ALLIED DOMECQ PLC
Form 20FR12B
July 26, 2002

QuickLinks -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on 26 July 2002

Registration No. 34-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ý **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

o **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended________________

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________________ to ________________

ALLIED DOMECQ PLC

(Exact name of registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

The Pavilions, Bridgwater Road, Bedminster Down, Bristol, BS13 8AR, England

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value £0.25 each ("ordinary shares")	New York Stock Exchange*
American Depositary Shares, each representing 4 ordinary shares ("ADSs")	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

*

Not for trading, but only in connection with the registration of the ADSs pursuant to the requirements of the Securities and Exchange Commission.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Not Applicable

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes o No ý

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 ý

TABLE OF CONTENTS

Introduction

We are incorporated under the name of Allied Domecq PLC as a public limited company under the laws of England and Wales. We operate pursuant to our Memorandum and Articles of Association, the UK Companies Act 1985, other legislation and regulations in England and Wales and, where applicable, local legislation. Our principal executive office is located at The Pavilions, Bridgwater Road, Bedminster Down, Bristol, BS13 8AR, England, and the telephone number at that office is +44 117 978 5000.

In this registration statement, except as otherwise indicated or as the context otherwise requires, the "Company", "Group", "Allied Domecq", "we", "us" and "our" refers to Allied Domecq PLC and its subsidiaries.

You should rely only on the information contained in this registration statement. We have not authorized anyone to provide you with information that is different. The information in this registration statement may only be accurate on the date of this registration statement or on or as at any other date provided with respect to specific information.

Currency and Currency Translation

Unless we otherwise indicate in this registration statement, references to "Pound Sterling", "Pounds Sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom, all references to "US Dollars", "Dollars", "$", "cents" or "¢" are to the lawful currency of the United States.

Solely for your convenience, we have translated some Pound Sterling amounts contained in this registration statement into US Dollars. The rate used to translate such amounts was £1.00 to $1.5307, which was the noon-buying rate for cable transfers in Pounds Sterling as certified for customs purposes by the Federal Reserve Bank of New York on 1 July 2002, known as the "noon-buying rate", unless the context otherwise requires or implies. We provide the US Dollar equivalent information in this registration statement solely for the convenience of the readers of this registration statement, and you should not construe it as implying that the Pound Sterling amounts represent, or could have been or could be converted into, US Dollars at such rates or at any rate. See the section entitled "Item 3 Key Information Exchange Rate Information" for more detailed information regarding the translation of Pounds Sterling into US Dollars.

Industry Data

In this registration statement, we refer to information regarding the premium distilled spirits market segments from Impact International, an international drinks magazine that is independent from industry participants. Impact International collects information on the premium distilled spirits market from a variety of sources, including brand owners, import and export enterprises, trade associations and governmental agencies such as the US Commerce Department.

Data provided by Impact International may differ from data we have compiled with respect to our products. Impact International is aware of and has consented to our naming them in this registration statement. We believe that all of the information in this registration statement that is based on statements from Impact International is reliable.

Trademarks

This registration statement includes names of our products, which constitute trademarks or trade names which we own or which others own and license to us for our use. This registration statement also contains other brand names, trade names, trademarks or service marks of other companies, and these brand names, trade names, trademarks or service marks are the property of those other companies.

Presentation of Financial Information

Unless otherwise noted, the financial data that we present in this registration statement has been prepared in accordance with generally accepted accounting principles in the United Kingdom, or UK GAAP. UK GAAP differs in some respects from generally accepted accounting principles in the United States, or US GAAP. For a summary of the main differences between US GAAP and UK GAAP as they relate to us, see Note 34 to our Audited Consolidated Financial Statements.

Cautionary Statement Regarding Forward-Looking Information

Some statements in this registration statement represent our expectations for our business and the industries in which we operate, and involve risks and uncertainties. We principally make these forward-looking statements in the sections entitled "Item 4 Information on the Company" and "Item 5 Operating and Financial Review and Prospects". You can identify these statements by the use of words such as "believes", "expects", "may", "will", "should", "intends", "plans", "anticipates", "estimates" or other similar words. We have based these forward-looking statements on our current expectations and projections about future events. We believe that our expectations and assumptions with respect to these forward-looking statements are reasonable. However, because these forward-looking statements include risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including the factors discussed in the section entitled "Item 3 Key Information Risk Factors".

We undertake no obligation publicly to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Given these considerations, you should not place undue reliance on such forward-looking statements.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Directors and Senior Management

For a description of our Directors and senior management, see the section entitled, "Item 6 Directors, Senior Management and Employees".

Auditors

Our independent auditors for the three years ended 31 August 2001 have been KPMG Audit Plc, 8 Salisbury Square, London EC4Y 8BB, England.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

You should read the following selected historical consolidated financial data in conjunction with the section entitled "Item 5 Operating and Financial Review and Prospects", our Audited Consolidated Financial Statements and our Unaudited Interim Consolidated Financial Statements and the related Notes appearing elsewhere in this registration statement.

In September 1999, we restructured our business to focus on our spirits and wine business, which we refer to as our Spirits & Wine business, and our quick service restaurants business, which we refer to as our QSR business, by disposing of our managed and leased pub business and our 50% interest in a liquor store joint venture, which we collectively refer to as our UK Retail business, to Punch Taverns Group Limited. Accordingly, we treat the UK Retail business, which represented 38% of our total turnover during the year ended 31 August 1999, the last full financial year prior to its disposal, as a discontinued business.

Our selected historical consolidated financial data for the three years ended 31 August 2001 have been derived from our Audited Consolidated Financial Statements and the Notes thereto appearing elsewhere in this registration statement. Our selected historical consolidated financial data for the six months ended 28 February 2002 and 2001 have been derived from our Unaudited Interim Consolidated Financial Statements and the Notes thereto also appearing elsewhere in this registration statement. In the opinion of our management, our Unaudited Interim Consolidated Financial Statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of our results for the unaudited interim periods. The Unaudited Interim Consolidated Financial Statements for the six months ended 28 February 2002 may not be indicative of our results for the full financial year.

We have implemented Financial Reporting Standard 19 Deferred Tax in the six month period ended 28 February 2002. As a result, our Audited Consolidated Financial Statements as at 31 August 2001 and 2000, and for the three year period ended 31 August 2001 have been restated. Our Unaudited Interim Consolidated Financial Statements as at 28 February 2001 and for the six month period ended 28 February 2001 have also been restated.

Our consolidated financial statements have been prepared in accordance with UK GAAP, which differs in certain respects from generally accepted accounting principles in the United States, or US GAAP. See Note 34 to our Audited Consolidated Financial Statements and Note 16 to our Unaudited Interim Consolidated Financial Statements for a summary of the main differences between UK GAAP and US GAAP as they relate to us.

1

UK GAAP Information

	Six months ended 28 February			Year ended 31 August (restated)					
Consolidated profit and loss account	**2002(1)**	**2002**	**2001(6)**	**2001(1)**	**2001(6)**	**2000(6)**	**1999(6)**	**1998(6)**	**1997(6)**
	$	**£**	**£**	**$**	**£**	**£**	**£**	**£**	**£**
		(unaudited)							
	(million, except for per share and dividend data)								
Turnover:									
Continuing operations	2,608	1,704	1,457	4,407	2,879	2,602	2,408	2,398	2,506
Discontinued operations(2)						30	1,695	1,910	1,943
Total turnover(3)	2,608	1,704	1,457	4,407	2,879	2,632	4,103	4,308	4,449
Trading profit:									
Continuing operations	479	313	277	903	590	487	430	419	410
Discontinued operations						13	241	302	305
Total trading profit	479	313	277	903	590	500	671	721	715
Finance charges	(95)	(62)	(41)	(138)	(90)	(83)	(92)	(106)	(108)
Trading profit before the following items:	384	251	236	765	500	417	579	615	607
Goodwill amortization and exceptional items	149	97	(4)	(18)	(12)	(3)			
Exceptional operating costs	(20)	(13)	(6)	(14)	(9)	(54)	(253)	(87)	
Profits/(losses) on sales of businesses and fixed assets				9	6	59	167	(37)	(5)
Debenture/loan stock repayment premia							(272)	(36)	
Profit on ordinary activities before taxation	513	335	226	742	485	419	221	455	602
Taxation	(153)	(100)	(59)	(196)	(128)	(80)	(140)	(187)	(166)
Minority interests and preference dividends	(12)	(8)	(6)	(20)	(13)	(9)	(6)	(21)	(31)
Profit earned for ordinary shareholders	348	227	161	526	344	330	75	247	405

	Six months ended 28 February								
Earnings and dividends									
Earnings per ordinary share:									
Basic and diluted	33.1¢	21.6p	15.2p	49.9¢	32.6p	31.2p	7.2p	23.7p	39.0p
Earnings per ordinary share before goodwill amortization, exceptional items and discontinued operations:									
Basic and diluted(4)(5)	26.3¢	17.2p	16.1p	51.9¢	33.9p	28.6p	22.3p	19.8p	18.1p
Dividends per ordinary share	7.5¢	4.9p	4.5p	18.5¢	12.1p	11.0p	15.0p	25.3p	24.4p
Weighted average ordinary shares used in earnings per share calculation	1,049	1,049	1,056	1,054	1,054	1,059	1,047	1,042	1,039

	As at 28 February		As at 31 August (restated)					
Consolidated balance sheet data	**2002(1)**	**2002**	**2001(1)**	**2001(6)**	**2000(6)**	**1999(6)**	**1998(6)**	**1997(6)**
	$	**£**	**$**	**£**	**£**	**£**	**£**	**£**
	(unaudited)							
				(million)				
Fixed assets	2,775	1,813	2,368	1,547	762	2,908	2,938	2,927
Net current assets excluding net borrowings	2,148	1,403	1,544	1,009	989	911	696	665
Creditors over one year and provisions	(491)	(321)	(448)	(293)	(296)	(285)	(243)	(233)
Total assets	4,432	2,895	3,464	2,263	1,455	3,534	3,391	3,359
Short-term borrowings less cash	(1,756)	(1,147)	(1,009)	(659)	(446)	(535)	(543)	(77)
Loan capital	(1,803)	(1,178)	(1,829)	(1,195)	(806)	(780)	(858)	(1,065)
Net assets	873	570	626	409	203	2,219	1,990	2,217

US GAAP Information

	Six months ended 28 February			Year ended 31 August		
Consolidated profit and loss account data	**2002(1)**	**2002**	**2001**	**2001(1)**	**2001**	**2000**
	$	**£**	**£**	**$**	**£**	**£**
		(million, except for per share data)				
Turnover	2,448	1,599	1,397	4,223	2,759	2,520
Trading profit	488	319	220	880	575	373
Net income:						
Continuing operations(7)	251	164	75	508	332	266
Discontinued operations						1,288
Net income(7)	251	164	75	508	332	1,554
Basic and diluted net earnings per share:						

	Six months ended 28 February					
Continuing operations(7)	23.9¢	15.6p	7.1p	48.2¢	31.5p	25.1p
Discontinued operations	¢	p	p			121.6p
Total(7)	23.9¢	15.6p	7.1p	48.2¢	31.5p	146.7p

	As at 28 February		As at 31 August		
Consolidated balance sheet data	**2002(1)**	**2002**	**2001(1)**	**2001**	**2000**
	$	**£**	**$**	**£**	**£**
			(million)		
Total assets	8,731	5,704	8,051	5,260	4,285
Shareholders' funds and minorities	2,391	1,562	2,376	1,552	1,579

Notes:

(1) Amounts translated for convenience at the noon-buying rate on 1 July 2002 of £1.00=$1.5307.

(2) Discontinued operations relate primarily to the disposal of our UK Retail business to Punch Taverns Group Limited and the disposal of Cantrell & Cochrane in 1999.

(3) In the years ended 31 August 2000 and 1999, turnover respectively included £12 million and £624 million of our share of turnover from third-party ventures.

(4) Earnings per share of 17.2p in the period ended 28 February 2002 (2001: 16.1p) has been calculated on earnings before goodwill amortization and exceptional items of £180 million (2001: £170 million) divided by the average number of shares of 1,049 million (2001: 1,056 million).

(5) Earnings per share of 33.9p in the year ended 31 August 2001 (2000: 28.6p, 1999: 22.3p) has been calculated on earnings before goodwill amortization, exceptional items and discontinued operations of £357 million (2000: £303 million, 1999:

£234 million) divided by the average number of shares of 1,054 million (2000: 1,059 million, 1999: 1,047 million). However, in October 2001, the Mexican Supreme Court ruled that the excise duty regime imposed on large spirits companies in Mexico was inequitable and awarded damages to several of the plaintiffs, including us. The Mexican Supreme Court has awarded compensation of Pesos 1.5 billion (£112 million at the then current exchange rates) plus applicable interest and inflation adjustments. Our earnings for the year ended 31 August 2001 include a net benefit to earnings of £30 million. Excluding this earnings benefit, earnings per ordinary share before goodwill amortization and exceptional items would have been 31.0p. In the period ended 28 February 2002, the Mexican excise rebate has been treated as an exceptional item. For a further description of the Mexican excise rebate, see "Item 5 Operating and Financial Review and Prospects Factors Affecting Results of Operations Mexican Excise Rebate".

(6) As explained within the Accounting Policies section of our Audited Consolidated Financial Statements we adopted Financial Reporting Standard 19 Deferred Tax in the six month period ended 28 February 2002 which resulted in the restatement of the financial statements of prior periods. The following table provides a reconciliation between profit earned for ordinary shareholders and earnings per ordinary share as originally reported and after adoption of FRS 19.

	Six months ended 28 February			Year ended 31 August (restated)					
	2002	**2002**	**2001**	**2001(1)**	**2001**	**2000**	**1999**	**1998**	**1997**
	$	**$**	**£**	**£**	**$**	**£**	**£**	**£**	**£**
		(unaudited)							

	Six months ended 28 February			Year ended 31 August (restated)					
				(million, except for per share)					
Profit earned for ordinary shareholders as originally reported	348	227	161	526	344	317	76	274	401
Adoption of FRS 19 Deferred Tax						13	(1)	(27)	4
Profit earned for ordinary shareholders restated	348	227	161	526	344	330	75	247	405
Earnings per ordinary share basic and diluted as originally reported	33.1	21.6	15.2	49.9	32.6	29.9	7.3	26.3	38.6
Adoption of FRS 19 Deferred Tax						1.2	(0.1)	(2.6)	0.4
Earnings per ordinary share basic and diluted restated	33.1	21.6	15.2	49.9	32.6	31.2	7.2	23.7	39.0

(7)
As explained in Note 16 to our Unaudited Interim Consolidated Financial Statements, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142 on 1 September 2001. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but instead tested for impairment at least annually. If such amortization were excluded from results for prior periods, net income (and earnings per share) would be increased by £29 million (2.7p), £61 million (5.9p) and £56 million (5.3p) for the six month period ended 28 February 2001 and the years ended 31 August 2001 and 2000, respectively.

Dividends

Our Board of Directors normally declares an interim dividend in respect of each fiscal year in April for payment in July. The final dividend in respect of each fiscal year is normally recommended by our Board of Directors in October and paid in February following approval by our shareholders.

The following table sets out the dividends paid on our ordinary shares and American Depositary Shares, or ADSs, in respect of each of the five years ended 31 August 2001. During each of the periods set out below, each of our ADSs represented a beneficial interest in one ordinary share. In September 1999, we restructured our business and disposed of our UK Retail business. In connection with the disposal, we returned the value of our UK Retail business, approximately £2.6 billion, to our shareholders. Accordingly, our Board of Directors did not declare a final dividend with respect to the

year ended 31 August 1999. Interim and final dividends declared in respect of the years ended 31 August 2000 and 2001 reflect our restructured business.

	Year ended 31 August				
	2001	2000	1999	1998	1997
per ordinary share					
Interim	4.50p	4.00p	15.00p	9.73p	9.44p
Final	7.60p	7.00p		15.60p	15.00p
Total	12.10p	11.00p	15.00p	25.33p	24.44p
per ADS(1)					
Interim	5.40¢	4.79¢	22.34¢	14.55¢	14.21¢
Final	9.60¢	9.13¢		23.30¢	22.51¢

	Year ended 31 August				
Total	15.00¢	13.92¢	22.34¢	37.85¢	36.72¢

Note:

(1) Each ADS represents a beneficial interest in one ordinary share.

We have recently entered into an amended and restated deposit agreement, which we refer to as the Deposit Agreement, among ourselves, JPMorgan Chase Bank, as depositary of our ADSs, and the holders of our American Depositary Receipts, or ADRs. The amended and restated Deposit Agreement, among other things, amends the terms of our ADSs so that each ADS represents a beneficial interest in four of our ordinary shares. In the future, payments of dividends per ADS will represent payments on the four ordinary shares underlying that ADS.

Our dividends are payable in Pounds Sterling. Dividends paid by the depositary in respect of ADSs are paid in US Dollars based on market rates of exchange that may differ from the noon-buying rate on the payment day. See the section entitled "Item 12 Description of Securities other than Equity Securities American Depositary Shares and American Depositary Receipts" for a description of dividend payments on ADSs.

Our Board of Directors has concluded that the appropriate level of dividend cover, earnings per share divided by dividend per share, should be approximately 2.5 and that our dividends should grow in line with growth in underlying earnings. This supports our strategic objective to optimize the efficiency of our capital structure while maintaining prudent financial ratios. We believe that this policy will enable us to retain sufficient cash flow to finance both investment in brands and future capital expenditure. We measure the returns on such expenditure against the benefits of returning capital to shareholders. Nevertheless, our future dividends depend upon our earnings, financial condition and other factors, and as a result, we cannot assure you that the interim and final dividends that we paid in the past are indicative of future interim or final dividends.

A revised income tax convention between the United States and the United Kingdom is currently being ratified. This may affect the US Federal income tax consequences of owning our ordinary shares or ADSs, including the taxation of dividend payments. For a more detailed discussion of those and other tax consequences of owning our ordinary shares or ADSs, see the section entitled "Item 10 Additional Information Taxation".

5

Exchange Rate Information

The following tables set out the low, high, average and period-end exchange rates for the years indicated and the low and high exchange rates for the past six months. These rates, expressed in US Dollars per Pound Sterling, are based on the noon-buying rates for cable transfers in Pounds Sterling as certificated for customs purposes by the Federal Reserve Bank of New York. The average rates reflect the average of the noon-buying rates on the last business day of each month during the relevant year. We have provided these rates for your convenience. They are not the rates we have used in this registration statement for currency translations or, where applicable, in the preparation of the financial statements included in this registration statement.

	Annual exchange rates of US Dollars per £1.00 for the year ended 31 August				
	2001	**2000**	**1999**	**1998**	**1997**
Low	1.3730	1.4514	1.5515	1.5827	1.5515
High	1.5045	1.6765	1.7222	1.7035	1.7123
Average	1.4418	1.5667	1.6303	1.6550	1.6363
Period-End	1.4510	1.4515	1.6086	1.6760	1.6203

	June 2002	**May 2002**	**April 2002**	**March 2002**	**February 2002**	**January 2002**	**December 2001**	**November 2001**
Low	1.4574	1.4474	1.4310	1.4190	1.4177	1.4074	1.4164	1.4588

	June 2002	May 2002	April 2002	March 2002	February 2002	January 2002	December 2001	November 2001
High	1.5285	1.4676	1.4540	1.4270	1.4322	1.4482	1.4095	1.4650

On 19 July 2002, the noon-buying rate was £1.00=$1.5785.

Exchange Controls and Other Limitations Affecting Security Holders

There are currently no UK foreign exchange control restrictions on our operations or affecting the remittance of dividends. Any dividends we pay to holders of our ADSs may be subject to UK or other taxation. You should read the information in the section entitled "Item 10 Additional Information Taxation" for a more detailed discussion of the tax consequences of investing in our ADSs. There are no restrictions under our Memorandum and Articles of Association or under the laws of England and Wales that limit the right of non-resident or foreign holders to hold or exercise voting rights in connection with our ordinary shares.

6

Capitalization and Indebtedness

The following table shows our indebtedness and capitalization as at 28 February 2002 and as adjusted in accordance with UK GAAP, to reflect our use of existing debt facilities and the issuance of ordinary shares to finance acquisitions since 28 February 2002 as well as other changes as at 1 July 2002. You should read this table in conjunction with the section entitled "Item 5 Operating and Financial Review and Prospects", our Audited Consolidated Financial Statements and our Unaudited Interim Consolidated Financial Statements and the related Notes appearing elsewhere in this registration statement.

	As at 28 February 2002	As adjusted	As adjusted(1)
	£	£	$
		(million)	
Long-term debt (excluding current maturities):			
Secured(2)	48	48	73
Unsecured	1,130	1,759	2,693
Total long-term debt	1,178	1,807(3)	2,766(3)
Equity shareholders' funds:			
Called-up share capital	267	277(4)	424(4)
Share premium account	26	165	253
Merger reserve	(823)	(823)	(1,260)
Profit and loss account	1,032	1,032	1,580
Total equity shareholders' funds	502	651	997
Minority interests	75	75	115
Total capitalization	1,755	2,533	3,878

Notes:

(1) Amounts translated for convenience at the noon-buying rate on 1 July 2002 of £1.00=$1.5307.

(2) Secured long-term debt refers to a NZ Dollar 225 million revolving credit facility that is secured by a charge over the assets of Montana Group (NZ) Limited, or Montana®. We acquired Montana in August 2001.

(3) The increase in total long-term debt represents approximately £629 million net proceeds from the offering of EUR600 million notes due 2009 and £250 million notes due 2014 to finance the acquisition of Malibu®, Mumm Cuvée Napa® and associated assets from Diageo plc. The acquisition was completed on 22 May 2002.

