>	<u>1,879</u>

MATURITY OF FINANCIAL BORROWINGS

	2001 £000	2000 £000
Bank overdraft:		
In one year or less or on demand	<u>2,348</u>	<u>1,466</u>
Finance leases:		
In one year or less or on demand	941	156
In more than one year but not more than two years	374	237
In more than two years but not more than five years	1,244	20
After more than five years	<u>656</u>	<u>-</u>
	<u>3,215</u>	<u>413</u>
Convertible bond:		
After more than five years	<u>1,078,938</u>	<u>-</u>

Obligations under finance leases are secured by related leased assets and bear finance charges at rates between 9% and 11% per annum.

NOTES TO THE FINANCIAL STATEMENTS**Year ended 30 September 2001****17. BORROWINGS (continued)**

The convertible bonds are the 6.168% Convertible Capital Bonds due 2031 ("the bonds"). The aggregate principal nominal amount of the bonds is limited to £1,216,140,500.

On 30 September 2001, the fellow subsidiary company, Compass Services UK and Ireland Limited subscribed for £1,216,140,500 of the bonds at a subscription price of £88.71820118 for each £100 nominal value of the bonds (total value £1,078,938,000). Provision will be made for the premium on redemption over the life of the bond and included within the carrying amount of the bonds. The amount accrued at 30 September 2001 was £Nil.

Interest on the bonds will accrue from 30 September 2003 at the rate of 6.168% payable in arrears on 30 September in each year.

The finance costs of the bond will include the interest and the premium on redemption and will be charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount.

18. CALLED UP SHARE CAPITAL

	Number of shares	2001 £000	Number of shares	2000 £000
Authorised				
Ordinary shares of £1 each	1,911,506,000	1,911,506	1,000,000	1,000
Called up and allotted				
Ordinary shares of £1 each	961,505,002	961,505	2	-

On 28 September 2001, the authorised ordinary share capital of the company was increased to 1,911,506,000 ordinary shares of £1 each.

On the same day, the company issued 961,505,000 ordinary shares of £1 each to increase the capital base of the company. The shares were issued for initial consideration of £0.00001 per share (total £9,615) and the remaining £0.99999 (total £961,495,385) remains unpaid and is recorded as a debtor at the year end.

19. RESERVES

	Profit and loss account		
	Before goodwill written off £000	Goodwill written off £000	Total £000
At 1 October 2000	(20,085)	(127,958)	(148,043)
Retained loss for the year	(101,730)	-	(101,730)
Balance at 30 September 2001	(121,815)	(127,958)	(249,773)

Goodwill

Goodwill written off represents the excess of the consideration for the operations acquired prior to 1 October 1998 over the fair value of the net assets acquired.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £000	2000 £000
Loss for the financial year	(101,730)	(20,734)
Issue of shares	961,505	-
Net addition/(reduction) to shareholders' funds	859,775	(20,734)
Opening shareholders' deficit	(148,043)	(127,309)
Closing shareholders' funds/(deficit)	<u>711,732</u>	<u>(148,043)</u>

21. ACQUISITIONS

The acquisitions during the year relate to the transfer of the trade, assets and liabilities of fellow subsidiaries at market value:

Company name	Date trade, assets and liabilities transferred	Consideration £000	Net assets acquired £000	Goodwill £000
Compass Food Services Limited	1 September 2001	(127,455)	(127,455)	-
3 Gates Services Limited	1 September 2001	4,872	(298)	5,170
Capitol Catering Management Services Limited	1 September 2001	22,700	221	22,479
Bromwich Catering Limited	1 September 2001	13,679	(222)	13,901
Carlton Catering Partnership Limited	1 September 2001	20,240	97	20,143
Customised Contract Catering Limited	1 September 2001	9,496	(613)	10,109
Shaw Company Catering Limited	1 September 2001	39,964	(1,514)	41,478
Summit Catering Limited	1 September 2001	36,249	428	35,821
Compass Accounting Services Limited	1 September 2001	14,739	14,739	-
Compass Services UK and Ireland Limited	1 September 2001	1,078,938	(107,220)	1,186,158
Circadia Limited	30 September 2001	7,290	(2,269)	9,559
QCL Limited	30 September 2001	2,737	(1,942)	4,679
Scolarest Limited	30 September 2001	132,710	(16,576)	149,286
Baxter and Platts Limited	30 September 2001	129,368	(2,057)	131,425
Select Service Partner Retail Catering Limited	30 September 2001	17,853	(45,847)	63,700
ACMS Limited	30 September 2001	7,990	183	7,807
CCG (UK) Limited	30 September 2001	14,355	(6,197)	20,552
Select Service Partner Limited	30 September 2001	433,000	24,273	408,727
Letheby and Christopher Limited	30 September 2001	56,000	(7,581)	63,581
Chestermark Limited	30 September 2001	13,000	6,183	6,817
Total		<u>1,927,725</u>	<u>(273,667)</u>	<u>2,201,392</u>

All of the transfers were accounted for under the acquisition method of accounting. There were no fair value adjustments.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

21. ACQUISITIONS (continued)

The analysis of the net assets acquired is as follows:

	£000
Tangible fixed assets	127,094
Stocks	28,477
Debtors	179,564
Cash	34,227
Deferred tax	61,902
Leases	(425)
Creditors	(703,027)
Corporation tax	(1,479)
Net liabilities acquired	<u>(273,667)</u>

