

ANNUAL REPORT AND FINANCIAL STATEMENTS 2002



Six Continents is a leading global hospitality group, with over 3,300 hotels across nearly 100 countries and territories and with over 2,100 restaurants, pubs and bars in the UK and Germany. Six Continents also has a controlling interest in Britvic, a leading UK producer of soft drinks.

OPERATING PROFIT:

SIX CONTINENTS HOTELS DOWN 38.6 PER CENT TO £262m*

SIX CONTINENTS RETAIL UP 5.1 PER CENT TO £288m**

SOFT DRINKS UP 10.5 PER CENT TO £63m

PROFIT BEFORE TAX AND MAJOR EXCEPTIONAL ITEMS DOWN

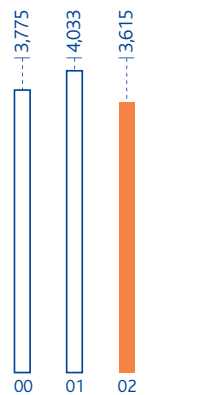
23.7 PER CENT TO £558m

EARNINGS PER SHARE WERE 53.0p COMPARED TO 51.3p*** IN 2001

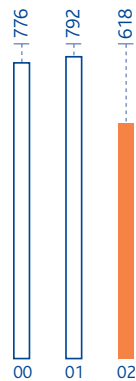
ADJUSTED EARNINGS PER SHARE BEFORE MAJOR EXCEPTIONAL ITEMS

WERE 42.4p COMPARED TO 56.2p*** IN 2001

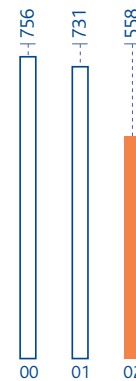
DIVIDEND PER SHARE UP 2.9 PER CENT TO 35.3p



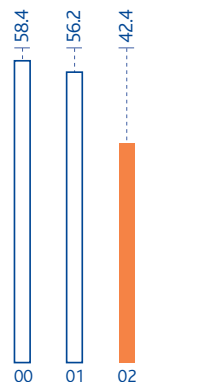
TURNOVER (£m)
continuing operations



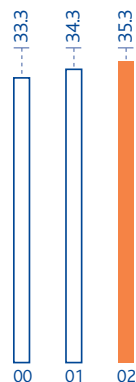
OPERATING PROFIT (£m)
continuing operations
(before major
exceptional items)



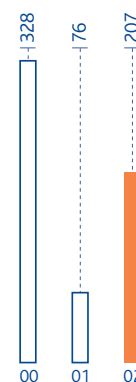
PROFIT BEFORE TAX (£m)
(and major
exceptional items)



ADJUSTED EARNINGS
PER SHARE*** (p)



DIVIDEND PER SHARE (p)



OPERATING CASH FLOW (£m)
continuing operations

* Before major operating exceptional items. ** Ongoing estate. *** Restated for FRS 19, the new accounting standard for deferred tax.

OPERATING AND FINANCIAL REVIEW

This operating and financial review (OFR) provides a commentary on the performance of the Six Continents Group for the financial year ended 30 September 2002, and compares it with the financial year ended 30 September 2001. It reviews the performance and activities of each of the Group's principal businesses and explains other aspects of the Group's activities including taxation, treasury management and accounting policies.

The glossary on page 60 defines a number of terms used either in the OFR or in the financial statements.

The OFR should be read in conjunction with the Directors' Report on pages 14 to 24 and the financial statements on pages 26 to 55.

GROUP SUMMARY

Operating profit from continuing operations (before major exceptional items) down by 22%

Trading for the Group in the year to 30 September 2002 was in line with expectations given the continued difficult trading conditions experienced in the global hotels market. Six Continents Hotels (SCH) continued to make both capital and revenue investment to ensure that it is well placed to gain maximum benefit from an upturn in the market. The ongoing estate in Six Continents Retail (SCR) achieved good operating profit growth, gained market share, and despite significant regulatory cost increases was able to defend its operating margins. The soft drinks business had another very successful year, and increased both its market share and operating profit.

During the year ended 30 September 2002, Group turnover from continuing operations of £3,615m fell by 10.4% on the previous year. Turnover in SCH decreased 19.2% to £1,532m in 2002. Turnover in SCR from the ongoing estate of £1,475m was 5.7% ahead of last year due to good sales growth in food, wine, soft drinks and accommodation. Soft Drinks turnover of £602m was up 5.4% on last year.

Operating profit from continuing operations and before major exceptional items was £618m against £792m in 2001. SCH operating profit before major exceptional items was £262m, down £165m against 2001. SCR operating profit from the ongoing estate at £288m was up 5.1% on last year. Soft Drinks had a very successful year with operating profit growth of over 10%.

The exceptional items before tax of £24m included an operating exceptional item of £77m and non-operating exceptional items totalling £53m, see 'Exceptional items' below. These operating and non-operating exceptional items have been excluded from the calculation of adjusted earnings per share.

Profit before tax was £534m compared with £690m in 2001; excluding major exceptional items, profit before tax was £558m against £731m in the previous year. The taxation charge includes an exceptional credit of £114m in respect of the release of over provisions for tax in respect of prior years, a charge of £10m in relation to property disposals and a credit of £1m in relation to separation costs. Excluding the impact of the major exceptional items, the tax

GROUP	2002 £m	2001 £m	Change
Turnover	3,615	4,033	-10.4%
Operating profit before major exceptional items	618	792	-22.0%
Exceptional items:			
Major	(24)	(41)	
Minor	–	(2)	
Profit before tax (and major exceptional items)	558	731	-23.7%
Profit before tax	534	690	-22.6%
Basic earnings per share	53.0p	51.3p*	3.3%
Adjusted earnings per share	42.4p	56.2p*	-24.6%
Net capital expenditure	(513)	(868)	
Operating cash flow	207	116	
Normal cash flow	(290)	(397)	
Net (acquisitions)/disposals	(15)	(129)	
Net cash flow	(305)	(526)	

* As restated for FRS 19 'Deferred Tax', which has been adopted for the first time in this annual report. This change in accounting policy has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly, see page 30 'Accounting Policies'.

charge represented an effective rate of 30%, compared with 30.4%* for 2001.

Basic earnings per share was 53.0p compared to 51.3p* for 2001. Adjusted earnings per share, which exclude the effect of the major exceptional items were 42.4p against 56.2p* in 2001. A final dividend of 24.6p per share has been recommended by the Board giving a total dividend for the year of 35.3p, up 2.9% on 2001.

The Group operating cash inflow of £207m was £91m greater than 2001. This increase was due to the reduced level of net capital expenditure for the Group's continuing operations which reduced to £513m from last year's level of £868m. After taking account of interest, dividend and tax payments, normal cash outflow was £290m compared with £397m in 2001. Net debt at the end of the year amounted to £1,177m, resulting in a balance sheet gearing ratio of 22%.

* Restated for FRS 19.