(4) Reflects the private placement of 39 million new ordinary shares for net proceeds of £149 million to fund part of the cost of acquiring Malibu, Mumm Cuvée Napa and associated assets from Diageo plc.

Save as disclosed above, there have been no material changes to our indebtedness or capitalization since 28 February 2002.

Risk Factors

Investors, holders and prospective purchasers of our ADSs and ordinary shares should, in addition to paying due regard to the Cautionary Statement Regarding Forward-Looking Information noted above, also carefully consider all of the information set out in this registration statement. In particular, you should consider the special features applicable to an investment in us, including those set out below.

Factors Relating to Our Business

Contamination or other circumstances could harm the brand integrity or customer support for our brands and adversely affect the sales of those products.

The success of our brands depends upon the positive image that consumers have of those brands, and contamination, whether arising accidentally or as a consequence of deliberate third party action, or other events that harm the brand integrity or consumer support for those brands, could adversely affect their sales. We purchase most of the raw materials for the production of our spirits and wine from third-party producers or on the open market. Contaminants in those raw materials or defects in the distillation or fermentation process could lead to low beverage quality as well as illness among or injury to our consumers and may result in reduced sales of the affected brand or all of our brands. Also, to the extent that third parties sell products which are either counterfeit versions of our brands or brands that look like our brands, consumers of our brands could confuse our products with products that they consider inferior. This could cause them to refrain from purchasing our brands in the future and in turn could impair brand equity and adversely affect our sales and operations.

In addition, we have entered into agreements with third parties to produce ready-to-drink and other products that will carry our brands and trademarks. Also, as part of the transition process of transferring Malibu, a coconut-flavored rum-based spirit, from Diageo plc to us, Diageo will produce, and, together with other third parties, will package, Malibu until the end of the nine-month period after the completion of the acquisition. If these third parties contaminate or cause a decrease in the quality of these products, they could tarnish the overall reputation of the relevant brands and may result in reduced sales of the affected brand or brands.

Sales from our portfolio of premium branded spirits and wine may be disproportionately affected relative to non-premium branded drinks products by an economic downturn or recession in our key markets.

We believe that during times of economic uncertainty or hardship consumers may choose to purchase lower value consumer goods as opposed to higher value consumer goods, which include our premium branded spirits and wine. Reduced sales by our Spirits & Wine business as a result of an economic downturn or recession in certain key markets, particularly the United States, Mexico, South Korea, Spain and the United Kingdom, may have an adverse effect on the results of operations of our Spirits & Wine business. Because turnover of our Spirits & Wine business represented 89% of our total turnover during the year ended 31 August 2001, a reduction in sales of our premium branded spirits and wine in those key markets could have an adverse effect on our results of operations and business prospects as a whole.

Regulatory decisions and changes in the legal and regulatory environment in the countries in which we operate could limit our business activities or increase our operating costs.

As a leading international branded drinks and retailing group, our business is subject to extensive regulatory requirements regarding production, distribution, marketing, advertising and labeling in the countries in which we operate. In addition, our products are subject to differing import and excise duties in the countries in which we operate. Regulatory decisions or changes in the legal and regulatory requirements in these areas may have the following effect on our business:

Product recall: Governmental bodies in the countries in which we operate may have enforcement powers that can subject us to actions such as product recall, seizure of products and other sanctions, each of which could have an adverse effect on our sales or damage our business.

Advertising and promotion: Governmental bodies in the countries in which we operate may impose limitations on advertising activities used to market alcoholic beverages such as prohibition or limitations on the television advertising of spirits. These limitations may inhibit or restrict our ability to maintain or increase the strong consumer support for and recognition of our brands in key markets and may adversely affect our results of operations.

Labeling: Governmental bodies in the countries in which we operate may impose additional labeling and production requirements. Changes to labeling requirements for alcoholic beverages, including our portfolio of premium branded spirits and wine, may detract from their appeal to consumers and as a result, lead to a reduction in sales of those beverages. In addition, this may result in increased costs.

Import and excise duties: Our products are subject to import and excise duties. An increase in import or excise duties may reduce overall consumption of our premium branded spirits and wine or cause consumers to prefer lower-taxed spirits and wine to ours.

We depend upon our trademarks and proprietary rights, and any failure to protect our intellectual property rights or any claims that we are infringing upon the rights of others may adversely affect our competitive position.

Our success depends, in large part, on our ability to protect our current and future brands and products and to defend our intellectual property rights. We have been issued numerous trademarks covering our brands and products and have filed, and expect to continue to file, trademark applications seeking to protect newly-developed brands and products. We cannot be sure that trademarks will be issued with respect to any of our pending trademark applications or that our competitors will not challenge, invalidate or circumvent any existing or future trademarks issued to, or licensed by, us.

If we do not successfully anticipate changes in consumer preferences and tastes, sales of our products could be adversely affected.

Our portfolio includes a range of premium branded spirits and wine and food products. Maintaining our competitive position depends on our continued ability to offer products that have a strong appeal to consumers. For example, we have recently developed two ready-to-drink beverages, Stolichnaya® Citrona and Sauza® Diablo , in partnership with the Miller Brewing Company. Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends or changes in travel, vacation or leisure activity patterns. Any significant shift in consumer preferences coupled with our failure to anticipate and react to such changes could reduce the demand for certain products in our portfolio resulting in reduced sales or harm to the image of our brands.

A substantial decrease in our ability to supply our consumers with our products could adversely affect the results of our operations.

An interruption or substantial decrease in our ability to supply customers of our brands could damage our sales and image as well as our relationships with customers and consumers. Problems which might constrain supply or lead to increased costs include:

Climate, agriculture and nature: A number of our products such as champagne, cognac, wine, some whiskies and tequila depend on agricultural produce from demarcated regions. If any of these regions were to experience weather variations, natural disasters, pestilence or other occurrences, we might not be able to obtain readily a sufficient supply of these commodities and there could be a decrease in our production of the product from that region or an increase in its cost. For example, a recent shortage of agave, the primary raw material used in the production of tequila, led to the decreased production and sale of our tequila products during the years ended 31 August 2000 and 2001.

Loss of inventory: We have a substantial inventory of aged product categories, principally Scotch whisky, Canadian whisky, cognac, brandy and fortified wine, which mature over periods of up to 30 years. As at 31 August 2001, our maturing inventory amounted to £905 million. While our maturing inventory is stored at numerous locations throughout the world, the loss through fire or other natural disaster of all or a portion of our stock of any one of those aged product categories may not be replaceable and, consequently, may lead to a substantial decrease in supply of those products.

We have entered into arrangements with third parties in various key markets, and the termination of our relationship with those third parties for any reason may adversely affect our results of operations in those key markets and our results of operations and business prospects as a whole.

We have relationships with third parties throughout our business. The breakdown of some of these relationships could immediately limit our access to customers and, as a result, damage short- and long- term performance. These relationships include:

Distribution partnerships: We have agreements with third parties to distribute and in some cases manufacture our products in various key markets, including Jinro Limited, in South Korea, and Suntory Limited, in Japan. A change in these relationships could seriously interrupt our business in those countries in both the long- and short-term.

Brand distribution rights: We distribute some third party brands through our global spirits and wine distribution network. In particular, we have recently acquired the trademark rights to the Stolichnaya brand of vodka in the United States. We have an exclusive distribution agreement with Spirits International NV and S.P.I. Spirits (Cyprus) Limited, which together we refer to as SPI Spirits, to distribute Stolichnaya vodka in the United States and the right of first refusal over the distribution of the Stolichnaya brand as it becomes available in countries outside the United States. We understand SPI Spirits and the Russian government are currently involved in a dispute over the trademark rights to Stolichnaya. While we are not a party to the dispute, there is a risk that the Russian government may take action that prevents our supplier entirely fulfilling its obligations to us. Any sustained interruption in the supply may adversely affect our business.

Franchisees: We entrust the management of each quick service restaurant to franchisees. Differing levels of quality or service at each quick service restaurant or improper management by any of these franchisees could compromise the consumer image of our quick service restaurant brands and adversely affect our business performance.

International retail customers: Multiple retail chains are an important channel for our Spirits & Wine business. The increasing consolidation of the supermarket industry worldwide is resulting in the creation of a small number of powerful international retailers. The concentration of our business in fewer, larger, customers could present a significant risk to us if mutually beneficial relationships are not sustained.

Failure to successfully integrate and manage acquired businesses and brands could adversely impact current and future business performance and potentially impact our ability to meet our increased debt obligations.

We have acquired a number of businesses and brands in the last two years and have incurred an amount of additional debt to finance them. As at 31 August 2001, our net debt was £1,854 million, an increase of £602 million from 31 August 2000, and as at 28 February 2002 our net debt was £2,325 million. The ability of these acquired businesses to make a positive contribution to our business will depend on our ability to integrate them successfully into our existing operations and optimize the benefit that comes from the synergies arising throughout our various businesses. If we do not achieve successful integration of our new businesses, we may not achieve the financial and operational benefits we currently anticipate and as a result, may not be able adequately to service our increased debt obligations. In addition, the successful integration of our newly acquired businesses may require greater amounts of management time and resources than we currently anticipate and thereby have an adverse effect on the conduct of our business, financial condition and results of operations.

Litigation and publicity concerning product quality, health and other issues may cause consumers to avoid our products and may result in liabilities.

Litigation and complaints from consumers or government authorities resulting from beverage and food quality, illness, injury and other health concerns or other issues stemming from one product or a limited number of products, including ready-to-drink and other products produced by licensees or franchisees may affect our industry. More specifically, we may be the subject of class action or other litigation relating to these allegations. Any litigation or adverse publicity surrounding any of these allegations may negatively affect us and our licensees, regardless of whether the allegations are true, by discouraging consumers from buying our products. In addition, litigation could result in a judgment for significant damages against us. We could also incur significant litigation costs and the diversion of management time as a result of a lawsuit or claim regardless of the result.

It may be difficult for you to effect service of process and enforce legal process against our directors outside of the United States.

None of our Directors is a resident of the United States, and most of their assets are located outside of the United States. As a result, it may not be possible for you to effect service of process within the United States upon them or to enforce against them judgments of US courts predicated upon civil liability provisions of the US federal or state securities laws.

The United States has not entered into a treaty with England and Wales providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. As a result, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon US securities laws, would not automatically be enforceable in England and Wales. In order to enforce any judgments in England and Wales, proceedings must be initiated by way of separate action before a court of competent jurisdiction in England or Wales. In an action of this character, a court in England or Wales will generally not reinvestigate the merits of the original matter decided by a US court and will enforce a final and conclusive judgment of the US court for a definite sum of money, provided that the circumstances in which the US court took jursdiction are recognized as sufficient under the law of England and Wales to establish the competence of the US court for enforcement purposes and unless there is a valid ground for objection or impediment to enforcement of the judgment including, but not limited to, the following:

- the recognition or enforcement of the judgment would contravene the public policy of England and Wales,

- the judgment is for a tax, penalty or fine or in respect of any other charges of a like nature,

- the judgment has been obtained by fraud or in breach of the principles of natural justice,

- before the date on which the US court gave judgment, the matter in dispute had been the subject of a final judgment of another court whose judgment is enforceable in England and Wales,

- the judgment is for an amount arrived at by doubling or otherwise multiplying a sum assessed as compensation for loss or damage sustained,

- an applicable limitation period has expired or there is an undue delay, and

- the judgment debtor is subject to any insolvency or similar proceedings or has any set off or counterclaim against the judgment creditor.

Although holders of our ordinary shares or ADSs may be able to enforce in England and Wales judgments in civil and commercial matters obtained from US federal and state courts, we cannot assure you that these judgments will be enforceable. In addition, there is doubt as to whether a court in England or Wales would accept jurisdiction and impose civil liability in an original action predicated solely upon US federal securities laws.

Factors Relating to Our Ordinary Shares and ADSs

Our ADSs may have fewer and less well-defined shareholders' rights as compared with shareholders' rights of similar US companies.

Our Memorandum and Articles of Association and the corporate law of England and Wales differ from the legal principles that would apply to us if we were incorporated in a jurisdiction in the United States. In particular, your rights to protect your interests relative to actions taken by our Board of Directors may be fewer and less well-defined than under the laws of the United States.

Some entitlements are not available to US holders of our ordinary shares and ADSs.

Due to various laws and regulations of the United States as well as those of England and Wales, US holders of our ordinary shares or ADSs may not be entitled to all of the rights possessed by holders of our ordinary shares in England and Wales. For instance, US holders of our ordinary shares or ADSs may not be able to exercise any pre-emptive or preferential rights relating to their ordinary shares or ADSs unless a registration statement under the Securities Act of 1933 is effective or an exemption from the registration requirements thereunder is available.

Item 4. Information on the Company

Overview

We are a leading international branded drinks and retailing group. Our business comprises one of the world's largest international spirits and wine groups, which we refer to as our Spirits & Wine business, and a leading international quick service restaurants group, which we refer to as our QSR business. During the year ended 31 August 2001, our turnover was £2,879 million and trading profit was £590 million.

Our Spirits & Wine business manufactures, markets and sells a portfolio of premium branded spirits, which Impact International estimates includes 14 of the top 100 premium distilled spirit brands by volume, and a growing portfolio of premium branded wines. Our Spirits & Wine business operates through a global distribution network in over 50 countries and generates approximately 40% of its trading profit, excluding the Mexican excise rebate, in North America and 31% in Europe. During the year ended 31 August 2001, turnover of our Spirits & Wine business was £2,571 million and trading profit was £505 million. Turnover and trading profit of our Spirits & Wine business represented approximately 89% and 86% of our total turnover and trading profit in that year.

Our QSR business operates an international franchise business, which comprises over 10,000 outlets. Our QSR business is comprised of Dunkin' Donuts®, one of the world's leading coffee and baked goods chains; Baskin-Robbins®, one of the world's leading ice cream franchises; and Togo's®, a sandwich chain operating principally on the West coast of the United States. During the year ended 31 August 2001, turnover of our QSR business was £308 million and trading profit was £72 million. Turnover and trading profit of our QSR business represented approximately 11% and 12% of our total turnover and trading profit in that year.

We also hold a 25% interest in Britannia Soft Drinks Ltd., a UK company engaged in the manufacture and sale of soft drinks.

The following table sets out for each of the three years ended 31 August our turnover and trading profit by business segment.

	Year ended 31 August					
	2001		2000		1999	
	£	%	£	%	£	%
	(million, except percentages)					
Turnover(1)						
Spirits & Wine	2,571	89	2,297	88	2,110	88
QSR	308	11	305	12	298	12
Total	2,879	100	2,602	100	2,408	100
Trading Profit(2)						
Spirits & Wine	505	86	414	85	369	86
QSR	72	12	64	13	53	12
Other(3)	13	2	9	2	8	2

	Year ended 31 August					
Total	590	100	487	100	430	100

Notes:

(1) Turnover for our Spirits & Wine business includes excise duty paid on our spirits and wine products and for our QSR business primarily comprises franchise income. Turnover for both our Spirits & Wine and QSR businesses excludes discontinued operations.

(2) Trading profit is stated before exceptional items, goodwill amortization and finance charges and excludes discontinued operations. In addition, trading profit during the year ended 31 August 2001 includes the effect of the Mexican excise rebate. For more information about the Mexican excise rebate, see "Item 5 Operating and Financial Review and Prospects Factors Affecting Results of Operations Mexican Excise Rebate".

(3) Other comprises our share of profits from our investment in Britannia Soft Drinks Ltd.

13

The following table sets out for each of the three years ended 31 August 2001, 2000 and 1999 our turnover by geographic market:

	Year ended 31 August					
	2001		2000		1999	
	£	%	£	%	£	%
	(million, except percentages)					
Geographical analysis						
Turnover						
Europe	982	34	968	37	1,003	42
Americas	1,542	54	1,392	54	1,192	49
Rest of World	355	12	242	9	213	9
Total	2,879	100	2,602	100	2,408	100

History and Development

The Company was established in 1961 by the merger of three UK brewing and pub retailing companies. Since then, we have grown to become a leading international branded drinks and retailing company with operations in the spirits and wine industry, the quick service restaurants industry and, until recently, the retail pub industry.

Spirits & Wine Business

The key events in the growth of our Spirits & Wine business were:

In 1966, we acquired Harveys of Bristol, a UK based producer of spirits and wine and the owner of Harveys® sherry and Cockburn's® port;

In 1986, we acquired the Canadian distillers Hiram Walker, Gooderham & Worts, owners of a large premium branded spirits portfolio including Ballantine's® whisky, Canadian Club® whisky, Courvoisier® cognac and Kahlúa® coffee liqueur;

In 1988, we entered into a spirits distribution arrangement with Suntory Limited, a leading spirits distributor in Japan;

In 1990, we acquired James Burrough Limited, distillers of Beefeater® gin;

In 1994, we acquired Pedro Domecq S.A., a leading spirits producer and marketer in Spain and Mexico;

In 2000, we established a spirits production and distribution venture with Jinro Limited in South Korea;

In 2000, we entered into a Trademark, Supply and Distribution Agreement with SPI granting us exclusive distribution and trademark rights in respect of its various vodka brands, including Stolichnaya in the United States;

In 2001, we acquired Kuemmerling GmbH, a German spirits producer; and

In 2002, we acquired Malibu, a coconut-flavored rum-based spirit.

We have recently increased the scope of our premium wine portfolio through a series of acquisitions, namely:

In 2001, we acquired G. H. Mumm & Cie and Champagne Perrier Jouët, champagne producers;

In 2001, we acquired Montana Group (NZ) Limited, New Zealand's largest winemaker;

In 2001, we acquired Buena Vista Winery, Inc., a Californian wine producer;

In 2001, we acquired Bodegas y Viñedos Graffigna Limitada S.R.L. and Viñedos y Bodegas Sainte Sylvie S.R.L., two Argentine wine producers;

In 2001, we acquired Bodegas y Bebidas S.A., the leading Spanish wine producer; and

In 2002, we acquired Mumm Cuvée Napa, a Californian sparkling wine.

QSR Business

We entered the quick service restaurants business in 1978 with our acquisition of J. Lyons & Co. Limited, owner of Baskin-Robbins. In 1989, we acquired Dunkin' Donuts, and in 1997 we acquired Togo's.

Discontinued Operations

In 1999, we decided to focus our operations on our Spirits & Wine and our QSR businesses. Accordingly, in January 1999, we disposed of Cantrell & Cochrane, which was principally a cider and soft drinks company based in Ireland. In September 1999, we disposed of our UK Retail business, which consisted of our managed and leased pub business and our 50% interest in a liquor store joint venture with Whitbread plc, to Punch Taverns Group Limited.

Business Description and Strategy

Spirits & Wine Description

We are one of the largest international spirits producers, and we have a global distribution network dedicated to distributing our brands and brands owned by third parties. Our Spirits & Wine business oversees and operates these production and distribution operations. Turnover of our Spirits & Wine business for the year ended 31 August 2001 was £2,571 million and trading profit, excluding goodwill amortization and exceptional items was £505 million.

Our spirits portfolio consists principally of "premium" brands, those that generally retail at a global price greater than $10 per 750 ml bottle and have a US retail price of greater than $12 per 750 ml bottle. We divide our spirits and wine portfolio into:

- core brands, brands which have strong customer appeal, typically in more than one market, and high margins;
- local market leaders, brands which occupy a strong position in a particular market;
- other spirits brands; and
- wine brands.

Our core brands, Ballantine's Scotch whisky, Kahlúa liqueur, Beefeater gin, Canadian Club whisky, Sauza tequila, Courvoisier cognac, Tia Maria® liqueur and Maker's Mark® bourbon, collectively accounted for sales of approximately 17.1 million nine liter equivalent cases, or 34% of our spirits and wine portfolio by volume, in the year ended 31 August 2001. In addition, we acquired Malibu, a coconut-flavored rum-based spirit which is also a core brand, in 2002. Our local market leaders, which include Presidente® brandy, Don Pedro® brandy and Imperial® whisky, accounted for approximately 11.5 million cases, or 23% of our spirits and wine portfolio by volume, in the year ended 31 August 2001. Other spirits brands accounted for sales of approximately 12.4 million cases, or 25% of our spirits and wine portfolio by volume, during the same period.

Our wine portfolio consists primarily of premium branded wines that generally retail at a global price of greater than $7 per bottle, including table wine, sparkling wine and champagne. During the year

ended 31 August 2001, our Spirits & Wine business sold approximately 9.4 million cases, or 19% of our spirits and wine portfolio by volume. Approximately 6.6 million cases were produced by our wineries. Our recent acquisitions of several large wine producers have substantially increased the size of our premium wine portfolio, and we believe that, as a result, the volume of our wines sold during the year ended 31 August 2001 is not indicative of the future scale of our wine business.

Spirits & Wine Strategy

The objective of our Spirits & Wine business is to create shareholder value through the profitable growth of the business. We believe that we are building a strong platform for sustainable future growth using a combination of focused investment in our core business to drive organic growth and through acquisitions.

Driving organic growth

Focus on key brand/market combinations. We will continue to invest in dynamic, consumer-led marketing behind our core brands in key markets to drive sustained long-term growth. In the year ended 31 August 2001, our Spirits & Wine business invested £330 million in advertising and promotion, of which approximately 61% was in connection with our core brands. Key markets are those where scale, market and competitor dynamics offer clear growth opportunities, such as the United States, Spain and South Korea. We also intend to intensify the focus on our local market leaders in their respective markets.

Product innovation and line extension. We have increased investment behind new product development and innovation as a means of driving future revenue and profit growth. For example, we have developed two ready-to-drink beverages, Stolichnaya Citrona and Sauza Diablo, that have been launched in the United States. We developed these ready-to-drink beverages through a commercial partnership with the Miller Brewing Company, which brings production expertise and capacity and a distribution network servicing over 500,000 retail outlets. As the market develops, both parties intend to explore further opportunities to extend the range of ready-to-drink beverages through our portfolio of spirits brands.

