Granada Group PLC

Directors' report and financial statements

Registered number 00290076

30 September 2001

Contents

Directors' report

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

Principal activities and review of the year

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

On 1 February 2001, Granada Compass plc, the company's parent undertaking, demerged its hospitality businesses into Compass Group PLC, a newly listed company. Granada Compass plc changed its name to Granada plc. Shareholders of Granada plc received one additional share in Compass Group PLC for each share in Granada plc that they held. On the same date, immediately following the demerger, the minority holding in Granada Media plc was converted to shares in Granada plc under a mandatory exchange process where shareholders received 1.8455 new shares in Granada plc for every Granada Media plc share held. This meant that the company's holding in Granada Media plc returned to 100%. When options become exercisable under the Granada Media plc share option scheme, they will be converted to Granada plc shares on the same basis.

Dividends

The directors do not recommend the payment of a dividend. In the year ended 30 September 2000 an interim dividend of £63 million was paid and a final dividend was declared of £300 million. A (net) dividend of £6 million was paid to the holders of preference share capital.

Directors

The following served as directors of the company during the year:

Charles Allen	
Graham Parrott	
Stephanie Monk	(resigned 1 February 2001)
Gerry Robinson	(resigned 1 February 2001)
Henry Staunton	

No director had any interest in any contract with the company or its subsidiaries.

Directors' interests

Shareholdings in the ordinary share capital of Granada plc and Granada Media plc beneficially owned by persons who as at 30 September 2001 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 17).

Directors' report *(continued)*

Donations

There were no grants, charitable donations or political contributions made during the year *(2000: charitable donations totalling £63,000; political contributions £nil).*

Creditor payment policy

The company's policy, in relation to all its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The company does not follow any code or standard on payment practice.

The number of days' purchases outstanding for payment by the company as at 30 September 2001 was nil. *(2000: 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

GJ Parrott
Director

The London Television Centre
Upper Ground
London
SE1 9LT

16 May 2002

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.

KPMG Audit Plc

PO Box 695
8 Salisbury Square
London EC4Y 8BB

Independent auditor's report to the members of Granada Group PLC

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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 2001 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

16 May 2002

Profit and loss account

for the year ended 30 September 2001

	Note	2001 £m	2000 £m
Administrative expenses		-	(8)
Operating exceptional items	*4*	69	(168)
Operating profit/(loss)		69	(176)
Investment Income	*3*	-	247
Exceptional items:	*4*		
Profit on disposal of investments		-	103
Profit on disposal of fixed asset		-	7
Profit on disposal of discontinued hospitality business		76	2,557
Interest receivable and similar income	*5*	1	73
Interest payable and similar charges	*6*	(88)	(217)
Profit on ordinary activities before taxation		58	2,594
Taxation on profit on ordinary activities	*7*	1	42
Profit on ordinary activities after taxation		59	2,636
Dividends	*8*	-	(369)
Retained profit for the year	*15*	59	2,267

The results for both current and prior periods derive from continuing activities.

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

Statement of total recognised gains and losses
for the year ended 30 September 2001

	2001	2000
	£m	£m
Profit for the financial year	**59**	2,636
Currency translation differences	-	14
Total recognised gains and losses relating to the year	**59**	2,650

Balance sheet
at 30 September 2001

	Note	2001 £m	2001 £m	2000 £m	2000 £m
Fixed assets					
Investments in subsidiary undertakings	9		1,010		973
			1,010		973
Current assets					
Debtors: amounts falling due within one year	10	2,937		4,231	
Cash at bank and in hand and short term deposits	12	39		-	
		2,976		4,231	
Creditors: amounts falling due within one year					
Borrowings	12	(13)		(260)	
Other creditors	11	(2)		(469)	
		(15)		(729)	
Net current assets			2,961		3,502
Total assets less current liabilities			3,971		4,475
Creditors: amounts falling due after more than one year:					
Borrowings	12	(1)		(625)	
			(1)		(625)
Net assets			3,970		3,850
Capital and reserves					
Called up share capital	14		281		244
Share premium account	15		266		242
Profit and loss account	15		3,423		3,364
Shareholders' funds:					
Equity		3,884		3,764	
Non-equity		86		86	
			3,970		3,850

These financial statements were approved by the board of directors on 16 May 2002 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.

Basis of accounting

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

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements only present information about the individual company. The results of the company are included in the consolidated accounts of Granada plc, registered in England and Wales.

Cash flow statement

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.

Deferred taxation

Provision is made for the effect of timing differences between the financial statements and tax treatments of certain items of revenue and expense to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Related party transactions

Under the provisions of FRS 8 the company is exempt from the requirement to disclose its transactions with other companies within the Granada plc Group.

Investments

The company's balance sheet includes investments at cost less amounts written off in respect of any permanent 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 auditor is borne by another group company. There were no employees and no staff costs during the year.

Notes *(continued)*

3 Investment income

	2001 £m	2000 £m
Income from shares in group subsidiary undertakings	-	243
Income from other investments	-	4
	-	247

During the year ended 30 September 2000, other investments were transferred to Granada Media plc.