SIX CONTINENTS HOTELS

Operating profit (before major exceptional items) down by 38.6%

STRATEGY

During the year, Six Continents Hotels (SCH) continued to invest in its businesses and position itself for an upturn in trading, whilst taking significant action to protect profit. In order to drive turnover growth, marketing campaigns such as the reshaping of the InterContinental brand were coupled with investment in the sales force, reservations systems and e-commerce. Operating costs within the owned and leased (O&L) and managed hotel estates, together with corporate costs, were reviewed as part of stringent cost management programmes.

Marketing programmes focused on the key strengths in the InterContinental and Holiday Inn brands. In September 2002, the InterContinental brand reshaping project was announced. This represents a \$25m investment in marketing, advertising and enhancements in service and delivery, the majority of expenditure being planned to be spent in the first half of 2003. The Holiday Inn brand celebrated its 50th anniversary in August 2002 and significant media coverage, particularly in the US, ensured that brand awareness was maximised. In the UK, marketing expenditure focused on the expanded Holiday Inn brand presence following last year's acquisition of the Posthouse hotel chain. Sixty seven of the Posthouse hotels acquired have now been rebranded as Holiday Inns, bringing the UK O&L Holiday Inn estate to 76 properties.

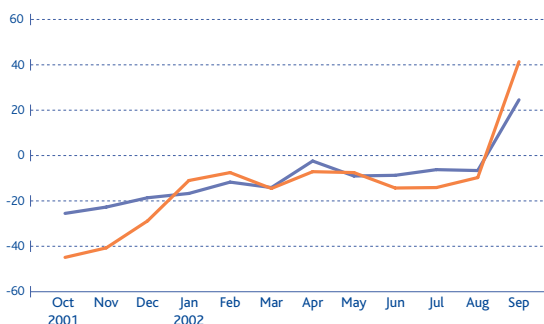
HOTELS	2002 £m	2001 £m	Change
Turnover	1,532	1,896	-19.2%
Operating profit before major exceptional items	262	427	-38.6%
Net capital expenditure	(259)	(607)	
Operating cash flow	60	(80)	
Major acquisitions	(20)	(752)	
	2002 \$m	2001 \$m	Change
Turnover	2,262	2,726	-17.0%
Operating profit before major exceptional items:			
Americas:			
Owned and leased	23	78	-70.5%
Managed and upscale franchise	41	43	-4.7%
Midscale franchise	200	224	-10.7%
Total Americas	264	345	-23.5%
EMEA	184	290	-36.6%
Asia Pacific	36	26	38.5%
Other:			
FelCor and other	11	33	-66.7%
Central services	(96)	(68)	-41.2%
Goodwill amortisation	(12)	(13)	7.7%
Total Other	(97)	(48)	-102.1%
Total	387	613	-36.9%

FIGURE 1

TOTAL SYSTEM SIZE AT 30 SEPTEMBER	Hotels		Rooms	
	2002	Change over 2001	2002	Change over 2001
Analysed by brand:				
InterContinental	135	-2	44,545	-826
Crowne Plaza	191	29	55,935	8,609
Holiday Inn	1,567	-20	293,346	-4,364
Holiday Inn Express*	1,352	98	109,205	8,212
Staybridge Suites	48	11	5,435	1,201
Other brands	32	-58	7,059	-12,003
Total	3,325	58	515,525	829
Analysed by ownership type:				
Owned and leased	190	-1	42,642	111
Franchised	2,821	63	386,122	-150
Management contract	314	-4	86,761	868
Total	3,325	58	515,525	829

* Operates as Express by Holiday Inn in EMEA region.

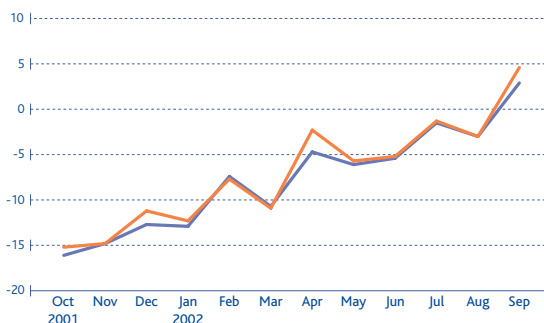
FIGURE 2



NORTH AMERICA INTERCONTINENTAL O&L MONTHLY RevPAR 2002 percentage change over previous year

— Six Continents Hotels
— Market Segment*

FIGURE 3



NORTH AMERICA HOLIDAY INN FRANCHISE MONTHLY RevPAR 2002 percentage change over previous year

— Six Continents Hotels
— Market Segment*

* Source: Smith Travel Research, US Market Data.

SCALE

The total SCH system size stood at 3,325 hotels (515,525 rooms) at 30 September 2002, up from 3,267 hotels (514,696 rooms) at the start of the year. In the Americas, the expansion of Holiday Inn Express continued with another 88 properties (all franchised) added in the year. The extended-stay brand, Staybridge Suites, also continued its expansion, with 11 hotels added in the year. Two more hotels have opened since the year end, making Staybridge Suites the first up-market extended-stay hotel brand to reach 50 hotels in under four years.

Future system growth, indicated by the pipeline of hotels waiting to enter the SCH system, remained strong despite industry difficulties. At 30 September 2002 the pipeline stood at 479 hotels, with 64,362 rooms of which 24% were in the upscale brands. The events of 11 September 2001 and the general world economic conditions have led to uncertainty over the short and medium term for hotel development, particularly in the US. SCH has however, maintained its share of supply, and the strength of SCH's brands places it in a strong position to capitalise on any system distribution opportunities as they arise.

RESERVATION SYSTEMS AND E-BUSINESS

Investment in global reservation systems continued to yield benefits in 2002. During the year, SCH migrated booking for the InterContinental brand to the HolidexPlus system. It is estimated that SCH's reservation systems delivered around 30% of Americas midscale room nights sold, while internet bookings grew by 80% over the previous year to 4.5 million room nights.

SCH's guest frequency programme, Priority Club Rewards (PCR), was relaunched in 2002 and expanded its membership to nearly 15 million members. The strength and importance of PCR was demonstrated by the fact that 29% of room nights in the Americas were sold to PCR members.

PERFORMANCE

SCH's turnover decreased by 17.0% from \$2,726m in 2001 to \$2,262m in 2002. Turnover comparisons to last year are distorted by two non-comparable items. First, the conversion of the Bristol hotels from operating leases to management contracts, effective in the main from 1 July 2001, and second, the inclusion of 12 months of turnover from the Posthouse business compared with six months in 2001. On a comparable basis, turnover fell by 5.2%.

Operating profit before major operating exceptional items fell to \$387m against \$613m in 2001. In sterling terms, operating profit was £262m against £427m last year, a fall of 38.6%. The weighted average US dollar exchange rate to sterling for the year was \$1.48 against \$1.44 for 2001, which was marginally detrimental to the Group when the SCH result was converted into sterling.