In addition, we expect to introduce a number of new products and line extensions during the coming year and plan to take advantage of market opportunities to introduce new product lines where appropriate and cost effective. One new product that we have recently introduced is Tia Lusso , a new light cream liqueur that is an extension of the Tia Maria brand.

Optimize returns from existing assets. We actively seek opportunities to improve returns from our existing assets through the effective management of our brands and optimization of our cost and capital base. We have undertaken a number of major initiatives that we expect will enable us to reduce costs in our production operations, mainly in Scotland and Mexico. We are seeking to achieve additional cost efficiencies and working capital improvements from progressive supply chain integration and targeted cost reductions through efficient business processes and structure.

Improving the growth profile of our business through value-enhancing acquisitions

Re-align and strengthen our portfolio. We have recently completed a number of transactions to support our objective to build a strong platform for sustainable future growth. Our acquisitions have been selected to deliver the following benefits:

- Fill gaps in the portfolio the acquisition of Malibu, the trademark rights for Stolichnaya in the United States and the distribution rights for Stolichnaya in Canada, the Nordic countries and Mexico.

- Build critical mass in markets of strategic importance the acquisition of Kuemmerling® bitters in Germany.

- Extend geographical reach into markets with growth potential the creation of the Jinro Ballantines venture in South Korea.

- Access categories that we deem to have growth potential the establishment of a wine business of global scale and the arrangement with the Miller Brewing Company to exploit the demand for ready-to-drink beverages in the United States.

Strategic acquisitions. We will continue to pursue potential acquisitions of businesses, brands and products. Attractive acquisition targets may become available in the future dependent upon, among other factors, the amount of consolidation in the spirits and wine industry, the disposal of brands or businesses by industry participants and the sale of privately-owned brands or businesses. In addition to acquiring brands that are global premium brands or local market leaders, we would consider acquiring brands or products that we believe we could turn into global premium brands or local market leaders by exploiting potential synergies with our existing brand portfolio. Our evaluation of potential acquisitions and disposals takes into account their contribution to building sustainable future growth as well as their ability to generate acceptable future returns on investment ahead of our cost of capital.

Spirits & Wine Portfolio

Core Brands

Our core brands typically have a strong position in more than one market with potential for global scale. Impact International estimates that in 2001 seven of our core brands were in the top 100 premium distilled spirit brands by volume. A description of our core brands follows:

Ballantine's. The Ballantine's range includes Ballantine's Finest and Ballantine's Premium aged whiskies ranging from 12 to 30 years old. Impact International estimates that Ballantine's was one of the top ten premium distilled spirit brands by volume in 2001. We sold approximately 5.5 million cases of Ballantine's in the year ended 31 August 2001. Ballantine's is our largest selling brand in Europe with Spain, its largest market, accounting for approximately 1.9 million cases during the year ended 31 August 2001.

Kahlúa. Kahlúa is a coffee-flavored liqueur. Impact International estimates that Kahlúa was one of the top 20 premium distilled spirit brands by volume in 2001. We sold approximately 3.4 million cases of Kahlúa during the year ended 31 August 2001 with the United States, its largest market, accounting for approximately 2.2 million cases. We also sell a range of ready-to-drink Kahlúa cocktails under the tradename of "Kahlúa to Go®".

Malibu. Malibu is a coconut-flavored rum-based spirit that was first produced in 1980. Impact International estimates that Malibu was one of the top 35 premium distilled spirit brands by volume in 2001. Impact International estimates that 2.4 million cases of Malibu were sold in 2001. We purchased Malibu from Diageo plc in May 2002.

Beefeater. Impact International estimates that Beefeater gin was one of the top 35 premium distilled spirit brands by volume in 2001. We sold approximately 2.2 million cases of Beefeater during the year ended 31 August 2001 with Spain, its largest market, accounting for 0.8 million cases.

Canadian Club. Impact International estimates that Canadian Club whisky was one of the top 40 premium distilled spirit brands by volume in 2001. We sold approximately 2.2 million cases of Canadian Club during the year ended 31 August 2001 with the United States, its largest market, accounting for approximately 1.3 million cases.

Sauza. Impact International estimates that Sauza tequila was one of the top 55 premium distilled spirit brands by volume in 2001. We sold approximately 1.7 million cases of Sauza during the year ended 31 August 2001 with the United States and Mexico, its largest markets, accounting for 0.9 million and 0.6 million cases, respectively.

Courvoisier. Impact International estimates that Courvoisier cognac was one of the top 100 premium distilled spirit brands by volume in 2001. We sold approximately 1.0 million cases during the year ended 31 August 2001 with the United States and the United Kingdom, its largest markets, accounting for 0.4 million and 0.3 million cases, respectively.

Tia Maria. Tia Maria is a premium, medium-strength Jamaican coffee-flavored liqueur. During the year ended 31 August 2001, we sold approximately 0.7 million cases of Tia Maria with its principal market being the United Kingdom. We launched a sister brand, Tia Lusso, a new light cream liqueur, in May 2002.

Maker's Mark. Maker's Mark is a niche Kentucky bourbon that we produce in batches of less than 19 barrels with every bottle sealed by being hand dipped into its signature red wax. During the year ended 31 August 2001, we sold approximately 0.4 million cases, principally in the United States.

Local Market Leaders

In addition to our core brands, we have identified brands that occupy a strong position in key markets and are capable of delivering critical mass in those markets or which present opportunities for growth. We refer to these brands as local market leaders. Impact International estimates that seven of our local market leaders were in the top 100 premium distilled spirit brands by volume in 2001. Our most important local market leaders are:

Presidente. Presidente is a brandy distilled and primarily consumed in Mexico. Impact International estimates that Presidente was one of the top 30 premium distilled spirit brands by volume in 2001. We sold approximately 2.7 million cases of Presidente during the year ended 31 August 2001.

Whisky DYC. Whisky DYC® is a whisky distilled and primarily consumed in Spain. Impact International estimates that Whisky DYC was one of the top 40 premium distilled spirit brands by volume in 2001. We sold approximately 2.0 million cases of Whisky DYC in Spain during the year ended 31 August 2001.

Don Pedro. Don Pedro is a brandy distilled and primarily consumed in Mexico. Impact International estimates that Don Pedro was one of the top 65 premium distilled spirit brands by volume in 2001. We sold approximately 1.6 million cases of Don Pedro during the year ended 31 August 2001.

Teacher's. Teacher's® is a Scotch whisky whose largest market is the United Kingdom. We sold approximately 1.6 million cases of Teacher's during the year ended 31 August 2001.

Hiram Walker liqueurs. The Hiram Walker® liqueur range offers a wide range of flavored liqueurs. We sold approximately 1.0 million cases of Hiram Walker liqueurs during the year ended 31 August 2001, primarily in the United States.

Imperial. Imperial is a Scotch whisky primarily consumed in South Korea. We sold approximately 0.8 million cases of Imperial whisky during the year ended 31 August 2001.

Stolichnaya. Stolichnaya is a Russian vodka for which we have acquired the distribution rights for various countries, including the United States. We sold approximately 0.8 million cases of Stolichnaya during the period from 1 January 2001 to 31 August 2001, primarily in the United States.

Centenario. Centenario® is a brandy produced and primarily consumed in Spain. We sold approximately 0.7 million cases of Centenario in Spain during the year ended 31 August 2001.

Other Spirits

Other spirits brands are managed in their respective markets, and we expect to utilize their cash and profit generation to maximize their return for shareholders.

Wine Brands

Since January 2001, we have substantially increased our wine portfolio through a series of acquisitions. These acquisitions now provide us with a branded premium wine business of global scale with production interests in New Zealand, the United States, France, Spain, Argentina, Mexico and Portugal. Our most important wine brands are:

Mumm. Mumm® is one of the leading worldwide champagne brands with its principal markets in France and the United States. Approximately 0.4 million cases were sold during 2001. We acquired Mumm in January 2001.

Perrier Jouët. The flagship of this champagne range is Perrier Jouët® Belle Époque, distinguished by the hand painted flower design on its bottle. Perrier Jouët's key market is the United States. Approximately 0.1 million cases were sold during 2001. We acquired Perrier Jouët in January 2001.

Montana. Based in New Zealand, Montana produced approximately 5 million cases of bottled premium wine in 2001. We acquired Montana on 31 August 2001 and, as a result, did not sell any of its wine during the year ended 31 August 2001.

Clos du Bois. Clos du Bois® is one of the leading super-premium Californian wine brands. During the year ended 31 August 2001, we sold approximately 1.3 million cases, primarily in the United States.

Campo Viejo. Campo Viejo®, produced by Bodegas y Bebidas, is a leading brand from the Rioja region of Spain. Campo Viejo is sold throughout Europe, and in 2001, approximately 1.1 million cases of Campo Viejo were sold. We acquired Bodegas y Bebidas in December 2001.

Graffigna. Based in the San Juan region of Argentina, Graffigna® produced approximately 0.7 million cases in 2001. We acquired Graffigna in July 2001.

Spirits & Wine Production

Properties, Plants and Equipment

We own or lease land and buildings throughout the world. Our properties primarily consist of a variety of manufacturing, distilling, bottling and administration operating sites spread across our operations, as well as vineyards in New Zealand, the United States, France, Spain and Argentina. As at 31 August 2001, our properties had a net book value of £399 million. Seven principal Allied Domecq operating units account for approximately 88% of the total net book value of £399 million, namely Montana (vineyards), Allied Domecq Wines USA (vineyards), Allied Distillers Limited (distilling), Mumm and Perrier Jouët (vineyards), Hiram Walker & Sons Limited (distilling), our Spanish production facilities (distilling and vineyards) and Domecq Mexico (distilling and agave cultivation).

These operating units each have several manufacturing facilities. The locations, principal products, production capacity and production volume in 2001 of these principal operating units is set out in the following table:

Operating unit	**Location**	**Principal products**	**Production capacity(1)**	**Production volume in 2001(1)**
Allied Distillers	Scotland	Scotch whisky, gin, liqueurs and other	18,000	10,538
Domecq	Mexico	Brandy and tequila	26,000	10,318
Hiram Walker	United States and Canada	Canadian whisky, liqueurs and other	14,000	9,456
Domecq	Spain	Brandy, whisky, sherry and wine	7,700	6,334
Montana	New Zealand	Wines	6,889	4,989
Allied Domecq Wines USA	United States	Wines	2,985	2,551
Mumm and Perrier-Jouët	France	Champagne	1,017	663

Note:

(1) In thousands of nine-liter equivalent cases.

Since 31 August 2001, we have acquired Bodegas y Bebidas S.A. This acquisition provided us additional manufacturing facilities which together consist of another of our operating units. In 2001, prior to the acquisition, this unit produced 8.1 million nine-liter equivalent cases and had a production capacity of 11.6 million nine-liter equivalent cases.

No individual tangible fixed asset has a net book value in excess of 5% of the aggregate net book value. We own approximately 96% of our properties by value and hold approximately 3% of our properties by value under leases running for 50 years or longer. Some of our production locations are sited in areas prone to earthquakes. Although we have previously bought insurance to cover earthquake damage, we have recently discontinued this practice and now self-insure.

Raw Materials

Most of the raw materials required for the production of our spirits and wine are agricultural commodities that we grow or purchase from third-party producers or on the open market. The raw materials that are the most volatile in supply are grapes and agave.

In 2001, we secured approximately 24% of our grapes for wine production, through our ownership and cultivation of vineyards. We also secured a substantial portion of our grapes through long-term supply contracts with a wide variety of local growers throughout the world. Those grapes that we do not grow or purchase through long-term supply contracts, we purchase on the open market. Whenever possible, we seek to control the full supply chain from grape to bottle for our super-premium wine. As the production of wine depends on agricultural and climatic conditions, we have sought, where regulatory requirements permit, to establish a natural hedge against potential supply problems by owning vineyards located in different regions of the world.

Mexican Regulations require that tequila is produced with agave from a specific region. As the result of a recent shortage of this material, we have undertaken our own agave cultivation, and as at 31 August 2001, we had approximately 4,500 hectares under cultivation. As we have recently begun our agave cultivation and as agave should grow for between seven and ten years prior to harvest and use, we currently rely on long-term agave supply contracts and the open market for all of our agave needs.

When purchasing other raw material supplies such as closures, bottles and labels, we take advantage of our scale as a global drinks business. We attempt to use a balanced roster of preferred suppliers to strike a favorable balance between consistent quality and low cost.

Spirits & Wine Distribution

We own or control the distribution of approximately 89% of the sales of our Spirits & Wine business by volume through subsidiaries and operations in over 50 countries. The balance is carried out on our behalf by third parties with whom we usually have long-term distribution contracts. During the year ended 31 August 2001, Europe accounted for approximately 36%, North America for approximately 33%, Latin America for approximately 22%, Asia Pacific for approximately 7% and Other, which includes bulk sales of spirits and wine as well as stand-alone Duty Free operations for approximately 2% of our sales by volume.

Generally, we distribute our products via wholesalers directly to specialist stores, supermarkets, convenience stores and owners of on-premise outlets. However, our distribution arrangements vary depending upon the particular markets with important regional differences outlined below.

North America. Local law in some US States and in most of the provinces and territories of Canada requires that local government-owned monopolies control the distribution of spirits. In the United States, we trade in a mandatory three-tier system, meaning that in states where the state liquor board does not control sales, we must sell to wholesalers who, in turn, sell to retailers and then to the end consumer.

Asia Pacific. In Asia Pacific, we distribute our products through a combination of subsidiaries, third party distributors and through associations with other industry participants, such as our arrangement with Jinro Limited for the bottling and distribution of whisky and other spirits in South Korea and Suntory Limited for the distribution of our products in Japan.

Spirits & Wine Seasonality

Demand for our premium branded spirits and wine traditionally experiences seasonal fluctuations in sales volume. This is particularly true for products, like champagne and sparkling wine, that are associated with end of the year holiday events in some key markets. Seasonal fluctuations mean that our turnover may be highest in the first half of our fiscal year.

Spirits & Wine Competitors

Our Spirits & Wine business competes with other producers and distributors of spirits and wine on a local and international basis. At a local level, the spirits and wine industry is heavily fragmented. Internationally, we compete with an array of global companies. We list below our principal international competitors and a summary, to the best of our knowledge, of their main activities in relation to the spirits and wine industry:

Diageo plc, formed in 1997 as a result of the merger between Grand Metropolitan Public Limited Company and Guinness PLC, is one of the world's leading consumer goods companies. Diageo's brands include Smirnoff vodka, Smirnoff Ice, Johnnie Walker whisky, Gordon's gin and Bailey's liqueur. Diageo also distributes Cuervo tequila in some markets. In 2001, Diageo purchased a number of brands from the Seagram's wines and spirits business, including Captain Morgan rum and Crown Royal Canadian whisky.

Pernod Ricard, a French spirits group, whose premium brands include Ricard, Pastis 51, Pernod, Jameson Irish whiskey, Havana Club rum and Jacob's Creek wine. In 2001, Pernod Ricard purchased a number of brands from the Seagram's wines and spirits business, including Chivas Regal whisky, Martell cognac and Seagram's gin.

Brown-Forman Corporation, which produces the premium brands of Jack Daniel's, Southern Comfort and Canadian Mist and distributes Finlandia vodka. It derives its spirits profits primarily from the United States. It cooperates with third parties for the distribution of its products outside the United States. Brown-Forman also maintains a large premium wine business, which includes Fetzer wines and Korbel champagne.

Bacardi-Martini Inc., which produces the premium brands of Bacardi rum, Martini vermouth, Dewar's whisky and Bombay gin. Bacardi-Martini also produces Bacardi Breezers, a line of ready-to-drink products.

Fortune Brands Inc., a US consumer brands company that has a division devoted to spirits and wine. Its principal brands are Jim Beam bourbon, DeKuyper liqueurs and Geyser Peak wine.

Spirits & Wine Regulation and Taxes

The production of spirits and wine in Europe is subject to various regulations, including the testing of raw materials used and the standards maintained in production processing, storage, labeling and distribution. In the United States, the spirits and wine business is subject to strict Federal and State government regulations covering virtually every aspect of its operations, including production, marketing, pricing, labeling, packaging and advertising.

Spirits and wine are subject to national import and excise duties in many markets around the world. Most countries impose excise duties on distilled spirits, although the form of such taxation varies

significantly from a simple application on units of alcohol by volume to intricate systems based on the imported or wholesale value of the product. Several countries impose additional import duty on distilled spirits, often discriminating between categories, like Scotch whisky or bourbon, in the rate of such tariffs. Within the European Union, such products are subject to different rates of excise duty in each country, but within an overall European Union framework that imposes minimum rates of excise duties.

Import and excise duties can have a significant effect on our sales, both through reducing the overall consumption of alcohol and through encouraging consumer switching into lower-taxed categories of alcohol. We devote resources to encouraging the equitable taxation treatment of all alcoholic drink categories and to reducing government-imposed barriers to fair trading.

The advertising, marketing and sale of alcoholic beverages are subject to various restrictions in markets around the world. These range from a complete prohibition of the marketing of alcohol in some countries to restrictions on the advertising style, media and messages used. A number of countries prohibit or discourage televised advertising for spirits brands, either through regulation or a voluntary code of practice, while other countries permit televised advertising for spirits brands, but only under careful regulation.

Spirits and wine are also regulated in distribution. Many countries only permit the sale of alcohol through licensed outlets, both on and off premise. This may vary from government or State operated monopoly outlets to licensed on premise outlets, such as bars and restaurants, which prevail in much of the western world.

Labeling of alcoholic drinks is also regulated in many markets, varying from health warning labels to importer identification, alcoholic strength and other consumer information. All alcoholic beverages sold in the United States must contain warning statements related to the risks of drinking alcoholic beverages. Further requirements for warning statements and any prohibitions on advertising and marketing could have an adverse impact on our sales.

International compliance with environmental requirements has not had a material adverse effect on our results of operations, capital expenditures or competitive position.

QSR Description

Our QSR business comprises our US and international food franchising business. The core trading market for the business is the United States with over 6,300 distribution points nationwide, while the international business operates more than 3,800 additional distribution points. The system is almost exclusively franchised, limiting our required capital investment. Turnover for the year ended 31 August 2001 was £308 million, principally related to franchise income on total retail sales by our franchisees of £2,424 million, and trading profit was £72 million.

The brands included in our QSR business are:

Dunkin' Donuts. Dunkin' Donuts is one of the world's leading coffee and baked goods chains. During the year ended 31 August 2001, it generated 91% of its total retail sales from US markets. As at 31 August 2001, Dunkin' Donuts had 5,251 distribution points, of which 3,673 were located in the United States.

Baskin-Robbins. Baskin-Robbins is one of the world's largest ice-cream franchises. During the year ended 31 August 2001, it generated slightly more than half of its total retail sales from US markets. As at 31 August 2001, Baskin-Robbins had 4,579 distribution points, of which approximately half were in the United States.

Togo's. The Togo's brand was historically a West Coast sandwich chain. As at 31 August 2001, Togo's had 385 distribution points, substantially all of which were in the United States.

QSR Strategy

The objective of our QSR business is to be a global leader in its industry, known for the quality of its brands, retail offerings and staff. To achieve this objective, we intend to continue to pursue the following six key strategies:

Multi-branding concept development. Our three quick service restaurant brands are complementary in terms of consumer consumption throughout the day. According to our internal data, Dunkin' Donuts achieves a majority of its sales before 11.00 a.m., Togo's has a majority of its sales at lunch-time, and Baskin-Robbins' sales traditionally occur during the afternoon and early evening. Our strategy is to combine our brand offerings within the same restaurant. We believe this strategy brings significant benefits to our franchisees through improved scale and operating efficiencies as well as the opportunity to increase revenue from cross-selling our brands. As at 28 February 2002, we had more than 700 restaurants selling more than one of our brands.

Brand revitalization. Complementary to our multi-brand development strategy, we also recognize the importance of continually revitalizing our existing asset base. Since 1996 and as at 31 August 2001, our franchisees had remodeled 64% of the existing US Dunkin' Donuts restaurants. In addition, we have recently changed Dunkin' Donuts logo to better represent an increased focus on coffee while continuing to reinforce the core bakery business. We plan to initiate a program to remodel our existing Togo's restaurants later this year. In the international markets, we have begun to streamline our asset base and have focused our approach on prospective development.

Baskin-Robbins re-positioning. We have substantially revised our business model for Baskin-Robbins so as to provide a greater focus on retailing. Prior to April 2000, we principally derived our income from Baskin-Robbins franchisees from the margin on the cost of producing ice cream and wholesale prices of ice cream sold to our franchisees. In April 2000, we introduced a program to amend our agreements with our Baskin-Robbins franchisees to the effect that our income would be derived exclusively from franchise royalties. We also required our franchisees to increase their contribution to their cooperative advertising fund. Approximately 75%, or 1,200 of our franchisees eligible to participate accepted these amended terms. All new franchise agreements for Baskin-Robbins or for combination restaurants will be on these terms. As part of this repositioning strategy, we have disposed of our ice cream manufacturing operations in the United States and entered into a long term supply contract with Dean Foods for the ice cream requirements of our US Baskin-Robbins franchisees.

Product innovation. Total retail sales have grown as a result of updated shop designs and significant improvements to store operating systems. We have also increased same store sales by continued investment in new product development. Our new products have increased consumer traffic, average consumer spending and profit margins. We have recently entered into an

agreement with Dreamworks to produce promotional products associated with their movies, including Baskin-Robbins products associated with the movie "Shrek".