4 Exceptional items

	2001 £m	2000 £m
Operating exceptional items:		
Share of costs of merger and demerger with Compass Group	31	(34)
Rental division reorganisation costs	-	(13)
Costs of reorganisation after disposal of hospitality business	38	(121)
	69	(168)
Non-operating exceptional items:		
Profit on disposal of investments to Granada Media plc	-	103
Profit on disposal of fixed asset	-	7
Profit on disposal of hospitality business	76	2,557
	76	2,667

5 Interest receivable and similar income

	2001 £m	2000 £m
Receivable from group undertakings	-	62
Other	1	11
	1	73

Notes *(continued)*

6 Interest payable and similar charges

	2001 £m	2000 £m
On bank loans and overdrafts	27	114
Payable by group undertakings	-	58
Other	-	45
Redemption fee on early repayment of loan	61	-
	88	217

7 Taxation

	2001 £m	2000 £m
UK corporation tax credit at 30% for the year	-	42
Adjustments in respect of the prior year	1	-
	1	42

8 Dividends

	2001 £m	2000 £m
Equity shares:		
Interim dividend of 3.39p per share paid	-	63
Final dividend of 15.51p per share proposed	-	300
	-	363
Non-equity shares:		
Dividend of 7.5p per share	-	7
Finance credit (FRS 4)	-	(1)
	-	6
	-	369

Notes *(continued)*

9 Investments in subsidiary undertakings

	Total £m
Balance at 1 October 2000	973
Additions	37
At 30 September 2001	**1,010**

The additions to investment has arisen on the acquisition of the minority holding in Granada Media plc under the Mandatory Exchange process outlined on page 1. Under this process the company acquired the minority holding in Granada Media plc by issuing 300,000,000 12.5p ordinary shares to Granada plc which in turn issued 553,650,000 10p ordinary shares to the shareholders of Granada Media plc. The acquisition has been accounted for using merger relief.

The principal subsidiary undertakings of the company which are 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.

10 Debtors: amounts falling due within one year

	2001 £m	2000 £m
Amounts owed by subsidiary undertakings	**79**	927
Amounts owed by ultimate parent undertaking	**2,850**	3,272
Other debtors	**8**	32
	2,937	4,231

Notes *(continued)*

11 Other creditors: amounts falling due within one year

	2001 £m	2000 £m
Amounts owed to subsidiary undertakings	1	-
Other creditors	1	106
Interim and proposed final dividend	-	363
	2	469

12 Net borrowings

	2001 £m	2000 £m
Amounts falling due within one year:		
Bank loans and overdrafts repayable other than on demand	13	260
	13	260
Amounts falling due after more than one year:		
Finance advances repayable:		
Between two and five years	1	100
After more than five years	-	525
	1	625
Total borrowings	14	885
Cash at bank and short term deposits	(39)	-
Net (funds)/borrowings	(25)	885

Notes *(continued)*

13 Analysis of borrowings

Of borrowings maturing within five years the following are secured:

	2001 £m	2000 £m
Bank loan due within one year	-	200

Borrowings repayable after more than five years:

	Currency	Year end interest rates %	2001 £m	2000 £m
Eurobond 2019	Sterling	11.25	-	75
First Mortgage Debenture Stock 2018	Sterling	10.00	-	200
Eurobond 2014	Sterling	7.00	-	250
			-	525

The Public Debt, which continued to be legally held by the company at 30 September 2000 although with a corresponding balance due from the hospitality businesses was either repaid or formally transferred to Compass Group plc during the year as follows:

£75m Eurobond 2019	Repaid	March 2001;
£250m Eurobond 2014	Transferred	February 2001;
£100m Eurobond 2003	Transferred	June 2001;
£200m Debenture 2018	Transferred	February 2001.

Notes *(continued)*

14 Called up share capital

	Authorised		Issued and fully paid	
	2001	2000	**2001**	2000
Ordinary shares of 12.5p each	**£m**	£m	**£m**	£m
Authorised:				
2,504.098,700 *(2000: 2,504,098,700)* shares	**313**	313		
Issued and fully paid:				
2,181,174,248 *(2000: 1,875,652,976)* shares			**272**	235
Convertible Preference Shares of 10p each				
Authorised:				
87,411,271 *(2000: 87,411,271)* shares	**9**	9		
Issued and fully paid:				
87,411,271 *(2000: 87,411,271)* shares			**9**	9
New Convertible Preference Shares of 10p each				
Authorised:				
32,465,354 *(2000: 32,465,354)* shares	**3**	3		
Issued:				
Nil *(2000: nil)* shares			**-**	-
At 30 September 2001	**325**	325	**281**	244

	2001	2000
	Number	Number
a In the year ended 30 September 2001 ordinary shares were issued for the following:		
Share Option Schemes	**5,521,272**	15,743,860
Mandatory Exchange	**300,000,000**	-
	305,521,272	15,743,860

Notes *(continued)*

14 Called up share capital *(continued)*

The value of the consideration received for the issue of the 6 million *(2000: 16 million)* shares as part of share option schemes was £24 million *(2000: £91 million)* in cash. The 300 million shares issued as part of the Mandatory Exchange were issued in exchange for 20% of Granada Media plc. These have been accounted for using merger relief.

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)*

15 Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Profit and loss account £m	**Total 2001 £m**	Total 2000 £m
Balance at 1 October 2000	244	242	3,364	**3,850**	1,476
Retained profit for period for equity shareholders	-	-	59	**59**	2,267
Other finance costs of non-equity shares	-	-	-	-	(1)
Mandatory exchange	37	-	-	**37**	-
Shares issued in period (net)	-	24	-	**24**	91
Other movements	-	-	-	-	3
Currency adjustments	-	-	-	-	14
At 30 September 2001	281	266	3,423	**3,970**	3,850

16 Contingent liabilities

Under a group registration, the company is jointly and severally liable for VAT at 30 September 2001 of £1 million *(2000: £37 million)*.

There are contingent liabilities in respect of certain litigation and guarantees and in respect of warranties given in connection with certain disposals of businesses and in respect of certain trading and other obligations of certain subsidiaries.

In the opinion of the directors, adequate allowance has been made in respect of these matters.

17 Ultimate parent company

The company is a wholly owned subsidiary of Granada plc (formerly Granada Compass 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.