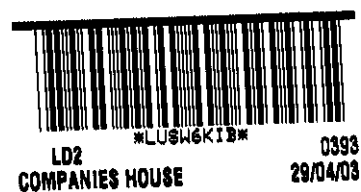


**Granada Group PLC**

**Directors' report and financial  
statements**

**Registered number 00290076**

**30 September 2002**



## Contents

Directors' report	1
Statement of directors' responsibilities	2
Report of the Independent auditors, KPMG Audit Plc, to the members of Granada Group PLC	3
Profit and loss account	4
Balance sheet	5
Notes	6

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2002.

### Principal activities

The Company's principal activity is to act as a holding company.

### Business review

The results for the year are shown in the profit and loss account on page 4 of these financial statements.

### Dividends

The directors recommend the payment of a dividend of £42 million (2001 : *£nil*).

### Directors

The following served as directors of the Company during the year ended 30 September 2002:

Charles Allen  
Graham Parrott  
Henry Staunton

No director had any interest in any contract with the Company or its subsidiary undertakings except as disclosed in these financial statements.

### Directors' interests

Shareholdings in the ordinary share capital of Granada plc and Granada Media plc beneficially owned by persons who as at 30 September 2002 were directors of the Company and their family interests and trusts of which their families are beneficiaries are disclosed in the financial statements of Granada plc (see note 15).

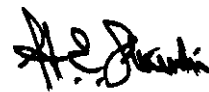
### Donations

Grants and charitable donations amounted to *£nil* (2001 : *£nil*). There were no political contributions (2001 : *£nil*).

### Auditors

A resolution for the re-appointment of KPMG Audit Plc as auditors to the Company will be proposed at the Annual General Meeting.

By order of the board



Henry Staunton  
Director

The London Television Centre  
Upper Ground  
London  
SE1 9LT

Date 28 APRIL 2003

## 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 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## Report of the Independent auditors, KPMG Audit Plc, to the members of Granada Group PLC

We have audited the financial statements on pages 4 to 13.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company 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 affairs of the Company as at 30 September 2002 and of the profit of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*

Date

*28 April* 2003

PO Box 695  
8 Salisbury Square  
London  
EC4Y 8BB

## Profit and loss account

for the year ended 30 September 2002

	Note	2002 £m	2001 £m
Operating exceptional items	3	-	69
<b>Operating profit</b>		-	69
Exceptional items:			
Profit on disposal of discontinued hospitality business	3	8	76
Interest receivable and similar income	4	-	1
Interest payable and similar charges	5	-	(88)
<b>Profit on ordinary activities before taxation</b>		8	58
Taxation on profit on ordinary activities	6	-	1
<b>Profit on ordinary activities after taxation</b>		8	59
Dividends	7	(42)	-
<b>Retained (loss)/profit for the year</b>	13	(34)	59

The results stated above are all derived from continuing activities.

A statement of total recognised gains and losses has not been included as part of these financial statements as the Company made no gains or losses in the year other than those disclosed above in the profit and loss account.

A note of historical cost profits and losses has not been included as part of these financial statements since the results disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

## Balance sheet

at 30 September 2002

	Note	2002 £m	2001 £m
<b>Fixed assets</b>			
Investments in subsidiary undertakings	8	1,010	1,010
		<u>1,010</u>	<u>1,010</u>
<b>Current assets</b>			
Debtors: amounts falling due within one year	9	2,898	2,937
Cash at bank and in hand and short term deposits	11	49	39
		<u>2,947</u>	<u>2,976</u>
<b>Creditors: amounts falling due within one year</b>			
Borrowings	11	(14)	(13)
Other creditors	10	(7)	(2)
		<u>(21)</u>	<u>(15)</u>
<b>Net current assets</b>		<u>2,926</u>	<u>2,961</u>
<b>Total assets less current liabilities</b>		<u>3,936</u>	<u>3,971</u>
<b>Creditors: amounts falling due after more than one year:</b>			
Borrowings	11	-	(1)
		<u>-</u>	<u>(1)</u>
<b>Net assets</b>		<u>3,936</u>	<u>3,970</u>
<b>Capital and reserves</b>			
Called up share capital	12	281	281
Share premium account	13	266	266
Profit and loss account	13	3,389	3,423
		<u>3,850</u>	<u>3,884</u>
<b>Shareholders' funds:</b>			
Equity		3,850	3,884
Non-equity		86	86
		<u>3,936</u>	<u>3,970</u>

These financial statements were approved by the board of directors on 28 APRIL 2003 and were signed on its behalf by:



Henry Staunton  
Director

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements. The Company has adopted FRS 19 'Deferred tax' in these financial statements.

#### ***Basis of preparation***

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with Section 228 of the Companies Act 1985, consolidated financial statements are not presented since the Company is a wholly owned subsidiary undertaking of Granada plc.