Accelerating brand development. We believe that there is a real opportunity to increase the distribution of our brands, and subsequently our income sources, by increasing the pace of our branded store openings. In particular, we believe that the use of multi-branded combination stores will allow us to increase penetration of markets in which we believe we are under-represented.

Improving organizational effectiveness and talent acquisition. We have undertaken several initiatives to invest in systems and processes to improve the efficiency and effectiveness of the corporate infrastructure.

QSR Raw Materials

In the United States, a franchisee-owned cooperative manages the purchase, supply and distribution of raw materials and finished products for the Dunkin' Donuts brand. For Baskin-Robbins, we have a long-term, cost-plus arrangement with Dean Foods for the supply and distribution of ice cream and related products. International Multi-Foods supplies the Togo's brand.

Internationally, Dunkin' Donuts is managed through the US system, with some local supply of product where it makes sense either from a financial or a regulatory standpoint. Outside the United States, Baskin-Robbins is supplied primarily out of our manufacturing plant in Peterborough, Canada, although some local procurement exists, including relationships in Japan and South Korea.

QSR Competitors

The quick service restaurant industry is highly competitive. We believe that the combination of overcapacity and rising real estate and labor costs means that unit economics have begun to decline. The financial over-leveraging experienced by retail concepts such as Einsteins, Boston Market and Taco Bell further exacerbated this trend. Looking forward, we believe that consolidation in the industry is likely to occur and will be driven by relatively low profit generation, the opportunity to take capacity out of the market and the opportunity to leverage corporate operating synergies.

We believe our QSR business is strongly positioned to compete in the industry. Currently, we view our key competition as Starbucks, McDonald's, Tricon (which owns Taco Bell, KFC and Pizza Hut), Diageo (which owns Burger King), Wendy's, Subway, Krispy Kreme, Quizno's and Panera Bread.

QSR Regulation

In the United States, we are subject to various Federal, State and local laws affecting our QSR business. Each quick service restaurant must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the State or municipality in which the restaurant is located. In addition, each operating company must comply with various State laws that regulate the franchisor/franchisee relationship. To date, we have not been significantly affected by any difficulty, delay or failure to obtain required licenses or approvals.

In the United States, we are also subject to Federal and State laws governing such matters as employment and pay practices, overtime and working conditions. The QSR restaurants pay the bulk of their employees on an hourly basis at rates related to the Federal minimum wage. The QSR restaurants are also subject to Federal and State child labor laws which, among other things, prohibit the use of certain "hazardous equipment" by employees 18 years of age or younger. We have not to date been materially adversely affected by such laws.

Outside the United States, the QSR restaurants are subject to national and local laws and regulations which are similar to those affecting the restaurants in the United States, including laws and regulations

concerning labor, health, sanitation and safety. These restaurants are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment. International compliance with environmental requirements has not had a material adverse effect on our results of operations, capital expenditures or competitive position.

QSR Property

We own production facilities as well as own or lease buildings for our franchise stores throughout the United States and internationally. The largest of our production facilities produces Baskin-Robbins branded ice cream and is located in Peterborough, Canada. In 2001, it produced 3.2 million gallons of ice cream, and it has an annual procution capacity of 4 million gallons. As at 31 August 2001, our properties related to our QSR business had a net book value of £69 million.

Group Environmental Policy

We seek to adopt operating procedures with minimal environmental impact, to prevent or control pollution of the environment and to conserve energy and other natural resources used in our operations. As a means of achieving these environmental goals, we are implementing ISO 14001, the environmental management standard of the International Organization for Standardization. The International Organization for Standardization has certified that we have ISO 14001 compliant operating sites in Brazil, Canada, France, Portugal, Spain, the United Kingdom and the United States, and we intend to increase the number of our ISO 14001 certified operating sites.

Of the environmental issues that are under our control, the most relevant to us are energy use, water use, carbon dioxide emissions from fermentation, emissions to air from processing, discharges to water, solid waste and packaging. Except as described elsewhere in this registration statement, we are not currently aware of any environmental problems or issues that could materially adversely affect our business or results of operations.

Third-Party Ventures

On 15 February 2000, we purchased a 70% interest in two South Korean companies, Jinro Ballantines Company Limited and Jinro Ballantines Import Company Limited, for £103 million. Jinro Limited, one of South Korea's largest spirits distributors, holds the remaining 30% interest. One of these companies bottles and distributes the acquired Imperial whisky brand while the other company imports and distributes brands from our international spirits portfolio.

On 18 January 2002, we entered into a commercial partnership with the Miller Brewing Company to introduce a range of new flavored malt-based beverages based on our spirits trademarks, the first two of which are Stolichnaya Citrona and Sauza Diablo. These new drinks were launched in the Spring of 2002, reaching US consumers through over 500,000 retail outlets serviced by Miller's nationwide distributor network. Together with Miller, we will initially invest up to $50 million in the development, launch activity and marketing of these trademarks.

We have entered into a series of arrangements with Suntory Limited, one of Japan's leading producers and distributors of spirits. Under these arrangements, we purchased a 50% interest in a Japanese company, Suntory Allied Limited, and granted it the rights to distribute our spirit products in Japan for a period up to and including 2029. Suntory Allied Limited is under the management control of Suntory Limited.

Litigation

We are not currently involved in any legal or arbitration proceedings, including any proceedings which are threatened or pending of which we are aware, which may have a material effect on our financial position, results of operation or liquidity.

Organizational Structure

Allied Domecq PLC is the holding company of the Group. We have over 500 subsidiaries incorporated in over 50 countries. We have a 100% equity interest in all of our significant subsidiaries. We list those subsidiaries as at 31 August 2001 below together with their jurisdiction of incorporation.

Name	Jurisdiction of incorporation
Allied Domecq (Holdings) PLC	England and Wales
Allied Domecq Spirits & Wine Holdings PLC	England and Wales
Allied Domecq Spirits & Wine Limited	England and Wales
Allied Domecq Financial Services PLC	England and Wales
Allied Domecq Overseas Limited	England and Wales
Allied Domecq Overseas (Canada) Limited	England and Wales
Allied Domecq Overseas Holdings Limited	Cayman Islands
Allied Domecq Overseas (Europe) Limited	England and Wales
Allied Domecq International Holdings B.V.	Netherlands
Allied Domecq Netherlands B.V.	Netherlands
Allied Domecq Luxembourg Holdings S.a.r.l	Luxembourg
Allied Domecq Luxembourg S.a.r.l	Luxembourg
Allied Domecq Canada Limited	Canada
Hiram Walker-Gooderham & Worts Limited	Canada

Name	Jurisdiction of incorporation
Allied Domecq North America Corp	United States
Allied Domecq Spirits & Wine Americas, Inc.	United States
Allied Domecq Spirits & Wine USA, Inc.	United States

Item 5. Operating and Financial Review and Prospects

You should read the following commentary together with our selected historical consolidated financial data and our Audited Consolidated Financial Statements and Unaudited Interim Consolidated Financial Statements and the related notes contained elsewhere in this registration statement. This discussion contains forward-looking statements. Our actual results could differ materially from historical results or those contemplated in the forward-looking statements. Forward-looking statements involve a number of risks and uncertainties, and include trend information and other factors that could cause actual results to differ materially, including, but not limited to, those identified in this registration statement under the section entitled "Item 3 Key Information Risk Factors".

General

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our Audited Consolidated Financial Statements and our Unaudited Interim Consolidated Financial Statements and the related Notes appearing elsewhere in this registration statement. Our Audited Consolidated Financial Statements and our Unaudited Interim Consolidated Financial Statements have both been prepared in accordance with UK GAAP, which differs in certain significant respects from US GAAP. For a discussion of the principal differences between UK GAAP and US GAAP as they relate to us, and a reconciliation of profit and loss and equity shareholders' funds to US GAAP, see Note 34 to our Audited Consolidated Financial Statements.

We are a leading international branded drinks and retailing group. Our business comprises one of the world's largest international spirits and wine groups, our Spirits & Wine business, and a leading international quick service restaurants group, our QSR business. Our objective is to create shareholder value through the profitable growth of the business. In 1999, we disposed of our UK Retail business, and since that time we have been strengthening our brand portfolio through acquisitions of spirits and wine producers and brands.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with UK GAAP, which requires us to make certain estimates and assumptions. We believe that, of our significant accounting policies, the following may involve a higher degree of judgment and complexity:

Tangible fixed assets. We have acquired significant tangible assets, including vineyards in New Zealand, the United States, France, Spain and Argentina. The determination of market value, estimated useful life and the likely conditions that trigger impairment require a significant degree of judgment. In particular, vineyards represent uncommon tangible assets and there are complex judgments in relation to the value attributable.

Intangible fixed assets. We have significant goodwill arising on acquisition, which since 1998 we have capitalized and are amortizing systematically over 20 years. Assessing whether there is an indication of impairment, which would require further review, and possible adjustment to the carrying value of goodwill requires a significant degree of judgment.

Pensions and post-retirement medical benefits. We charge pension and post-retirement medical benefit costs to the profit and loss account on a systematic basis over the service life of employees with the advice of actuaries using the projected unit credit method. Inherent in these actuarial valuations are key assumptions, including discount rates and expected returns on the plan. We are required to consider market conditions, including potential changes in interest rates, in selecting these assumptions. These assumptions may not address actual changes in related pension and post-retirement benefit costs in the future.

Exceptional items. Exceptional items are those that, by virtue of their size or nature, our Board of Directors determines should be separately disclosed. This determination requires a significant degree of judgement.

Factors Affecting Results of Operations

For the period under review, our consolidated results of operations should be considered in light of the following specific factors.

Effect of Recent Acquisitions

Since the disposal of our UK Retail business in 1999, we have completed a number of acquisitions in order to diversify our portfolio and bring other specific benefits to our business, including building critical mass in key markets and extending our geographic reach into markets with growth potential. We have financed these acquisitions primarily from new bank facilities and capital market fund raising activities during the period. During the year ended 31 August 2001 our net debt increased by £602 million primarily as a result of acquisitions.

Since 31 August 2001, we have acquired Kuemmerling GmbH, one of Germany's largest spirit brands, and Bodegas y Bebidas, a leading Spanish wine producer. In addition, we made a deferred payment in an amount of £226 million associated with our acquisition of Montana. As at 28 February 2002, our net debt was £2,325 million, an increase of £471 million as compared with 31 August 2001.

On 22 May 2002, we acquired Malibu, a coconut-flavored rum-based spirit, Mumm Cuvée Napa, a Californian sparkling wine, and associated assets from Diageo plc. The cash consideration of the acquisition was £587 million on a debt free basis, subject to a working capital adjustment. On 4 March 2002, we completed a private placement of 39 million new ordinary shares for gross proceeds of approximately £152 million to partially fund the acquisition. We funded the remainder of the acquisition price through the issuance of EUR600 million bonds due 2009 and £250 million bonds due 2014.

Mexican Excise Rebate

In October 2001, the Mexican Supreme Court ruled in favor of a complaint, brought by a number of spirits companies in Mexico challenging the excise duty regime applicable to their Mexican operations during 1998 and 1999. The Mexican Supreme Court ruled that the excise tax, which only applied to large companies, was inequitable, and awarded damages to certain plaintiffs, including us. We are offsetting current and future duties and taxes in Mexico by Pesos 1.5 billion (approximately £112 million at the then current exchange rates) plus applicable interest and inflation adjustments.

At 31 August 2001, we expected that the balance of the repayment of excess duties would be collected over the next three to five years and would be subject to further interest and inflation adjustments. Accordingly, our results of operations for the year ended 31 August 2001 include a benefit to earnings of £30 million, representing £18 million of duties offset during that financial year plus £29 million of interest and inflation adjustments minus applicable corporation tax of £17 million.

During the six months ended 28 February 2002, we received a further benefit to earnings from the Mexican excise rebate of £74 million, representing £51 million of duties offset during that period plus £64 million of interest and inflation adjustments minus applicable corporation tax of £41 million. During the six months ended 28 February 2002, the Mexican excise rebate was treated as an exceptional item because of the significant increase in the size of the rebate resulting from the acceleration of the collection of the rebate due to an extension of the range of products and tax types through which the rebate could be collected.

The period over which our results of operations will benefit from the offset will depend on the rates of duty and taxation applied in the future.

Seasonality

We experience some seasonal fluctuations in demand. Retail demand for certain spirits, sparkling wines and champagne, for example, is highest during end of the year holiday events in certain key markets.

Exchange Rate Fluctuations

We conduct our operations in many countries, and accordingly, a substantial portion of our sales and production costs are denominated in currencies other than Pounds Sterling. As a result, fluctuations between the Pound Sterling and other major currencies, including the US Dollar and the Euro, may affect our operating results. We have a partial natural hedge against the impact of foreign exchange fluctuations associated with transactions denominated in Euro. During the periods under review, the impact of foreign exchange movements on the translation of profits has been broadly neutral with the reduction in profits resulting from the depreciation of the Euros being offset by increased profits reflecting the strengthening of the US Dollar and Mexican Peso.

Our balance sheet can be significantly affected by currency translation movements. Our policy is to match foreign currency debt in proportion to foreign currency earnings so as to provide a natural hedge of part of the translation exposure. While we currently hedge certain of these exposures through financial instruments in the form of forward contracts and currency swaps, there can be no assurance that exchange rate fluctuations in the future will not have a material adverse effect on our results of operations.

Results of Operations

In 1999, we decided to focus our operations on our Spirits & Wine business and our QSR business. Accordingly, in September 1999, we disposed of our UK Retail business, which consisted of our managed and leased pub estates and our interest in a liquor store joint venture. The following analysis of our results of operations relates only to our continuing businesses.

Six months ended 28 February 2002 compared with the six months ended 28 February 2001

Operating results

Group Comparative Performance

Turnover. Turnover was £1,704 million during the six months ended 28 February 2002, an increase of £247 million, or 17%, from the six months ended 28 February 2001. This increase principally reflects increased turnover of our Spirits & Wine business as a result of acquisitions. Excluding acquisitions, turnover increased by £46 million, or 3%, during the six months ended 28 February 2002 as compared to the prior period.

Trading profit. Trading profit was £313 million during the six months ended 28 February 2002, an increase of £36 million, or 13%, from the six months ended 28 February 2001. This increase principally reflects increased profits of our Spirits & Wine business as a result of acquisitions. Excluding acquisitions, trading profit increased by £9 million, or 3%, during the six months ended 28 February 2002 as compared with the prior period. This increase reflects a 3% increase in trading profit on our Spirits & Wine business, where gains due to pricing and product mix were partially offset by volume declines in Latin America and the United States, and a 14% increase in trading profit on our QSR business.

Segment Comparative Performance

We are an international business and, as a result, fluctuations between the Pound Sterling and other major currencies, particularly the US Dollar and the Euro, have a substantial impact on our results of operations.

In order to provide investors and potential purchasers of our ordinary shares and ADSs with a meaningful discussion of the changes and trends in our results of operations, we translate the results of the prior period at the weighted average exchange rates of the most recent period. We refer to this translation as "at constant exchange rates".

Spirits & Wine

The following table sets out financial data from the results of operations of our Spirits & Wine business during the six months ended 28 February 2002, and financial data from the results of operations of our Spirits & Wine business during the six months ended 28 February 2001 at 2002 constant exchange rates.

	Six months ended 28 February 2002	Six months ended 28 February 2001 at 2002 constant exchange rates

	£	£
	(million)	
Turnover	1,571	1,321(1)
Duty	(353)	(329)
Net turnover	1,218	992
Gross margin	697	584
Trading profit	286	254(2)

Notes:

(1) Translation adjustments to turnover at 2002 constant exchange rates were £6 million. Turnover for the six months ended 28 February 2001 was £1,327 million.

(2) Translation adjustments to trading profit at 2002 constant exchange rates were £1 million. Trading profit for the six months ended 28 February 2001 was £253 million.

Volume, turnover and gross margin

We sold 30.8 million nine liter equivalent cases of spirits and wine during the six months ended 28 February 2002 as compared with 26.2 million cases during the prior period, an increase of 18%. This increase principally reflects the impact of acquisitions during the period, partly offset by the effect of slower trading in the United States at the end of 2001.

Net turnover, excluding excise duty paid by customers on our spirits and wine products, was £1,218 million during the six months ended 28 February 2002, an increase of £226 million, or 23%, as compared with the prior period at 2002 constant exchange rates. This increase in net turnover principally reflects acquired businesses' turnover of £178 million. Excluding acquisitions, net turnover grew by 5% as a result of pricing and mix, partially offset by volume reductions in North America and Latin America.

Gross Margin was £697 million during the six months ended 28 February 2002, an increase of £113 million, or 19%, as compared with the prior period at 2002 constant exchange rates. This increase principally reflects acquired businesses' gross margin of £79 million. Excluding acquisitions, gross margin grew by 6%, or £34 million, as a result of pricing and mix, partially offset by volume reductions. Of this £34 million increase in gross profit excluding acquisitions, £23 million, or 4%, of the increase was as a result of price improvements, predominantly in Latin America. Improved product mix accounted for a further £27 million, or 5% of the increase. There was a £16 million, or 3%, decrease as a result of lower volumes, partially as a result of the supply chain re-engineering project which we announced in October 2001 in the United States, which accounted for £8 million of the decline.

Advertising and Promotion. Advertising and promotion investment in our brands for the six month period ended 28 February 2002 was £204 million, an increase of 27% as compared to the prior period.

Excluding advertising and promotion investment associated with our acquired businesses, advertising and promotion investment increased by 13% during the six months ended 28 February 2002, reflecting continued investment in our brands, particularly Ballantine's.

Trading profit. Trading profit was £286 million during the six months ended 28 February 2002, an increase of £32 million, or 13%, as compared to the prior period at 2002 constant exchange rates. The increase in trading profit principally reflects the impact of acquisitions during the period. Excluding acquisitions, trading profit increased by 2%, reflecting increased pricing and enhanced mix, partially offset by lower sales volumes in Latin America and the United States.

Trading profit by sales region. Our Spirits & Wine business is a marketing-led business where resource allocation decisions with respect to brands are made on a global basis. However, as these decisions are executed within key markets, we believe it is appropriate to additionally disclose the trading profit of our Spirits & Wine business on a regional basis. The following table sets out for each of our sales regions trading profit of our Spirits & Wine business for the six months ended 28 February 2002 and trading profit of our Spirits & Wine business during the six months ended 28 February 2001 at 2002 constant exchange rates.

	Six months ended 28 February 2002	Six months ended 28 February 2001 at 2002 constant exchange rates
	£	£
	(million)	
Europe	94	80
North America	95	90
Latin America	43	36
Asia Pacific	45	30
Other(1)	9	18
Total	286	254

Note:

(1) Other includes Global Operations (including profit from the sale of bulk spirits and wine), stand-alone Duty Free operations and central items not allocated to sales regions.

Europe. Trading profit was £94 million during the six months ended 28 February 2002, an increase of £14 million, or 18%, as compared to the prior period at 2002 constant exchange rates. Excluding acquisitions, trading profit increased 3%, driven by a 5% increase in turnover. The increase in trading profit excluding acquisitions reflects the increased turnover and profit of Ballantine's and Beefeater in Spain as well as Teacher's and Tia Maria in the United Kingdom. Acquired trading profit reflects the acquisition of Kuemmerling, a leading German spirits brand.

North America. Trading profit was £95 million during the six months ended 28 February 2002, an increase of £5 million, or 6%, as compared with the prior period at 2002 constant exchange rates. Trading profit excluding acquisitions decreased by 4% as compared to the prior period at 2002 constant exchange rates. This decrease primarily reflects a slowdown in the US economy and the impact of tactical changes in pricing and marketing promotions.

Latin America. Trading profit was £43 million during the six months ended 28 February 2002, an increase of £7 million, or 19%, as compared with the prior period at 2002 constant exchange rates. This increase principally reflects price increases for Sauza, Presidente and Don Pedro and mix benefits with Sauza. The Mexican brandy portfolio suffered further volume declines as a result of the growth of the informal spirits market and increases in excise duty.

Asia Pacific. Trading profit was £45 million during the six months ended 28 February 2002, an increase of £15 million, or 50%, as compared to the prior period at 2002 constant exchange rates. Trading profit excluding acquisitions increased by 13%, and this growth principally resulted from increased sales across the region, particularly in South Korea, with strong sales of Imperial and Ballantine's. Total trading profit for the region currently includes the contribution from Montana wines, which sold 2.8 million nine liter equivalent cases during the period.

Other. Trading profit from the sale of bulk spirits and wine, stand-alone Duty Free operations and central items not allocated to the sales regions resulted in a £9 million year-on-year movement at 2002 constant exchange rates. Other also includes a pension credit of £8 million in the six months ended 28 February 2002 compared with a credit of £9 million for the six months ended 28 February 2001. Offsetting the credits are pension contributions paid by the Group across all regions which amounted to £4 million for both periods. The net credit is recorded as part of staff costs within the profit and loss account.

QSR

Turnover on our QSR business was £133 million during the six months ended 28 February 2002, an increase of £3 million, or 2%, as compared to the prior period at 2002 constant exchange rates. This increase principally reflects the overall increase in system-wide sales of £63 million, or 5%, with same store sales growth up 7% in Baskin-Robbins and 6% in Dunkin' Donuts. Stores that are included in the comparison of "same store sales" include those that had been open and operating for at least two fiscal years during all of the two periods being compared. Trading profit was £24 million during the six months ended 28 February 2002, an increase of £3 million, or 14%, as compared to the prior period at 2002 constant exchange rates. This increase results from growth in same store sales for Baskin-Robbins and Dunkin' Donuts as well as our strategy of multi-branded combination stores which increased to over 700 at period end.

Finance charges

Finance charges represent interest on bank loans and overdrafts less deposits and other interest receivable. Finance charges during the six months ended 28 February 2002 increased by £21 million as compared to the prior period of £62 million. This increase relates primarily to the increase in borrowings related to the payment of a deferred creditor for the acquisition of Montana and the acquisition of Kuemmerling and Bodegas y Bebidas.