SCH's operating profit was affected by both the economic slowdown in the US and the 11 September 2001 terrorist actions. The operating mix of the varying business models (O&L, management contract and franchise) demonstrated some resilience to the difficult trading conditions, with the franchise and management contract income streams being less affected by the downturn than the O&L business. In the Americas, 'drive versus fly' became a key factor in the face of reduced air travel, particularly in the first half of the year. The O&L estate saw a significant fall in operating profit, whilst the midscale franchise business operating profit was less affected. Upscale markets in major US cities suffered due to their dependence upon domestic and international airline travel, whereas the 'drive to' midscale segment (where SCH's franchise business is focused on Holiday Inn and Holiday Inn Express) performed better.

The decline in international travel also impacted Europe, the Middle East and Africa (EMEA), and in particular those key air travel gateway cities where SCH's upscale hotel properties are concentrated: London, Paris and Amsterdam. Asia Pacific was also adversely affected by the reduction in international travel.

AMERICAS

The Americas system size grew by 81 hotels and 6,435 rooms to 2,604 hotels with 373,322 rooms at the end of the year. The increase in the Holiday Inn Express franchise system more than offset a reduction in Holiday Inn rooms. Total Americas operating profit was \$264m compared with \$345m in 2001, a 23% decline.

The Americas region was the hardest hit by the events of 11 September 2001. Revenue per available room (RevPAR) for the first six months fell by 23% for InterContinental, 21% for Crowne Plaza, 12.8% for Holiday Inn, 3.7% for Holiday Inn Express and 11.2% for Staybridge Suites. The remainder of the year saw an improvement in RevPAR, and resulted in RevPAR for the full year being down 15.0% on last year for InterContinental, 14.7% for Crowne Plaza, 7.8% for Holiday Inn, only 1.7% for Holiday Inn Express and 2.5% for Staybridge Suites.

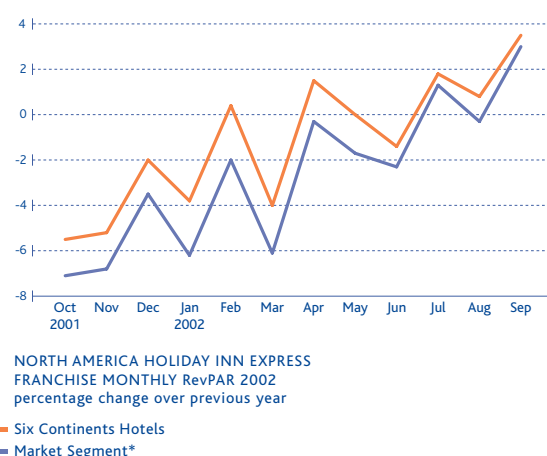
Performance of the SCH O&L estate in the Americas is heavily dependent upon profits from the upscale hotel properties in key cities. For the full year, RevPAR for the nine comparable O&L InterContinental hotels was down 12.7% on last year, with occupancy 0.2 percentage points higher and average daily rates 13.0% lower. The refurbishments of the New York, Chicago, Miami and San Francisco InterContinental hotels were completed in the year, and this, coupled with the operational gearing of the O&L hotels, means that these hotels should demonstrate strong profit growth when revenue growth returns.

Crowne Plaza's O&L hotels were impacted principally by the reduction in business meeting and conference travel, driven by general weakness in the economy. As a result, Crowne Plaza O&L RevPAR fell by 13.8% for the year. Overall, the Americas O&L business made an operating profit of \$23m against \$78m in 2001.

FIGURE 4

AMERICAS SYSTEM SIZE AT 30 SEPTEMBER	Hotels		Rooms	
	2002	Change over 2001	2002	Change over 2001
Analysed by brand:				
InterContinental	44	2	14,208	597
Crowne Plaza	107	12	31,710	3,055
Holiday Inn	1,150	-29	220,706	-5,176
Holiday Inn Express	1,242	88	98,655	7,130
Staybridge Suites	48	11	5,435	1,201
Other brands	13	-3	2,608	-372
Total	2,604	81	373,322	6,435
Analysed by ownership type:				
Owned and leased	44	4	11,826	633
Franchised	2,436	73	325,461	3,613
Management contract	124	4	36,035	2,189
Total	2,604	81	373,322	6,435
Analysed by profit segment:				
Owned and leased	44	4	11,826	633
Midscale franchised	2,341	61	299,330	560
Company managed and upscale franchised	219	16	62,166	5,242
Total	2,604	81	373,322	6,435
Analysed by geography:				
United States	2,374	70	331,632	4,745
Rest of Americas	230	11	41,690	1,690
Total	2,604	81	373,322	6,435

FIGURE 5



* Source: Smith Travel Research, US Market Data.

EMEA	2002 \$m	2001 \$m	Change
Turnover	1,209	1,079	12.0%
Operating profit before major exceptional items	184	290	-36.6%
	£m*	£m**	Change
Turnover	819	750	9.2%
Operating profit before major exceptional items:			
Owned and leased	98	171	-42.7%
Managed and franchised	27	31	-12.9%
Operating profit	125	202	-38.1%

* Translated at the weighted average exchange rate of £1 = \$1.48.
** Translated at the weighted average exchange rate of £1 = \$1.44.

FIGURE 6

EMEA SYSTEM SIZE AT 30 SEPTEMBER	Hotels		Rooms	
	2002	Change over 2001	2002	Change over 2001
Analysed by brand:				
InterContinental	69	-4	21,256	-1,294
Crowne Plaza	54	7	13,815	1,507
Holiday Inn	334	11	53,845	898
Express by Holiday Inn	107	10	10,266	1,082
Other brands	6	-39	2,314	-7,946
Total	570	-15	101,496	-5,753
Analysed by ownership type:				
Owned and leased	129	-3	26,999	90
Franchised	342	-10	50,706	-3,948
Management contract	99	-2	23,791	-1,895
Total	570	-15	101,496	-5,753
Analysed by geography:				
United Kingdom	189	1	27,333	-660
Rest of Europe	261	-17	46,070	-4,552
Middle East and Africa	120	1	28,093	-541
Total	570	-15	101,496	-5,753

The overall size of the midscale franchise estate (over 2,000 franchised hotels for both Holiday Inn and Holiday Inn Express) and the resilience of the franchise model to economic slowdown, meant that the business was better able to weather the difficult trading conditions. Operating profit at \$200m was only 10.7% lower than 2001. RevPAR for Holiday Inn and Holiday Inn Express was down 7.1% and 1.6% respectively. Whilst Holiday Inn performed in line with its market, Holiday Inn Express outperformed its market for the year.

Americas managed and upscale franchise operating profit of \$41m was \$2m lower than last year, reflecting the same economic difficulties that affected the O&L estate.

EUROPE, THE MIDDLE EAST AND AFRICA (EMEA)

EMEA turnover grew by 9.2% to £819m from £750m last year, however, 2002 included the full year benefit of the Posthouse business acquired in April 2001. Operating profit was £125m versus £202m in 2001. The US economic slowdown had a strong knock-on effect on European capital city hotels, particularly in London, where the reduction in both US business and leisure travel affected occupancy levels and RevPAR. Upscale properties in London, Paris, Frankfurt, Amsterdam and Rome were particularly affected by the reduced level of international travel following the events of 11 September 2001. Encouragingly, some recovery has been evidenced in the O&L estate, where most brands saw an improvement in RevPAR in the second half of the year.