22. FINANCIAL COMMITMENTS

	2001 £000	2000 £000
Capital commitments		
Contracted for but not provided	-	-

Operating lease commitments

At 30 September 2001, the company was committed to making the following payments during the next year in respect of operating leases:

	Concessions		Leasehold properties		Other	
	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000
Leases which expire:						
Within one year	-	-	1,969	6	1,213	-
Within two to five years	-	-	15,930	767	3,917	2,600
After five years	47,893	-	2,182	429	-	-
	<u>47,893</u>	<u>-</u>	<u>20,081</u>	<u>1,202</u>	<u>5,130</u>	<u>2,600</u>

23. CONTINGENT LIABILITIES

The company has entered into cross guarantees in respect of:

- (i) US\$420 million borrowed under fixed term, fixed interest private placements by the parent Compass Group Holdings PLC. As of 30 September 2001 the amount was reduced to US\$324.3 million (2000 - US\$337.9 million).
- (ii) The Group overdraft facility with National Westminster Bank PLC. The amount drawn down at 30 September 2001 was £Nil (2000 - £13.0 million).

	2001 £000	2000 £000
Performance bonds have been taken out to the extent of	<u>953</u>	<u>1,903</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

24. PENSIONS

Within the UK there are two main arrangements:

- (i) Compass Group Final Salary Pension Plan
- (ii) Compass Pension Scheme

Both plans are defined benefit arrangements operated on a prefunded basis. The funding policy is to continue such variable amounts, on the advice of the actuary, as achieves a 100% funding level on a projected salary basis. The actuarial assessments covering expense and contributions are carried out by independent qualified actuaries.

The Compass Pension Scheme was set up from 1 February 2001 to mirror the Granada Pension Scheme and accept the seamless transfer of pension rights for the former Granada Group PLC employees who transferred to Compass Group PLC. New employees join the Compass Group Final Salary Pension Plan.

Regular pension costs – SSAP 24

The pension cost of these plans charged in the year was £10,239,000 (2000 - £8,256,000). Further information in respect of the schemes is shown in the financial statements of Compass Group PLC.

The pension cost of the Compass Group Final Salary Pension Plan for the year to 30 September 2001 has been assessed in accordance with the advice of professionally qualified consulting actuaries based in the UK on an actuarial valuation at 6 April 1998. This was made using the projected unit method and the most significant actuarial assumptions adopted for determining pension costs and contributions were as follows:

- (i) Rate of return on investments:
 - Pre-retirement 7.0% per annum
 - Post-retirement 6.5% per annum
 - Current pensioners 6.0% per annum
- (ii) Rate of increase in pensionable pay 5.0% per annum
- (iii) Rate of increase in pension 3.0% per annum

The results of the valuation in the UK showed that the value of the assets at 6 April 1998 represented 107% of the value of the accrued benefits after allowing for expected future increases in pensionable pay and pensions. The market value of the plan's assets was £158 million as at 6 April 2001. An actuarial valuation as at 6 April 2001 is currently in progress.

There have been no material changes other than the introduction of the Compass Pension Scheme, to the pension arrangements since the valuation and review dates. The assets of the plans are held in separate funds administered by trustees and are independent of the company's finances.

Actuarial assumptions adopted for determining pension costs and contributions for the Compass Pension Scheme were similar to those of the Compass Group Final Salary Pension Plan.

FRS 17 disclosures

On 30 November 2000, the Accounting Standards Board introduced a new standard, FRS 17 "Retirement Benefits", replacing SSAP 24 "Accounting for Pension Costs". FRS 17 is fully effective for periods ending on or after 22 June 2003, though disclosures are required in the transitional period commencing with the year ended 30 September 2001. Initial disclosures showing the assets and liabilities of the plans as at 30 September 2001 is set out below. These have been calculated on the following assumptions.

Rate of increase in salaries	3.5%
Rate of increase in payment/deferred pensions	3.0% / 2.5% (dependent on benefit structure)
Discount rate	5.5%
Inflation assumption	2.5%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2001

24. PENSIONS (continued)

The assets and liabilities of the plans operated in the UK at 30 September 2001 excluding any transfers from the Granada Pension Scheme are shown below:

	Long term expected rate of return	£m
Equities	6.5%	122
Bonds	5.0%	32
		<hr/>
Market value of assets		154
Present value of liabilities		(221)
		<hr/>
Deficit in the plan		(67)
Related deferred tax asset		20
		<hr/>
Net pension liability		(47)
		<hr/>

It is not possible to identify the company's share of the underlying net assets and liabilities and therefore they have been accounted for as defined contribution schemes in accordance with FRS 17.

25. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company's immediate parent company is Compass Group, UK and Ireland Limited.

At the start of the financial year, the ultimate parent company and controlling party was Granada Compass PLC.

On 1 February 2001, Compass Group PLC (formerly Compass Demerger Limited) demerged from Granada Compass PLC and from that date the directors consider Compass Group PLC to be the ultimate parent and controlling entity. Copies of the group accounts referred to above can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

All the above-named companies are incorporated in Great Britain and registered in England and Wales.

The company has taken advantage of the exemption contained in FRS 8 ("Related party transactions") which allows it not to disclose transactions with group entities or investees of the group qualifying as related parties. There were no other transactions which would be required to be disclosed under FRS 8.