

Kyndal International Limited
Report and Financial Statements
For the period ended 30 September 2002

Registered Number 221954



Kyndal International Limited

Annual report for the period ended 30 September 2002

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Kyndal International Limited

Directors and advisers

Executive Directors

B J Megson (Chief Executive)
I Gilchrist
R B MacEachran
A C Mackie
I G Palmer

Non-executive Directors

V Imerman (Chairman)
R Tchenguiz
R Saunders
G Gazdig
E Del Maestro

Secretary and registered office

J F Hanlon BSc, CA
Dalmore House
310 St Vincent Street
GLASGOW
G2 5RG

Registered auditors

PricewaterhouseCoopers LLP
Kintyre House
209 West George Street
GLASGOW
G2 2LW

Solicitors

McClure Naismith
292 St Vincent Street
GLASGOW
G2 5TQ

Bankers

Barclays Bank Plc
90 St Vincent Street
GLASGOW
G2 5UQ

Kyndal International Limited

Directors' report for the period ended 30 September 2002

The directors present their report together with the audited consolidated financial statements for the period from date of incorporation, 7 August 2001, to 30 September 2002.

Change of name

The Company changed its name by special resolution on 4 October 2001 from St. Vincent Street (347) Limited to Kyndal International Limited.

Principal activities

During the period ended 30 September 2002, the Group's principal activities were the production, marketing and distribution of Scotch whisky, vodka, gin, liqueurs and other alcoholic drinks. Main brands included Whyte and Mackay Scotch whisky, Dalmore single malt, Isle of Jura single malt, Vladivar vodka, and Glayva liqueur. The Group is a leading supplier of private label spirits.

Business review

On 15 October 2001 the Company acquired 100% of the issued share capital of Kyndal Spirits Limited ('KSL'), a company registered in Scotland.

The Group's operating profit in the period to 30 September 2002 is largely in line with expectation. Profit before tax and net assets of the Group are lower than expected mainly due to the acceleration of the amortisation of the issue costs relating to the initial secured loan facilities.

Future Developments

The Group intends to issue floating rate secured notes on the Luxembourg Stock Exchange, which will result in the repayment of the secured term loans.

Results and dividends

The financial statements incorporating the results for the period ended 30 September 2002 are set out on pages 6 to 31. The Directors do not recommend the payment of a dividend with the loss for the period of £790,000 being transferred to reserves.

Kyndal International Limited

Directors and their interests

The directors of the Company throughout the period to 30 September 2002 and the directors interests, as defined by the Companies Act 1985, in the Ordinary shares of £0.01 each in Kyndal International Limited were as follows:

	Date of Appointment	At 30 September 2002 Number	At 7 August 2001 or date of appointment Number
B J Megson	7 October 2001	50,000	100
I Gilchrist	7 October 2001	25,000	-
R B MacEachran	7 October 2001	35,000	-
A C Mackie	7 October 2001	15,000	-
I G Palmer	7 October 2001	25,000	-
V Imerman	16 January 2002	-	-
R Tchenguiz	15 October 2001	-	-
R Saunders	15 October 2001	40,000	-
G Gazdig	15 October 2001	30,000	-
		220,000	100

Lycidas Nominees Limited were appointed as a director on 7 August 2001 and resigned as a director on 7 October 2001. On 20 November 2002, after the end of the financial period, E Del Maestro was appointed as a director of the Company.

Environmental policy

The Group has an environmental policy which commits it to ensuring that its activities are conducted in ways which comply with the law and, so far as is reasonably and commercially practicable, do not harm the environment.

Employees

The Group gives full and fair consideration to the employment of disabled persons for suitable jobs. Every effort is made to continue the employment of persons who become disabled whilst in the Group's employment.

The Group maintains its commitment to pro-active programmes for involving its employees in its affairs. This is achieved in a variety of ways, including quarterly employee briefings, employee newsletters and by consultation with recognised trade unions.

The Group's bonus schemes encourage employees at all levels to contribute to the Group's short and long-term goals.

Political and charitable donations

During the period the Group gave no donation to any political organisation. Various donations for charitable purposes totalling £10,108 were made.

Kyndal International Limited

Payment of suppliers

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not have a standard or code which deals specifically with the payment of suppliers. At 30 September 2002, the amount owed to trade creditors by the Group was equivalent to 68 days of purchases (excluding duty paid) from suppliers.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Company and Group for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

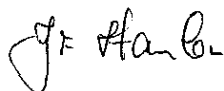
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 30 September 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. In addition, they are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 24 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Group will be proposed at the annual general meeting.

