Granada Management Limited

Directors' report and financial statements

Registered number 229607

30 September 2002

Contents

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 provide management services for other companies within the Granada Group. The Company will continue to provide these management services for the foreseeable future.

Business review

The results for the year are shown in the Profit and Loss Account on page 6 of these financial statements.

Dividends

The directors do not recommend the payment of an equity dividend *(2001: £nil)*. A preference dividend has not been paid *(2001: £nil)*.

Directors

The following were directors of the Company during the year ended 30 September 2002.

Graham Parrott
James Tibbitts

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

Directors' interests

The interests of Graham Parrott in the shares and options of Granada 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 2002. A copy of the accounts of Granada plc can be obtained from the Company Secretary at the registered office address.

Shareholdings in the ordinary share capital of Granada plc beneficially owned by Mr Tibbitts who as at 30 September 2002 was a director of the Company and his family's interests and trusts of which his family are beneficiaries are as follows:

	Granada plc Ordinary shares of 10p	
	As at 30 September 2002	**As at 1 October 2001**
James Tibbitts	58,633	22,894

In addition Mr Tibbitts held options and awards under Granada plc and Granada Media plc share schemes, and the Granada plc Rollover Arrangement 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 which is the highest company in the Group structure that has prepared audited consolidated accounts to 30 September 2002.

Granada Rollover Arrangement

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.

Directors' report *(continued)*

Granada Rollover Arrangement *(continued)*

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.

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.

	At 1 Oct 2001	Number granted in year	Number exercised/ vested in year	Number lapsed in year	At 30 Sept 2002	Exercise price (p)	Exercise period
James Tibbitts	9,056	-	-	9,056	-	271	To Dec 2001
James Tibbitts	30,187	-	-	30,187	-	282	To Dec 2001
James Tibbitts	30,188	-	-	30,188	-	327	To Dec 2001

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. All of the 69,431 Compass Group plc options granted to the above director were exercised on 6 April 2001.

Granada Media plc

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 below have been adjusted accordingly to show the Granada plc equivalent.

Granada Media plc

	At 1 Oct 2001	Number granted in year	Number exercised/ vested in year	Number lapsed in year	At 30 Sept 2002	Exercise price (p)	Exercise period
Savings Related Share Option Scheme							
James Tibbitts	10,124	-	-	10,124	-	166	Feb 2006 to Aug 2006
Approved and Unapproved Executive Share Option Schemes							
James Tibbitts	73,820	-	-	-	73,820	279	Jul 2003 to Jul 2010
Deferred Share Award Plan							
James Tibbitts	16,126	-	16,126	-	-	-	50% Jul 2001, 50% Jul 2002
Unapproved Executive Share Option Scheme - Executive Commitment							
James Tibbitts	193,508	-	-	-	193,508	279	50% Jul 2003, 50% Jul 2004 dependent on performance

Directors' report *(continued)*

Granada plc

	At 1 Oct 2001	Number granted in year	Number exercised/ vested in year	Number lapsed in year	At 30 Sept 2002	Exercise price (p)	Exercise period
Sharesave Option Scheme							
James Tibbitts	-	8,189	-	8,189	-	116	Jan 2005 to Jul 2005
James Tibbitts	-	9,350	-	-	9,350	101.6	Jul 2005 to Jan 2006
Approved and Unapproved Executive Share Option Schemes							
James Tibbitts	35,000	-	-	-	35,000	142.5	Jul 2004 to Jul 2011
James Tibbitts	-	1,000	-	-	1,000	149	Jan 2005 to Jan 2012
James Tibbitts	-	18,500	-	-	18,500	110.5	Jul 2005 to Jul 2012
Deferred Share Award Plan							
James Tibbitts	63,199	-	31,599	-	31,600	-	50% vest Jun 2002, 50% vest Jun 2003

Donations

There were no charitable donations or political contributions in the year *(2001: £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

H Krautz
H Kautz
Secretary

The London Television Centre
Upper Ground
London SE1 9LT

30 July 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 to the members of Granada Management Limited

We have audited the financial statements on pages 6 to 15.