Goodwill and Exceptional items

Goodwill amortization during the six months ended 28 February 2002 was £18 million as compared to £4 million during the six months ended 28 February 2001, reflecting the impact of acquisitions. Exceptional profits during the six months ended 28 February 2002 were £102 million, reflecting the benefit of £115 million from the Mexican excise rebate and costs of £13 million in respect of a distillation strategy review in Scotland. During the year ended 31 August 2001, the £47 million Mexican excise rebate was disclosed separately within trading profit. You should read the section entitled "Factors Affecting Results of Operations Mexican Excise Rebate" above for more information on our treatment of the Mexican excise rebate. The exceptional charge relating to our distillation strategy relates to the write-down of the balance sheet value of the Dumbarton grain distillery and the costs of demolition and site clearance.

Profit before taxation, goodwill and exceptional items

Profit before taxation, goodwill and exceptional items during the six months ended 28 February 2002 increased by £15 million, or 6%, as compared to the prior period.

33

Taxation

As explained within the Accounting Policies section of our Audited Consolidated Financial Statements, we adopted Financial Reporting Standard 19 Deferred Tax in the six month period ended 28 February 2002 which resulted in the restatement of the financial statements of prior periods. Excluding tax on the Mexican excise rebate, which has been taxed locally at 35%, and tax on goodwill and other exceptional items, the effective tax rate for the period was 25%, in line with the rate for the prior period. The rate for the prior period did not change as a result of the restatement under FRS 19.

Year ended 31 August 2001 compared with the year ended 31 August 2000

Operating Results

Group Comparative Performance

Turnover. Turnover was £2,879 million during the year ended 31 August 2001, an increase of £277 million, or 11%, from the year ended 31 August 2000. This increase reflects increased turnover of our Spirits & Wine business, principally driven by acquisitions during the period, as well as the favorable effects of currency exchange rates, principally the strength of the US Dollar during the period.

Trading profit. Trading profit was £590 million for the year ended 31 August 2001, an increase of £103 million, or 21%, from the year ended 31 August 2000. Excluding the effect of the Mexican excise rebate, trading profit was £543 million for the year ended 31 August 2001, an increase of £56 million, or 11%, from the year ended 31 August 2000. Excluding acquisitions and the Mexican excise rebate, trading profit increased by 6% as compared to the prior period. This increase reflects a 4% increase in trading profit on our Spirits & Wine business, where pricing gains were partially offset by volume declines, particularly in Latin America, and a 6% increase in trading profit on our QSR business.

Segment Comparative Performance

We are an international business, and, as a result, fluctuations between the Pound Sterling and other major currencies, particularly the US Dollar and Euro, can have a substantial impact on our results of operations. In order to provide investors and potential purchasers of our ordinary shares and ADSs with a meaningful discussion of the changes and trends in our results of operations, we translate the results of the prior period at the weighted average rates of the most recent period. We refer to this translation as "at constant exchange rates."

Spirits & Wine

The following table sets out financial data from the results of operations of our Spirits & Wine business for the year ended 31 August 2001, and financial data from the results of operations of our Spirits &

Wine business during the year ended 31 August 2000 translated into Pound Sterling at 2001 constant exchange rates.

	Year ended 31 August 2001	**Year ended 31 August 2000 at 2001 constant exchange rates**
	£	**£**
	(million)	
Turnover	2,571	2,372(1)
Duty	(605)	(558)
Net turnover	1,966	1,814
Gross margin	1,146	1,068
Trading profit (excluding Mexican excise rebate)	458	423(2)
Trading profit (including Mexican excise rebate)	505	423

Notes:

(1) Translation adjustments to turnover at 2001 constant exchange rates were £75 million. Turnover for the year ended 31 August 2000 was £2,297 million.

(2) Translation adjustments to trading profit at 2001 constant exchange rates were £9 million. Trading profit for the year ended 31 August 2000 was £414 million.

Volume, turnover and gross margin. We sold 50.4 million nine liter equivalent cases of spirits and wine during the year ended 31 August 2001 as compared with 50.8 million cases in the prior period, a decrease of 1%. This decrease was principally the result of higher excise duty levels in Mexico, which particularly affected sales of brandies. Sales of Sauza were held back by the industry shortage of agave, the main ingredient in tequila. In addition, the implementation of price increases and the withdrawal of unprofitable promotional activity in the United States slowed volume growth of certain brands.

Net turnover, excluding excise duty paid by consumers on our spirits and wine products, was £1,966 million during the year ended 31 August 2001, an increase of £152 million, or 8%, as compared with net turnover during the prior period at 2001 constant exchange rates.

Gross Margin was £1,146 million during the year ended 31 August 2001, an increase of £78 million, or 7%, as compared with the prior period at 2001 constant exchange rates. This increase principally reflects acquired businesses' gross margin of £59 million including the contribution of Stolichnaya vodka, Mumm champagne and Imperial whisky. Excluding acquisitions, gross margin grew by £19 million, or 2%. Of this £19 million increase, price increases of £41 million, or 4%, were partially offset by cost increases of £11 million and volume declines of £11 million, The impact on gross margin due to volume and cost arose largely as a result of the continued industry-wide shortage of the raw material agave, the impact of higher excise duties in Mexico and the supply chain re-engineering in the United States, where shipments were below the level of depletions from our distributors, representing a volume de-stock of £5 million in the supply chain.

Advertising and Promotion. Advertising and promotion investment in our brands for the year ended 31 August 2001 was £330 million, an increase of 7% as compared to the prior period at 2001 constant exchange rates. Advertising and promotion of our core brands, which represented 34% of our Spirits & Wine portfolio by volume, accounted for 61% of the total expenditure. In particular, advertising and promotional expenditure focused on the promotion of Beefeater, Courvoisier, Whisky DYC and Maker's Mark, along with investment behind acquired brands, notably the acquisition of the Stolichnaya distribution rights in the United States.

Trading Profit. Trading profit, excluding the Mexican excise rebate, was £458 million during the year ended 31 August 2001, an increase of £35 million, or 8%, as compared to the prior period at 2001 constant exchange rates.

Trading profit by sales region. Our Spirits & Wine business is a marketing-led business where resource allocation decisions with respect to brands are made on a global basis. However, as these decisions are executed within key markets, we believe it is appropriate to additionally disclose the trading profit of our Spirits & Wine business on a regional basis. The following table sets out for each of our sales regions the trading profit, excluding the Mexican excise rebate, of our Spirits & Wine for the year ended 31 August 2001, and trading profit of our Spirits & Wine business during the year ended 31 August 2000 at 2001 constant exchange rates.

	Year ended 31 August 2001	**Year ended 31 August 2000 at 2001 constant exchange rates**
	£	**£**
	(million)	
Europe	142	125
North America	185	163
Latin America	46	66
Asia Pacific	59	33
Other(1)	26	36
Total	458	423

Note:

(1) Other includes Global Operations (including profit from the sale of bulk spirits and wines), stand-alone Duty Free operations and central items not allocated to sales regions.

Europe. Trading profit in Europe was £142 million during the year ended 31 August 2001, an increase of £17 million, or 14%, as compared with the prior period at 2001 constant exchange rates. The increase of trading profit principally reflects increased profits in Spain, where volumes of Ballantine's and Beefeater continued to grow partially offset by a decline of volumes of Whisky DYC, Spain's second largest whisky. We increased advertising and promotion behind this brand by 33% to help address this trend.

North America. Trading profit in North America was £185 million during the year ended 31 August 2001, an increase of £22 million, or 14%, as compared with the prior period at 2001 constant exchange rates. The increase reflects profit growth in both the US and Canadian businesses. We achieved the US growth by price and mix improvements within our portfolio of core brands, particularly Kahlúa, Maker's Mark and Sauza along with a strong initial performance from the Stolichnaya brand, partially offset by the impact of a full year of increased agave costs on Sauza tequila as a result of continued shortages of that crop. Advertising and promotion in North America increased by 6% in the period.

Latin America. Trading profit in Latin America, excluding the effect of the Mexican excise rebate, was £46 million during the year ended 31 August 2001, a decline of £20 million, or 30%, as compared with the prior period at 2001 constant exchange rates. The decrease in trading profit reflects a decline in the volumes of Mexican brandies which suffered volume declines as a result of increases in excise duty while

Sauza suffered volume declines as a result of the shortage of agave.

Asia Pacific. Trading profit in Asia Pacific was £59 million during the year ended 31 August 2001, an increase of £26 million, or 79%, as compared with the prior period at 2001 constant exchange rates. This increase principally reflects the success of our Jinro Ballantines venture. Imperial whisky, one of South Korea's leading whiskies, and Ballantine's have both grown strongly in the year supported by increased advertising and promotion. The increase in trading profit is also supported by Duty Free sales, reflecting improved results of Ballantine's super-premium aged range resulting in an increased market share of 7%. Japan has also benefited from growth of aged Ballantine's in Duty Free, improved

net pricing and from the launch of Kahlúa and Beefeater ready-to-drink formats. Good growth in the Philippines and Taiwan was driven by a 12% volume growth in Fundador® brandy and improved advertising and promotion effectiveness in Taiwan.

Other. Trading profit on the sale of bulk spirits and wine, stand-alone Duty Free operations and central items not allocated to sales regions resulted in a £10 million year-on-year movement at 2001 constant exchange rates. Other also includes a pension credit of £33 million in the year ended 31 August 2001 compared with a credit of £20 million for the year ended 31 August 2000. Offsetting the credits are pension contributions paid by the Group across all regions which amounted to £7 million in the year ended 31 August 2001 and £10 million in the year ended 31 August 2000 resulting in a net pension credit of £26 million in 2001 and £10 million in 2000. The net credit is recorded as part of staff costs within the profit and loss account. Under UK GAAP the pension prepayment is compared with the actuarial pension surplus each year and the difference is amortised over the expected lifetime of the relevant employees. The increase in the pension credit between 2000 and 2001 reflected the change in the valuation of the pension schemes between the two periods.

QSR

Turnover on our QSR business was £308 million during the year ended 31 August 2001, a decrease of £24 million, or 7%, as compared with turnover during the prior period at 2001 constant exchange rates. This decrease principally reflected the change in the results of Baskin-Robbins as it moved from generating revenue and margin from the manufacture of ice cream to generating revenue from franchise royalties. Trading profit was £72 million during the year ended 31 August 2001, an increase of £4 million, or 6%, as compared to the prior period at 2001 constant exchange rates. This increase resulted from growth in same store sales, profit growth from the international business and the contribution from new stores, which was partially offset by the re-positioning of Baskin-Robbins where new franchise royalties did not exceed the loss of margins on ice cream manufacture and a reduction in Baskin-Robbins profits as a result of additional raw material cost. Stores that are included in the comparison of "same store sales" include those that had been open and operating for at least two fiscal years during all of the two years being compared.

Finance charges

Finance charges during the year ended 31 August 2001 increased by £7 million to £90 million relating principally to the corresponding increase in borrowings from £1,252 million to £1,854 million to finance our acquisitions.

Goodwill and Exceptional items

Goodwill amortization totaled £12 million during the year ended 31 August 2001, an increase of £9 million compared with the prior period, reflecting further acquisitions during the period. Exceptional items during the year ended 31 August 2001 were £3 million; being primarily aborted acquisition costs (£4 million), the provision for surplus properties (£4 million) and costs associated with the introduction of the Euro (£1 million), offset by profit on disposal of businesses (£6 million).

Profit before taxation, goodwill and exceptional items

Profit before taxation, goodwill and exceptional items during the year ended 31 August 2001, including the benefit of the Mexican excise rebate, increased by £96 million, or 24%, as compared with the prior period. Profit before taxation included the benefit of £47 million during the year ended 31 August 2001, arising from the ruling of the Mexican Supreme Court with respect to the excise duty regime that was applicable to our Mexican operations during 1998 and 1999.

Taxation

As explained within the Accounting Policies section of our Audited Consolidated Financial Statements, we adopted Financial Reporting Standard 19 Deferred Tax in the six month period ended 28 February 2002 which resulted in the restatement of the financial statements of prior periods. Prior to this restatement, excluding the impact of the Mexican excise rebate, which has been taxed locally at 35%, and tax on goodwill and exceptional items, the effective tax rate decreased from 26% to 25% in the year to 31 August 2001. After restatement, the effective tax rates were 22.8% for the year to 31 August 2000 and 25% for the year 31 August 2001.

Year ended 31 August 2000 compared with year ended 31 August 1999

Operating Results

Group Comparative Performance

Turnover. Turnover was £2,602 million during the year ended 31 August 2000, an increase of £194 million, or 8%, from the year ended 31 August 1999. This increase reflects increased turnover of our Spirits & Wine business, as well as the favorable effects of currency exchange rates.

Trading profit. Trading profit was £487 million for the year ended 31 August 2000, an increase of £57 million, or 13%, from the year ended 31 August 1999. This increase reflects a 12% increase in trading profit on our Spirits & Wine business, where volume and pricing gains were partially offset by increased raw material cost in relation to Sauza. The increase also reflects a 21% increase in trading profit on our QSR business, partially as a result of the favourable effects of currency exchange.

Segment Comparative Performance

We are an international business, and, as a result, fluctuations between the Pound Sterling and other major currencies, particularly the US Dollar and Euro, can have a substantial impact on our results of operations. In order to provide investors and potential purchasers of our ordinary shares and ADSs with a meaningful discussion of the changes and trends in our results of operations, we translate the results of the prior period at the weighted average rates of the most recent period. We refer to this translation as "at constant exchange rates".

Spirits & Wine

The following table sets out financial data from the results of operations of our Spirits & Wine business for the year ended 31 August 2000, and financial data from the results of operations of our Spirits & Wine business during the year ended 31 August 1999 translated at 2000 constant exchange rates.

	Year ended 31 August 2000	Year ended 31 August 1999 at 2000 constant exchange rates
	£	£
	(million)	
Turnover	2,297	2,101(1)
Duty	(545)	(491)
Net turnover	1,752	1,610
Gross margin	1,046	947
Trading profit	414	368(2)

Notes:

(1) Translation adjustments to turnover at 2000 constant exchange rates were £9 million. Turnover for the year ended 31 August 1999 was £2,110 million.

(2) Translation adjustments to trading profit at 2000 constant exchange rates were £1 million. Trading profit for the year ended 31 August 1999 was £369 million.

Volume, turnover and gross margin. Net turnover, excluding excise duty paid by consumers on our spirits and wine products, was £1,752 million during the year ended 31 August 2000, an increase of £142 million, or 9%, as compared with net turnover during the prior period at 2000 constant exchange rates.

Gross Margin was £1,046 million during the year ended 31 August 2000, an increase of £99 million, or 10%, as compared with the prior period at 2000 constant exchange rates. This increase in gross margin principally reflects a combination of price increases of £54 million, or 6%, particularly in Mexico, Central and Eastern Europe and Spain, volume increases of £28 million, or 3%, including sales in Asia following the Jinro Ballantines acquisition and a mix benefit of £35 million, or 4%, with improvements in Europe and the United States, partially offset by a gross margin decrease due to net cost increases of £18 million, or 2%, largely as a result of the industry-wide shortage of the raw material, agave.

Advertising and Promotion. Advertising and promotion during the year ended 31 August 2000 was £301 million, an increase of £24 million, or 9%, as compared with the prior period at 2000 constant exchange rates. The increase principally reflects investment in four of our core brands (which at that time comprised of four brands Ballantine's, Kahlúa, Sauza and Beefeater) and particularly Ballantine's and Kahlúa.

Trading Profit. Trading profit during the year ended 31 August 2000 was £414 million, an increase of £46 million, or 13%, as compared with the prior period at 2000 constant exchange rates.

Trading profit by sales region. Our Spirits & Wine business is a marketing-led business where resource allocation decisions with respect to brands are made on a global scale. However, as these decisions are executed within key markets, we believe it is appropriate to additionally disclose trading profit of our Spirits & Wine business on a regional basis. The following table sets out for each of our sales regions trading profit of our Spirits & Wine business for the year ended 31 August 2000, and trading profit of our Spirits & Wine business during the year ended 31 August 1999 at 2000 constant exchange rates.

	Year ended 31 August 2000	Year ended 31 August 1999 at 2000 constant exchange rates
	£	£
	(million)	
Europe	141	128
Americas	174(1)	144
Mexico	41(1)	42
Asia Pacific	40	20
Other(2)	18	34
Total	414	368

Notes:

(1) The regional classification for the year ended 31 August 2000 when compared to 1999 was on a different basis to that for the year ended 31 August 2001 compared to 2000 as a result of a reclassification adjustment of £8 million in 2000 to allocate the results from Americas to Latin America.

(2) Other includes Global Operations (including profit from the sale of bulk spirits and wines), stand-alone Duty Free operations and central items not allocated to sales regions.

Europe. Trading profit was £141 million during the year ended 31 August 2000, an increase of £13 million, or 10%, as compared to the prior period at 2000 constant exchange rates. The increase in trading profit principally reflects volume increases in Ballantine's Finest and Beefeater as well as Teacher's Scotch whisky in the United Kingdom. Volumes of Spanish wines also grew as a result of the trend towards higher quality categories.

Americas. Trading profit was £174 million during the year ended 31 August 2000, an increase of £30 million, or 21%, as compared with the prior period at 2000 constant exchange rates. This increase was due to a favorable product mix in North America, particularly from Kahlúa, Courvoisier, Sauza and Maker's Mark. A further significant contributor to the profit improvement was the performance of the wine business that achieved price and volume increases. The Latin American business contributed to the increase in trading profit largely as a result of improvements in Brazil. This was in spite of poor trading conditions in Argentina. In addition, our Californian wine brands benefited from a 15% growth in volumes. During the year we invested in our Californian wineries through a $22 million project to double capacity at Clos du Bois.

Mexico. Trading profit was £41 million during the year ended 31 August 2000, a decrease of £1 million, or 2%, as compared with the prior period at 2000 constant exchange rates. This decrease principally relates to the impact of the shortage and increased costs of the agave cactus, the key raw material for tequila, and reduced sales of Sauza in the Mexico market which offset increased sales of Don Pedro and Presidente during the period.

Asia Pacific. Trading profit was £40 million during the year ended 31 August 2000, an increase of £20 million as compared to the prior period at 2000 constant exchange rates. This growth principally resulted from the acquisition of Jinro Ballantines which had a successful start with Imperial whisky supported by increased advertising and promotion. Trading profit in the Philippines improved in the year as a result of strong growth from Fundador brandy. Trading profit in Japan also increased reflecting improved pricing and effectiveness of advertising and promotion.

Other. Trading profit from the sale of bulk spirits and wines, stand-alone Duty Free operations and central items not allocated to the sales regions resulted in a £16 million year-on-year movement at 2000 constant exchange rates. Other also includes a pension credit of £20 million in the year ended 31 August 2000 compared with a credit of £10 million for the year ended August 1999. Offsetting the credits are pension contributions paid by the Group across all regions which amounted to £10 million in 2001 and £13 million in 1999 resulting in a net pension credit of £10 million in 2000 and a net expense of £3 million in 1999. The net credit is recorded as part of staff costs within the profit and loss account. Under UK GAAP, the pension prepayment is compared with the actuarial pension surplus each year and the difference is amortised over the expected lifetime of the relevant employees. The increase in the pension credit between 1999 and 2000 reflected the change in the valuation of the pension schemes between the two periods. The reduction in pension contributions was a result of the disposal of the UK Retail business.

QSR

Turnover on our QSR business was £305 million during the year ended 31 August 2000, a decrease of £10 million, or 3% as compared to the prior period at 2000 constant exchange rates. This decrease principally reflects the changes in Baskin-Robbins as it moved from generating revenue from ice cream manufacturing to generating revenue from franchise royalties. Trading profit of the QSR business was £64 million during the year ended 31 August 2000, an increase of £8 million, or 14%, as compared with trading profit during the prior period at 2000 constant exchange rates. The increase reflects improved results of Dunkin' Donuts and Togo's, offset by the costs of repositioning the Baskin-Robbins brand in the United States initiated through shifting profits driven by margins on ice cream manufacturing to profits driven by franchise royalties. The roll-out phase of the program was completed by the year ended 31 August 2000, with around three quarters of qualifying franchisees participating. As a result of the restructuring, there was a 2% reduction in the number of Baskin-Robbins distribution points. Overall system-wide sales increased by £165 million, or 8% with Dunkin' Donuts system-wide sales representing £135 million, or 9%. Same store sales growth was up 7% in Dunkin' Donuts, 1% in Baskin-Robbins and 4.5% in Togo's. Stores that are included in the comparison of "same store sales" include those that had been open and operating for at least two fiscal years during all of the two years being compared.

Finance charges

Finance charges increased by £9 million in the year to 31 August 2000 to £83 million principally due to changes in external interest rates.

Exceptional items

Exceptional items in the year ended 31 August 2000 represented a net credit to the profit and loss account of £5 million. This credit comprised: profits on the disposal of fixed assets of £46 million; profits on the disposal of businesses, namely Panrico, a Spanish bakery business, of

£13 million; costs of restructuring programs of £40 million (of which £3 million was related to IT outsourcing and £11 million was related to our global organization activity review); asset write downs of £6 million; and project costs relating to the Year 2000 and conversion to the Euro of £8 million.