By order of the board



J F Hanlon

Secretary

Glasgow

27 January 2003

Kyndal International Limited

Independent auditors' report to the members of Kyndal International Limited

We have audited the financial statements on pages 6 to 31, which comprise the consolidated profit and loss account, balance sheet, consolidated cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 2002 and of the loss and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow
27 January 2003

Kyndal International Limited

Consolidated profit and loss account for the period ended 30 September 2002

	Notes	£'000
Turnover		157,197
Cost of sales		(120,068)
Gross profit		37,129
Distribution costs		(3,805)
Administrative expenses – ordinary		(11,582)
– exceptional reorganisation costs	2	(1,100)
Operating profit	3	20,642
Interest receivable and similar income	6	708
Profit on ordinary activities before interest and taxation		21,350
Interest payable and similar charges	7	(20,751)
Profit on ordinary activities before taxation		599
Taxation on profit on ordinary activities	9	(1,389)
Loss for the period	21	(790)

The results for the period are derived from operations acquired on 15 October 2001, which are continuing.

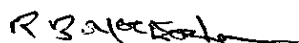
The Group has no recognised gains and losses other than those shown above and therefore no separate statement of gains and losses has been presented.

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Balance sheets at 30 September 2002

	Notes	Group £'000	Company £'000
Fixed assets			
Intangible assets	11	49,494	-
Tangible assets	12	64,986	-
Investments	13	179	248,292
		114,659	248,292
Current assets			
Stocks	14	95,909	-
Debtors	15	33,572	-
Cash at bank and in hand		16,424	240
		145,905	240
Creditors: amounts falling due within one year	16	(43,107)	(56,722)
Net current assets / (liabilities)		102,798	(56,482)
Total assets less current liabilities		217,457	191,810
Creditors: amounts falling due after more than one year	17	(206,200)	(205,435)
Provisions for liabilities and charges	19	(11,232)	-
Net assets / (liabilities)		25	(13,625)
Capital and reserves			
Called up share capital	20	3	3
Share premium	21	812	812
Profit and loss account	21	(790)	(14,440)
Total equity shareholders' funds / (deficit)	22	25	(13,625)

The accounts on pages 6 to 31 were approved by the board of directors on 27 January 2003 and were signed on its behalf by:



R B MacEachran
Director

Kyndal International Limited

Consolidated cash flow statement for the period ended 30 September 2002

	Note	£'000	£'000
Net cash inflow from operating activities	23		76,884
Returns on investments and servicing of finance			
Interest received		695	
Interest paid		(12,021)	
Issue costs of new secured term loan		(6,259)	
Dividend income		13	
Net cash outflow from returns on investment and servicing of finance			(17,572)
Taxation			(6,133)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,187)	
Sale of tangible fixed assets		101	
Redemption of preference shares		21	
Net cash outflow for capital expenditure and financial investment			(2,065)
Acquisitions			
Purchase of subsidiary undertaking	25	(247,422)	
Net cash acquired with subsidiary undertaking	25	4,359	
Net cash outflow for acquisitions			(243,063)
Financing			
Issue of ordinary share capital	20	1,000	
Expenses of share issue	20	(185)	
Increase in borrowings	24	207,558	
Net cash inflow from financing			208,373
Increase in cash			16,424

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Reconciliation of net cash flow to movement in net debt

	Notes	£'000
Increase in cash in the period		16,424
Movement in borrowings		(201,299)
Change in net debt resulting from cash flows		(184,875)
Debt acquired with subsidiary undertaking		(2,619)
Other non-cash changes		(5,360)
Net debt at date of incorporation		-
Net debt at 30 September 2002	24	(192,854)

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Accounting policies

The financial statements have been prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below.

New accounting standards

Financial Reporting Standard 17 "Retirement Benefits" is being adopted in line with the transitional timetable laid down by the standard. Financial Reporting Standard 18 "Accounting Policies" and Financial Reporting Standard 19 "Deferred Tax" have been adopted in the current period.

Basis of preparation

The financial statements have been prepared on a going concern basis which assumes that the Group will have adequate resources to continue in operational existence for the foreseeable future.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"), which are all made up to 30 September 2002. Intra-group sales and profits are eliminated fully on consolidation.

Turnover

Turnover represents sales of goods and services by the Group net of discounts, allowances and value added tax, but including excise duty.

Tangible fixed assets and depreciation

In accordance with Financial Reporting Standard 15 "Tangible Fixed Assets", the Group has adopted a policy of not revaluing fixed assets.

The cost of heritable buildings, plant and machinery, fixtures, motor vehicles, fittings and equipment is written off on a monthly basis. No depreciation is charged in the quarter in which an asset is acquired.

