

Granada (Management) Limited

**Directors' report and financial
statements**

Registered number 229607

30 September 2001



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Directors' report

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

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 7 of these financial statements.

The directors do not recommend the payment of an equity dividend (2000: £nil).

A preference dividend of £nil (2000: £nil) has been paid.

Directors

The directors during the period were as follows:

GJ Parrott
JB Tibbitts

Directors' interests in shares and share options

No directors held any beneficial interests in the share capital of the company.

The interests of G J Parrott in the shares and share options of Granada plc (formerly Granada Compass PLC), Granada Group PLC and Granada Media plc are disclosed in the accounts of Granada plc which is the highest company in the group structure that has prepared audited consolidated accounts to 30 September 2001.

Shareholdings in the ordinary share capital of Granada plc, Granada Group PLC and Granada Media plc beneficially owned by J B Tibbitts who as at 30 September 2001 was a director of the company, his family interests and trusts of which his family were beneficiaries are as follows:

	Granada plc Ordinary shares of 10p		Granada Group PLC Ordinary shares at 12.5p		Granada Media plc Ordinary shares of 2.5p	
	As at 30 September 2001	As at 30 September 2000	As at 30 September 2001	As at 30 September 2000	As at 30 September 2001	As at 30 September 2000
J B Tibbitts	22,894	22,790	-	-	-	3,000

In addition J B Tibbitts held options and awards under Granada plc, Granada Group PLC and Granada Media plc share schemes details of which are set out below.

Performance conditions attached to the various Schemes and Awards are disclosed in the report and accounts of Granada plc.

Directors' report (continued)

Directors' interests in shares and share options (continued)

Granada plc

	At 1 Oct 2000	No. Granted in year	No. Exercised/ vested in year	No. Lapsed in year	At 30 Sept 2001	Exercise Price	Market Price at exercise date	Exercise Period
<i>Approved and Unapproved Executive Share Option Schemes</i>								
J B Tibbitts	0	35,000	0	0	35,000	142.5p		Jul 2004 to Jul 2011
<i>Deferred Share Award Plan</i>								
J B Tibbitts	0	63,199	0	0	63,199	-		50% vest Jul 2002 50% vest Jul 2003

On 1 February 2001 externally held shares in Granada Media plc were cancelled and shareholders received shares in Granada plc in consideration for the cancellation. The ratio at which Granada Media plc shares were effectively exchanged for Granada plc shares was 1.8455 Granada plc shares for each Granada Media plc share. Under the terms of the mandatory exchange, on exercise of a Granada Media plc option, ordinary shares in Granada plc will be delivered on the basis of 1.8455 Granada plc shares for each Granada Media plc share. The figures disclosed in the Granada Media plc table have been adjusted accordingly.

Granada Media plc

	At 1 Oct 2000	No. Granted in year	No. Exercised/ vested in year	No. Lapsed in year	At 30 Sept 2001	Exercise Price	Market Price at exercise date	Exercise Period
<i>Savings Related Share Option Scheme</i>								
J B Tibbitts	0	10,124	0	0	10,124	166p		Feb 2006 to Jul 2006
<i>Approved and Unapproved Executive Share Option Schemes</i>								
J B Tibbitts	73,820	0	0	0	73,820	279p		Jul 2003 to Jul 2010
<i>Deferred Share Award Plan</i>								
J B Tibbitts	32,252	0	16,126	0	16,126	-		50% vest Jul 2001 50% vest Jul 2002
<i>Unapproved Executive Share Option Scheme - Executive Commitment</i>								
J B Tibbitts	193,508	0	0	0	193,508	279p		50% vest Jul 2003 50% vest Jul 2004

Directors' report (continued)

Directors' interests in shares and share options (continued)

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 (formerly Granada Compass PLC) at an exchange rate of one ordinary share of Granada Group PLC to 0.7547 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. In the case of Granada Group options unexercised at 27 January 2001, these were rolled over into options over Granada Compass shares under the Granada Group Rollover Arrangement. The Rollover Arrangement enabled eligible participants to receive options over the number of Granada Compass shares calculated by multiplying by 0.7547 the number of Granada Group shares over which their Granada Group option was granted. 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 Compass ordinary share was replaced by one option over a Granada plc share and one option over a Compass Group plc share. The options over both these sets of shares held under the Rollover Arrangement lapsed on 31 December 2001. Entitlements to Granada plc shares under the Rollover arrangements are shown in the Granada plc - Rollover arrangement table below.