Exceptional items in the year ended 31 August 1999 represented a net charge to the profit and loss account of £358 million. This charge comprised a credit of £167 million related to disposals, principally the disposal of Cantrell and Cochrane, an Irish drinks company; charges of £272 million in relation to the premia for the redemption of debenture and loan stock; charges of £59 million in relation to asset write-downs; £37 million for surplus properties; £45 million related to the UK Retail business; £18 million related to restructuring costs in joint ventures and associated undertakings; and £27 million project costs related to the Year 2000 and conversion to the Euro. We also recognized exceptional organization and corporate costs during the year of £67 million, comprising £14 million for a corporate cost review, £6 million for reorganization of our Spirits & Wine business, £10 million to remodel our quick service restaurants and £14 million to reorganize the UK Retailing business.

Profit before taxation, goodwill and exceptional items

Profit before taxation, goodwill and exceptional items during the year ended 31 August 2000 and excluding discontinued businesses of £404 million grew by £66 million. Adjusting for pro-forma finance charges included within discontinued business in 1999, the increase was £55 million or 16%.

Taxation

As explained within the Accounting Policies section of our Audited Consolidated Financial Statements, we adopted Financial Reporting Standard 19 Deferred Tax in the six month period ended 28 February 2002 which resulted in the restatement of the financial statements of prior periods. Prior to this restatement, excluding tax on goodwill and exceptional items, the effective tax rate was 26% during the period ended 31 August 2000. After restatement, the effective tax rate was 22.8%. The cash impact of tax for the year ended 31 August 2000 was a net inflow of £21 million arising principally because of the recovery of £78 million advance corporation tax on foreign dividend income.

Liquidity and Capital Resources

Cash Flow

The primary sources of our liquidity over the last three years ended 31 August 2001 have been cash generated from operations. Our results of operations are subject to risks and uncertainties. The following discussion should be read in conjunction with "Item 3 Key Information Risk Factors." A portion of these funds has been used to fund acquisitions and to pay interest, dividends and taxes.

Year ended 31 August 2001 compared with the year ended 31 August 2000

Net cash inflow from operating activities was £423 million during the year ended 31 August 2001, an increase of £51 million as compared with the prior period. This increase reflects increased operating profit partially offset by an increase of £9 million of goodwill amortization and an increase of £29 million in stocks as a result of acquisitions during the year, as well as a decrease in payments to

creditors of £43 million. We benefited from the receipt of £47 million, resulting from the Mexican excise rebate, which is included within the operating profit of £547 million.

Cash outflow before use of liquid resources and financing was £594 million during the year ended 31 August 2001 as compared with a cash inflow of £92 million during the prior period. The primary causes of this cash outflow were increases in cash paid for acquisitions as well as the amount of dividends and taxes paid. In the year ended 31 August 2001, we spent £635 million in cash for acquisitions of which £442 million related to the purchase of those businesses and £193 million related to debt acquired with the businesses. The £635 million is comprised of £364 million for Mumm and Perrier Jouët champagnes, £180 million for Montana wines (with the balance of the total price paid of £406 million being paid in September 2001) and £91 million for Graffigna, Sainte Sylvie® and Buena Vista® wines. Capital expenditure net of asset disposal proceeds and financial investment in the year ended 31 August 2001 was £118 million compared to £11 million in the prior period. The net capital expenditure in the year ended 31 August 2000 reflected receipt of £115 million in relation to tangible fixed assets, which included surplus properties of £94 million. In addition, we paid £23 million in relation to the purchase of intangible fixed assets during the year ended 31 August 2001. In the year ended 31 August 2001, we paid £163 million in ordinary dividends, as compared to the payment of no ordinary dividends in the year ended 31 August 2000. We paid £34 million in taxes during the year ended 31 August 2001, an increase of £55 million from the year ended 31 August 2000. The primary cause of this increase was the receipt in the year ended 31 August 2000 of a £78 million advance corporation tax refund.

Year ended 31 August 2000 compared with the year ended 31 August 1999

Net cash inflow from operating activities was £372 million during the year ended 31 August 2000, a decrease of £179 million as compared with the prior period. The decrease in net cash inflow from operating activities principally reflects the disposal of our UK Retail business which accounted for net cash inflow from operating activities of £202 million during the year ended 31 August 1999.

Cash inflow before use of liquid resources and financing was £92 million during the year ended 31 August 2000 as compared with a cash inflow of £16 million in the prior period. In the year ended 31 August 2000, we paid no ordinary dividends, and in the same period in 1999, we paid dividends of £320 million, which included our UK Retail business. In addition, we paid tax of £161 million in 1999, compared to a receipt of £21 million in 2000.

Borrowings

We target committed facility headroom cover of approximately 117.5% of budgeted peak borrowing requirements with a minimum headroom cover of at least £300 million. Where possible, we spread our borrowing facilities over a number of years to minimize the risks and disruption associated with renegotiating maturing facilities. In addition, it is our policy to maintain backstop facility terms from relationship banks to support commercial paper obligations.

At 28 February 2002, our borrowings of £2,510 million were comprised of £1,332 million of short-term debt and £1,178 million of long-term debt. Net of cash of £185 million, our net debt was £2,325 million as at 28 February 2002. Of this net debt, 49% was denominated in US Dollars, 9% in Pounds Sterling, 31% in Euros and 11% in other currencies. The effective interest rate payable for the six months ended 28 February 2002, based on average net debt was 5.1%. On 29 May 2002, we issued EUR600 million (£384 million) bonds due 2009 and £250 million bonds due 2014 to finance our acquisition of Malibu and Mumm Cuvée Napa from Diageo plc.

At 31 August 2001, our borrowings of £1,965 million were comprised of £825 million of short-term debt and £1,140 million of long-term debt. Net of cash of £111 million, our net debt was £1,854 million as at 31 August 2001. Of this net debt, 43% was denominated in US Dollars, 7% in Pounds Sterling, 31% in Euros and 19% in other currencies. The effective interest rate payable for the year ended 31 August 2001, based on average net debt, was 5.4%.

At 31 August 2000, our borrowings of £1,364 million were comprised of £1,206 million of short-term debt and £158 million of long-term debt. Net of cash of £112 million, our net debt was £1,252 million as at 31 August 2000. Of this net debt, 37% was denominated in US Dollars, 3% in Pounds Sterling, 44% in Euros and 16% in other currencies. The effective interest rate payable for the year ended 31 August 2000, based on average net debt, was 5.0%.

At 31 August 1999, our borrowings of £1,551 million were comprised of £1,362 million of short-term debt and £189 million of long-term debt. Net of cash of £236 million, our net debt was £1,315 million as at 31 August 1999. Of this net debt, 41% was denominated in US Dollars, 6% in Pounds Sterling, 50% in Euros and 15% in other currencies. The effective interest rate payable for the year ended 31 August 1999, based on average net debt, was 5.0%.

Of the total borrowings at 31 August 2001, £447 million were due after five years and £770 million were due within one year. During the year ended 31 August 2001, we borrowed £602 million.

The £602 million increase in net borrowings in the year ended 31 August 2001 primarily reflects the acquisitions of Mumm and Perrier Jouët champagnes, Buena Vista, Graffigna and Sainte Sylvie wines. The £63 million decrease in net borrowings to 31 August 2000 from 31 August 1999 primarily reflects the sale of the Panrico bakeries in Spain.

Since 1 September 2001, we have borrowed £562 million for the acquisitions of Kuemmerling, Montana and Bodegas y Bebidas. In March 2001, we increased the existing $2 billion Global Medium-Term Note Program to $3 billion. Amounts drawn down under the program are £1,734 million.

At 31 August 2001, we had available undrawn committed bank facilities of £1,358 million, as compared with £1,215 million at 31 August 2000 and £1,269 million at 31 August 1999. Of the facilities, £331 million expire in the period up to 31 August 2002 and £1,027 million expire in the period up to 31 August 2005.

Commitment fees are paid on the undrawn portion of these facilities. Borrowings under these facilities are at prevailing LIBOR rates plus an agreed margin, which is dependent on the period of draw-down. We can use these facilities for general corporate purposes and, together with cash and cash equivalents, support our commercial paper programs. Most of the committed bank facilities are subject to a minimum interest cover ratio (defined as the ratio of UK GAAP trading profit to net interest; trading profit being the profit on ordinary activities before taking into account exceptional items charged to operating profit and profits on the sale of property and net interest) of 3 times and a leverage ratio of 4 times, which we define as borrowings over EBITDA (earnings before interest, tax, depreciation and amortization). Where this ratio exceeds 4, but is less than 4.75, a temporary pricing grid will come into force for up to two consecutive reporting dates, including half-year reports. There are other financial covenants under the NZ Dollar 225 million revolving credit facility that is secured by the assets of Montana Group (NZ) Limited.

We believe our existing cash balances and our undrawn committed bank facilities will be sufficient to meet our cash requirements as they fall due. Our future capital requirements will depend on many factors, including the timing of any acquisitions we might make, the cost of raw materials and the rate at which our turnover and associated working capital requirements grow. We cannot assure you that additional equity or debt financing will be available to us on acceptable terms or at all. In addition, we are subject to certain debt covenants on borrowings including compliance with leverage ratio and interest coverage ratio requirements. Although we believe that we comply with all covenants and will continue to do so, we cannot assure you that this will be the case.

Contractual commitments

The following table sets out our contractual obligations as at 28 February 2002.

	Payments due by period				
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	£	**£**	**£**	**£**	**£**
			(millions)		
Borrowings	2,582	1,337	204	522	519
Operating leases	294	47	79	63	105
Malibu acquisition	560				560
Other contractual obligations(1)	50				50
Gross contractual obligations	3,486	1,384	283	585	1,234
Sublease income from operating leases	(205)	(29)	(51)	(43)	(82)
Net contractual obligations	3,281	1,355	232	542	1,152

Note:

(1) Other contractual obligations relate to a payment of a sum equivalent to ¥10 billion (£44 million at then current exchange rates) paid by Suntory Limited to us during the year ended 4 March 1989 as part of the consideration paid for the establishment of Suntory Allied Limited. This amount was taken to our profit and loss account as a contribution towards development, marketing and other costs. This amount is refundable on any dissolution of our arrangement with Suntory Limited. We do not currently anticipate dissolution. However, we recognize an obligation in respect of this arrangement.

Except as set forth above, we have no contractual commitments, such as lines of credit, guarantees or standby purchase orders that would affect our liquidity over the next five years.

Going Concern

Our Board of Directors, having made appropriate inquiries, consider that we have adequate resources to continue in operational existence for the foreseeable future, and that, as a result, it is appropriate to adopt the going concern basis in preparing the Audited Consolidated Financial Statements.

Research and Development, Patents and Licenses, etc.

The overall nature of our business does not demand substantial expenditure on research and development. We do not hold any material licenses to use third-party trademarks. As discussed in the section entitled "Item 4 Information on the Company", we hold the Stolichnaya trademark in the United States.

Inflation

Inflation had no material impact on our operations during the six months ended 28 February 2002 and 2001 or during the three years ended 31 August 2001.

Trend Information

Our Chief Executive, Philip Bowman, made the following comment on 29 April 2002:

"We have continued to deliver good profit growth, with normalized earnings per share up 7%, whilst investing heavily in the future of the business. Allied Domecq is building a strong platform for sustainable future growth.

"While we continue to build the future growth of our business, we recognise that we have some short term challenges. These include lower volume performances than we had planned from some of our

core brands, particularly in the US. We have taken action over the past few months to correct the situation and key brands are showing a good recovery of market share over the past sixteen weeks.

"We have significantly strengthened our brand portfolio through targeted acquisitions and are building equity in our brands with a double-digit increase in investment in advertising and promotion. We have launched new campaigns for Ballantine's and Stolichnaya. Importantly, our investment in innovation is starting to deliver results with new ready-to-drink beverages and a new cream liqueur, Tia Lusso. Malibu will make an excellent addition to our brand portfolio and we look forward to receiving regulatory clearance shortly.

"The second half of the fiscal year is meeting our expectations and we are confident in the underlying trends within the business. We anticipate that we will continue to deliver earnings growth for the full year while continuing to invest strongly behind our brand portfolio and implementing the programme to improve the US supply chain announced in October last year."

New Accounting Standards

The UK Accounting Standards Board has issued new Financial Reporting Standards. We comply with these standards to the extent detailed below

FRS No. 17 Retirement Benefits. This standard replaces the use of actuarial values for assets in a pension plan in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the standard requires that the profit and loss account shows the relatively stable ongoing service cost, interest cost and expected return on assets. Fluctuations in market values are reflected in the statement of total recognized gains and losses. In order to allow companies to comply, the following transitional arrangements apply: (i) for accounting periods ending on or after 22 June 2001, closing balance sheet information (no comparatives required) is to be given in the notes only; (ii) for accounting periods ending on or after 22 June 2002, opening and closing balance sheet information and performance statement information (both profit and loss account and statement of total recognized gains and losses) for the period (no comparatives required) is to be given in the notes only. For accounting periods ending on or after 22 June 2003, the standard is fully effective. We have complied with the transitional disclosure requirements of this standard.

FRS No. 18 Accounting Policies. We adopted this standard which deals with the selection, application and disclosure of accounting policies in financial statements for the year ended 31 August 2001. Compliance with this new standard has not given rise to any restatement of figures reported for prior years.

FRS No. 19 Deferred Tax. This standard was issued in December 2000 and requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the consolidated financial statements and their recognition in a tax computation. It also requires deferred tax assets to be recognized to the extent that it is regarded as more likely than not that they will be recovered. Prior to the adoption of FRS No. 19, deferred tax was only provided on a partial provision basis. The new standard was implemented for the period ending 28 February 2002 and has been initially applied by retroactively restating all periods. The adoption of this standard resulted in a balance sheet adjustment of £53 million at both 31 August 2000 and 31 August 2001. The overall tax charge for the year ended 31 August 2001 did not change as a result of restatement under FRS No. 19, and there was no impact on the tax charge for the six months ended 28 February 2002.

Reconciliation to US GAAP

Our Audited Consolidated Financial Statements have been prepared in accordance with UK GAAP, which differs in certain respects from US GAAP. The significant differences between UK GAAP and US GAAP as they relate to our net income are summarized below.

	Six months ended 28 February		Year ended 31 August	
	2002	**2001**	**2001**	**2000**
	£	**£**	**£**	**£**
		(million)		
Net income in accordance with UK GAAP	227	161	344	330
Adjustments to conform to US GAAP:				
Brands		(16)	(32)	(31)
Goodwill	19	(8)	(16)	(21)
Other intangible assets	(2)	(3)	(5)	(7)
Stock	(45)	(1)	(1)	
Disposal of UK Retail business				1,279
Restructuring costs	(2)	(5)	(10)	4
Pension costs and other post retirement benefits	6	(2)	(3)	(1)
Share compensation		(3)	(1)	2
Derivative instruments	(15)	(72)	(19)	(41)
Mexican excise rebate	(51)		94	
Deferred taxation	26	26	(21)	33
Other	1	(2)	2	7
Net income in accordance with US GAAP	164	75	332	1,554
Continuing operations	164	75	332	266
Discontinued operations				1,288

Brands, goodwill and other intangible assets

Under UK GAAP, prior to 1 September 1998, goodwill arising on acquisitions was written off to reserves in the year of acquisition. From 1 September 1998, goodwill and other intangible assets arising on acquisition have been capitalized and amortized over their anticipated useful economic life, but not exceeding 20 years. On disposal of a previously acquired asset, any goodwill previously eliminated against reserves is then charged in the income statement against the profit or loss on disposal.

Under US GAAP, goodwill and all identifiable intangible assets arising on acquisition are capitalized and amortized over their useful economic lives, but not exceeding 40 years. However, goodwill and intangible assets determined to have an indefinite useful life acquired in a business combination completed after 30 June 2001, but before Statement of Financial Accounting Standards ("SFAS") No. 142 Goodwill and Other Intangible Assets is adopted in full, are not amortized. The amount of goodwill under UK GAAP differs to that under US GAAP due to the fair values allocated to intangible assets, in particular brands, stock and the exclusion from the purchase price consideration of certain costs.

Stocks

Under UK GAAP, stock acquired through a business combination is valued at the lower of replacement cost and net realizable value. Under US GAAP, stock acquired through a business combination reflects the selling price less costs to complete, costs of disposal and a reasonable element of profit for the selling effort by the acquiring company.

Disposal of UK Retail business

On 6 September 1999, we disposed of our UK Retail business. Under UK GAAP and law, this disposal was accounted for with a reduction of shareholders' funds as a direct distribution to our shareholders. Under US GAAP, this transaction is accounted for as the sale of a business to a third party with an immediate distribution of proceeds to our shareholders. Accordingly, under US GAAP, this transaction results in a gain on sale followed by a dividend of proceeds.

Restructuring costs

Under UK GAAP, provisions are made for restructuring costs once a detailed formal plan is in place and valid expectations have been raised in those affected that the restructuring will be carried out. Provision is made for voluntary redundancy payments to the extent that it is expected that volunteers will come forward. US GAAP requires a number of specific criteria to be met before restructuring costs can be recognized as an expense. Also, to the extent restructuring costs are related to the activities of an acquired company, US GAAP allows them to be recognized as a liability upon acquisition provided certain specific criteria are met whereas UK GAAP does not. Accordingly, timing differences arise between UK GAAP and US GAAP recognition of restructuring costs.

Pension and other post retirement benefits

In accordance with Statement of Standard Accounting Practice No. 24, or SSAP24, our accounting policy for post-employment benefits charges pension costs to the profit and loss account on a systematic basis over the service life of employees based on consultation with actuaries and using the projected unit credit method and a set of long-term actuarial assumptions. Under US GAAP, pension costs and liabilities are calculated in accordance with SFAS No. 87 Employers' Accounting for Pensions. This standard requires the use of the projected unit credit method and prescribes, in particular, the use of a market-related discount rate. This is not the same as the long-term approach used under SSAP 24.

Share compensation

Under UK GAAP, the cost of share option plans are amortized based on the cost of the shares acquired by the employee trust to fulfill the plan, less the amount contributed by the employee. Under US GAAP, compensation for fixed plan awards is determined at the date of grant, based on the cost of the fair value of the shares subject to the award, less the option exercise or purchase price, if any, except for allowable discounts with respect to certain qualified plans where the discount is no greater than 15% of the fair value of the shares. Compensation costs for variable plan awards is estimated at the end of each period from the date of grant to the date final compensation costs are determinable based on the difference between the fair value of the shares subject to the award and the option exercise or purchase price. Such cost is allocated to compensation expense over the vesting period and, if performance criteria are applicable to the award, based on actual performance attained.

Derivative instruments

Our foreign currency, interest rate and commodity contracts hedge forecast exposures that do not meet the US GAAP hedge accounting criteria. Under US GAAP, these contracts are marked to market at the balance sheet date and gains and losses arising are included in net income. Under UK GAAP, these gains and losses can be deferred until the hedged transactions actually occur. We may enter into foreign currency contracts to hedge the purchase price consideration on certain acquisitions. Under UK GAAP, the gains and losses arising on these foreign currency contracts are recognized in the purchase price consideration. Under US GAAP, the gains and losses arising on these foreign currency contracts are recognized within net income.

Mexican excise rebate

Under US GAAP, the Mexican excise rebate was recognized upon the issuance of a favorable court judgment and additional interest and inflation adjustments are recognized as they accrue. Under UK GAAP, we are recognizing the amount due when offset against future excise duty and other taxes payable.

Deferred taxation

We adopted FRS 19 Deferred Tax in the six month period ended 28 February 2002. As a result, the consolidated financial statements as at 31 August 2001 and 2000, and the three year period ended 31 August 2001 have been restated and disclosures have been modified to reflect retroactively the impact of the adoption of FRS 19 on such financial statements as required by UK GAAP. FRS 19 brings accounting for deferred tax under UK GAAP conceptually closer to US GAAP, although some differences remain. Following our restatement under FRS 19, and other than the tax effect of other UK to US GAAP differences, there is only one material difference between UK GAAP and US GAAP. This difference relates to the recognition criteria for recording deferred tax assets under US GAAP and UK GAAP. Under US GAAP, the calculation of current and deferred tax assets is based on the probable tax treatment of the tax position taken. Once it is determined that there is a probable deferred tax asset, it is then reduced by a valuation allowance to the extent it is deemed more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax asset will not be realized. Under UK GAAP, both the existence of the asset and the probability of its recoverability are considered in combination, and a deferred tax asset is recognized only to the extent that its existence and recoverability are probable (a threshold which is higher than "more likely than not").

Item 6. Directors, Senior Management and Employees

Our Board of Directors and Executive Officers oversee our administration. Our Board of Directors is comprised of between 3 and 20 members who provide our overall direction, strategy, performance and management. Our Board of Directors generally meets six times a year and focuses on strategic issues and financial performance. Directors are elected at our annual shareholders' meetings by holders of our ordinary shares for a maximum three-year term. Our Board of Directors has established four committees, the Audit Committee, the Remuneration Committee, the Executive Committee and the Financing Committee, to assist in its duties and as a measure of internal control. Our Board of Directors delegates day-to-day management to our Executive Officers who comprise the Executive Directors. Our Board of Directors appointed our current Executive Officers for a two-year rolling term.

Directors

The following table sets out information with respect to our Directors.

Name	Age	Position	Director since
Gerry Robinson	53	Non-Executive Chairman	2002
Philip Bowman	49	Chief Executive	1998
Graham Hetherington	43	Finance Director	1999
David Scotland	54	President, Allied Domecq Wines	1995
Richard Turner	53	President, Global Operations, Spirits & Wine	1999
Donald Brydon	57	Non-Executive Director	1997
Sir Ross Buckland	59	Non-Executive Director	1998
Peter Jacobs	59	Non-Executive Director	1998
David Malpas	62	Non-Executive Director	1997

The business address of each of the above Directors is The Pavilions, Bridgwater Road, Bedminster Down, Bristol BS13 8AR, England.