#### ***Related party transactions***

As the financial statements of Granada plc are publicly available Granada Group PLC has taken advantage of the exemption granted by FRS 8 'Related Party Disclosures' and has not disclosed transactions with entities that are part of the group.

#### ***Cash flow statement***

Under FRS 1 'Cash flow statements', the Company is exempt from the requirement to include a cash flow statement as it is a wholly owned subsidiary of Granada plc, whose financial statements include a consolidated cash flow statement.

#### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised and computed without discounting. Full provision is made in respect of all timing differences between the treatment of certain items in the financial statements and their treatment for taxation purposes at the balance sheet date. Deferred tax assets are recognised to the extent that it is more likely than not that the asset will be recovered.

#### ***Investments***

Investments are stated at cost less any amounts written off in respect of any diminution in value.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the translation. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

### 2 Staff costs, directors' and auditors' remuneration

The directors' emoluments have been borne by other group companies. The remuneration of the auditors is borne by another group company. There were no employees and no staff costs during the year.



**Notes** *(continued)*

**3 Exceptional items**

	2002 £m	2001 £m
Operating exceptional items:		
Share of costs of merger and demerger with Compass Group	-	31
Costs of reorganisation after disposal of hospitality business	-	38
	<u>-</u>	<u>69</u>
Non-operating exceptional items:		
Profit on disposal of hospitality business	8	76
	<u>8</u>	<u>76</u>

**4 Interest receivable and similar income**

	2002 £m	2001 £m
On bank	-	1
	<u>-</u>	<u>1</u>

**5 Interest payable and similar charges**

	2002 £m	2001 £m
On bank loans and overdrafts	-	27
Redemption fee on early repayment of loan	-	61
	<u>-</u>	<u>88</u>

## Notes (continued)

### 6 Taxation on profit on ordinary activities

	2002 £m	2001 £m
Corporation tax at 30% (2001: 30%)	-	-
Adjustments in respect of prior year	-	1
	<u>-</u>	<u>1</u>
	<u>-</u>	<u>1</u>

The current tax charge for the period is lower (2001: lower) than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below.

	2002 £m	2001 £m
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	8	58
	<u>2</u>	<u>17</u>
Current tax at 30% (2001: 30%)		
<i>Effects of:</i>		
Items disallowable for tax purposes		
Share of costs of merger and demerger with Compass	-	(9)
Costs of reorganisation after disposal of hospitality business	-	(11)
Profit on disposal of hospitality business	(2)	(23)
Losses not utilised in the year	-	26
	<u>-</u>	<u>-</u>
Total current tax charge	<u>-</u>	<u>-</u>

There is an unprovided deferred tax asset of £26 million which has not been provided for on the grounds that there is insufficient evidence that the asset will be recoverable. The deferred tax will be recoverable if sufficient taxable profits are generated in future years.

### 7 Dividends

	2002 £m	2001 £m
Equity shares:		
Interim dividend of 1.93p per share paid	42	-
	<u>42</u>	<u>-</u>

## Notes (continued)

### 8 Investments in subsidiary undertakings

	Total £m
Balance at 1 October 2001	1,010
At 30 September 2002	1,010

The principal subsidiary undertakings of the Company which are directly wholly owned and incorporated and registered in England and Wales are:

Name	Principal activity
Granada Media plc	Holding company
Granada Trust Corporation Ltd	Trustee of Granada Group Pension Scheme

The registered office of both companies is The London Television Centre, Upper Ground, London, SE1 9LT.

### 9 Debtors: amounts falling due within one year

	2002 £m	2001 £m
Amounts owed by subsidiary undertakings	35	79
Amounts owed by ultimate parent undertaking	2,856	2,850
Other debtors	7	8
	<u>2,898</u>	<u>2,937</u>

### 10 Other creditors: amounts falling due within one year

	2002 £m	2001 £m
Amounts owed to subsidiary undertakings	7	1
Other creditors	-	1
	<u>7</u>	<u>2</u>

## Notes (continued)

### 11 Net funds

	2002 £m	2001 £m
<i>Amounts falling due within one year:</i>		
Bank loans and overdrafts repayable other than on demand	(14)	(13)
	<u>(14)</u>	<u>(13)</u>
<i>Amounts falling due after more than one year:</i>		
Finance advances repayable:		
Between two and five years	-	(1)
	<u>-</u>	<u>(1)</u>
Total borrowings	<u>(14)</u>	<u>(14)</u>
Cash at bank and short term deposits	49	39
Net funds	<u>35</u>	<u>25</u>

