

## **DIRECTORS**

P K Bentley  
R H Myddelton  
B E Wickham

### **Grand Metropolitan Investments Limited**

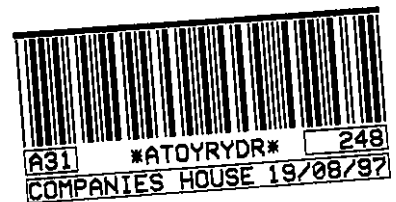
Secretary and Registered Office

S M Adams

8 Henrietta Place, London W1M 9AG

Telephone: (0171) 518 5200

Company Registration No. 1732518



## DIRECTORS' REPORT

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 September 1996.

### *Activities*

The company is an investment holding company. The directors foresee no material change in the nature of the company's activities.

During the year, the company entered into forward foreign exchange contracts at market rates with its subsidiary undertakings, to purchase approximately US dollar 6.4 billion for sterling in 2004.

### *Dividends and Profit*

The profit for the financial year amounted to £125,580,000 (1995: £7,604,000).

The directors paid interim dividends on the unclassified shares amounting to £400,000,000 (1995: £nil). They do not recommend the payment of a final dividend (1995: £nil). The retained loss for the year of £314,024,000 (1995: £18,672,000) after preference share dividends of £39,604,000 (1995: £26,276,000) was transferred to reserves.

### *Investments*

Changes in investments are shown in note 8.

### *Directors*

The directors who held office during the year and those appointed subsequently were as follows:

P K Bentley  
P E B Cawdron (resigned 28 March 1997)  
G M N Corbett (resigned 8 July 1997)  
R H Myddelton  
B E Wickham (appointed 8 July 1997)

### *Directors' Interests*

The directors who held office at the end of the financial year had the following interests in the shares of Grand Metropolitan PLC, the ultimate holding company.

	Ordinary shares of 25p each			Options		
	At end of Year	At beginning of Year or Date of Appointment		At Beginning of Year or Date of Appointment	Granted in Year	Exercised in Year
P K Bentley	-	-	-	66,959	-	66,959
R H Myddelton	27,952	27,019	255,102	56,645	-	311,747

The directors hold the above options under the Grand Metropolitan PLC share option schemes and savings related schemes at prices between 314p and 474p per share exercisable by 2006.

## DIRECTORS' REPORT

### *Directors' Interests - continued*

As a potential beneficiary of the Grand Metropolitan PLC Number 2 Employee Share Trust, RH Myddelton had an interest at 30 September 1996, in 263,794 shares registered in the name of the trustees, Hill Street Trustees Limited, and 9,345,601 shares which were the subject of call options purchased by the trustees from SBC Warburg and National Westminster Bank PLC.

GMN Corbett and PEB Cawdron were directors of the ultimate holding company, Grand Metropolitan PLC, during the year under review and their interests are disclosed in the annual report of that company.

Other than the above, no director had any interest, beneficial or non-beneficial, in the share capital of the Company or any Group company or had a material interest during the year in any significant contracts with the Company or Group Company.

### *Auditor*

Our auditor KPMG had advised that a limited liability company, KPMG Audit Plc was to assume responsibility for certain aspects of their audit business. Accordingly, a resolution was passed on 9 April 1996 for the appointment of KPMG Audit Plc as auditor of the Company. The Company has taken advantage of Section 386(1) of the Companies Act 1985, as amended, to dispense with the obligation to appoint an auditor annually. The auditor, KPMG Audit Plc, is willing to continue in office and will be deemed to be re-appointed on the expiry of their term in respect of the year ended 30 September 1996.

By Order of the Board



**SM Adams**

*Secretary*

11 August 1997

## **DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the report of the auditor set out on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 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 for the financial year.

The directors consider that in preparing the financial statements on pages 5 to 13, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to use a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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.

The directors, having prepared the financial statements, have requested the auditor to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

**REPORT OF THE AUDITOR, KPMG AUDIT PLC  
TO THE MEMBERS OF GRAND METROPOLITAN  
INVESTMENTS LIMITED**

We have audited the financial statements on pages 5 to 13.

**Respective responsibilities of directors and auditor**

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.