The following annual depreciation rates, which reflect the useful lives of the assets concerned, are applied:

Heritable and leasehold property	-	2% or over period of leases
Plant and machinery	-	5%, 6.67% or 10%
Vehicles, fittings and equipment	-	10%, 25% or 33.33%

Heritable land is not depreciated.

The requirement for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of net realisable value or value in use.

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Intangible fixed assets

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiary undertakings is capitalised and amortised over its economic useful life, subject to a maximum of 20 years.

Intangible fixed assets represent acquired trademarks and are amortised over their economic useful lives, subject to a maximum of 20 years.

In line with Financial Reporting Standard 11 "Impairment of Fixed Assets and Goodwill", the Group undertakes an impairment review of its intangible assets if events or changes in circumstances indicate that the carrying amount may not be recoverable. Provision is made where it is considered that there has been a permanent diminution in value.

Fixed asset investments

Investments are included at the lower of cost or valuation less, where appropriate, amounts written off or provided. The value of investments is reviewed annually by the directors and provisions made where it is considered that there has been a permanent diminution in value.

Leased assets

Rental payments due under operating lease agreements are charged against profit.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, and an appropriate proportion of production and other overheads. Net realisable value is the price at which the stock can be realised in the normal course of business. Provision is made, where appropriate, for obsolete, slow moving and defective stocks.

Taxation

Current and deferred taxation is based on the profits of the period including all taxation liabilities accruing to the date of the financial statements.

The Group has adopted Financial Reporting Standard 19 "Deferred Tax" in the current period. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded more likely that not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate ruling at the date of transaction. All foreign exchange differences are taken to the profit and loss account in the period in which they arise.

Pensions

The Group operates a defined benefit scheme, the Kyndal Pension Scheme, for which membership was available to the majority of Group employees. The scheme is valued once every three years by professionally qualified independent actuaries. Contributions to the scheme are charged to the profit and loss account so as to spread the expected costs of pensions over employees' working lives with the Group.

Research and development

All research and development expenditure is written off as incurred.

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Provisions

Onerous lease provisions

When a leasehold property ceases to be used in the business or a commitment is entered into which would cause this to occur, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease.

Mothballed distilleries

Where the Group has a distillery which is mothballed, a provision is made for all costs in relation to maintaining the security and up keep of the site. The provisions are reviewed on an on-going basis with reference to current market conditions.

Derivatives and financial instruments

Financial instruments, in particular interest rate swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities. There is no trading activity in financial instruments.

Interest rate swaps are used to hedge the Group's exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are not revalued to fair value prior to maturity.

Capitalisation of interest policy

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding. The period over which these costs are being amortised has been accelerated in light of the intended bond issue.

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Notes to the financial information for the period ended 30 September 2002

1. Segmental analysis

By class of business

The Group's activities consist solely of the production, marketing and distribution of Scotch whisky and other alcoholic beverages.

By geographical area

In the opinion of the directors, the disclosure of turnover, profit before taxation and net assets by geographical segmentation would be prejudicial to the interests of the Group.

2. Costs of reorganisation of continuing operations

The exceptional charge of £1,100,000 relates to the reorganisation of operations following the change in ownership of KSL.

	£'000
Redundancy	608
Other restructuring	492
	1,100

3. Operating profit

	£'000
Operating profit is stated after charging:	
Loss on sale of fixed assets	3
Amortisation of intangible fixed assets	2,722
Operating lease charges – plant and machinery	43
Operating lease charges – other	2,271
Depreciation of tangible fixed assets:	
Owned by the Group	5,124
Directors' emoluments	715
Auditors' remuneration for audit services	95

Fees paid to PricewaterhouseCoopers for non-audit services were £654,000, including an amount of £561,000 in respect of due diligence services associated with the attainment of the secured term loans. These fees have been offset against the secured bank loans and amortised over the expected life of the existing borrowings, which has been accelerated in light of the intended bond issue.

The depreciation charge noted above is different from that shown in Note 12 to these financial statements, as depreciation is added to the cost of stocks and is not released to the profit and loss account until the relevant stock is sold. The figure shown above represents the annual depreciation that is charged directly to the profit and loss account on fixed assets, together with depreciation released through cost of sales on the sale of stock.

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4. Directors' emoluments

	£'000
Aggregate emoluments	715

Retirement benefits are accruing to five directors under the Kyndal Pension Scheme.

Highest paid director	£'000
Aggregate emoluments	215
Defined benefit pension scheme:	
Accrued pension at end of period	135

5. Employee information

The average number of persons (including executive directors) employed by the Group during the period was as follows:

By activity	Number
Sales, distribution and administration	194
Production	578
	772

The average number of employees includes 60 employed on a part-time basis.