## Notes (continued)

### 12 Called up share capital

	Authorised		Issued and fully paid	
	2002	2001	2002	2001
	£m	£m	£m	£m
<b>Ordinary shares of 12.5p each</b>				
<i>Authorised:</i>				
2,504,098,700 (2001: 2,504,098,700) shares	313	313	-	-
<i>Issued and fully paid:</i>				
2,181,174,248 (2001: 2,181,174,248) shares	-	-	272	272
<b>Convertible Preference Shares of 10p each</b>				
<i>Authorised:</i>				
87,411,271 (2001: 87,411,271) shares	9	9	-	-
<i>Issued and fully paid:</i>				
87,411,271 (2001: 87,411,271) shares	-	-	9	9
<b>New Convertible Preference Shares of 10p each</b>				
<i>Authorised:</i>				
32,465,354 (2001: 32,465,354) shares	3	3	-	-
<b>At 30 September 2002</b>	<u>325</u>	<u>325</u>	<u>281</u>	<u>281</u>

	2002 Number	2001 Number
a In the year ended 30 September 2002 no shares were issued		
Share Option Schemes	-	5,521,272
Mandatory Exchange	-	300,000,000
	<u>-</u>	<u>305,521,272</u>

## Notes (continued)

### 12 Called up share capital (continued)

During the year no shares were issued. In the year ended 30 September 2001 the value of the consideration received for the issue of the 6 million shares as part of share option schemes was £24 million in cash.

b The Convertible Preference Shares may be converted into fully paid ordinary shares on the basis of 66 2/3 ordinary shares for every 100 Convertible Preference Shares. Conversion may only take place on a conversion date, which is 30 April in each year up to and including 2003. Between 1 July 2003 and 31 January 2009 the Company has the right to redeem at any time any outstanding shares for £1 per share; any shares outstanding on 31 January 2009 shall be redeemed by the Company on the same terms. The Convertible Preference Shares fall within the definition of non-equity shareholders' funds for accounting purposes. However, they meet the definition of equity shares for Companies Act purposes because the rights on a winding up are not limited to a specific amount.

The Convertible Preference Shares carry only very limited voting rights. The holders of such shares are entitled to vote in respect of them at any General Meeting of the Company (i) if at the date of such meeting the preferential dividend is in arrears for six months or more after any fixed payment date or (ii) a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holders of the Convertible Preference Shares, in which case such holders shall have the right to vote only on such resolution.

c Following the merger of Granada Group PLC with Compass Group PLC in July 2000, ordinary shares of Granada Group PLC were converted into ordinary shares of Granada plc at an exchange rate of one ordinary share of Granada Group PLC to 0.7547 ordinary shares of Granada plc. Preference shares were exchanged for ordinary shares in Granada plc at an exchange rate of one preference share of Granada Group PLC to 0.515 ordinary shares of Granada plc.

All rights under the various Granada Group PLC share option schemes became exercisable as a result of the merger up to 27 January 2001. Any Granada Group PLC ordinary shares acquired on exercise of rights under the Granada Group PLC share option schemes were converted immediately on exercise into ordinary shares of Granada plc at an exchange ratio of one Granada Group PLC ordinary share to 0.7547 ordinary shares of Granada plc. In the case of Granada Group options unexercised at 27 January 2001, these were rolled over into options over Granada plc shares under the Granada Group Rollover Arrangement for certain employees. The Rollover Arrangement enabled eligible participants to receive options over the number of Granada plc shares calculated by multiplying by 0.7547 the number of Granada Group shares over which their Granada Group option was granted and adjusting the exercise price by an equivalent ratio.

This conversion ratio reflected the terms received by Granada Group shareholders on the merger. On the subsequent demerger of Compass Group PLC on 1 February 2001 these options were adjusted under the terms of the Granada Group Rollover Arrangement so that each option over a Granada plc ordinary share was replaced by one option over a Granada plc share and one option over a Compass Group PLC share. All options over both these sets of shares held under the Rollover Arrangement had lapsed by 31 December 2001. The Rollover Arrangement did not apply to Savings Related Share Option Scheme options.

## Notes (continued)

### 13 Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Profit and loss account £m	Total 2002 £m	Total 2001 £m
Balance at 1 October 2001	281	266	3,423	3,970	3,850
Retained (loss)/profit for year for equity shareholders	-	-	(34)	(34)	59
Mandatory exchange	-	-	-	-	37
Shares issued in year (net)	-	-	-	-	24
At 30 September 2002	281	266	3,389	3,936	3,970

### 14 Contingent liabilities

The Company, under Group registration, is jointly and severally liable for value added tax due by other group companies. At 30 September 2002 this contingent liability amounted to £22 million (2001: £1 million).

The Company and certain other group companies have entered into an arrangement for a joint bank account with Barclays Bank PLC and are jointly and severally liable in respect of any overdraft arising on the group joint bank account. At 30 September 2002 this contingent liability amounted to £274 million (2001: £281 million).

No security has been provided for these contingent liabilities.

### 15 Ultimate parent company

The Company is a wholly owned subsidiary of Granada plc, a company incorporated and registered in England and Wales.

The consolidated accounts of Granada plc are available to the public and may be obtained from The London Television Centre, Upper Ground, London SE1 9LT.