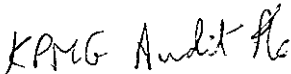
**Basis of Opinion**

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 as at 30 September 1996 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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

**London, 11 August 1997**

## ACCOUNTING POLICIES

### Accounting convention

The financial statements of the Company are prepared under the historical cost convention and comply with applicable UK accounting standards.

### Investments

Fixed asset investments are stated individually at cost less, where appropriate, provision for diminution in value where such diminution is expected by the directors to be permanent.

### Foreign currencies

The functional currency of the company is determined as the currency to which predominately all of its transactions and balances are effectively exposed. In 1996 the functional currency was sterling and in 1995 it was US dollars.

Transactions in foreign currencies, other than the functional currency, are translated into the functional currency at the rate of exchange on the date of the transaction. Assets and liabilities in foreign currencies are translated into the functional currency at the financial year end exchange rates or, if hedged forward, at the rate of exchange derived from the related forward currency contracts. Any resulting net foreign exchange gains or losses are recognised in the profit and loss account.

Where the functional currency is not sterling, the functional currency results are translated into sterling at the weighted average rate of exchange for the year (other than proposed dividends which are translated using the balance sheet exchange rate). Functional currency assets and liabilities are translated into sterling at the financial year end exchange rates. Any exchange differences are dealt with in reserves.

### Taxation

The charge/credit for taxation is based on the taxable profit/loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for taxation deferred if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

**PROFIT AND LOSS ACCOUNT**  
for the year ended 30 September 1996

	Notes	1996 £000's	1995 £000's
Interest receivable	1	195,368	173,876
Dividends receivable	2	303,457	197,194
Interest payable	3	(482,214)	(456,843)
Loss on disposal of listed investments		-	(3)
<b>Profit/(loss) on ordinary activities before taxation</b>	5	<b>16,611</b>	<b>(85,776)</b>
Taxation on profit/(loss) on ordinary activities	6	108,969	93,380
<b>Profit for the financial year</b>		<b>125,580</b>	<b>7,604</b>
Dividends (equity and non equity)	7	(439,604)	(26,276)
<b>Retained loss for the year transferred to reserves</b>	13	<b>(314,024)</b>	<b>(18,672)</b>

The results for the current and preceding years relate entirely to continuing operations.

There is no material difference between the Company's profit and loss account and the historical cost profits and losses. Accordingly, no note of the historical profits and losses for the period has been presented.

**BALANCE SHEET**  
at 30 September 1996

	Notes	1996 £000's	1995 £000's
<b>Fixed assets</b>			
Investments	8	3,567,781	3,404,640
<b>Current assets</b>			
Debtors	9	3,114,024	3,282,417
Creditors - amounts due within one year	10	(95,541)	(2,312,129)
<b>Net current assets</b>		<b>3,018,483</b>	<b>970,288</b>
<b>Total assets less current liabilities</b>		<b>6,586,264</b>	<b>4,374,928</b>
<b>Creditors - amounts due after more than one year</b>	11	<b>(5,689,917)</b>	<b>(3,164,557)</b>
		<b>896,347</b>	<b>1,210,371</b>
<b>Capital and Reserves</b>			
Called up share capital - non equity	12	700,000	700,000
- equity	12	-	-
Profit and loss account	13	196,347	510,371
		<b>896,347</b>	<b>1,210,371</b>

Debtors and net current assets include amounts recoverable after more than one year of £2,251 million (1995: £2,548 million).

The financial statements on pages 5 to 13 were approved by the Board of Directors on 11 August 1997 and signed on its behalf by:

  
P K Bentley, *Director*



**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
for the year ended 30 September 1996

	<b>1996</b> <b>£000's</b>	1995 £000's
Profit for the financial year	<b>125,580</b>	7,604
Exchange adjustments	-	11,796
Total recognised gains and losses for the financial year	<b>125,580</b>	19,400

**RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**  
for the year ended 30 September 1996

	<b>1996</b> <b>£000's</b>	1995 £000's
Profit for the financial year	<b>125,580</b>	7,604
Dividends (equity and non-equity)	<b>(439,604)</b>	(26,276)
	<b>(314,024)</b>	(18,672)
Other recognised gains and losses relating to the year (net)	-	11,796
New share capital issued	-	700,000
Net movement in shareholders' funds	<b>(314,024)</b>	693,124
Shareholders' funds at beginning of year	<b>1,210,371</b>	517,247
Shareholders' funds at end of year	<b>896,347</b>	1,210,371