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 4, 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 30 July 2003

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Profit and loss account

for the year ended 30 September 2002

	Note	**2002 £000**	2001 £000
Turnover	*2*	**85,267**	-
Staff costs	*3*	**(5,745)**	(5,901)
Depreciation	*9*	**(461)**	(548)
Other operating costs		**(35,475)**	(42,552)
Operating exceptional items	*5*	**-**	(9,987)
Operating profit/(loss)		**43,586**	(58,988)
Investment income	*6*	**1,490**	785
Profit/(loss) on ordinary activities before taxation	*7*	**45,076**	(58,203)
Taxation	*8*	**(14,076)**	5,218
Retained profit/(loss) for the financial period	*15*	**31,000**	(52,985)

The results for both current and prior years derive 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 period other than those disclosed in the above profit and loss account.

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

Balance sheet

at 30 September 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Tangible fixed assets	*9*		**1,972**		2,498
Investments	*10*		**12**		12
			1,984		2,510
Current assets					
Debtors: amounts falling due within one year	*11*	**104,561**		40,524	
Cash at bank and in hand and short term deposits		**12**		14	
		104,573		40,538	
Creditors: amounts falling due within one year	*12*	**(143,636)**		(111,298)	
Net current liabilities			**(39,063)**		(70,760)
Provisions for liabilities and charges	*13*		**(171)**		-
Net liabilities			**(37,250)**		(68,250)
Capital and reserves					
Called up share capital	*14*		**3**		3
Profit and loss account	*15*		**(37,253)**		(68,253)
Shareholders' funds	*16*		**(37,250)**		(68,250)
Equity		**(37,252)**		(68,252)	
Non-equity		**2**		2	
			(37,250)		(68,250)

These financial statements were approved by the board of directors on 30 JULY 2003 and were signed on its behalf by:

Graham 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. The Company has adopted FRS 19 'Deferred tax' in these financial statements. There is no prior year adjustment in these financial statements as the amounts involved are not material.

Basis of accounting

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

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.

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.

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.

Related party transactions

As the Company is a wholly owned subsidiary undertaking of Granada plc whose consolidated financial statements are publicly available, it 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.

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%

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 charged to the profit and loss account.

Investments

The Company's balance sheet includes investments at cost less amounts written off in respect of any diminution in value.

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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.

Taxation

The charge for taxation is based on the profit or 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. Deferred tax is recognised in respect of 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.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

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.

	2002	2001
	£000	£000
Management fees receivable from group undertakings	**85,267**	-
	85,267	-

The above represents the recharge to other group companies of overhead costs incurred by Granada Management Limited on behalf of group companies.

3 Staff costs

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

	Number of employees	
	2002	2001
Directors and executives	**14**	10
Finance and treasury	**12**	15
Human resources	**22**	27
Administration	**10**	24
	58	76

Notes *(continued)*

3 Staff costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries including redundancy costs	3,955	5,242
Social security costs	878	613
Pension costs and other benefits	912	46
	5,745	5,901

All staff were employed in the UK in 2002 and 2001.

4 Directors' emoluments

	2002 £000	2001 £000
Emoluments	638	530

The emoluments of the highest paid director were £351,000 *(2001: £326,000)*.
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 2002.

5 Operating exceptional items

	2002 £000	2001 £000
Share of costs of merger and demerger with Compass Group plc	-	6,711
Reorganisation and United integration costs	-	3,276
	-	9,987

6 Investment income

	2002 £000	2001 £000
Dividends receivable	1,490	785

Notes *(continued)*

7 Profit/(loss) on ordinary activities before taxation

	2002 £000	2001 £000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
- audit of group companies	-	90
- other services for group companies	219	1,572
Tangible fixed assets:		
- depreciation charge	461	548
Hire of assets – rentals payable under operating leases	101	181
Costs incurred by the Company on behalf of employees exercising share options and receiving share awards	10,866	27,567

During the year the remuneration of the auditor is borne by another group company. In the previous year the Company had borne the audit fee for other group companies.

In 2001 other services provided by KPMG Audit Plc principally comprised advice relating to the merger and subsequent demerger with Compass Group plc and the acquisition of United's television assets.

