

**XRO LIMITED**

**(Formerly The Rank Organisation Limited)**

**DIRECTORS' REPORT**

**AND**

**FINANCIAL STATEMENTS**

**31st DECEMBER 1997**

Registered No. 324504



## XRO LIMITED

### DIRECTORS' REPORT

The Directors present their Report and Accounts for the 6 month period ended 31st December, 1997.

#### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

On 30 June 1997 the company became a wholly owned subsidiary of Xerox Overseas Holdings Limited (at that time Xerox Overseas Holdings PLC), a member of the Xerox Corporation group of companies.

The principal activity of the Company has been that of an investment holding company. The profit for the period on ordinary activities after charging taxation was £K63,699 (to 30th June: £K1,298,340).

#### CHANGE OF NAME

The name of the company was changed from The Rank Organisation Limited to XRO Limited on 23rd July 1997.

#### DIVIDENDS

Dividends totalling £K63,699 were received by the Company and dividends totalling £K63,699 were declared and paid in the period (1997 to 30th June: £K1,473,290).

#### FIXED ASSETS

Details of fixed asset investments are shown in note 7 to the accounts.

#### DIRECTORS

The following were Directors of the Company during the period:-

C P Gilliam (appointed 30 June 1997)  
R Y Okasako (appointed 30 June 1997)  
M R Smart (appointed 30 June 1997)  
C Shephard (appointed 30 June 1997)

**XRO LIMITED**

**DIRECTORS' REPORT**  
(continued)

**DIRECTORS' INTERESTS**

The interests (including family interests) of the Directors of the Company in office as at 30th June and 31st December, 1997 in the stock of Xerox Corporation are as set out below:

		Common Stock par value \$1.00 holding(units)	Profit Sharing & Savings Plan Xerox Stock fund(units)	Series 'B' Convertible Preferred Stock(units)	Options for Common Stock par value \$1.00(units)
C P Gilliam	a	700	-	272	10,840
	b	700	-	272	10,840
R Y Okasako	a	17,422	3,541	405	49,540
	b	17,422	3,541	405	21,424
M R Smart	a	100	-	-	15,810
	b	-	-	-	15,810
C Shephard	a	-	-	-	3,300
	b	-	-	-	3,300

a – holding on 31 December, 1997

b – holding on 1 July, 1997

**PERSONNEL**

The company had no employees during the period.

**CHANGE OF ACCOUNTING REFERENCE DATE**

In order to coincide with the closing date for the transaction whereby the Company became a wholly owned subsidiary of Xerox Overseas Holdings Limited, the accounting reference date of the Company was initially changed to 30 June. Subsequently the accounting reference date of the Company has changed to 31 December.

**AUDITORS**

The auditors, KPMG Audit Plc, have expressed their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

*C. Shephard*

By Order of the Board

C Shephard  
Secretary

Registered Office  
6 Connaught Place  
London W2 2EZ

12 October 1998

**XRO LIMITED**

**DIRECTORS' REPORT**

(continued)

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to prepare accounts for each financial period 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 accounts, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgments and estimates;
- state that all applicable accounting standards have been followed, save as disclosed in the notes to the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to do so.

The Directors are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible 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.

## AUDITORS' REPORT TO THE MEMBERS OF XRO LIMITED

We have audited the financial statements on pages 5 to 15.

### **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 of 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 group'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 at 31 December, 1997 and of the 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

Date: 12 October 1998

**XRO LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE SIX MONTH PERIOD ENDED 31ST DECEMBER, 1997**

	<b><u>Note</u></b>	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>31 December</u></b> <b><u>£'000</u></b>	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>30 June</u></b> <b><u>£'000</u></b>
<b>OPERATING PROFIT</b>			
Continuing operations	2	-	14,642
Non-operating items	3	-	(402,359)
<b>Loss before interest</b>		-	(387,717)
<b>Income from shares in group undertakings</b>		63,699	1,686,192
Interest receivable and similar income	4	-	4,201
Interest payable and similar charges	5	-	(4,336)
<b>Profit on ordinary activities before taxation</b>		63,699	1,298,340
<b>Tax on profit on ordinary activities</b>		-	-
<b>Profit on ordinary activities after taxation</b>		63,699	1,298,340
Dividends proposed and paid (including non-equity dividends)	6	(63,699)	(1,473,920)
<b>Retained loss for the period</b>		-	(175,580)

There have been no recognised gains or losses other than the above profit or loss for the period.

The notes to the accounts are on pages 8 to 15.