Staff costs for the above persons	£'000
Wages and salaries	17,012
Social security costs	1,159
Employer's pension contributions (note 8)	1,999
	20,170

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6. Interest receivable and similar income

	£'000
Dividend income	13
Other interest receivable	695
	708

7. Interest payable and similar charges

	£'000
Interest payable on bank loans	15,292
Interest payable on loan notes	99
Amortisation of issue costs of bank loans	5,360
	20,751

The Group intends to issue secured notes on the Luxemburg Stock Exchange. This will result in the repayment of the secured term loans. As a result, the amortisation of the issue costs incurred in association with obtaining the secured term loans has been accelerated and is being amortised over the expected life of the existing borrowings.

8. Pension scheme

The Group has accounted for pensions in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs" and the disclosures given in (a) below are those required by the standard. Financial Reporting Standard 17 "Retirement Benefits" was issued in November 2000 but is not mandatory for the Group. Additional disclosures required under the transitional arrangements are set out in (b) below.

(a) Statement of Standard Accounting Practice 24 "Accounting for Pension costs"

	£'000
Funding	1,958
Charge	(1,999)
Accrual for the period	(41)
Arising on acquisition of KSL	879
At 30 September 2002	838

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8. Pension scheme (continued)

The Kyndal Pension Scheme ("the Scheme") is a defined benefit scheme to which the Group pays contributions, assessed having regard to actuarial advice. Following the acquisition of KSL on 15 October 2001, the Group continues to operate the Scheme and the benefits to which the employees are entitled from it have remained unchanged.

The last independent actuarial valuation of the Scheme was carried out with an effective date of 1 October 2000. At that date, the market value of the Scheme's assets was £67,883,000.

The following changes were made to the Scheme on 1 October 2001:

- pensionable salary for pension benefits earned after 1 October 2001 would be based on basic salary; and
- all benefits accrued after 1 October 2001 would be based on a normal retirement age of 65.

The pension cost relating to the Scheme has been assessed in accordance with the advice of a qualified independent actuary based on the latest valuation. The regular pension cost was determined using the projected unit method of valuation. The principal assumptions made by the actuaries at 30 September 2002 were:

	% per annum
Rate of investment returns	6.50
Rate of salary increases	3.75
Rate of inflation	2.75

The actual amount funded by the Group for the period was £1,958,000. The regular pension cost, allowing for interest on the provision and the amortisation of the deficit over the employees' working lives, was £1,999,000. The deficit of the amounts funded compared to the pension charge was, therefore, £41,000.

(b) Financial Reporting Standard 17 "Retirement Benefits"

The Scheme has been valued in accordance with the requirements of Financial Reporting Standard 17 using the projected unit valuation method. The major assumptions used at 30 September 2002 were:

	% per annum
Rate of increase in pensionable salaries	3.4
Rate of increase in pensions in payment	3.0
Discount rate	5.4
Inflation	2.4

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8. Pension scheme (continued)

The assets and liabilities in the scheme were:

	Long-term rate of return expected	Value at 30 September 2002
	%	£'000
Equities	7.4	29,541
Corporate Bonds	5.4	6,239
Government Bonds	4.4	17,110
Property	5.4	2,989
Cash pending investment	4.0	827
Total market value of assets		56,706
Actuarial value of liabilities		(90,296)
Deficit in scheme		(33,590)
Related deferred tax asset		10,077
Net pension deficit		(23,513)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 30 September 2002 would be as follows:

	£'000
Net assets excluding pension deficit	25
Reversal of SSAP 24 pension asset	(838)
Reversal of deferred tax liability on SSAP 24 pension asset	251
Net pension deficit under FRS 17	(23,513)
Net liabilities including pension deficit	(24,075)
Profit and loss reserve excluding pension deficit	(790)
Reversal of SSAP 24 pension asset	(838)
Reversal of deferred tax charge on SSAP 24 pension asset	251
Net pension deficit under FRS 17	(23,513)
Profit and loss reserve including pension deficit	(24,890)

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8. Pension scheme (continued)

The following amounts would have been recognised in the performance statements in the period to 30 September 2002 under the requirements of Financial Reporting Standard 17.