## NOTES

### 1 Interest receivable

	1996 £000's	1995 £000's
On loans to parent and fellow subsidiaries	147,433	120,972
On loans to subsidiary undertakings	47,932	52,899
Listed investments	3	5
	<u>195,368</u>	<u>173,876</u>

### 2 Dividends receivable

	1996 £000's	1995 £000's
From subsidiary undertakings	302,000	195,737
From other investments	1,457	1,457
	<u>303,457</u>	<u>197,194</u>

### 3 Interest payable

	1996 £000's	1995 £000's
On loans from parent and fellow subsidiaries	397,993	456,843
Other interest	31	-
Foreign exchange losses	84,190	-
	<u>482,214</u>	<u>456,843</u>

### 4 Directors' emoluments

None of the directors received any remuneration during the year in respect of their services as directors of the Company (1995 - £ nil).

### 5 Profit/(loss) on ordinary activities before taxation

The Company has no employees. The auditor's remuneration was borne by the ultimate holding company.

### 6 Taxation on profit/(loss) on ordinary activities

	1996 £000's	1995 £000's
UK Corporation tax credit at 33 %	108,942	93,380
Adjustment in respect of prior years	27	-
	<u>108,969</u>	<u>93,380</u>

The credit for UK corporation tax includes amounts which may be received from other companies in the Grand Metropolitan group in return for the surrender of tax losses. The taxation credit for the year is affected by the tax treatment of dividends receivable from group companies which are not subject to taxation.

## NOTES

### 7 Dividends

	1996 £000's	1995 £000's
<b>Unclassified shares of £1 each - equity</b>		
- Paid	400,000	-
- Proposed	-	-
 <b>5.65% Cumulative Redeemable 'A'</b>		
<b>Preference shares of £1 each - non equity</b>	<b>19,802</b>	<b>13,924</b>
 <b>5.65% Cumulative Redeemable 'B'</b>		
<b>Preference shares of £1 each - non equity</b>	<b>19,802</b>	<b>12,352</b>
	<b>439,604</b>	<b>26,276</b>

### 8 Fixed assets - investments

	Listed Investments £000's	Shares in subsidiary undertakings £000's	Other Investments £000's	Total £000's
Cost/valuation at beginning of year	50	3,384,490	20,100	3,404,640
Exchange adjustment	-	43,281	-	43,281
Increase in investment	-	120,000	-	120,000
Disposals	(50)	(90)	-	(140)
<b>Cost/valuation at end of year</b>	<b>-</b>	<b>3,547,681</b>	<b>20,100</b>	<b>3,567,781</b>

(i) *Listed investments:*

The market value of investments listed on the London Stock Exchange was £nil (1995: £50,000).

(ii) *Shares in subsidiary undertakings:*

During the year the Company increased its investment in Grand Metropolitan Second Investments Limited by £120,000,000 (1995: £211,392,000).

During the year, Grand Metropolitan Nominee Company (No 9) Limited (formerly Tomorrow's People Limited), a dormant subsidiary undertaking was liquidated. There was no profit or loss resulting from this disposal.

In the opinion of the directors, the value of the Company's investment in its subsidiary undertakings is in aggregate not less than the amount stated in the balance sheet.

## NOTES

### (ii) *Shares in subsidiary undertakings: - continued*

The Company's subsidiary undertakings and their activities, all of which are wholly owned and registered in England, are set out below:

Grand Metropolitan Second Investments Limited - an investment holding company.

Grand Metropolitan Third Investments Limited - an investment holding company.

Grand Hotels (Mayfair) Limited - an investment holding company.

### (iii) *Other investments:*

The Company owns the entire issued cumulative participating redeemable preference share capital of Minneapolis (Holdings) Limited, an investment holding company, which is registered in England.

## 9 Debtors

	1996 £000's	1995 £000's
Due from parent and fellow subsidiary undertakings	2,013,713	2,346,940
Due from subsidiary undertakings	991,006	842,079
Group relief receivable	108,961	93,380
Other debtors	344	18
	<b>3,114,024</b>	<b>3,282,417</b>

Amounts due from parent and fellow subsidiary undertakings and due from subsidiary undertakings respectively include £1,574 million (1995: £1,905 million) and £677 million (1995: £643 million) due after more than one year.