**XRO LIMITED**

**BALANCE SHEET AT 31ST DECEMBER, 1997**

	<u>Note</u>	<u>1997</u> <u>31 December</u> <u>£'000</u>	<u>1997</u> <u>30 June</u> <u>£'000</u>
<b>FIXED ASSETS</b>			
Investments - Shares in Group Undertakings	7	931,738	931,738
<b>CURRENT ASSETS</b>			
Debtors: Amount due from parent undertaking		884,164	884,164
Cash at bank		1	-
		884,165	884,164
<b>CREDITORS - Amounts falling due within one year:</b>			
Amounts owed to group undertakings		(1,742)	(1,742)
Other creditors	8	(7,512)	(7,511)
		(9,254)	(9,253)
<b>NET CURRENT ASSETS</b>			
		874,911	874,911
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		1,806,649	1,806,649
<b>NET ASSETS</b>			
		1,806,649	1,806,649
<b>CAPITAL AND RESERVES</b>			
Called up share capital	9	136,163	136,163
Share premium account	9	528,861	528,861
<b>Other reserves:</b>			
Capital redemption reserve		1,287	1,287
Profit and loss account		1,140,338	1,140,338
Shareholders' funds	10	1,806,649	1,806,649

**XRO LIMITED**

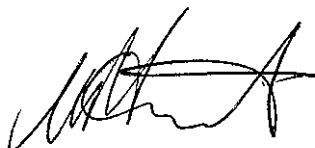
**BALANCE SHEET AT 31ST DECEMBER, 1997**

(continued)

	<u>Note</u>	<u>1997</u> <u>31 December</u> <u>£'000</u>	<u>1997</u> <u>30 June</u> <u>£'000</u>
<b>ANALYSIS OF SHAREHOLDERS' FUNDS</b>			
Equity interests		1,599,418	1,599,418
Non-equity interests		207,231	207,231
		<hr/>	<hr/>
<b>SHAREHOLDERS' FUNDS</b>	<b>11</b>	<b>1,806,649</b>	<b>1,806,649</b>
		<hr/> <hr/>	<hr/> <hr/>

These accounts were approved by the Board of Directors on 12 October 1998 and signed  
On their behalf by:

Director



The notes to the accounts are on pages 8 to 15.



## XRO LIMITED

### NOTES TO THE ACCOUNTS AT 31ST DECEMBER, 1997

#### 1. Accounting policies

(i) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards except for the departure stated in note 9 and on a basis consistent with the previous period.

(ii) Investments

Investments are stated at cost.

(iii) Deferred taxation

Deferred taxation, computed under the liability method, is provided in respect of timing differences to the extent that it is probable that a liability will crystallise. No provision is made where it is probable that an asset or liability will not crystallise.

(iv) Foreign currency

Assets, liabilities, revenues and costs arising from transactions denominated in foreign currencies are translated into Sterling either at the exchange rate in operation on the date on which the transactions occurred or at the contracted rate if the transaction is covered by a related or matching foreign exchange contract.

At the balance sheet date monetary assets and liabilities are translated at closing, or if appropriate, forward contract rates. Non-monetary assets are maintained at their historic Sterling equivalent.

Exchange gains or losses on settled transactions and unsettled monetary items are dealt with in the profit and loss account as part of the results from ordinary activities.

(v) Cash flow statement

Under Financial Reporting Standard 1, the Company is exempt from the requirement to include a cash flow statement within its accounts since it is a wholly owned subsidiary undertaking of a UK parent.

(vi) Consolidation

The information in these financial statements is presented about the Company as an individual undertaking and not about its group.

Under the provisions of Section 228 of the Companies Act 1985, the Company is exempt from the obligation to prepare and deliver group accounts. The Company is a wholly owned subsidiary of Xerox Overseas Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

**XRO LIMITED**

**NOTES TO THE ACCOUNTS AT 31ST DECEMBER, 1997**  
(continued)

**2. Operating profit - continuing operations**

	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>31 December</u></b> <b>£'000</b>	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>30 June</u></b> <b>£'000</b>
Administrative expenses	-	(1,005)
Exchange gains/(losses)	-	15,647
	<hr/>	<hr/>
	-	14,642
	<hr/> <hr/>	<hr/> <hr/>