In the O&L estate, InterContinental RevPAR (excluding the Paris Le Grand InterContinental) was down by 14.4% on last year. The Paris Le Grand InterContinental closed in December 2001 for major refurbishment and is due to reopen in Spring 2003, while the InterContinental Madrid completed its refurbishment during the year.

The Holiday Inn O&L estate now includes the acquired Posthouse hotels. In the UK, RevPAR for the estate on a comparable basis fell by 9.9% as a consequence of the tough trading conditions, particularly in London which saw RevPAR declines of 20.7% on last year, due to the performance of the airport and central London hotels. The Holiday Inn UK refurbishment programme is progressing in line with plans, and approximately 1,600 rooms had been refurbished by the year end.

In the rest of Europe, properties in key cities suffered through the downturn in international travel, as reflected in EMEA's Holiday Inn O&L RevPAR, which fell by 9.5% against last year. Similarly, Crowne Plaza O&L RevPAR in EMEA fell by 11.0%.

Overall, EMEA O&L hotels generated an operating profit of £98m compared with £171m in 2001. In order to drive revenue growth, the region continued to invest in marketing and targeted sales campaigns, particularly in the Holiday Inn UK business.

Operating profit for the managed and franchised business was £27m, down from £31m in 2001. In the franchised estate, Holiday Inn RevPAR was marginally ahead of last year and Express grew by 8.4%, but upscale properties were impacted by global economic conditions, and uncertainty in the Middle East.

ASIA PACIFIC

Turnover of \$191m was 31.7% higher than last year, mainly due to the full year contribution from the InterContinental Hong Kong, acquired in August 2001. Asia Pacific operating profit was \$36m, compared with \$26m last year.

The events of 11 September 2001 particularly impacted the InterContinental Hong Kong, whose customer base includes a large international travel element, although in recent months trading has improved. The full year contribution from the InterContinental Hong Kong was \$14m. The hotel was recently voted 'leading Hotel in Asia Pacific' in the World Travel Awards and was placed 22nd in the Conde Nast Traveller US 'Best 100 in the World', up from 36th place last year. The Australian O&L hotels performed ahead of their competitive sets, although RevPAR was 6.5% down on last year with occupancy 3.6 percentage points lower, reflecting the poor economic conditions in the region.

OTHER

The Other segment, which comprised central service costs and goodwill amortisation, less other income items, was \$97m compared with \$48m in 2001. Dividends received from FelCor Lodging Trust Inc. fell by \$13m to \$9m, while 2001 included \$10m of income from lease terminations that were not repeated in 2002. Increased central overheads reflected the continued drive behind global brand marketing and advertising.

CASH FLOW AND INVESTMENT

Net capital expenditure amounted to £259m and included proceeds from disposals of £108m.

In the Americas, major expansion projects focused on the owned estate and included the Houston Galleria conversion from Crowne Plaza to InterContinental, the development of the InterContinental Buckhead Atlanta, and ongoing investment in owned Staybridge properties. The InterContinental refurbishment programme included expenditure on New York, Chicago, Miami and San Francisco.

In EMEA, significant expansion spend included the Crowne Plaza Birmingham NEC and the Holiday Inn Paris Disneyland. The InterContinental refurbishment programme focused upon the Paris Le Grand and Madrid hotels, while Holiday Inn UK capital expenditure was focused on the ex-Posthouse estate brand conversion.

FIGURE 7

ASIA PACIFIC SYSTEM SIZE AT 30 SEPTEMBER	Hotels		Rooms	
	2002	Change over 2001	2002	Change over 2001
Analysed by brand:				
InterContinental	22	–	9,081	-129
Crowne Plaza	30	10	10,410	4,047
Holiday Inn	83	-2	18,795	-86
Express by Holiday Inn	3	–	284	–
Other brands	13	-16	2,137	-3,685
Total	151	-8	40,707	147
Analysed by ownership type:				
Owned and leased	17	-2	3,817	-612
Franchised	43	–	9,955	185
Management contract	91	-6	26,935	574
Total	151	-8	40,707	147
Analysed by geography:				
Australia, New Zealand, South Pacific	48	-4	9,559	-659
Greater China	40	5	14,343	2,471
Rest of Asia Pacific	63	-9	16,805	-1,665
Total	151	-8	40,707	147

RETAIL	2002 £m	2001 £m	Change
Turnover:			
Pubs & Bars	866	832	4.1%
Restaurants	609	564	8.0%
Ongoing estate	1,475	1,396	5.7%
Inns and Other	–	161	–
Total	1,475	1,557	-5.3%
Operating profit:			
Pubs & Bars	190	187	1.6%
Restaurants	98	87	12.6%
Ongoing estate	288	274	5.1%
Inns	–	24	–
Other	–	7	–
Total	288	305	-5.6%
Net capital expenditure	(227)	(288)	
Operating cash flow	144	66	
Major disposals	–	598	

FIGURE 8

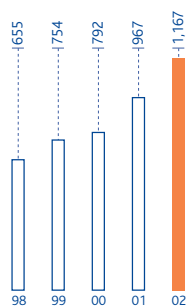
BRANDED OUTLETS 1998-2002
Number of outlets at 30 September

FIGURE 9

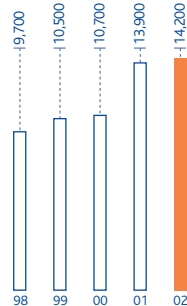
AVERAGE WEEKLY SALES PER
OUTLET (£) 1998-2002

FIGURE 10

RESTAURANTS – OUTLETS AT 30 SEPTEMBER	2002	Change over 2001
Vintage Inns	196	+17
Harvester	150	–
All Bar One	53	-1
Toby Carvery	70	+6
Innkeeper's Fayre	24	+8
Express by Holiday Inn	23	+5
Browns	15	+2
Alex	41	+11
Total branded	572	+48
Unbranded (incl. Development pipeline)	97	-18
Total	669	+30

SIX CONTINENTS RETAIL

Ongoing operating profit up by 5.1%

STRATEGY

During the year, Six Continents Retail (SCR) has continued to capitalise and build on its position as the leading operator of managed pubs in order to drive future growth and returns, by evolving and creating sustainable consumer brands and unbranded formats with high levels of amenity, service and value; by developing prime sites into these brands and formats; and by maximising the benefits from corporate, brand and unit scale. This strategy continued to highlight the importance of SCR's unique, high quality estate, which has enabled it to drive value from a more diverse portfolio, of both branded and unbranded sites, without over-exposure to any particular segment of the market.

