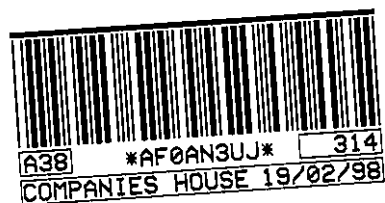


Granada (Management) Limited

Directors' report and financial statements

27 September 1997

Registered number 229607



Directors' report and financial statements

Contents

Directors' report	1
Statement of directors' responsibilities	3
Auditors' report to the members of Granada (Management) Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

Directors' report

The directors present their annual report and the audited financial statements for the 52 week period ended 27 September 1997.

Principal activity

The principal activity of the company is to provide management services for other companies within the Granada Group. The company will continue to provide these management services for the foreseeable future.

Results and dividends

The results for the period are set out on page 5 of these financial statements.

The directors do not recommend the payment of an equity dividend (1996: £nil).

A preference dividend of £89 (1996: £89) has been paid.

Directors

The directors during the period were as follows:

GJ Parrott
JB Tibbitts
GM Wallace (resigned 31 January 1997)

Directors' interests in shares and share options

No director had any beneficial interests in the share capital of the company. The interests of GJ Parrott in the shares and share options of Granada Group PLC (ultimate parent company) are disclosed in the financial statements of that company. The beneficial interests of JB Tibbitts in the shares and share options of Granada Group PLC were as follows:

	27 September 1997		28 September 1996	
	Ordinary	Options	Ordinary	Options
JB Tibbitts	22,994	96,369	27,796	92,869

Details of share options granted under the Share Option Scheme for Executives are given in the financial statements of Granada Group PLC.

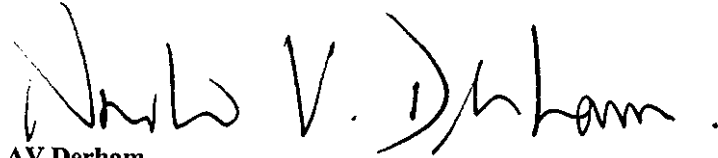
Directors' report *(continued)*

Directors' interests in shares and share options *(continued)*

During the period, options over Ordinary Shares (included in the above table) were granted to and exercised by directors as follows:

Ordinary share options	Granted	Exercised
JB Tibbitts	3,500	-

By order of the board



AV Derham
Secretary

Stornoway House
13 Cleveland Row
London

SW1A 1GG

10 February 1998

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 of the company 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;
- 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

8 Salisbury Square
Blackfriars
London
EC4Y 8BB

Auditors' report to the members of Granada (Management) Limited

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 27 September 1997 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

10 February 1998

Profit and loss account

for the 52 weeks ended 27 September 1997

	<i>Note</i>	1997 £000	1996 £000
Turnover	2	13,437	9,514
Staff costs	3	(6,728)	(5,778)
Depreciation		(712)	(309)
Other operating costs		(4,010)	(1,934)
Profit on ordinary activities before taxation	4	1,987	1,493
Tax on profit on ordinary activities	6	(731)	(579)
Retained profit for the financial period		1,256	914
Accumulated losses brought forward		(97)	(1,011)
Retained profit/(accumulated losses) carried forward		1,159	(97)

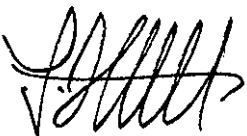
The company has no recognised gains or losses other than the profit for the period. All income and expenditure is derived from continuing activities.

Balance sheet

at 27 September 1997

	Note	1997 £000	1997 £000	1996 £000	1996 £000
Fixed assets					
Tangible fixed assets	8		6,008		6,041
Investments	9		12		12
			6,020		6,053
Current assets					
Debtors	10	9,608		585	
Creditors: amounts falling due within one year	11	(14,466)		(6,732)	
Net current liabilities			(4,858)		(6,147)
Net assets/(liabilities)					
			1,162		(94)
Capital and reserves					
Called up share capital	13		3		3
Profit and loss account			1,159		(97)
Equity and non-equity shareholder's funds	14		1,162		(94)

These financial statements were approved by the board of directors on 10 February 1998 and were signed on its behalf by:



JB Tibbitts
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 under the historical cost convention and in accordance with applicable accounting standards.

Consolidated financial statements

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 Group PLC.

Depreciation

Depreciation is provided so as to write off the cost of tangible fixed assets on a straight line basis at the following rates:

Equipment, fixtures and fittings	7 2/3% to 33 1/3%
Motor vehicles	25% to 33 1/3%
Leasehold refurbishments	5%

Deferred taxation

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

Operating leases

The rental paid under operating leases is charged to the profit and loss account on a straight line basis over the term of the lease.