**3. Non-operating exceptional items**

	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>31 December</u></b> <b>£'000</b>	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>30 June</u></b> <b>£'000</b>
<u>Non-operating items:</u>		
Profit on disposal of continuing operations	-	1,000
Write down of investments in subsidiary undertakings	-	(403,573)
Profit on sale of investment	-	8
Elimination of unclaimed dividends	-	206
	<hr/>	<hr/>
	-	(402,359)
	<hr/> <hr/>	<hr/> <hr/>

**4. Interest payable and similar charges**

	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>31 December</u></b>	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>30 June</u></b>
Bank loans and overdrafts	-	4,336
	<hr/>	<hr/>
	-	4,336
	<hr/> <hr/>	<hr/> <hr/>

**XRO LIMITED**

**NOTES TO THE ACCOUNTS AT 31ST DECEMBER, 1997**  
(continued)

**5. Interest receivable and similar income**

	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>31 December</u></b> <b><u>£'000</u></b>	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>30 June</u></b> <b><u>£'000</u></b>
Interest receivable on short term deposits and investments	-	4,201
	<hr/>	<hr/>
	-	4,201
	<hr/> <hr/>	<hr/> <hr/>

**6. Dividends paid or proposed**

	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>31 December</u></b> <b><u>£'000</u></b>	<b><u>1997</u></b> <b><u>6 months to</u></b> <b><u>30 June</u></b> <b><u>£'000</u></b>
Equity	56,002	1,464,855
Non-equity	7,697	9,065
	<hr/>	<hr/>
	63,699	1,473,920
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**XRO LIMITED**

**NOTES TO THE ACCOUNTS AT 31ST DECEMBER, 1997**

(continued)

**7. Investments**

<b><u>Principal subsidiary undertakings</u></b>	<b><u>Principal activities</u></b>	<b><u>Holding of share capital</u></b>	
		<b><u>Class</u></b>	<b><u>Percentage</u></b>
XRI Limited	Investment Holding Company	Ordinary	100%
XRI Limited	Investment Holding Company	5% Pref	100%
RRXH Limited	Investment Holding Company	Ordinary	100%

All shareholdings are directly held, except for RRXH Limited, 50% of which is held indirectly via XRI Limited.

<b><u>Cost of investments in subsidiary undertakings:</u></b>	<b><u>Shares at cost</u></b> <b><u>£'000</u></b>
Balances at 30th June, 1997	931,738
Balances at 31st December, 1997	<u>931,738</u>
<b><u>Provision for diminution in value:</u></b>	
Balances at 30th June, 1997 and 31st December, 1997	<u>-</u>
<b><u>Net book value:</u></b>	
31st December, 1997	<u>931,738</u>
30th June, 1997	<u>931,738</u>

In the opinion of the Directors the value of the Company's investments in subsidiaries is not less than the amount at which they are stated in the balance sheet.

**8. Other creditors**

	<b><u>1997</u></b> <b><u>31 December</u></b> <b><u>£'000</u></b>	<b><u>1997</u></b> <b><u>30 June</u></b> <b><u>£'000</u></b>
<b><u>Amounts falling due within one year:</u></b>		
Accrued dividend payable	7,511	7,511
Other	<u>1</u>	<u>-</u>
	<u>7,512</u>	<u>7,511</u>

**XRO LIMITED**

**NOTES TO THE ACCOUNTS AT 31ST DECEMBER, 1997**  
(continued)

**9. Authorised and called up share capital**

	<b><u>1997</u></b> <b><u>31 December</u></b> <b><u>£'000</u></b>	<b><u>1997</u></b> <b><u>30 June</u></b> <b><u>£'000</u></b>
<b><u>Authorised share capital:</u></b>		
1,087,500,000 Ordinary shares of 10p each	108,750	108,750
300,000,000 Convertible Redeemable Preference shares of 20p each	60,000	60,000
1,000,000,000 US\$ Preferred Ordinary shares of 1 cent each (see below)	5,890	5,890
500,000,000 US\$ Convertible Cumulative Preference shares of 1 cent each (see below)	2,945	2,945
	<u>177,585</u>	<u>177,585</u>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>US Dollars:</b>		
1,000,000,000 Preferred Ordinary shares of 1 cent each	10,000	10,000
500,000,000 Convertible Cumulative Preference shares of 1 cent each	5,000	5,000
	<u>15,000</u>	<u>15,000</u>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
<b><u>Called up share capital:</u></b>		
<b><u>Sterling:</u></b>		
Allotted, called up, issued and fully paid: 838,340,334 Ordinary shares of 10p each	83,834	83,834
227,552,614 Convertible Redeemable Preference shares of 20p each	45,512	45,512
US\$ Preferred Ordinary shares (see below)	5,361	5,361
US\$ Convertible Cumulative Preference Shares	1,456	1,456
	<u>136,163</u>	<u>136,163</u>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>US Dollars:</b>		
838,340,334 Preferred Ordinary shares of 1 cent each	8,383	8,383
227,552,614 Convertible Cumulative Preference shares of 1 cent each	2,276	2,276
	<u>10,659</u>	<u>10,659</u>