The Rollover Arrangement did not apply to the Granada Group PLC Savings Related Share Option Scheme options and therefore all options under this Scheme lapsed.

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.

Granada Group PLC

	At 1 Oct 2000	No. Granted in year	No. Exercised/ vested in year	No. Lapsed in year	At 30 Sept 2001	Exercise Price	Market Price at exercise date (1)	Exercise Period
<i>Savings Related Share Option Scheme</i>								
J B Tibbitts	3,377	0	867	2,510	0	499.6p	736p	To Jan 2001
<i>Approved and Unapproved Executive Share Option Scheme 1994</i>								
J B Tibbitts	12,000	0	0	12,000	0	450p		To Jan 2001
J B Tibbitts	20,722	0	0	20,722	0	468.5p		To Jan 2001
<i>Approved and Unapproved Executive Share Option Schemes – 1998</i>								
J B Tibbitts	19,278	0	0	19,278	0	468.5p		To Jan 2001
J B Tibbitts	40,000	0	0	40,000	0	542.5p		To Jan 2001

Note 1: The price disclosed for Granada Group PLC shares is the equivalent market price of the shares based on the market value of Granada plc shares on that date and using the conversion rate of 0.7547 described above.

Directors' report *(continued)*

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

Granada plc- Rollover Arrangement

	At 1 Oct 2000	No. Granted in year	No. Exercised/ vested in year	No. Lapsed in year	At 30 Sept 2001	Exercise Price	Market Price at exercise date	Exercise Period
JB Tibbitts	0	9,056	0	0	9,056	271p		To Dec 2001
	0	30,187	0	0	30,187	282p		To Dec 2001
	0	30,188	0	0	30,188	327p		To Dec 2001

Note 1: The options disclosed above represent the Granada plc options which replaced the original Rollover Arrangement options as described above. The recipients also received an equal amount of Compass Group PLC options. Of the 69,431 Compass Group PLC options granted to the directors, all of the options were exercised on 6 April 2001. On this date the market value was £5.22.

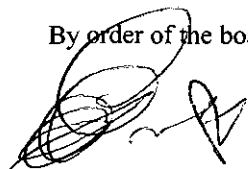
Political and charitable donations

The company made no political contributions and no donations to UK charities in the year (2000:£nil).

Auditors

The Company has passed Elective Resolutions to dispense with the laying of the Annual Report and Financial Statements before the Company in General Meeting, the appointment of auditors annually and the holding of Annual General Meetings, pursuant to Sections 252, 386 and 366A respectively of the Companies Act 1985.

By order of the board



G J Parrott
Director

The London Television Centre
Upper Ground
London
SE1 9LT

29 July 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 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

PO Box 695
8 Salisbury Square
London EC4Y 8BB

Independent auditors' report to the members of Granada (Management) Limited

We have audited the financial statements on pages 7 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, 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 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 2001 and of its loss 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

30 July 2002

Profit and loss account

for the year ended 30 September 2001

	<i>Note</i>	2001 £000	2000 £000
Turnover	2	-	13,485
Staff costs	3	(5,901)	(7,815)
Depreciation		(548)	(803)
Other operating costs		(42,552)	(26,660)
Operating exceptional items	5	(9,987)	(6,912)
Operating loss		(58,988)	(28,705)
Income from investment	6	785	2,150
Interest payable	7	-	(773)
Loss on ordinary activities before taxation	8	(58,203)	(27,328)
Tax on profit on ordinary activities	9	5,218	7,666
Loss for the financial period		(52,985)	(19,662)
Retained (loss)/profit brought forward		(15,268)	4,394
Retained loss carried forward	17	(68,253)	(15,268)