Pension scheme

Contributions to the Granada Group Pension Scheme (see note 15) are charged against profits as payments are made.

Cash flow statement

The company is exempt under section 5(a) of Financial Reporting Standard 1 (Revised 1996) from the requirement to prepare a cash flow statement. Its cash flows are included in the consolidated cash flow statement in the financial statements of Granada Group PLC.

Related party transactions

The company is a wholly owned subsidiary of Granada Group PLC. Consequently it has taken advantage of the exemption granted by Financial Reporting Standard 8: Related Party Disclosures and has not disclosed transactions with entities that are part of the Granada Group PLC group.

Notes (continued)

2 Turnover

Turnover, which arose wholly in the United Kingdom, represents the invoiced amounts of services provided during the period and is stated net of Value Added Tax. An analysis of turnover is shown below:

	1997 £000	1996 £000
Management fees receivable from group undertakings	13,437	9,514
	<u> </u>	<u> </u>

3 Staff costs

	1997 £000	1996 £000
Wages and salaries	6,125	5,270
Social security costs	586	477
Pension and other costs	17	31
	<u> </u>	<u> </u>
	6,728	5,778
	<u> </u>	<u> </u>

4 Profit on ordinary activities before taxation

	1997 £000	1996 £000
<i>Profit on ordinary activities before taxation is shown after charging/(crediting):</i>		
Auditors' remuneration	3	3
(Profit)/loss on sale of fixed assets	(101)	84
Operating lease costs	89	167
Depreciation of tangible fixed assets	712	309
	<u> </u>	<u> </u>

Notes (continued)

5 Directors' emoluments

	1997 £000	1996 £000
Emoluments	533	666

The emoluments of the highest paid director (Graham Parrott) were £249,000. In 1996, the emoluments of Graham Wallace, who was then the highest paid director, were £301,000. In addition to his emoluments Graham Parrott also received a one off payment in the amount of £38,667 which was equivalent to two months' salary in consideration for a change made to his service contract. The change was to cancel the provision for the notice period to increase, on a change of control of Granada Group PLC, to 36 months. Accordingly, his employment contract has a notice period of 24 months which provides for remuneration to be paid in respect of any unexpired notice period on termination of employment by Granada Group PLC.

The following information details the increase in the accrued annual pension entitlement earned by the highest paid director:

	Increase in accrued pension during the financial period £000	Director's contributions during the financial period £000	Accumulated total accrued pension at 27 September 1997 £000	Director's age as at 27 September 1997 Years
Graham Parrott	20	12	125	48

Notes

- a The increase in accrued pension during the financial period excludes any increases owing to inflation.
- b The accumulated total accrued pension entitlement set out above is that which would be paid annually on retirement of the director and is based on service to the end of the financial period.
- c The director has a Normal Retirement Age of 60.
- d Once in payment, pensions are guaranteed to rise in line with any increases in the Retail Price Index subject to a maximum of 5% per annum.
- e In the event of the death of the director, a pension equal to one half of the director's pension will become payable to a surviving spouse. In addition, a pension may become payable to any surviving children.
- f The director may, with the consent of the company, retire and draw a pension at any time after reaching the age of 50. Any pension payable would be equal to the accrued pension entitlement, revalued to normal retirement age and reduced by 6% for each year of early retirement.

No pension contributions were made by the company in the period or the prior period in respect of the company's directors both of whom were members of the defined benefit scheme. There were no bonus schemes in operation during the period or the prior period in respect of the directors.

During September 1997, the first awards under the Performance Share Plan - approved by the shareholders of Granada Group PLC at its Annual General Meeting held on 29 January 1997 - were made. A conditional award of 29,009 Ordinary Shares of Granada Group PLC at a price of 799.75 pence per share was made to Graham Parrott.

James Tibbitts continued to be eligible for option grants under the Granada Group 1994 Executive Share Option Scheme.