The following are brief biographies of each of our Directors:

Gerry Robinson, Non-Executive Chairman. Mr. Robinson joined us as a Non-Executive Director in February 2002 and became Non-Executive Chairman on 1 April 2002. He was Chairman of Granada PLC until February 2001, and he remains a Non-Executive Director of that company. He is currently also Chairman of the Arts Council of England and was previously Chairman of British Sky Broadcasting Group and ITN.

Philip Bowman, Chief Executive. Mr. Bowman joined us as Group Finance Director in 1998 and was appointed our Chief Executive in August 1999. He previously held senior management roles in Bass PLC following an extensive career in accountancy and venture development in Iran, Australia and the United States and was Chairman of Liberty. He is also a Non-Executive Director of British Sky Broadcasting Group and Burberry Group and a member of the UK Industrial Advisory Board of Alchemy Partners.

Graham Hetherington, Finance Director. Mr. Hetherington was appointed a Director in June 1999 and Group Finance Director in August 1999, having been Finance Director of the Spirits & Wine business since 1998 and previously Senior Vice-President of Finance for the Americas and Finance Director, Global Operations.

David Scotland, President, Allied Domecq Wines. Mr. Scotland has been a Director of our Spirits & Wine business since 1992 and one of our Directors since 1995. Mr. Scotland became President of Allied Domecq Wines in January 2002. He is also a Non-Executive Director of Photo-Me International.

Richard Turner, President, Global Operations, Spirits & Wine. Mr. Turner has been President, Global Operations, of our Spirits & Wine business since 1995. He joined our Board of Directors in June 1999 and is responsible for the business' global production and supply chain.

Donald Brydon, Non-Executive Director. Mr. Brydon joined us as a Non-Executive Director in 1997 and is chairman of Allied Domecq pension trusts. He is the Senior Non-Executive Director. He is a Non-Executive Director of Amersham and also Chairman of AXA Investment Managers.

Sir Ross Buckland, Non-Executive Director. Sir Ross Buckland joined us as a Non-Executive Director in 1998. He was Chief Executive of Uniq (formerly Unigate) until March 2001 and is a Director of the Mayne Group and Goodman Fielder.

Peter Jacobs, Non-Executive Director. Mr. Jacobs joined us as a Non-Executive Director in 1998. He retired as Chief Executive of BUPA in 1998 and as Chairman of Hillsdown Holdings in July 1999. He is also Chairman of LA Fitness and a Non-Executive Director of Bank Leumi (UK) and Health Quality Services.

David Malpas, Non-Executive Director. Mr. Malpas joined us as a Non-Executive Director in 1997. He retired as Managing Director of Tesco in 1997. He is Chairman of Dresdner Income Growth Investment Trust and a Non-Executive Director of Wincanton.

Committees of Our Board of Directors

Remuneration Committee

The Remuneration Committee determines the remuneration policy as well as the terms and conditions of service and the cessation of service of the Executive Directors. It also reviews external appointments offered to Group executives. The Remuneration Committee generally meets at least three times per year. Its members are not eligible for any share options, bonuses or pension entitlements. The committee has access to the services of independent advisors as it requires. The committee is comprised of the five Non-Executive Directors, with David Malpas as Chairman.

Audit Committee

The Audit Committee monitors and reviews our system of financial and operational controls. It also oversees the objectivity and effectiveness of the independent auditors, and considers our compliance with the Principles of Good Governance and Code of Best Practice, which together comprise the Combined Code appended to the Listing Rules of the UK Financial Services Authority. The Audit Committee can request our independent auditors, Executive Directors and any other officers of the Group to attend its meetings. Additionally, our internal and independent auditors have direct access to the committee to raise any matters of concern. The Audit Committee must meet at least twice a year. The Audit Committee receives periodic reports summarizing audit issues noted and corrective actions planned as well as reports from the internal audit function, the independent auditors and management. The committee is comprised of the five Non-Executive Directors, with Peter Jacobs as Chairman.

Executive Committee

Our Board of Directors delegates authority to the Executive Committee to:

- formalize our strategy;

run our day-to-day operations;

approve projects within capital expenditure limits set by our Board of Directors; and

lead the management development process.

The committee is comprised of the Executive Directors and other members of senior management.

Financing Committee

The Financing Committee exercises power related to the financing of approved acquisitions and the refinancing of debt. The committee is comprised of the Chairman, Executive Directors and other members of senior management.

Compensation of Directors and Executive Officers

The aggregate compensation that we paid to our Directors and Executive Officers as a group for the year ended 31 August 2001 for services in all capacities amounted to £4.637 million, including contingent or deferred compensation accrued during the year, even if payable at a later date. The table below sets out the remuneration that we paid to our Executive Directors, who also comprised our Executive Officers, in that year:

	Salaries/fees	Performance-related bonuses	Benefits	Total
	£	£	£	£
		(thousand)		
Philip Bowman(1)(2)	576	720	262	1,558
Graham Hetherington(1)	275	342	19	636
Todd Martin(1)(2)(3)	322	382	163	867
David Scotland(1)	326	323	24	673
Richard Turner(1)	273	280	13	566

Notes:

(1) The performance-related bonus figures shown above include the deferred and matching elements of the bonus which are shown below and used to purchase our ordinary shares. These ordinary shares will be transferred to the employee after three years and the matching ordinary shares will be conditional, except under exceptional circumstances, on continued employment with us.

	Deferred amount	Matching investment	Total
	£	£	£
Philip Bowman	240,000	240,000	480,000
Graham Hetherington	114,000	114,000	228,000
Todd Martin	127,368	127,368	254,736
David Scotland	64,594	64,594	129,188
Richard Turner	56,000	56,000	112,000

(2)

Philip Bowman's and Todd Martin's benefits include allowances in lieu of pension contributions.

(3)
Todd Martin retired as a Director and Executive Officer on 30 November 2001 and will not receive the matching investment referred to above.

The table below sets out fees we paid to our Non-Executive Directors during the year ended 31 August 2001:

	Salaries/fees £ (thousand)
Donald Brydon(1)	43
Sir Ross Buckland	28
Sir Christopher Hogg(2)(3)	200
Peter Jacobs	33
David Malpas	33

Notes:

(1)
Donald Brydon's standard fee is £28,000. In addition, he is Chairman of the Allied Domecq pensions trusts for which he receives a fee of £15,000 per annum.

(2)
Sir Christopher Hogg retired as a Non-Executive Director and Chairman of our Board of Directors on 31 March 2002. Gerry Robinson replaced him as Non-Executive Chairman and received no fees from us in the year ended 31 August 2001.

(3)
Sir Christopher Hogg's fee as Non-Executive Chairman of £200,000 per annum included a Non-Executive Director's fee of £28,000 per annum. The fee shown for the period is before deduction of £24,166 contributed by way of salary sacrifice to an individual pension arrangement.

Under our Deferred Bonus Plan, we pay Executive Directors and certain senior executives bonuses based on earnings per share growth and completion of key management objectives. Under the plan, between a minimum of 25% and a maximum of 50% of the bonus award is deferred into our ordinary shares. After three years and subject to the executive remaining our employee, we will match that portion of the bonus that is deferred into our ordinary shares on a one for one basis. If a participant's employment with us terminates prior to three years, the participant is only entitled to receive those ordinary shares that comprise his deferred bonus award.

The following Executive Directors are entitled to receive the following matching ordinary shares under the Deferred Bonus Plan. The deferred bonus shares, which are forfeitable in specific circumstances, are beneficially owned by our Directors and are included in the share ownership table set out in the section entitled " Director and Executive Officer Share Ownership" below.

Deferred Bonus Plan	Award in respect of fiscal year	Ordinary shares	Matching award date
Philip Bowman	2000	24,276	1 September 2003
	2001	67,873	1 September 2004
Graham Hetherington	2000	23,343	1 September 2003
	2001	32,239	1 September 2004
David Scotland	2000	14,472	1 September 2003
	2001	18,267	1 September 2004
Richard Turner	2000	24,276	1 September 2003
	2001	15,837	1 September 2004

Options to Purchase Our Securities

The following table provides summary information for each of our Directors who hold options or other rights to acquire our ordinary shares as at 1 July 2002. As at 1 July 2002, our Directors and Executive Officers as a group held options or other rights to acquire 3,200,419 of our ordinary shares excluding those matching ordinary shares received as compensation under the Deferred Bonus Plan referred to above in the section entitled " Compensation of Directors and Executive Officers" and held 439,963

of our ordinary shares including the deferred bonus shares received as compensation under the Deferred Bonus Plan. In addition, the Executive Directors were treated as interested in the 24,593,833 ordinary shares held by our employee trusts in their capacity as potential beneficiaries.

	Fiscal year of grant	Number of ordinary shares subject to option	Exercise price of ordinary share in pence	Earliest exercise date	Expiry date
SAYE Scheme 1999					
Philip Bowman	2000	3,697	262	1 January 2003	30 June 2003
Graham Hetherington	2000	6,440	262	1 January 2005	30 June 2005
Richard Turner	2000	3,697	262	1 January 2003	30 June 2003
Executive Share Option Scheme 1999					
Philip Bowman	2000	608,187	342	1 November 2002	31 October 2009
Graham Hetherington	2000	263,157	342	1 November 2002	31 October 2009
David Scotland	2000	350,877	342	1 November 2002	31 October 2009
Richard Turner	2000	304,093	342	1 November 2002	31 October 2009
Long Term Incentive Scheme 1999					
Philip Bowman	2001	441,176	0.1	8 May 2004	7 May 2011
	2002	512,091	0.1	2 November 2004	1 November 2011
Graham Hetherington	2001	104,779	0.1	8 May 2004	7 May 2011
	2002	121,621	0.1	2 November 2004	1 November 2011
David Scotland	2001	119,485	0.1	8 May 2004	7 May 2011
	2002	138,691	0.1	2 November 2004	1 November 2011
Richard Turner	2001	102,941	0.1	8 May 2004	7 May 2011
	2002	119,487	0.1	2 November 2004	1 November 2011

We have adopted nine employee share plans to incentivize participants to promote the long-term success of the business. Our plans and the execution of our plans in the United States comply with Rule 701 under the Securities Act of 1933. Our plans include (1) our SAYE Scheme 1999, (2) our International SAYE Scheme 1999, (3) our United States Share Purchase Plan, (4) our Inland Revenue Approved Executive Share Option Scheme 1999, (5) our Executive Share Option Scheme 1999, (6) our Share Appreciation Rights Plan 1999, (7) our Long Term Incentive Scheme 1999, (8) our Deferred Bonus Plan and (9) our Share Partnership Plan.

SAYE Scheme 1999

We have established a "save as you earn" plan, our SAYE Scheme 1999, which was approved by the UK Inland Revenue on 10 November 1999. Under this plan, we may grant all of our Executive Directors and employees who are subject to certain taxes in the United Kingdom options to purchase our ordinary shares at a price that is not less than 80% of the market value of the shares on the date of grant. The options may vest in three or five years time, with each participant being able to pay for his or her options utilizing the proceeds of a savings contract under which he or she agrees to save a regular monthly amount within set limits. When the option vests, the participant will receive his or her savings back plus a tax-free bonus, which may be used, at the employee's discretion, to exercise the option. Except in limited circumstances, options that are not exercised will lapse if the participant is no longer an employee or after six months from the end of the savings contract. In addition, in the event of a change of control of our company, options may be exercised within six months of the change of control and will thereafter lapse. Options may be adjusted to reflect variations in our share capital.

International SAYE Scheme 1999

We established an international "save as you earn" plan, our International SAYE Scheme 1999, on 25 October 1999. Under this plan, we may grant our Executive Directors and employees options to purchase our ordinary shares at a price that is not less than 80% of the market value of the shares on the date of grant. The options may vest in eighteen months, three years time or five years time, with each participant being able to pay for his or her options by utilizing the proceeds of a savings contract under which he or she agrees to save a regular monthly amount within set limits. When the option vests, the participant will receive his or her savings back plus interest, which may be used, at the employee's discretion, to exercise the option. Except in limited circumstances, options that are not exercised will lapse if the participant is no longer an employee or after six months after the end of the savings contract. Options may be adjusted to reflect variations in our share capital. The plan is operated in certain jurisdictions outside of the United Kingdom. Options may be adjusted to reflect variations in our share capital.

United States Share Purchase Plan

Under this employee stock purchase plan, employees may be granted options to purchase ordinary shares at an exercise price of not less than 85% of the market value of the shares at the grant date. Eligible employees are those who have worked for us for over two years or any other employees determined to be eligible by our Board of Directors. The plan qualifies as an employee stock purchase plan under Section 423 of the Internal Revenue Code, which will provide the participants in the plan with certain tax benefits upon their subsequent sale or other disposition of our ordinary shares that they will purchase under the terms of the plan. We offer participants in the plan the opportunity to elect to have up to a certain amount of their salaries deducted from their paychecks over a period of eighteen months and to use that money plus interest to purchase our ordinary shares. In no event may a participant purchase more than $25,000 worth of our ordinary shares under this plan in any given calendar year. Options may be adjusted to reflect variations in our share capital.

Inland Revenue Approved Executive Share Option Scheme 1999 and Executive Share Option Scheme 1999

These are discretionary share option plans, one of which has been approved by the UK Inland Revenue on 10 November 1999 and the other of which we established on 25 October 1999. The terms of these two plans are similar, except where we indicate to the contrary. Under these plans, our Board of Directors may grant options at its discretion to any of our full time employees, except within two years of their retirement.

Our Board of Directors may grant options that are subject to performance conditions being fulfilled before a participant can exercise his or her option. Participants may only exercise their options between the third and tenth anniversaries of their date of grant, provided that the performance conditions have been fulfilled. Except in limited circumstances, options that are not exercised will lapse if the holder is no longer an employee. In addition, in the event of a change of control of our company, options may be exercised within six months of the change of control and will thereafter lapse. The exercise price may not be less than the market value of an ordinary share on the date of grant. Options may be adjusted to reflect variations in our share capital.

In the case of the Inland Revenue Approved Share Option Scheme, we may not grant further options to an individual if as a result the aggregate market value of ordinary shares issued to that individual under the plan would exceed £30,000.

Share Appreciation Rights Plan 1999

To incentivize employees in jurisdictions where securities or tax laws prevent or restrict the use of the executive share option plans, we adopted our Share Appreciation Rights Plan 1999 on 25 October

1999. Under this plan we may grant our employees share appreciation rights, or SARs, which provide the employee with an opportunity to receive a cash payment from us that is linked to an increase in the market value of our ordinary shares. Our Board of Directors may grant SARs that are subject to performance conditions being fulfilled before the SARs can be exercised. Participants may only exercise SARs between the third and tenth anniversaries of their date of grant, provided that the performance conditions have been fulfilled. Except in limited circumstances, SARs that are not exercised will lapse if the holder is no longer an employee. In addition, in the event of a change of control of our company, SARs may be exercised within six months of the change of control and will thereafter lapse. Our Board of Directors decides whether and to whom it will grant SARs under this plan. The SAR price may not be less than the market value of an ordinary share on the date of grant. SARs may be adjusted to reflect variations in our share capital.

Long Term Incentive Scheme 1999

We established our Long Term Incentive Scheme 1999 on 25 October 1999. Pursuant to this plan, our Board of Directors may grant options at a nominal exercise price to any of our full-time employees except within two years of their retirement. Our Board of Directors decides whether and to whom it will grant options under this plan as well as any limits that may be placed on the grant of options. Our Board of Directors may grant options under this plan that are subject to performance conditions being fulfilled before the option can be exercised. Participants may only exercise options between the third and tenth anniversaries of their date of grant, provided that any performance conditions have been fulfilled. Except in limited circumstances, options that are not exercised will lapse if the holder is no longer an employee. In addition, in the event of a change of control of our company, options may be exercised to the extent any performance conditions have been fulfilled within six months of the change of control and will thereafter lapse. Options may be adjusted to reflect variations in our share capital.

Share Partnership Plan

Our Share Partnership Plan is a UK Inland Revenue approved share incentive plan that we have initially introduced in the United Kingdom as a replacement for our SAYE Scheme 1999.

Our Share Partnership Plan allows us to offer incentives to our Executive Directors and employees in the form of free shares, partnership shares, matching shares and dividend shares.

The Share Partnership Plan allows for the appropriation of free shares to employees with a market value of up to £3,000 per employee each year. The shares must generally be offered to all participants on terms varied by reference to remuneration, length of service or hours worked. The Share Partnership Plan, however, may contain a performance measure making the award of free shares subject to performance targets, as long as the measures for determining the performance targets are fair and objective, not less than 20% of the pool of available free shares must be awarded to every eligible employee on similar terms and the highest performance related award does exceed four times the highest non-performance related award. Free shares must generally be held in trust for a minimum of three and a maximum of five years. We do not currently offer free shares to our Executive Directors and employees.

Under this plan, we offer participants the opportunity to purchase shares from their pre-tax salary of up to £125 (or 10% of salary, whichever is lower) every month. Partnership shares are purchased on behalf of the participants using their compensation. Partnership shares may be withdrawn from the Share Partnership Plan by the participant at any time, although there are tax advantages if the shares are retained in the Share Partnership Plan for at least three years.

The Share Partnership Plan provides that where employees buy partnership shares, they may be awarded additional free shares on a matching basis, up to a maximum of two matching shares for each partnership share. Matching shares must be offered on the same basis to each employee purchasing

partnership shares. Matching shares must generally be held in trust for a minimum of three and a maximum of five years.

The Share Partnership Plan provides for the acquisition of shares by the reinvestment of cash dividends in respect of our ordinary shares acquired under this plan up to a limit of £1,500 in any single tax year.

Deferred Bonus Plan

In addition to those plans described above, we operate a remuneration and incentive plan called the Deferred Bonus Plan described in the section entitled " Compensation of Directors and Executive Officers" above.

Director and Executive Officer Share Ownership

The following table shows the amount of our ordinary shares held by our Directors and Executive Officers, none of whom beneficially owned more than 1% of our ordinary shares, as at 1 July 2002.

Name	Amount of ordinary shares beneficially owned
Gerry Robinson	0

Name	Amount of ordinary shares beneficially owned
Philip Bowman	217,255
Graham Hetherington	72,068
David Scotland	46,352
Richard Turner	75,567
Donald Brydon	11,500
Sir Ross Buckland	1,000
Peter Jacobs	6,300
David Malpas	9,921

Employees

The following table shows the average number of our full-time equivalent employees for the three years ended 31 August 2001 in relation to our continuing business:

	Year ended 31 August		
	2001	2000	1999
Spirits & Wine business	8,403	8,609	8,542
QSR business	1,382	2,323	2,803
Total	9,785	10,932	11,345

We believe that we maintain good relations with our employees. During the past three years, we have not had any strikes or lockouts that have interfered in any material way with our business. Over 50% of our employees are covered by collective bargaining agreements with various trade unions and labor organizations. The principal countries where our employees are represented by unions are Mexico, Spain, France and Scotland where approximately 2,100, 700, 600 and 500 employees are respectively represented by unions. The three unions which represent the largest number of our employees are the *Sindicato de Trabajadores en Ranchos, Granjas, Huertas y del Campo en General en el Estado de Jalisco* in Mexico, the *Sindicato Nacional de la Industria Vinícola Similares y Conexas de la República Méxicana* in Mexico and the *GMB* in Scotland.

56

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

As at 1 July 2002, to our knowledge as based upon relevant filings made by such shareholders, except where noted, the following persons had an interest, directly or indirectly, in 3% or more of the issued share capital of Allied Domecq PLC. The following holders hold ordinary shares and have the voting rights of ordinary shareholders.

Shareholder	Ordinary shares	Percentage of total outstanding ordinary shares
Scottish Widows Investment Partnership Limited	33,268,490	3.006%
Suntory Limited	37,834,591	3.42%
AXA Sun Life Investment Management Limited	41,267,691	3.73%

In addition, as at 1 July 2002, Morgan Stanley Investment Management Limited manages discretionary accounts that hold an aggregate 111,456,637, or 10.07%, of our ordinary shares.

Related-Party Transactions

We have entered into a series of arrangements with Suntory Limited which holds 3.42% of our ordinary shares. Pursuant to these arrangements, Suntory distributes our spirits in Japan in exchange for the distribution and marketing rights of our brands until 2029.

Other than disclosed in this registration statement, no Director had any interest, beneficial or non-beneficial, in our share capital. The Register of Directors' Interests, which is open to shareholders' inspection, contains full details of Directors' share interests. Save as disclosed above, no Director has or has had any interest in any transaction which is or was unusual in its nature, or which is or was significant to the business of the Group and which was effected by any member of the Group during the financial year, or which having been effected during an earlier financial year, remains in any respect outstanding or unperformed.

Item 8. Financial Information

For our financial information, please see the section entitled "Item 18 Financial Statements".

Item 9. The Offer and Listing

Trading Market for Our Ordinary Shares

The principal trading market for our ordinary shares is the London Stock Exchange. We initially established a sponsored ADR facility in the United States in 1986. In addition, JPMorgan Chase Bank, as depositary for our ADRs, will issue ADSs, each of which will represent four ordinary shares. Prior to the date hereof, neither our ordinary shares nor our ADSs were listed or quoted on any recognized stock exchange in the United States. Upon satisfaction of all applicable legal requirements, we intend to list our ADSs on the New York Stock Exchange. We have applied to the New York Stock Exchange to allocate the symbol "AED" to our ADSs.

Our ordinary shares are a constituent element of the FTSE 100, an index of the largest 100 UK companies by full-market value that are listed on the London Stock Exchange.

In September 1999, we restructured our business by disposing of our UK Retail business as part of our strategy of focusing our resources on our Spirits & Wine and QSR businesses. We returned the value of this disposal, approximately £2.6 billion, to our shareholders. The UK Retail business represented a significant portion of our trading profit, total turnover and assets and, as a result of this disposal, our market quotations on the London Stock Exchange declined. The following table shows, for the periods indicated, the reported high and low middle market quotations (which represent an average of bid and ask prices) for the ordinary shares on the London Stock Exchange, taken from the Daily Official List of the UK Listing Authority.