	£'000
Operating profit	
Current service cost	1,851
Past service cost	-
Total operating charge	1,851
Other finance income	
Expected return on pension scheme assets	4,120
Interest on pension scheme liabilities	(4,584)
Net return	(464)
Statement of total recognised gains and losses (STRGL)	
Actual return less expected return on pension scheme assets	(8,701)
Experience gains and losses arising on the scheme liabilities	903
Changes in assumptions underlying the present value of the scheme liabilities	(10,094)
Actuarial loss recognised in STRGL	(17,892)
Movement in deficit during the period	£'000
Deficit in scheme on acquisition of KSL	(15,341)
Movement in period:	
Current service cost	(1,851)
Contributions	1,958
Past service costs	-
Other finance income	(464)
Actuarial loss	(17,892)
Deficit in scheme at end of the period	(33,590)

The estimated financial position under the requirements of Financial Reporting Standard 17 showed an increase in the deficit from £15,341,000 at the date of acquisition of KSL to £33,590,000 at 30 September 2002. Contributions are currently paid by the Group at the rate of 15.5% of pensionable salary and are expected to remain at this level subject to actuarial review and minimum statutory requirements.

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8. Pension scheme (continued)

Details of experience gains and losses for the period to 30 September 2002	£'000
Difference between the expected and actual return on scheme assets:	(8,701)
- As a percentage of scheme assets	15.34%
Experience gains and losses on scheme liabilities:	903
- As a percentage of the present value of the scheme liabilities	1.00%
Total amount recognised in STRGL:	(17,892)
- As a percentage of the present value of the scheme liabilities	19.81%

9. Taxation

	£'000
Current tax	
UK corporation tax on profit for the period	2,120
Adjustment in respect of previous periods of KSL	(1,231)
Total current tax	889
Deferred tax	
Origination and reversal of timing differences	
- Accelerated capital allowances and other timing differences	(683)
Adjustments in respect of previous periods of KSL	1,183
Total deferred tax	500
Tax on profit on ordinary activities	1,389

In arriving at the tax charge for the period, no provision has been made for deferred taxation gains recognised on revaluing land and property to its market value in previous periods of KSL and on fair value adjustments arising on the acquisition of KSL. Such tax would only become payable if the property was sold without it being possible to claim rollover relief. The total amount unprovided is £7,364,000. In accordance with Financial Reporting Standard 15, there will be no revaluation of fixed assets.

Deferred tax liabilities have not been discounted.

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9. Taxation (continued)

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	£'000
Profit on ordinary activities before tax	599
Profit on ordinary activities multiplied by standard rate in the UK (30%)	180
Effects of:	
Expenses not deductible for tax purposes	1,257
Accelerated capital allowances and other timing differences	683
Adjustments to tax charge in respect of previous periods of KSL	(1,231)
Current tax charge for the period	889

Factors that may affect future tax charges:

- Accelerated capital allowances are expected to increase in the near future based on forecast capital expenditure. Current expectations indicate the reversal of other timing differences are expected to continue in the short-term.
- The quantum of expenses not deductible for tax is expected to continue and primarily relates to non-qualifying amortisation and depreciation.

10. Loss for the financial period

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the period was £14,440,000.

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11. Intangible fixed assets

Group	Trademarks £000	Total £000
Cost		
At date of incorporation	-	-
Arising on acquisition of KSL	52,216	52,216
At 30 September 2002	52,216	52,216
Amortisation		
At date of incorporation	-	-
Charge for period	2,722	2,722
At 30 September 2002	2,722	2,722
Net book value at 30 September 2002	49,494	49,494

The acquired trademarks are amortised over a period of between 17 and 20 years, being the period that the directors consider to be the most appropriate reflecting the existing useful lives of the brands.

The Company did not hold intangible fixed assets during the period.

12. Tangible fixed assets

Group	Heritable land and buildings £'000	Long leasehold property £'000	Plant and machinery £'000	Vehicles, fittings and equipment £'000	Total £'000
Cost					
At date of incorporation	-	-	-	-	-
Arising on acquisition of KSL	38,561	239	28,018	1,568	68,386
Additions	239	-	1,447	501	2,187
Disposals	-	-	(200)	(21)	(221)
At 30 September 2002	38,800	239	29,265	2,048	70,352
Depreciation					
At date of incorporation	-	-	-	-	-
Charge for period	843	6	3,938	696	5,483
Disposals	-	-	(106)	(11)	(117)
At 30 September 2002	843	6	3,832	685	5,366
Net book value at 30 September 2002	37,957	233	25,433	1,363	64,986

In accordance with the Group's accounting policy, no depreciation has been provided on site values of £2,760,000.

The Company did not hold tangible fixed assets during the period.

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13. Fixed asset investments

Group	Interest in Group undertakings £'000
Cost or valuation	
At date of incorporation	-
Arising on acquisition of KSL	200
Redemption of preference shares	(21)
At 30 September 2002	179

Other investments included the holding of 10.5% of the £1 ordinary shares and 14% of the 7% cumulative redeemable preference shares of The Scotch Whisky Heritage Centre Limited, an unlisted company registered in Scotland, the principal activity of which is the operation of a visitor attraction in Edinburgh.