REPOSITIONING

SCR's high quality estate consisted of 2,105 units, of which 2,083 were managed. Of the total, 669 were in the Restaurants division and 1,436 in the Pubs & Bars division. At 30 September 2002, SCR had a total of 1,167 branded outlets, comprising 1,126 outlets spread across residential and city centre locations throughout the UK and 41 outlets in Germany. SCR continued its programme of converting outlets to brands and formats. In 2002, 198 conversions were completed, of which 75% were to suburban brands and formats where SCR continued to focus the majority of its development expenditure. Of the ex-Allied Domecq sites acquired in October 1999, 401 have been converted to SCR brands and formats, achieving sales uplifts of around 40%. SCR has some 500 unbranded sites in its portfolio that are suitable for conversion to its brands or formats over the next three years, providing opportunity for further profit growth and high returns.

PERFORMANCE

Total sales in the ongoing estate of £1,475m were 5.7% ahead of last year, with food sales up by 9.8% and drink sales up by 4.4%. A strong performance in suburban pubs and restaurants was partially offset by difficult trading conditions in London and the competitive high street. Sales per outlet increased from £13,900 per week in 2001 to £14,200 per week in 2002, and invested like-for-like sales were up by 2.0%. The number of outlets trading in excess of £20,000 per week increased from 350 in 2001 to 370 in 2002, an increase of 5.7%. Despite an estimated £19m increase in regulatory driven costs, SCR was able to defend its margins through a combination of increased staff productivity, purchasing economies and price increases above inflation. However, as a result of its pricing policy, SCR has deliberately foregone some volume in order to protect margins. As a consequence of these factors and the effects of the poor weather during the summer compared to last year, core uninvested outlet like-for-like sales were down by 1.5%.

Pubs & Bars sales grew by 4.1% to £866m, with particularly strong growth in the residential pub market, led by strong growth from Ember Inns and Scream. Trading in the city centre drink market was weaker due to increased competition, and the performance of London pubs and bars was impacted by the downturn in the financial services industry and a reduced number of overseas visitors to London. Operating profit of £190m was up 1.6% on last year.

Restaurants sales of £609m were up by 8.0% on last year, with a strong performance in the suburban pub restaurant sector, led by Toby Carvery and Vintage Inns. Operating profit was 12.6% ahead at £98m, despite difficult trading conditions experienced in the city centre food-led outlets due to their London bias.

Operating profit in the ongoing estate of £288m was 5.1% ahead of last year. Post tax cash return on cash capital employed was over 10% in the year.

CASH FLOW AND INVESTMENT

SCR generated an operating cash inflow of £144m after net capital expenditure of £227m. During the year, £163m was spent on outlet acquisitions, conversions and expansion, which included £55m on conversion of ex-Allied Domecq pubs to SCR brands.

SOFT DRINKS

Operating profit up by 10.5%

STRATEGY

Soft Drinks continued to grow its market share in a number of key segments in which it operates. This growth was achieved by supporting its existing strong portfolio of brands and by continued investment in new product development. On 14 August 2002, Soft Drinks purchased the business and the rights in the UK and Republic of Ireland for Red Devil, an energy drink. This acquisition represented an important addition to Soft Drinks brand portfolio, and will enable it to gain an increased share of the fast-growing energy drinks market.

PERFORMANCE

Soft Drinks had a very successful year, and increased both its market share and operating profit. Robinsons' volumes were up 13.0% on the previous year and increased its share of the dilutables market by some 2.7 percentage points. Fruit Shoot continued to perform strongly and captured 4.9% of the fruit drinks take-home market. Pepsi volumes were up by over 9% on the previous year, and Soft Drinks increased its overall share of the take-home carbonates market by 0.3%. Total volumes were 4.4% ahead of last year and turnover of £602m was up 5.4% on the previous year. Strong business controls resulted in operating profit growth of over 10% to £63m.

CASH FLOW AND INVESTMENT

During the year, Soft Drinks made significant investment in new product development and increased its capacity for Fruit Shoot production. Operating cash inflow was £77m compared with £99m last year, after capital expenditure of £31m, up £3m on the previous year.

FIGURE 11

PUBS & BARS – OUTLETS AT 30 SEPTEMBER	2002	Change over 2001
Scream	90	+5
O'Neill's	91	+2
Ember Inns	137	+27
Edward's	40	+7
Arena	53	+23
Hollywood Bowl	22	+1
Goose	44	+5
Flares	22	+9
Sizzling Pub Company	96	+73
Total branded	595	+152
Unbranded (incl. Development pipeline)	841	-130
Total	1,436	+22

SOFT DRINKS	2002 £m	2001 £m	Change
Turnover	602	571	5.4%
Operating profit	63	57	10.5%
Net capital expenditure	(31)	(28)	
Operating cash flow	77	99	

EXCEPTIONAL ITEMS

Tangible fixed assets have been written down by £113m following an impairment review of the hotel estate; £77m has been charged as an operating exceptional item and £36m reverses previous revaluation gains. Non-operating exceptional items of £53m included the release of £48m of disposal provisions no longer required and the receipt of £9m in respect of the finalisation of completion accounts issues, both of which related to the disposal of Bass Brewers in August 2000. In addition, £4m has been charged for costs incurred to 30 September 2002 in evaluating the proposals announced by the Board on 1 October 2002 to separate the Group's retail business from the hotels and soft drinks operations. These operating and non-operating exceptional items have been treated as major exceptional items and have therefore been excluded from the calculation of adjusted earnings per share.

The taxation charge includes an exceptional credit of £114m in respect of the release of tax provisions from prior years, a charge of £10m in relation to property disposals and a credit of £1m in relation to the separation costs referred to above. The exceptional credit of £114m and the credit of £1m in respect of separation costs have been treated as major exceptional items and have been excluded from the calculation of adjusted earnings per share.

INTEREST

The net interest charge was £60m compared to £59m in 2001. The effect of a higher level of net debt was offset by lower average interest rates, a weaker US dollar exchange rate against sterling and the impact of translation hedging as set out below.

To hedge the exposures arising from the translation of foreign currency denominated assets and income streams, borrowings are taken out in foreign currencies. This is carried out partly with currency swaps, which are equivalent to a deposit in sterling and the borrowing of an equivalent amount in the required currency. These are used together with interest rate swaps and other instruments which protect the Group against rises in interest rates. The use of such interest rate and currency swaps for hedging purposes reduced the Group's interest charge by a net £19m, representing the difference between sterling deposit rates and US dollar, euro or Australian dollar borrowing rates, together with the additional interest payable under the interest rate swaps.

TAXATION

Excluding the impact of the major exceptional items, the tax charge represents an effective rate of 30.0%, compared with 30.4%* for 2001. These rates reflect the adoption of FRS 19 (see page 30 'Accounting policies').

Excluding the effect of major exceptional items and prior year items, the Group's tax rate was 35.8%. The difference from the UK statutory rate of 30.0% arose primarily due to overseas profits being taxed at rates higher than the UK statutory rate.

EARNINGS AND DIVIDEND

Earnings totalled £457m in 2002, compared with £443m* in 2001, and the equivalent basic earnings per share were 53.0p and 51.3p* respectively. As in previous years, earnings per share have been adjusted to eliminate the distorting effect of the major exceptional items, with the result that, adjusted earnings per share were 42.4p, compared with 56.2p* in 2001.