## 10 Creditors - amounts falling due within one year

	1996 £000's	1995 £000's
Due to parent and fellow subsidiary undertakings	95,541	2,312,129

Included within amounts due to the parent and fellow subsidiary undertakings are £nil (1995: £26,276,000) in respect of dividends payable.

## NOTES

### 11 Creditors - amounts falling due after more than one year

	1996 £000's	1995 £000's
Due to parent and fellow subsidiary undertakings	5,613,867	3,164,557
Due to subsidiary undertakings	76,050	-
	<u>5,689,917</u>	<u>3,164,557</u>

The amounts due to the parent and fellow subsidiary undertakings are scheduled for repayment between 2000 and 2004.

### 12 Called up share capital

	1996 £	1995 £
<i>Authorised:</i>		
<b>Equity</b>		
100 unclassified shares of £1 each	100	100
4,299,999,900 ordinary shares of £1 each	4,299,999,900	299,999,900
	<u>4,300,000,000</u>	<u>300,000,000</u>
<b>Non-Equity</b>		
350,000,000 5.65% cumulative redeemable 'A' preference shares of £1 each	350,000,000	350,000,000
350,000,000 5.65% cumulative redeemable 'B' preference shares of £1 each	350,000,000	350,000,000
	<u>700,000,000</u>	<u>700,000,000</u>
<i>Allotted and called up:</i>		
<b>Equity</b>		
2 unclassified shares of £1 each	2	2
<b>Non-Equity</b>		
350,000,000 5.65% cumulative redeemable 'A' preference shares of £1 each	350,000,000	350,000,000
350,000,000 5.65% cumulative redeemable 'B' preference shares of £1 each	350,000,000	350,000,000
	<u>700,000,000</u>	<u>700,000,000</u>

The authorised ordinary share capital of the company was increased by 4,000,000,000 shares of £1 each on 29 November 1995.

The "A" and "B" preference shares were redeemed at par on 18 October 1996. The unclassified and ordinary shares are entitled to one vote each. Preference shares carry no voting rights other than at a class meeting of preference shareholders.

## NOTES

### 13 Reserves attributable to equity shareholders

	1996 £000's	1995 £000's
At beginning of year	510,371	517,247
Exchange adjustments	-	11,796
Retained loss for the year	(314,024)	(18,672)
At end of year	196,347	510,371

### 14 Cash flow statement

A cash-flow statement is not presented as the Company is a wholly owned subsidiary undertaking of Grand Metropolitan Public Limited Company. A cash flow statement of the Grand Metropolitan Group is included in the financial statements of the holding company.

### 15 Group accounts

The Company is exempt from the requirement to prepare group accounts under Section 228 of the Companies Act 1985, being a wholly owned subsidiary undertaking of Grand Metropolitan Public Limited Company.

These financial statements present information about Grand Metropolitan Investments Limited as an individual undertaking and not about its group.

### 16 Post balance sheet event

The authorised ordinary share capital of the company was increased by 700,000,000 shares of £1 each on 18 October 1996. On the same date, 700,000,000 ordinary shares of £1 each were reclassified as 700,000,000 5.90% "C" cumulative redeemable preference shares of £1 each and issued at par. The "C" preference shares are redeemable at the shareholders' option, by giving written notice to the Company, up to 29 October 2001. They will be redeemed by the Company on 29 October 2001 unless the Company exercises its option to redeem them at an earlier date. No premium is payable on redemption of the "C" preference shares. The proceeds of the "C" preference share issue were immediately applied in redeeming the entire issued "A" and "B" preference share capital.

On 18 December 1996, 395,000,000 unclassified shares of £1 each (which were formerly "A" and "B" cumulative redeemable preference shares of £1 each) were reclassified as 395,000,000 5.90% "D" cumulative redeemable preference shares of £1 each and issued at par. The "D" preference shares are redeemable at the shareholders' option, by giving written notice to the Company, up to 29 October 2001. They will be redeemed by the Company on 29 October 2001 unless the Company exercises its option to redeem them at an earlier date. No premium is payable on redemption of the "D" preference shares. The "D" preference shares rank pari passu with the "C" preference shares.

### 17 The ultimate holding company

The ultimate holding company is Grand Metropolitan Public Limited Company, a company registered in England. Group financial statements can be obtained from 8 Henrietta Place, London W1M 9AG.