Company	Interest in Group undertakings £'000
Cost or valuation	
At date of incorporation	-
Arising on acquisition of KSL	248,292
At 30 September 2002	248,292

Interest in Group undertakings

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The principal subsidiary undertakings of the Company at 30 September 2002 were:

	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by Company
Kyndal Spirits Limited	Scotland	Ordinary	100%
Kyndal Warehousing Limited	Scotland	Ordinary	100%
Kyndal Finance Limited	Cayman Islands	Ordinary	100%
Kyndal International Trustees Limited	Scotland	Ordinary	100%
Kyndal Property Limited*	Scotland	Ordinary	100%

* This Company is a 100% subsidiary of Kyndal Spirits Limited.

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14. Stocks

	Group £'000	Company £'000
Raw materials and consumables	1,276	-
Maturing whisky stocks	90,692	-
Finished goods	3,941	-
	95,909	-

15. Debtors

	Group £'000	Company £'000
Amounts falling due within one year:		
Trade debtors	28,717	-
Other debtors	1,391	-
Prepayments and accrued income	3,464	-
	33,572	-

16. Creditors: amounts falling due within one year

	Group £'000	Company £'000
Bank and other borrowings (note 18)	2,101	2,101
Loan notes	2,177	-
<i>Deferred consideration for acquisitions (note 25)</i>	435	435
Trade creditors	22,490	-
Amounts owed to subsidiary companies	-	50,827
Corporation tax	602	-
Indirect taxes and social security liabilities	383	-
Other creditors	4,663	3,359
Accruals and deferred income	10,256	-
	43,107	56,722

Loan notes are repayable on demand and have an expiry date in 2004. The average interest rate is 4.33%.

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17. Creditors: amounts falling due after more than one year

	Group £'000	Company £'000
Bank and other borrowings (note 18)	205,000	205,000
Deferred consideration for acquisitions (note 25)	435	435
Accruals and deferred income	765	-
	206,200	205,435

18. Bank and other borrowings

Group and Company	Group borrowings £'000	Unamortised issue costs £'000	Net borrowings £'000
Bank loans			
7.47% secured term loan due 2016 by instalments	188,000	809	187,191
9.42% secured term loan due 2016	20,000	90	19,910
	208,000	899	207,101

Group and Company	£'000
Maturity of debt	
In one year or less, or on demand	2,101
In more than one year, but not more than two years	5,000
In more than two years but not more than five years	34,000
In more than five years	166,000
	207,101

The secured term loans are stated net of unamortised issue costs of £899,000. The Group incurred total issue costs of £6,259,000 in respect of the 15 year facilities entered into in October 2001. These costs, net of the unamortised issue costs, together with the interest expense are charged to the profit and loss account. The period over which these costs are being amortised has been accelerated in light of the intended bond issue.

The 7.47% term loan is secured by a pledge over the Group's maturing stocks and various other fixed and floating security over the Group's assets, excluding the leasehold interest of Kyndal Property Limited over the Invergordon site. The 7.47% term loan is also secured by way of a share pledge over the share capital of Kyndal Spirits Limited, Kyndal Warehousing Limited, Kyndal Property Limited and the other subsidiary companies within the Group. The security over all assets, including the shares, will be released upon repayment of the loan.

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18. Bank and other borrowings (continued)

The 9.42% term loan is secured by a fixed and floating charge over the assets of Kyndal Property Limited including its leasehold interest in the Group's property in Invergordon. The security over the assets will be released upon repayment of the loan.

The 7.47% term loan has a fixed interest element of 2%, which increases to 2.5% on 15 April 2003. On 15 October 2001, the Group entered into an interest rate swap to hedge the remaining variable interest cost for an initial notional principal amount of £188,000,000 maturing on 15 April 2014. Under this swap, the Group receives interest on a variable basis and pays interest of 5.47%.

19. Provisions for liabilities and charges

Group	Onerous lease provisions £'000	Other provisions £'000	Deferred taxation £'000	Total £'000
At date of incorporation	-	-	-	-
Arising on acquisition of KSL	4,865	176	5,524	10,565
Charged / (utilised) in period	269	(102)	500	667
At 30 September 2002	5,134	74	6,024	11,232

Onerous lease provisions

These provisions were set up in relation to leasehold properties in Glasgow, London and Edinburgh, which are sub-let at a discount. The provisions take account of current market conditions and expected future vacant periods and are calculated by discounting cash flows on a pre-tax basis and are utilised over the remaining period of the leases, which at 30 September 2002 is between 5 and 27 years.