The Board has proposed a final dividend of 24.6p per share, bringing the total dividend for the year to 35.3p. This represents an increase of 2.9% on last year and gives dividend cover of 1.2 times based on adjusted earnings.

* Restated for FRS 19.

CASH FLOW

Operating cash inflow of £207m was £91m higher than last year's cash inflow of £116m. This reflected a much lower level of net capital expenditure in the year, which decreased from £868m in 2001 to £513m in 2002. SCH's net capital expenditure was £348m lower than in 2001, although last year included the acquisition of the InterContinental Hong Kong for \$346m. SCR's net capital expenditure of £227m included £163m in respect of outlet acquisitions, conversions and expansion and this included £55m on conversion of the ex-Allied Domecq pubs to SCR brands.

Payment of interest, dividends and taxation of £497m was £16m lower than 2001. Net debt at 30 September 2002 was £1,177m, compared with £1,001m at the start of the year.

SHARE PRICE AND MARKET CAPITALISATION

At 30 September 2002 the share price was 593p, compared with 620p a year previously. During the year, Six Continents share price tracked the Leisure, Entertainments and Hotels sector, but outperformed the FTSE 100. The share price reached a high of 783p in March 2002, but continued to decline throughout the remainder of the year as a consequence of weaker markets. The market capitalisation of the Group at 30 September 2002 was approximately £5.14bn.

CASH FLOW	2002 £m	2001 £m	Change £m
Operating activities	720	984	(264)
Net capital expenditure	(513)	(868)	355
Operating cash flow	207	116	91
Interest, dividends and taxation	(497)	(513)	16
Normal cash flow	(290)	(397)	107
Net (acquisitions)/disposals	(15)	(129)	114
Net cash flow	(305)	(526)	221

FIGURE 12

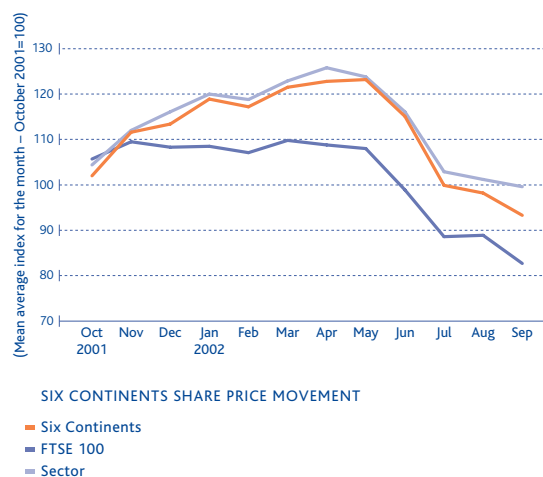


FIGURE 13

INTEREST RISK PROFILE OF GROSS DEBT AT 30 SEPTEMBER	2002 %	2001 %
At fixed rates	34	37
At variable rates	66	63

FIGURE 14

NET DEBT AT 30 SEPTEMBER	2002 £m	2001 £m
Borrowings		
Sterling	532	547
US dollar	1,953	2,001
Euro	811	693
Australian dollar	104	57
Hong Kong dollar	215	212
Other	17	35
Cash and current asset investments	(2,455)	(2,544)
Total	1,177	1,001

Note: all shown after the effect of currency swaps.

FIGURE 15

FACILITIES AT 30 SEPTEMBER	2002 £m	2001 £m
Committed	1,628	1,884
Uncommitted	155	158
Total	1,783	2,042

TREASURY MANAGEMENT

Treasury policy is to manage financial risks that arise in relation to underlying business needs. The activities of the treasury function are carried out in accordance with Board approved policies and are subject to regular audit. The treasury function does not operate as a profit centre. Treasury activities include the use of spot and forward foreign exchange instruments, currency options, currency swaps, interest rate swaps and options, and forward rate agreements.

Movements in foreign currency exchange rates, particularly the US dollar and euro, can affect the Group's reported profit, net assets, gearing and interest cover. To hedge this translation exposure as far as is reasonably practical, borrowings are taken out in foreign currencies (either directly or via currency swaps), which broadly match those in which the Group's major net assets are denominated. The interest on these borrowings hedges foreign currency denominated income streams. During the year, the interest on US dollar borrowings hedged around 73% of the profit generated in US dollars, while interest on euro borrowings hedged around 85% of profit generated in euro and related currencies. During 2002, the US dollar was on average 3% weaker than in 2001 by comparison with sterling, whilst the euro was 1% stronger. The impact of the US dollar exchange rate movement was to decrease operating profit by £3m offset by a reduction of £2m in the interest charge.

Foreign exchange transaction exposure is managed by the forward purchase or sale of foreign currencies or the use of currency options. Most significant exposures of the Group are in currencies that are freely convertible.

Interest rate exposure is managed within parameters that stipulate that fixed rate borrowings should normally account for no less than 25%, and no more than 75%, of net borrowings for each major currency. This is achieved through the use of fixed rate debt, interest rate swaps and options (such as caps) and forward rate agreements – figure 13 shows the year end position.

Based on the year end net debt position set out in figure 14, and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, a one percentage point rise in US dollar interest rates or a similar rise in euro interest rates, would increase the net interest charge by approximately £8m and £5m respectively. A similar movement in sterling rates would have the opposite effect, reducing the net interest charge by approximately £14m.

Long-term borrowing requirements at 30 September 2002 were met through sterling debentures and other bonds denominated in sterling, US dollar or euro. Short-term and medium-term borrowing requirements are met from drawing under committed bank facilities and a medium-term note facility. Figure 15 sets out the committed and uncommitted bank facilities at the year end.

The Group's current credit ratings from Standard and Poor's and Moody's for long-term debt are A- and A3 respectively, and for short-term debt are A2 and P2 respectively. The credit ratings of the Group were put on review by the major agencies following announcement of the proposed separation. The Group continues to comply with all of the financial covenants in its loan documentation, none of which represents a material restriction on funding or investment policy in the foreseeable future.

On 5 December 2002, the Group announced a tender offer for the repurchase of all outstanding medium-term loan notes. The offer will apply to the £10m Notes due 2004, the €25m Notes due 2006 and the £250m Notes due 2007, and is due to close on, or around 20 December 2002. On the same date, the Group announced its intention to repurchase the £250m debenture stock due 2016.

Credit risk on treasury transactions is minimised by operating a policy on the investment of surplus funds that generally restricts counterparties to those with an A credit rating or better, or those providing adequate security. Limits are also set with individual counterparties. Most of the Group's surplus funds are held in the United Kingdom or United States and there are no material funds where repatriation is restricted as a result of foreign exchange regulations.

ACCOUNTING POLICIES

Financial Reporting Standard (FRS) 19 'Deferred Tax' applies for the first time this year. It requires full provision for deferred tax, subject to certain exceptions, arising from timing differences between the recognition of gains and losses in the financial statements and for tax purposes. The effect has been to increase the Group's effective tax rate by 6 percentage points, although this is offset in the year by adjustments to opening balances, which reduce the reported impact to 3 percentage points. The full impact of adopting FRS 19 is detailed on page 30 of the accounts. FRS 19 has no impact on the Group's cash flows.