8 Taxation

	2002 £000	2001 £000
Current tax - corporation tax at 30% *(2001: 30%)*	13,905	(5,511)
Deferred tax	171	293
	14,076	(5,218)

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

	2002 £000	2001 £000
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	45,076	(58,203)
Current tax at 30% (2001: 30%)	13,523	(17,461)
Effects of:		
Expenses not deductible for tax purposes	328	13
Losses not utilised in year	-	11,787
Capital allowances in excess of depreciation	54	150
Total current tax charge/ (credit)	13,905	(5,511)

Notes *(continued)*

9 Tangible fixed assets

	Equipment, fixtures and fittings £000	Motor vehicles £000	Total £000
Cost			
At 1 October 2001	3,996	824	4,820
Additions	-	128	128
Disposals	(248)	(183)	(431)
At 30 September 2002	3,748	769	4,517
Accumulated deprecation			
At 1 October 2001	1,754	568	2,322
Charge for period	299	162	461
Disposals	(65)	(173)	(238)
At 30 September 2002	1,988	557	2,545
Net book value			
At 30 September 2002	1,760	212	1,972
At 30 September 2001	2,242	256	2,498

10 Investments

	Group undertakings £000	Other investments £000	Total £000
Cost:			
At 30 September 2001 and 2002	-	16	16
Provisions:			
At 30 September 2001 and 2002	-	(4)	(4)
Net book value			
At 30 September 2001 and 2002	-	12	12

At 30 September 2002 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	100% of ordinary
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)*

11 Debtors: amounts falling due within one year

	2002 £000	2001 £000
Amounts owed by parent undertakings	**17,796**	1,031
Amounts owed by fellow subsidiary undertakings	**86,101**	25,887
Amounts owed by subsidiary undertakings	-	11,900
Other debtors	**180**	1,475
Prepayments and accrued income	**484**	231
	104,561	40,524

12 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Bank loans and overdraft	**79,119**	64,156
Trade creditors	-	309
Amounts owed to parent undertakings	**26,461**	17,426
Social security costs	**146**	881
Accruals and deferred income	**37,910**	28,526
	143,636	111,298

13 Deferred taxation

	£000
At beginning of year	-
Profit and loss account charge for the year (see note 8)	171
At end of year	171

The elements of deferred taxation are as follows:

	2002 £000	2001 £000
Accelerated capital allowances	**171**	-
	171	-

Notes *(continued)*

14 Called up share capital

	2002 £000	2001 £000
Authorised:		
12,500 ordinary shares of 5p each	**1**	1
12,500 4.2% cumulative preference shares of £1 each	**12**	12
	13	13
Allotted, called up and fully paid:		
12,500 ordinary shares of 5p each	**1**	1
2,130 4.2% cumulative preference shares of £1 each	**2**	2
	3	3

15 Profit and loss account

	2002 £000
At 1 October 2001	**(68,253)**
Profit for the financial year	**31,000**
At 30 September 2002	**(37,253)**

16 *Reconciliation of movements in shareholders' funds*

	2002 £000	2001 £000
Balance at 1 October 2001	**(68,250)**	(15,265)
Retained profit/(loss) for year for equity shareholders	**31,000**	(52,985)
At 30 September 2002	**(37,250)**	(68,250)

17 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)*

18 Operating leases

At 30 September 2002 the Company had annual commitments under operating leases as follows:

	Land and buildings 2002 £000	Land and buildings 2001 £000	Other 2001 £000	Total 2001 £000
Operating leases which expire:				
Within one year	**74**	-	33	33
Between one and five years	-	74	2	76
More than five years	-	71	-	71
	74	145	35	180

19 Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 30 September 2002 of £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.

20 Ultimate parent company

The Company is a wholly owned subsidiary of Granada Media plc, a company registered in England and Wales. The ultimate parent company is Granada plc, which is registered and incorporated in Great Britain and registered in England and Wales. The largest and smallest group in which the results of the Company are consolidated is that headed by Granada plc. The consolidated accounts of Granada plc are available to the public from The Secretary, The London Television Centre, Upper Ground, London, SE1 9LT.