Other provisions

These provisions are in relation to two mothballed distilleries which the Group owns at the balance sheet date.

Deferred taxation

	Group £'000
Provision for deferred tax comprises:	
Accelerated capital allowances	4,792
Short-term timing differences	1,232
Deferred tax provision	6,024

No provision has been made for deferred tax on gains recognised on revaluing land and property to its market value in previous periods of KSL and on fair value adjustments arising on the acquisition of KSL. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is £7,364,000. At present it is not envisaged that any such tax will become payable in the foreseeable future.

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19. Provisions for liabilities and charges (continued)

In accordance with Financial Reporting Standard 15 there will be no revaluation of fixed assets.

Deferred tax liabilities have not been discounted.

The Company has no provisions for liabilities and charges.

20. Share capital

	Number	£
Authorised		
Ordinary shares of £0.01 each	280,000	2,800
A Ordinary shares of £0.01 each	400,000	4,000
B Ordinary shares of £0.01 each	350,000	3,500
	1,030,000	10,300

Allotted, called up and fully paid	Ordinary £'000	A Ordinary £'000	B Ordinary £'000	Total £'000
At date of incorporation	-	-	-	-
Issued during the period	2	1	-	3
At 30 September 2002	2	1	-	3

Number of shares	Ordinary	A Ordinary	B Ordinary	Total number
At date of incorporation	100	-	-	100
Sub-total	100	-	-	100
Sub-division	10,000	-	-	10,000
Shares issued following sub-division	239,725	100,001	1	339,727
At 30 September 2002	249,725	100,001	1	349,727

Following a resolution that was passed on 5 October 2001 the existing authorised share capital of £100, divided into 100 Ordinary shares of £1 each, was subdivided into 1,030,000 shares, divided into 280,000 Ordinary shares of £0.01 each, 400,000 A Ordinary shares of £0.01 each and 350,000 B Ordinary shares of £0.01 each.

On 13 October 2001, the Company granted warrants to subscribe for 749,998 shares, comprising A Ordinary and B Ordinary shares. The warrants are exercisable at a price equal to the nominal value of each share. There is no expiry date attached to the warrants.

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20. Share capital (continued)

On 14 October 2001, a rights issue was undertaken on the basis that the existing holders of Ordinary shares would be entitled to subscribe for 499 new Ordinary shares of £0.01 each at a subscription price of £4.00 per share for every 1 fully paid Ordinary share held.

On 18 February 2002 and 3 May 2002, warrants to subscribe for 100,000 A Ordinary shares in total were exercised at a price of £0.01 per share.

During the period 249,725 ordinary shares, 100,001 A Ordinary shares and 1 B Ordinary share were issued for cash. The nominal value of these shares was £3,497 and the consideration received was £815,396 after deducting expenses of £184,512.

Kyndal International Trustees Limited holds 14,400 Ordinary shares on behalf of employees.

21. Reserves

	Group		Company	
	Share Premium £'000	Profit and loss account £'000	Share Premium £'000	Profit and loss account £'000
At date of incorporation	-	-	-	-
Premium on share capital issued during the period	997	-	997	-
Share issue costs	(185)	-	(185)	-
Loss for the period	-	(790)	-	(14,440)
At 30 September 2002	812	(790)	812	(14,440)

22. Reconciliation of movements in group equity shareholders' funds

	£'000
Opening equity shareholders' funds at date of incorporation	-
Share capital issued during the period	3
Share premium (note 21)	812
Retained loss for the period	(790)
Closing equity shareholders' funds	25

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23. Reconciliation of operating profit to net cash flow from operating activities

	£'000
Operating profit before exceptional items	21,742
Amortisation of intangible assets	2,722
Depreciation of fixed assets	5,483
Loss on sale of fixed assets	3
Movement in stocks	(2,964)
Movement in debtors	58,404
Movement in creditors	(7,406)
Net cash inflow from operating activities before exceptional items	77,984
Cash outflow relating to exceptional items	(1,100)
Net cash inflow from operating activities	76,884

The decrease in debtors includes the receipt of an inter company loan of £54,676,000, the majority of which was subsequently paid as part of the consideration for the acquisition of KSL.