**XRO LIMITED**

**NOTES TO THE ACCOUNTS AT 31ST DECEMBER, 1997**

(continued)

**9. Authorised and called up share capital(continued)**

**Sterling Convertible Redeemable Ordinary Preference shares of 20p each**

- The shares carry no fixed dividend entitlement. In respect of any dividend declared attributable to Ordinary Preference shares 0.25% is deemed attributable to the Sterling Ordinary shares.
- Redeemable by Company at 1p per share in July 2007.

**US\$ Preference shares**

- The Convertible Preference share fixed dividend is paid in two equal instalments on 31st January and 31st July at 5.54 cents.
- The Preferred Ordinary shares carry no fixed dividend entitlement. Any dividend declared attributable to Ordinary shares are deemed 99.75% attributable to the US\$ Preferred Ordinary shares.

**Share capital and share premium account**

	<b><u>Share capital</u></b>		<b><u>Total</u></b>	<b><u>Share premium account</u></b>
	<b><u>Ordinary</u></b>	<b><u>Preference</u></b>		
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 30th June 1997	83,834	52,329	136,163	528,861
Balance at 31st December, 1997	83,834	52,329	136,163	528,861

**Departure from FRS4**

During 1996 the Company became a wholly owned subsidiary. As part of a capital restructuring the redemption value of the Sterling Redeemable Ordinary Preference shares of 20p each in July 2007 has been reduced from £1 to 1p each as a result of a resolution passed at the Extraordinary General Meeting on 12th September 1996. Following this change, the accrued redemption premium at 1st January 1996 of £11 million has been credited as an appropriation to the profit and loss account. This is a departure from FRS4 which would require the difference in the current carrying value and new redemption value to be taken as financing credits over the period to redemption.

The Directors consider that the treatment required by FRS4 would not give a true and fair view as it would involve the inclusion of a credit to profit and loss each year until 2007 of approximately £17 million per annum as the shareholding until the redemption is held entirely by another group company. The Directors also consider that the non-equity shares should be attributed a share of net assets equivalent to the amount to be repaid on redemption.

**XRO LIMITED**

**NOTES TO THE ACCOUNTS AT 31ST DECEMBER, 1997**

(continued)

**10. Reconciliation of movements in shareholders' funds**

	£'000
Balance at 30th June, 1997	1,806,649
Dividend received	63,699
Dividend paid	(63,699)
	<hr/>
Balance at 31st December, 1997	1,806,649
	<hr/> <hr/>

**11. Directors and employees**

No remuneration was paid by the Company to the Directors of the Company (1996: Nil). There were no employees of the Company during the period (1996: Nil).

Information relating to the Directors' shareholdings and share options is given in the Directors' Report on page 2.

**12. Contingent liabilities**

There are contingent liabilities amounting to £15m (1997 to June: £15m) in respect of indemnities.

As a result of the scheme of arrangement following which The Rank Group Plc acquired 100% of the issued share capital of XRO Limited (Formerly The Rank Organisation Limited) on 7th October 1996, it is possible that further liabilities other than those provided for in these accounts may arise. No provision has been made for these liabilities at 31st December, 1997 as, in the opinion of the Directors, it is unlikely that they will occur.

**XRO LIMITED**

**NOTES TO THE ACCOUNTS AT 31ST DECEMBER, 1997**

(continued)

**14. Ultimate parent undertaking**

The company's ultimate parent undertaking is Xerox Corporation which is incorporated in the United States of America.

The largest group in which the results of XRO Limited are consolidated is that of Xerox Corporation. Copies of these financial statements are available to the public and may be obtained from:

The Investor Relations Department  
Xerox Corporation  
PO Box 1600  
Stamford  
Connecticut 06904  
USA

The smallest group in which the results of XRO Limited are consolidated is that of Xerox Overseas Holdings Limited. The consolidated accounts of Xerox Overseas Holdings Limited are available to the public and may be obtained from:

Xerox Overseas Holdings Limited  
Parkway  
Marlow  
Bucks  
SL7 1YL