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

A note of historical cost profit and losses has not been included as part of the 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 2001

	Note	2001 £000	2000 £000
Fixed assets			
Tangible fixed assets	10	2,498	3,117
Investments	11	12	12
		<u>2,510</u>	<u>3,129</u>
Current assets			
Debtors	12	40,524	23,924
Cash at bank and in hand		14	-
		<u>40,538</u>	<u>23,924</u>
Creditors: amounts falling due within one year	13	(111,298)	(42,318)
Net current liabilities		<u>(70,760)</u>	<u>(18,394)</u>
Net liabilities		<u>(68,250)</u>	<u>(15,265)</u>
Capital and reserves			
Called up share capital	15	3	3
Profit and loss account	17	(68,253)	(15,268)
Shareholders' funds		<u>(68,250)</u>	<u>(15,265)</u>
Equity		(68,252)	(15,267)
Non-equity		2	2
		<u>(68,250)</u>	<u>(15,265)</u>

These financial statements were approved by the board of directors on 29 July 2002 and were signed on its behalf by:



GJ Parrott
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 preparation

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

The financial statements have been prepared on a going concern basis in view of a letter of support from the company's parent, which undertakes to provide such support as is necessary to maintain the company as a going concern for the foreseeable future.

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 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%

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 in the foreseeable future.

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

The company is a member of the Granada Pension Scheme, a defined benefit scheme. However, as permitted by FRS 17, the company is exempt from accounting for the pension scheme as a defined benefit scheme within the financial statements as the company is unable to identify its share of the underlying assets and liabilities from those of the other participating employers within the group defined benefit scheme. Therefore the company has treated the pension scheme as if it was a defined contributions scheme and the contributions payable to the scheme for the period are shown as the cost within the profit and loss account.

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 plc.

Notes (continued)

1 Accounting policies (continued)

Related party transactions

The company is a wholly owned subsidiary of Granada plc, whose consolidated accounts are publicly available. 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 group or investees of the group.

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:

	2001 £000	2000 £000
Management fees receivable from group undertakings	-	13,485

3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2001	2000
Directors and executives	10	12
Finance and treasury	15	19
Human resources	27	32
Administration	24	31
	76	94

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries including redundancy costs	5,242	6,961
Social security costs	613	802
Pension costs and other benefits	46	52
	5,901	7,815

All staff were employed in the UK during 2001 and 2000.

Notes (continued)

4 Directors' emoluments

	2001 £000	2000 £000
Emoluments	530	490

The emoluments of the highest paid director were £326,000 (2000: £307,000).

The details of the accrued annual pension entitlement earned by the highest paid director, GJ Parrott, and the related notes, are disclosed in the accounts of Granada plc which is the highest company in the group structure that has prepared audited consolidated accounts to 30 September 2001.

5 Operating exceptional items

	2001 £000	2000 £000
Share of costs of merger and demerger with Compass Group plc	6,711	6,912
Reorganisations and United integration costs	3,276	-
	<u>9,987</u>	<u>6,912</u>

6 Income from investments

	2001 £000	2000 £000
Dividends received	785	2,150

7 Interest payable and similar charges

	2001 £000	2000 £000
On bank loans and overdrafts	-	773

Notes (continued)

8 Loss on ordinary activities before taxation

	2001 £000	2000 £000
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
- audit of group companies	90	5
- other services for group companies	1,572	-
Tangible fixed assets:		
- depreciation charge	548	803
Hire of assets - rentals payable under operating leases	181	744
Cost incurred by the company on behalf of employees exercising share options and receiving share awards	27,567	20,794

During the year, the company has borne the audit fee for other group companies.

Other services provided by KPMG Audit Plc principally comprise advice relating to the merger and subsequent demerger with Compass Group plc, the acquisition of United's television assets and corporation and payroll taxes advice.