24. Reconciliation of movement in net debt

	At date of incorporation £'000	On acquisition (excluding cash and overdrafts) £'000	Cash flow £'000	Other non-cash changes £'000	At 30 September 2002 £'000
Cash at bank and in hand	-	-	16,424	-	16,424
Debt due within one year:					
Loan notes	-	(2,619)	442	-	(2,177)
Secured term loan	-	-	(3,000)	-	(3,000)
Debt issue costs	-	-	6,259	(5,360)	899
	-	(2,619)	3,701	(5,360)	(4,278)
Debt due after more than one year:					
Secured term loan	-	-	(205,000)	-	(205,000)
Movement in borrowings	-	(2,619)	(201,299)	(5,360)	(209,278)
	-	(2,619)	(184,875)	(5,360)	(192,854)

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24. Reconciliation of movement in net debt (continued)

Debt issue costs of £6,259,000 were offset against debt due within one year as a result of the accelerated period of amortisation. Non-cash changes comprise the accelerated amortisation of issue costs incurred in obtaining the secured term loans.

Movement in borrowings	£'000
Debt due within one year:	
Repayment of loan note	(442)
Debt due after one year:	
New secured term loan	208,000
Increase in borrowings	207,558
Issue costs of new secured term loans	(6,259)
Cash inflow	201,299

25. Acquisitions

On 15 October 2001 the Company acquired 100% of the issued share capital of Kyndal Spirits Limited ('KSL'), formerly JBB (Greater Europe) PLC, for a total cash consideration of £248,292,000 (including deferred cash consideration of £870,000 and acquisition expenses of £3,663,000).

The Group has used acquisition accounting to account for the acquisition. The net book value of assets and liabilities have been taken from the statutory accounts of KSL at 30 September 2001 which the directors consider to be equivalent to the assets and liabilities at the date of acquisition.

The summarised profit and loss account for KSL for the period from 1 January 2001, the beginning of its last financial period, to the date of acquisition is as follows:

	Period ended 30 September 2001 £'000
Turnover	116,988
Operating profit	14,002
Profit on ordinary activities before taxation	15,845
Taxation	(5,607)
Profit on ordinary activities after taxation	10,238

The profit on ordinary activities after taxation for the year ended 31 December 2000 was £13,698,000. All gains and losses for the periods shown above were recognised in the profit and loss account for those periods and as such a statement of total recognised gains and losses is not shown.

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25. Acquisitions (continued)

The assets and liabilities of KSL acquired are set out below:

	Book Value £'000	Fair value adjustments £'000	Fair value £'000
Fixed assets			
Intangible assets	14,134	38,082	52,216
Tangible assets	57,740	10,646	68,386
Investments	200	-	200
Current assets			
Stock	92,945	-	92,945
Debtors (including former parent company loan of £54,676,000)	91,976	-	91,976
Cash at bank and in hand	4,359	-	4,359
Liabilities			
Creditors due within one year	(50,400)	-	(50,400)
Creditors due after one year	(825)	-	(825)
Provisions for liabilities and charges	(10,565)	-	(10,565)
Net assets acquired	199,564	48,728	248,292
Goodwill			-
Consideration			248,292
Satisfied by:			
Cash			244,629
Acquisition expenses			3,663
			248,292

The fair value adjustments were as follows:

Intangible assets

The adjustment to intangible fixed assets represents the increase in carrying value for brands acquired which have been valued on a discounted future cash flow basis and capitalised in accordance with the Group's accounting policy. In accordance with Financial Reporting Standard 10 "Goodwill and Intangible Assets", the fair value adjustment to brands has been limited to an amount that does not create negative goodwill arising on the acquisition of KSL.

Tangible assets

The fair values of land and buildings have been based on depreciated replacement costs as determined by independent valuers in May 2002.

26. Capital commitments

	2002 £'000
Contracts placed but not provided in these financial statements	256

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27. Operating lease commitments

At 30 September 2002, the Group had lease agreements for which the payments extend over a number of years.

	2002	
	Land and buildings	Other
	£'000	£'000
Annual commitments under non-cancellable operating leases expiring		
Within one year	-	56
Between two and five years	-	219
Over five years	1,981	-
	1,981	275

The Company had no annual commitments under operating leases during the period.

28. Contingent liabilities

In the opinion of the directors, the Group has no material contingent liabilities at 30 September 2002.

29. Related parties

Vivian Saul Imerman and Robert Tchenguiz, both of whom are directors of the Group, are also directors of Meadfine Limited, the issuer of the 9.42% secured term loan of £20,000,000. In March 2002 all rights and obligations of the 9.42% secured term loan were assigned to Investec Bank (Channel Islands) Limited.

The Group has taken advantage of the exemption under Financial Reporting Standard 8 "Related Party Transactions" not to disclose details of inter-company transactions.

30. Post balance sheet event

- (a) The Group intends to issue floating rate secured notes on the Luxemburg Stock Exchange. This will result in the repayment of the secured term loans.
- (b) The Group has entered into a contractual obligation to dispose of the Tullibardine distillery for a total consideration that is in excess of book value.