Following the announcement by the Accounting Standards Board to defer the full implementation of FRS 17 'Retirement Benefits' to accounting periods beginning on or after 1 January 2005, the Group will continue to account for pensions under Statement of Standard Accounting Practice (SSAP) 24 'Accounting for pension costs'. The additional disclosures required by the transitional arrangements of FRS 17 are included in note 7 to the accounts.

Other than the above, the financial statements have been drawn up using accounting policies unchanged from the previous year.

PENSIONS

The Group's pensions schemes are subject to actuarial valuations as at 31 March 2002 and these are in the process of being finalised. Although the pension funds were fully funded on an actuarial basis at that date, the impact of the weaker equity markets combined with lower gilt yields since 31 March 2002 means that at 30 September 2002 they were in deficit on an actuarial basis. The Board has therefore agreed to make additional cash contributions to the schemes totalling £60m, of which £15m was paid at the end of September 2002, and a further £45m is expected to be paid in the year to 30 September 2003.

The directors of Six Continents PLC submit their report for the financial year ended 30 September 2002.

ACTIVITIES OF THE GROUP

The principal activities of the Group are in:

hotels, with worldwide interests in franchising, management and ownership, and

leisure retailing, through ownership and management of restaurants, public houses, bars and bowling venues, mainly in the United Kingdom.

The Group also produces and distributes soft drinks in the United Kingdom.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Directors' Report should be read in conjunction with the Operating and Financial Review on pages 2 to 13 and the Chairman's Statement and the Executive Directors' Review in the Annual Review and Summary Financial Statement, which together include information about Group businesses, the financial performance during the year and likely developments.

SEPARATION AND RETURN OF CAPITAL

On 1 October 2002, the Company announced proposals to separate its Hotels and Soft Drinks businesses from its Retail business and to return £700 million of capital to shareholders. Full particulars will be sent to shareholders in due course and an Extraordinary General Meeting will be convened to vote on the proposals. The meeting is likely to take place in March or April 2003.

DIVIDENDS

An interim dividend of 10.7p per ordinary share was paid on 31 July 2002. The directors recommend a final dividend of 24.6p per ordinary share to be paid on 17 February 2003 to shareholders on the Register at close of business on 20 December 2002; this makes a total dividend for the year of 35.3p per share, which will amount to £305 million.

The Board has announced that it intends to declare an interim dividend for 2003 of 6.6p per share prior to the planned separation of the Company's businesses, which is currently expected to occur in April 2003.

EMPLOYEES

The Group employed an average of 69,953 people worldwide in 2002.

The Company is committed to providing equality of opportunity to all employees without discrimination and continues to be supportive of the employment and advancement of disabled persons.

Considerable emphasis is placed on employee communication, particularly on matters relating to the Company's business and its performance. Communication channels include regular team meetings, informal briefings, in-house publications, and intranets for each of the operating companies. Regular feedback is obtained through employee focus groups and employee opinion surveys, the results of which are utilised in developing management policies and best practice.

The Six Continents European Forum brings together senior managers and employee representatives from EU countries to discuss pan-European issues for Six Continents.

INVESTORS IN PEOPLE

Six Continents continues to support Investors in People (IIP) actively. It regards IIP, with its requirement for measurement against a rigorous national standard, as an excellent, disciplined process for communicating goals and objectives to employees and ensuring that they are given the skills required to deliver business strategies. In this way both the individuals and the businesses benefit.

The UK operating companies, the corporate headquarters, and certain other European business units have IIP accreditation.

HEALTH AND SAFETY

The Group strives to provide and maintain a safe environment for all employees, customers and other visitors to its premises and to comply with relevant health and safety legislation. In addition, all Group companies:

- aim to protect the health of employees with suitable, specific, work-based strategies;
- seek to minimise the risk of injury from company activity;
- ensure that through senior management participation, sufficient resources and information are made available and suitable management systems are in place to address health and safety matters; and
- encourage the involvement of employees and aim for continual improvement in health and safety matters through a formal structure with a reporting and review process.

Compliance with Group policy is monitored and audited centrally and a comprehensive annual health and safety report is produced for the Board.

THE ENVIRONMENT

Six Continents recognises that it is part of a wider community of employees, shareholders, customers, suppliers and others, and recognises that Group companies have a responsibility to act in a way that respects the environment.

Environmental matters are reported in the Group Environmental and Social Report, which is available on the Company's website and from the Company Secretary.

EMPLOYEE SHARE SCHEMES

Six Continents encourages employee participation in the Group's success through share ownership.

The Six Continents Employee Profit Share Scheme allocated 921,831 ordinary shares in February 2002 out of profits appropriated to them by the Board. At 30 September 2002, 3,543,710 ordinary shares were held by the Trustees on behalf of 15,369 participants.

The Six Continents Employee Sharesave Scheme granted options in July 2002 over 1,882,509 ordinary shares at 600p per share to a total of 4,111 employees. Under this scheme and its predecessor, 6,483 participants hold options over 4,795,366 shares. Options under this scheme are normally granted at a 20% discount to market price.

There are 366 participants in the Six Continents Executive Share Option Schemes, holding options over 20,582,158 ordinary shares. Options under the Six Continents Executive Share Option Scheme (1995) were granted during the year to 249 participants over 5,308,000 shares. Options under this scheme are exercisable only if a performance condition is met and, for options granted in 2002, the condition is set out on page 19.

No awards were made under the Six Continents Long-Term Incentive Plan during the year. Further details of the Plan and awards to directors in the previous year are shown on pages 19 and 23.

SHARE CAPITAL

During the year, 525,867 ordinary shares were issued under Employee Share Schemes and the ordinary share capital at 30 September 2002 consisted of 866,610,019 ordinary shares of 28p each. The Company did not purchase any of its ordinary shares during the year and the authority granted by shareholders to purchase 129,850,000 shares remains unutilised.

SUBSTANTIAL SHAREHOLDING

As at 5 December 2002, the Company has been notified by shareholders of the following substantial interest (3% or more) in its ordinary share capital:

Legal & General Plc 3.1%.

POLICY ON PAYMENT OF SUPPLIERS

The Company agrees payment terms with each of its major suppliers and abides by those terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled on or before the end of the month following that in which the Company receives a valid invoice.

At 30 September 2002, the Company's trade creditors outstanding represented approximately eight days' purchases (2001 nine days).

EUROPEAN ECONOMIC AND MONETARY UNION (EMU)

Group companies trade, in or with, every EU member state and Six Continents has dealt successfully with the introduction of euro coins and notes in those countries where the euro has been adopted. In the United Kingdom, the Company has taken initial steps to prepare for the single currency, should it be adopted.

GOING CONCERN

The financial statements which appear on pages 26 to 55 have been prepared on a going concern basis as, after making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

CHARITABLE DONATIONS

The Company continues to support community initiatives and charitable causes and in 2002 donated £1.28 million (2001 £0.9 million). In addition to these cash contributions, the Company's employees are encouraged to give their time and skills to a variety of causes and the Company makes donations in kind, such as hotel accommodation. It is estimated that these contributions raised the total value of the Company's donations to approximately £2.1 million.