9 Tax on profit on ordinary activities

	2001 £000	2000 £000
Taxation based on the results of the year		
Corporation tax at 30% (2000: 30%)	5,511	7,650
Deferred taxation (note 14)	(293)	16
	<u>5,218</u>	<u>7,666</u>

Notes *(continued)*

10 Tangible fixed assets

	Equipment, fixtures and fittings £000	Motor vehicles £000	Total £000
<i>Cost</i>			
At 1 October 2000	3,981	1,153	5,134
Additions	15	63	78
Disposals	-	(392)	(392)
At 30 September 2001	3,996	824	4,820
<i>Accumulated depreciation</i>			
At 1 October 2000	1,415	602	2,017
Charge for the period	339	209	548
Disposals	-	(243)	(243)
At 30 September 2001	1,754	568	2,322
<i>Net book value</i>			
At 30 September 2001	2,242	256	2,498
At 30 September 2000	2,566	551	3,117

Notes *(continued)*

11 Investments

	Group undertakings £000	Other investments £000	Total £000
Shares			
<i>Cost:</i>			
At 30 September 2000 and 2001	-	16	16
<i>Provisions:</i>			
At 30 September 2000 and 2001	-	(4)	(4)
<i>Net book value</i>			
At 30 September 2000 and 2001	-	12	12

At 30 September 2001 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	Country of incorporation	Principal activity	Class and percentage of shares held
Granada World Productions Limited	UK	Holding Company	100% of ordinary shares
Kinematograph Equipment Co Limited	UK	Dormant	15 % of ordinary shares

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)

12 Debtors

	2001 £000	2000 £000
Amount owed by parent undertakings	1,031	2,010
Amounts owed by fellow subsidiary undertakings	25,887	-
Amounts owed by subsidiary undertakings	11,900	11,900
Other debtors	1,475	1,689
Prepayments and accrued income	231	20
Deferred tax due after more than one year	-	293
Corporation tax debtor	-	8,012
	<u>40,524</u>	<u>23,924</u>

13 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Bank loans and overdraft	64,156	36,309
Trade creditors	309	611
Amounts owed to parent undertakings	17,426	-
Social security costs	881	422
Accruals and deferred income	28,526	4,976
	<u>111,298</u>	<u>42,318</u>

14 Deferred tax asset

	2001 £000	2000 £000
Brought forward	293	277
Profit and loss account (see note 9)	(293)	16
	<u>-</u>	<u>293</u>

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

Notes (continued)

15 Share capital

	2001 £000	2000 £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	13
<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	3

16 Reconciliation of movements in shareholder's funds

	2001 £000	2000 £000
Opening shareholder's funds	(15,265)	4,397
Loss for the financial year	(52,985)	(19,662)
	(68,250)	(15,265)

17 Reserves

	Profit and loss account £000
Opening balance	(15,268)
Loss for the year	(52,985)
	(68,253)

18 Pensions

The company participates in defined benefit pension schemes operated by Granada plc that are externally funded under separate trusts. Particulars of the actuarial valuations of the group schemes are contained in the financial statements of Granada plc.

Notes (continued)

19 Operating leases

At 30 September 2001 the company had annual commitments under operating leases as follows:

	Land and buildings 2001 £000	Other operating leases 2001 £000	Total 2001 £000	Land and buildings 2000 £000	Other operating leases 2000 £000	Total 2000 £000
Operating leases which expire:						
Within one year	-	33	33	-	-	-
Between one and five years	74	2	76	74	28	102
More than five years	71	-	71	646	-	646
	145	35	180	720	28	748

20 Contingent liabilities

The company, under Group registration, is jointly and severally liable for Value Added Tax due by other group companies. At 30 September 2001, this contingent liability amounted to £1 million (2000: £37 million). No 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 plc joint bank account.

21 Ultimate holding company

Granada (Management) Limited is a wholly owned subsidiary of Granada Media plc, a company registered in England and Wales.

The company's ultimate holding company is Granada plc (formerly Granada Compass PLC) which is incorporated in Great Britain and registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Granada plc. The consolidated accounts of this company are available to the public from The Secretary, The London Television Centre, Upper Ground, London, SE1 9LT.