Notes (continued)

6 Tax on profit on ordinary activities

	1997 £000	1996 £000
Taxation based on the results of the period:		
Corporation tax at 32% (1996: 33%)	843	492
Deferred taxation (note 12)	(112)	87
	<u>731</u>	<u>579</u>

7 Dividends

	1997 £	1996 £
Cumulative preference dividend	89	89

8 Tangible fixed assets

	Leasehold refurbishments £000	Equipment, fixtures and fittings £000	Motor vehicles £000	Total £000
Cost				
At 29 September 1996	1,486	4,557	592	6,635
Additions	16	354	391	761
Disposals	-	-	(220)	(220)
	<u>1,502</u>	<u>4,911</u>	<u>763</u>	<u>7,176</u>
Accumulated depreciation				
At 29 September 1996	44	295	255	594
Charge for the period	76	442	194	712
Disposals	-	-	(138)	(138)
	<u>120</u>	<u>737</u>	<u>311</u>	<u>1,168</u>
Net book value				
At 27 September 1997	<u>1,382</u>	<u>4,174</u>	<u>452</u>	<u>6,008</u>
At 28 September 1996	<u>1,442</u>	<u>4,262</u>	<u>337</u>	<u>6,041</u>

Notes (continued)

9 Investments

	Group undertakings £	Other investments £	Total £
Shares			
Cost:			
At 29 September 1996 and 27 September 1997	102	15,000	15,102
Provisions:			
At 29 September 1996 and 27 September 1997	-	(3,600)	(3,600)
Net book value			
At 29 September 1996 and 27 September 1997	102	11,400	11,502

At 27 September 1997 the company had an interest in excess of 5% of the unlisted equity share capital of the following companies, all of which are incorporated in Great Britain and registered in England and Wales.

Name of company	Description of shares	% holding
Granada World Productions Limited	Ordinary shares of £1 each	100%
Kinematograph Equipment Co Limited	Ordinary shares of £1 each	15%

These companies were dormant throughout the period.

In the opinion of the directors the value of the company's investment in group undertakings is not less than the amount at which they are stated in the balance sheet.

Notes (continued)

10 Debtors

	1997 £000	1996 £000
Amounts owed by fellow subsidiary undertakings	9,000	-
Other debtors	78	95
Prepayments and accrued income	61	323
Deferred tax due after more than one year (see note 12)	279	167
VAT debtor	190	-
	9,608	585

11 Creditors: amounts falling due within one year

	1997 £000	1996 £000
Bank loans and overdraft	103	652
Corporation tax payable	878	578
Social security costs	335	270
Accruals and deferred income	2,690	1,938
Amounts owed to parent undertaking	10,460	3,294
	14,466	6,732

12 Deferred tax asset

	1997 £000	1996 £000
Brought forward	167	254
Profit and loss account (see note 6)	112	(87)
	279	167

The asset represents the full effect of timing differences between the tax and accounts treatment of certain items of accrued expenditure.

Notes (continued)

13 Share capital

	1997 £000	1996 £000
<i>Authorised</i>		
12,500 ordinary shares of 5p each	1	1
12,500 4.2% cumulative preference shares of £1 each	12	12
	13	12
<i>Allotted, called up and fully paid</i>		
12,500 ordinary shares of 5p each	1	1
2,130 4.2% cumulative preference shares of £1 each	2	2
	3	2

14 Reconciliation of movements in shareholder's funds

	1997 £000	1996 £000
Opening shareholder's funds	(94)	(1,008)
Profit for the financial period	1,256	914
	1,162	(94)

Analysis of shareholder's funds

	1997 £000	1996 £000
Equity	1,160	(96)
Non-equity	2	2
	1,162	(94)

Notes (continued)

15 Pensions

The company participates in defined benefit pension schemes operated by Granada Group PLC that are externally funded under separate trusts. Valuations of the fund are carried out approximately every three years, the last actuarial assessment being made as at 1 October 1995. That report disclosed that the funds of the scheme were adequate to meet all obligations of the schemes. Particulars of the actuarial valuations of the group schemes are contained in the financial statements of Granada Group PLC.

16 Operating leases

At 27 September 1997 the company had annual commitments under operating leases as follows:

	1997 £000	1996 £000
Operating leases which expire:		
Between one and two years	22	42
	<u>22</u>	<u>42</u>

17 Contingent liabilities

The company, under Group registration, is jointly and severally liable for Value Added Tax due by other group companies. At 27 September 1997, this contingent liability amounted to £40.8 million (1996: £29.6 million). No valuable security has been provided for this contingent liability.

The company is jointly and severally liable, with certain other members of the group, to Barclays Bank PLC in respect of borrowing on the Granada Group joint bank account.

18 Ultimate holding company

The company's ultimate holding company is Granada Group PLC which is incorporated in Great Britain and registered in England and Wales.

The consolidated financial statements may be obtained from The Secretary, Granada Group PLC, Stornoway House, 13 Cleveland Row, London SW1A 1GG.