Year ended 31 August	High	Low
1997	487.5p	412.5p
1998	634.0p	460.5p
1999	626.5p	389.5p
2000	377.3p	249.3p
2001	454.0p	315.0p
2000:		
First quarter	377.3p	310.0p
Second quarter	331.3p	255.0p
Third quarter	365.3p	249.3p
Fourth quarter	368.5p	315.0p
2001:		
First quarter	447.0p	315.0p
Second quarter	452.5p	402.0p
Third quarter	438.0p	397.0p

Year ended 31 August	High	Low
Fourth quarter	454.0p	399.0p
2002:		
First quarter	404.0p	325.0p
Second quarter	412.8p	375.3p
Third quarter	468.5p	406.8p

	High	Low
Month ended:		
30 November 2001	392.5p	351.5p
31 December 2001	412.8p	375.3p
31 January 2002	401.0p	386.0p
28 February 2002	412.0p	390.3p
31 March 2002	430.0p	406.8p
30 April 2002	440.0p	418.5p
31 May 2002	468.5p	433.0p
30 June 2002	464.5p	411.3p

At close of business on 1 July 2002, the market price for our ordinary shares was 424.0p.

On 1 July 2002, there were 108 registered holders of 128,788 of our ordinary shares with addresses in the United States. The combined holdings of these shareholders constituted less than one percent of the total number of our outstanding ordinary shares. As certain of our ordinary shares are held by brokers and other nominees, these numbers may not represent the actual number of beneficial owners in the United States or the number of ordinary shares beneficially held by US persons.

Item 10. Additional Information

Share Capital

As at the date of this registration statement, we have 1,106,570,314 ordinary shares all of which are fully paid with a nominal value of £0.25 each.

On 2 August 1999, we increased the issued capital of Allied Domecq PLC from two ordinary shares of 325p each to 1,067,570,314 ordinary shares of 25p each as part of our disposal of the UK Retail business. To effect this disposal in a tax efficient manner, it was necessary to insert a new holding company on top of the then Allied Domecq PLC, now called Allied Domecq (Holdings) PLC. The shares in Allied Domecq (Holdings) PLC were cancelled, and new ordinary shares in Allied Domecq (Holdings) PLC were issued to us, making us the holding company of Allied Domecq (Holdings) PLC. In return for the cancellation of their ordinary shares, holders of shares in Allied Domecq (Holdings) PLC (previously Allied Domecq PLC) received our ordinary shares. The increase in our issued capital was necessary to accommodate the issuance of our ordinary shares to the former holders of ordinary shares of Allied Domecq (Holdings) PLC.

On 6 September 1999, we reduced our authorized capital from £3,900,000,000 to £300,000,000 by reducing the nominal value of each of our ordinary shares from 325p per share to 25p per share. This reduction reflects the decrease in share value resulting from the disposal of our UK Retail business.

On 31 January 2002, we increased our authorized share capital from £300,000,000 to £400,000,000 and our ordinary shares represented thereby from 1,200,000,000 to 1,600,000,000.

On 4 March 2002, we increased our issued capital from 1,067,570,314 ordinary shares to 1,106,570,314 ordinary shares as part of a private placement, the proceeds of which were used to part finance our acquisition of Malibu.

As at 31 August 2001, 17,221,999 ordinary shares purchased by us were held in our employee trusts. As at 1 July 2002, 24,593,833 ordinary shares purchased by us were held by our employee trusts.

Memorandum and Articles of Association

The following summarizes all material information about our share capital and related summary information about provisions of our Memorandum and Articles of Association and applicable laws in England and Wales, and the rights of holders of our shares. This summary information is not complete, and we qualify this summary information by reference to our Memorandum and Articles of Association, copies of which we have filed as exhibits to the registration statement.

Our objects

Pursuant to Provision 4 of our Memorandum of Association, our objects are, among others, to carry on any or all of the businesses of:

- manufacturers of and dealers in wines, spirits, liqueurs and other beverages and drinks, whether alcoholic or not, and restaurant keepers,

- wine and spirit merchants, wine growers, importers, exporters and shippers of and dealers in wines, spirits and other liquors, whether alcoholic or not, and ice cream manufacturers and merchants, and

- a holding company.

Shares

As at 1 July 2002, 1,106,570,314 of the said shares have been issued, allotted and fully paid and the remainder are unissued. Holders of our shares are not required to make any additional contributions of capital for our shares in the future.

Voting Rights and Shareholders' Meetings

Under the law of England and Wales, there are two types of general meetings of shareholders, annual general meetings and extraordinary general meetings. We must hold an annual general meeting in each calendar year not later than 15 months from the previous annual general meeting. At an annual general meeting, shareholders vote on matters including the election of Directors, appointment of auditors, approval of the annual accounts and the Board of Directors' report and declaration of dividends. Any other general meeting is an extraordinary general meeting.

Our Board of Directors may, whenever they consider fit and shall, on requisition in accordance with the Statutes (as defined in our Articles of Association), proceed with proper expedition to convene an extraordinary general meeting. An annual general meeting and an extraordinary general meeting called to pass a special resolution must be called upon at least 21 days written notice specifying the place, day and time of the meeting and the general nature of the business of the meeting. Any other extraordinary general meeting must be called upon at least 14 days written notice. No business other than the appointment of a chairman shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Three members present in person or by proxy and entitled to vote shall be a quorum for all purposes.

An ordinary resolution requires a simple majority of the votes cast at a general meeting. A special resolution, necessary for matters such as amending our Articles of Association, requires at least 75% of the votes of attending shareholders who are entitled to vote on the resolution in question. An extraordinary resolution, necessary for a small number of matters relating to variation of the rights of different classes and shares and proceedings in a winding-up, requires the same voting percentage as a special resolution.

Subject to the restrictions referred to in the following paragraph, at a meeting of shareholders, every holder of shares who is present in person or by proxy shall have one vote on a show of hands or one vote for every share held on a poll. The following persons may demand a poll:

- the chairman of the meeting;

not less than three members present in person or by proxy and entitled to vote;

a member or members present in person or by proxy and representing not less than 10% of the total voting rights of all the members having the right to vote at the meeting; or

a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than 10% of the total sum paid up on all the shares conferring that right.

A holder of shares may not, unless that holder is acting as a proxy for another member, or the Directors otherwise determine, vote any of his shares at any general meeting if:

the holder or any other person appearing to have an interest in those shares has been served with a notice under Section 212 of the UK Companies Act 1985, and is in default for a period of 14 days in supplying us the information required thereby; or

the holder has not paid in full all amounts due on these shares.

62

Issue of Shares

Subject to compliance with the laws of England and Wales and without prejudice to the rights of existing shareholders, we may issue shares with any preferred, deferred or other special rights and subject to any restrictions on dividends, return of capital, voting or otherwise. We may also issue redeemable shares.

Our current authorized but unissued shares are at the disposal of our Board of Directors, who may issue, grant options over or otherwise dispose of those shares to any persons and on any terms they deem appropriate, provided the issuance does not violate the UK Companies Act 1985 or our Articles of Association.

Pursuant to Section 80 of the UK Companies Act 1985 and to our Articles of Association, our Board of Directors may issue shares (or grant any right to subscribe for or convert other securities into shares) with the authorization of an ordinary resolution of the shareholders. The resolution of the shareholders must state the maximum amount of shares that our Board of Directors may issue under it and the date it will expire, which must be within five years.

If we issue shares for cash, Section 89 of the UK Companies Act 1985, requires us, subject to limited exceptions for employee share plans, to first offer these shares to existing shareholders on the same terms and in proportion to their holdings. However, Section 95 of the UK Companies Act 1985 provides that a special resolution of the shareholders may give the Board of Directors the power to issue shares without first offering them to existing shareholders.

Alteration of Share Capital

We may from time to time by ordinary resolution:

increase our share capital by the amount, to be divided into shares of the amounts, that the resolution prescribes;

consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;

cancel any shares which, at the date of the passing of the resolution have not been taken, or agreed to be taken by any person and diminish the amount of our capital by the amount of the shares cancelled; and subject to the Statutes (as defined in our Articles of Association), subdivide any of our shares into shares of a smaller amount than that fixed by our Memorandum of Association, and so that the resolution whereby any share is subdivided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any preferred, deferred or other rights or be subject to any restrictions as we have power to attach to unissued or new shares.

Subject to the laws and regulations of England and Wales, we may purchase, or may enter into a contract under which we will or may purchase any of our own shares of any class (including any redeemable shares) but so that if there shall be in issue any shares convertible into our equity share capital of the class proposed to be purchased, then we shall not purchase, or enter into a contract under which we will or may purchase, such equity shares unless either:

the terms of issue of such convertible shares include provisions permitting us to purchase our own equity shares or providing for adjustment to the conversion terms upon such a purchase; or

the purchase, or the contract, has first been approved by an extraordinary resolution passed at a separate meeting of the holders of such convertible shares.

63

We may by special resolution reduce our share capital or any capital redemption reserve, share premium account or other undistributable reserve in any way.

Dividend Rights

We may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors. The shareholders may declare a smaller dividend than recommended by our Board of Directors, but they may not declare a larger dividend. Our Board of Directors may declare interim dividends.

Either our Board of Directors or shareholders in a general meeting, as appropriate, may by resolution fix a date as the record date by reference to which a dividend on the shares will be declared or paid, whether or not it is before the date of the resolution. Any dividend on the shares unclaimed for a period of 12 years from the date of payment shall revert to us. No dividend on a share will bear interest, unless provided by the rights attached to the share.

Rights in Liquidation

Subject to the rights attached to any shares issued on special terms and conditions, upon our liquidation or winding up, after all our debts and liabilities and the expenses of the liquidation have been discharged, with the authority of an extraordinary resolution and in compliance with the laws of England and Wales, any of our surplus assets may be divided among the holders of shares in proportion to their holdings after deducting any amounts remaining unpaid in respect of such shares.

Notification of Interest in Shares

Section 198 of the UK Companies Act 1985 requires any person, subject to limited exceptions, who acquires an interest of 3% or more or, in the case of certain interests, 10% or more of our shares to notify us of his interest within two business days following the day on which the obligation to notify arises. After the shareholder exceeds that level of share ownership, that person must make a similar notification for each following whole percentage figure increase or decrease, rounded down to the next whole number. For the purposes of the notification obligation, the interest of a person in the shares means any kind of interest in shares, subject to certain exceptions, including any share:

in which such person's spouse or child or stepchild is interested; or

in which a corporate body is interested where either:

that corporate body or its directors act under the person's directions or instructions; or

that person is entitled to exercise or controls one-third of the voting power of that corporate body; or

in which another party is interested where the person and that other party are parties to a "concert party" agreement under Section 204 of the UK Companies Act 1985 and any interest in shares is in fact acquired by any one of the parties pursuant to the agreement.

A "concert party" agreement is an agreement under which one or more parties acquire interests in shares of a particular company and impose obligations or restrictions on any one or more of the parties as to the use, retention or disposal of such interests.

In addition, Section 212 of the UK Companies Act 1985 enables us, by notice in writing, to require a person whom we know or have reasonable cause to believe to be holding, or to have at any time during the three years immediately preceding the date on which we issue the notice, held an interest in our shares to confirm that fact. Where such person holds or has during this relevant time held an interest

64

---

in our shares, we may require that person to give such further information as may be required relating to his or her interest and any other interest in our shares of which that person is aware.

The UK Companies Act 1985 restricts the rights attaching to our shares for non-compliance with Section 212 of the Act. In addition, our Articles of Association provide for disenfranchisement, loss of entitlement to dividends and other payments and restrictions on transfer and other alienability.

Transfer of Shares

The instruments of transfer may be in any usual form or in any form acceptable to our Board of Directors. All transfers of shares in uncertificated form shall comply with the UK Uncertificated Securities Regulations 1995, the facilities and requirements of the relevant system (as therein defined) and our Articles of Association.

Our Board of Directors may also decline to register a transfer of shares in certificated form unless the duly stamped instrument of transfer lodged with us is:

accompanied by the relevant share certificates and other evidence of the right to transfer as our Board of Directors may reasonably require; and

in favor of not more than four transferees jointly.

A person becoming entitled to a share as a consequence of a death or bankruptcy of a shareholder may, upon producing the necessary evidence, elect either to become the holder of the share or to nominate another person to be registered as the transferee, in which case an instrument of transfer must be executed in favor of that person, but our Board of Directors shall in either case have the same right to decline or suspend registration as it would have had in the case of a transfer by that shareholder before his death or bankruptcy, as the case may be.

Variation of Rights

Subject to certain provisions of the laws of England and Wales, the rights attached to shares may be varied with the consent in writing of the holders of at least 75% in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class.

Registrar

The registrar for our ordinary shares is Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, England.

Material contracts

Stolichnaya

On 15 November 2000, our subsidiaries Allied Domecq International Holdings BV and Allied Domecq Spirits & Wine USA, Inc. entered into a Trademark, Supply and Distribution Agreement with Spirits International NV and S.P.I. Spirits (Cyprus) Limited, which together we refer to as SPI. Under the agreement, SPI designated us as exclusive distributor in the United States of its various vodka products, which are distributed under the brand names Stolichnaya, Stoli® and Priviet®. The agreement also provides that SPI cause the assignment of the trademark rights to the Stolichnaya brand name in the United States from PepsiCo, Inc. to us. We have agreed to purchase a minimum number of cases over the term of the agreement and to undertake a significant investment in the marketing, sale and distribution of SPI's vodka products. In addition, SPI has granted us a right of first refusal over distribution rights for its brands in other markets as they become available. To date, we have exercised

those rights and entered into distribution agreements with SPI for Canada, the Nordic countries and Mexico.

The initial term of the agreement is until 31 December 2010, and either of us may terminate the agreement with notice prior to that date if there is a material adverse breach of the contract that cannot be cured within a determined time or if either party enters into bankruptcy, is insolvent or is being liquidated.

Miller Brewing Company

On 18 January 2002, we entered into an RTD Products Agreement with the Miller Brewing Company. Under the agreement, we granted Miller a license to use several of our trademarks, including Sauza and Stolichnaya, in connection with the manufacturing, marketing, promotion, distribution and sale of branded ready-to-drink products. We also agreed to provide Miller with its requirements for concentrates to be used in the manufacture of the ready-to-drink products. The agreement envisages an equal split of net operating profit on sales of the licensed products between Miller and us. Miller agrees, with limited exceptions, not to produce any ready-to-drink products that compete with brands that we have licensed under this agreement. Miller also agrees to take responsibility for the manufacture, distribution, promotion, merchandising and sales of the ready-to-drink products and to pay us for concentrates that it purchases under this agreement.

The initial term of the agreement is until 1 February 2017, but may be extended if specific sales targets are met. This agreement may be terminated prior to 1 February 2017 if:

- specific sales targets are not met;
- if either party merges with or is acquired by a competitor of the other;
- there is force majure;
- there is a material breach of the contract that cannot be cured within a determined time; and
- if either party becomes bankrupt, insolvent or liquidated.

If we transfer any of our trademarks licensed to Miller under this agreement, Miller may terminate this agreement with respect to the transferred trademark without affecting the rest of the agreement. If our rights to the Stolichnaya trademark are terminated, then this agreement will be deemed automatically amended to exclude the Stolichnaya trademark without any effect on the rest of the agreement.

On 30 May 2002, Philip Morris Companies Inc., Miller's parent company, announced an agreement with South African Breweries plc to merge Miller into South African Breweries in July 2002, subject to regulatory approvals. This change of control will not have any effect on our rights or obligations under this agreement.

Jinro

On 15 February 2000, we entered into an agreement to purchase a 70% interest in two South Korean companies held by Jinro Limited for £103 million. As part of this arrangement, we agreed to make bulk purchases of aged Scotch whisky from a third party for use in Imperial whisky.

Suntory

In 1988, we entered into a series of arrangements with Suntory Limited, one of Japan's leading producers and distributors of spirits. One element of these arrangements was the purchase of a 50% interest in a Japanese company, Suntory Allied Limited, and the grant to it of the rights to distribute our spirit products in Japan for a period up to and including 2029. Suntory Allied Limited is under the management control of Suntory Limited.

Corby

In 1991, we purchased a 46.3% equity interest and a 51.6% voting interest in Corby Distilleries Limited, or CDL, a leading Canadian manufacturer and marketer of spirits and wine. We have various arrangements with CDL under which we blend and bottle CDL's requirements for some spirits and provide administrative services to it and CDL represents our products in the Canadian market.

Exchange Controls

There are currently no UK foreign exchange control restrictions on the payment of dividends to US persons on our ordinary shares or preferred securities or on the conduct of our operations.

There are no restrictions under our Memorandum and Articles of Association or under the laws of England and Wales that limit the right of non-resident or foreign owners to hold or vote our ordinary shares or preferred securities.

Taxation

The following discussion describes the material US Federal income tax and UK tax consequences of the purchase, ownership and disposition of our shares or ADSs (evidenced by ADRs) for beneficial owners:

- who are residents of the United States for purposes of the current United Kingdom/United States Income Tax Convention (the "Income Tax Convention") and the United Kingdom/United States Estate and Gift Tax Convention (the "Estate and Gift Tax Convention" and, together with the Income Tax Convention, the "Conventions");

- whose ownership of our shares or ADSs is not, for the purposes of the Conventions, attributable to a permanent establishment in the United Kingdom;

- who otherwise qualify for the full benefits of the Conventions; and

- who are US holders (as defined below).

The statements of US federal income tax and UK tax laws set out below:

- are based on the laws in force and as interpreted by the relevant taxation authorities as at the date of this registration statement;

are subject to any changes in US law or the laws of England and Wales, in the interpretation thereof by the relevant taxation authorities, or in the Conventions, occurring after such date; and

are based, in part, on representations of the depositary, and assume that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

No assurance can be given that taxing authorities or the courts will agree with this analysis.

This discussion does not address all aspects of US and UK taxation that may be relevant to you and is not intended to reflect the individual tax position of any beneficial owner, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of investors or that are generally assumed to be known by investors. The portions of this summary relating to US Federal taxation are based upon the US Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed US Treasury regulations promulgated thereunder, published rulings by the US Internal Revenue Service ("IRS"), and court decisions, all in effect as at the date hereof, all of which authorities are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively. This summary is limited to investors who hold our shares or ADSs as capital assets within the meaning of Section 1221 of the Code, generally property held for investment, and this summary does not purport to deal with the US Federal or UK taxation consequences for investors in special tax situations, such as dealers in securities or currencies, persons

whose functional currency is not the US Dollar, life insurance companies, tax exempt entities, financial institutions, traders in securities that elect to use a "mark-to-market" method of accounting for their securities holdings, regulated investment companies, persons holding our shares or ADSs as part of a hedging, integrated, conversion or constructive sale transaction or straddle or persons subject to the alternative minimum tax, who may be subject to special rules not discussed below. In particular, the following summary does not address the adverse tax treatment to you that would follow if you own, directly or by attribution, 10% or more of our outstanding voting share capital and we are classified as a "controlled foreign corporation" for US Federal tax purposes.

As used herein, the term "US holder" means a beneficial owner of our shares or ADSs who or which is:

a citizen or resident of the United States;

a corporation (or other entity that is treated as a corporation for US Federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision thereof;

an estate, the income of which is subject to US Federal income taxation regardless of its source; or

a trust (1) that is subject to the supervision of a court within the United States and the control of one or more US holders as described in section 7701(a)(30) of the Code or (2) that has a valid election in effect under applicable US Treasury regulations to be treated as a US holder.

If a partnership (or an entity that is treated as a partnership for US Federal income tax purposes) holds our shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our shares or ADSs, you should consult your tax advisors.

The summary does not include any description of the tax laws of any State or local government or of any jurisdictions other than the United States and the United Kingdom that may be applicable to the ownership of our shares or ADSs. You are urged to consult your own tax advisor regarding the US Federal, State, and local tax consequences to you of the ownership of our shares or ADSs, as well as the tax consequences to you in the United Kingdom and any other jurisdictions.

For the purposes of the Conventions and the Code, you will be treated as the owner of our shares represented by the ADSs evidenced by the ADRs.

New Income Tax Convention

The United States and the United Kingdom have recently concluded a new income tax convention (the "New Income Tax Convention"). The New Income Tax Convention is not effective until it has been ratified by the competent authorities in both countries. As at the date of this registration statement, the New Income Tax Convention is still in the ratification process and we are not certain whether, and if so when, it will be ratified and put into effect. If and when it becomes effective, the New Income Tax Convention will put in place new rules that modify the current treatment of US holders who own shares or ADSs of a UK corporation in several aspects. Throughout the following discussions, we have included specific references to the new rules under the New Income Tax Convention as appropriate. Such references assume that the New Income Tax Convention will be ratified in its current form (as at the date hereof) without material amendment. You should consult your own tax advisors as to how the New Income Tax Convention would affect you regarding the effect of the New Income Tax Convention on your ownership of our shares or ADSs.

Taxation of Dividends

United Kingdom

No withholding tax is charged or due when a UK incorporated company pays dividends.

An individual shareholder resident in the United Kingdom will generally be entitled to a tax credit in respect of any dividend received. The amount of the tax credit is equal to one-ninth of the cash dividend or 10% of the aggregate of the cash dividend and the associated tax credit.

Although under the terms of the Income Tax Convention you, as a US holder, may be entitled to receive a payment by way of tax credit at the current level of credit for UK individuals, in practice no such payment will be available. The Income Tax Convention provides that a US holder may receive, from the UK Inland Revenue, in respect of a cash dividend, a payment equal to the amount of the tax credit to which an individual reside