POLITICAL DONATIONS

At the Annual General Meeting on 14 February 2002, shareholders authorised the Company to make donations to EU Political Organisations or incur EU Political Expenditure under the provisions of the Political Parties, Elections and Referendums Act 2000, up to a specified limit. The Company made no political donations during the year and proposes to maintain its policy of not making such payments. It will however, as a precautionary measure to avoid inadvertent breach of the law, seek a renewal of the shareholders' authority at its Annual General Meeting in 2003.

ANNUAL GENERAL MEETING

The Notice convening the Annual General Meeting to be held at 12 noon on Thursday, 13 February 2003 is contained in a circular sent to shareholders with this Report.

AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office as auditors of the Company and their reappointment will be put to members at the Annual General Meeting.

COMBINED CODE COMPLIANCE

The Board is committed to compliance with the principles of corporate governance as set out in the Combined Code in the Listing Rules of the Financial Services Authority and, in the opinion of the Board, the Company has complied throughout the year.

The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board confirms that it has established the procedures necessary to apply the Combined Code, including clear operating procedures, lines of responsibility and delegated authority.

Business performance is managed closely and in particular, the Board, the Strategic Business and the Divisional Executive Committees have established processes, as part of the normal good management of the business, to monitor:

- strategic plan achievement, through a comprehensive series of Group and divisional strategic reviews;
- financial performance, within a comprehensive financial planning and accounting framework;
- capital investment performance, with detailed appraisal, authorisation and post-investment reviews; and
- risk management, through an ongoing process, which accords with the Turnbull guidance and provides assurance through reports from the Director of Risk Management that the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

In addition, the Audit Committee receives:

- reports from the Head of Group Assurance on the work carried out under the annual internal audit plan, including an annual report on the operation of the monitoring processes set out above to support the Board's annual statement on internal control; and
- reports from the external auditors.

The Board has conducted a review of the effectiveness of the system of internal control during the year ended 30 September 2002.

The review was carried out through the monitoring process set out above. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and it must be recognised that it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, the review, in the opinion of the Board, did not indicate that the system was ineffective or unsatisfactory.

With regard to insurance against risk, it is not practicable to insure against every risk to the fullest extent. The insurance market remains difficult both as to breadth and cost of coverage and in some cases

external insurance is simply unavailable or is not available at an economic price. Where there is external insurance, and in the light of increased premiums for, in some cases, reduced cover, the Group regularly reviews both the type and amount of external insurance that it buys, bearing in mind the availability of such cover, its price and the likelihood and magnitude of the risks involved.

BOARD AND COMMITTEE STRUCTURE

To support the principles of good corporate governance, the Board and Committee structure operates as set out below.

THE BOARD

The Board is responsible to the shareholders for the good standing of the Company, the management of its assets for optimum performance and the strategy for its future development. There are 10 regular Board meetings a year and further meetings as needed.

The following were directors of the Company during the year:

Roger Carr*	Thomas R Oliver
Tim Clarke	Sir Ian Prosser
Robert C Larson*	Bryan Sanderson*
Sir Geoffrey Mulcahy*	Sir Howard Stringer *‡
Richard North	

* Non-executive

‡ Appointed 22 May 2002

Directors' biographical details are set out on page 24 of the Annual Review and Summary Financial Statement 2002.

The directors retiring by rotation are Robert C Larson and Sir Geoffrey Mulcahy. Robert C Larson, being eligible, offers himself for reappointment. He does not have a service contract with the Company. Sir Geoffrey Mulcahy, who has been a non-executive director for 13 years, is not seeking reappointment. Sir Howard Stringer, having been appointed a director on 22 May 2002, will retire at the Annual General Meeting and offer himself for re-election. He does not have a service contract.

CHAIRMAN

Sir Ian Prosser is Chairman of the Board with responsibility for the strategic direction of the Group.

CHIEF EXECUTIVE

Tim Clarke is the Chief Executive, with responsibility for the executive management of the Group.

SENIOR INDEPENDENT DIRECTOR

Roger Carr is the Company's senior independent director.

COMMITTEES

Strategic Business Committee

This Committee is chaired by the Chairman of the Company and consists of the executive directors and the Strategy Director and meets at least every three weeks. Its role is to consider and manage the important strategic and business issues facing the Group; it is authorised to approve capital and revenue investment within levels agreed by the Board.

Hotels Executive Committee

Retail Executive Committee

These Committees are responsible for the performance of the Hotels and Retail businesses respectively and meet at least every two months; they are authorised to approve capital and revenue investment within levels agreed by the Board. During the year, they were chaired by Tim Clarke and membership consists of senior representatives from the parent company and the relevant operating division.

Audit Committee

The Audit Committee, chaired by the senior independent director, consists of all the non-executive directors and meets at least three times a year. It assists the Board in observing its responsibilities for ensuring that the Group's financial systems provide accurate and up to date information on its financial position and that the Group's published financial statements represent a true and fair reflection of this position.

It also assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place. The auditors attend its meetings as does the Head of Group Assurance, who has direct access to the Chairman of the Committee.

The Committee decides whether any non-audit work may be carried out by the auditors.

Remuneration Committee

The Remuneration Committee, chaired by the senior independent director, consists of all the non-executive directors and meets, on average, five times a year. Its role is described on page 18.

Nomination Committee

The Nomination Committee's quorum comprises the Chairman, the senior independent director and at least one other non-executive director but, where possible, all non-executive directors are present. It is chaired by the Chairman of the Company and is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. The Committee generally engages external consultants to advise on candidates for Board appointments.

General Purposes Committee

The General Purposes Committee comprises any two executive directors or any one executive director together with a senior officer from an agreed and restricted list of senior executives. It is always chaired by a director. It attends to business of a routine nature and to the administration of matters, the principles of which have been agreed previously by the Board or an appropriate committee.

NON-EXECUTIVE DIRECTORS

Six Continents has experienced independent non-executive directors who represent a strong source of advice and judgement. There are five such directors, each of whom has significant commercial experience and responsibilities outside Six Continents. All directors are briefed by use of comprehensive papers in advance of Board meetings and by presentations at meetings. Their understanding of the Group's operations is enhanced by regular divisional presentations outside Board meetings and visits to the divisions. At least one Board meeting a year is held at one of the divisions. The non-executive directors attend separate strategy meetings with the Strategic Business Committee.

RE-ELECTION OF DIRECTORS

The Company ensures that directors submit themselves for re-election at least every three years.

INDEPENDENT ADVICE

There is an agreed procedure by which members of the Board may take independent professional advice in the furtherance of their duties. All directors have access to the advice and services of the Company Secretary.

SHAREHOLDER RELATIONS

The Company has a programme of meetings with its major institutional shareholders, which provides an opportunity to discuss, on the back of publicly available information, the progress of the business. The Annual General Meeting provides a useful interface with private shareholders, many of whom are also customers. The availability to shareholders of information about the Company is maintained through its internet website: www.sixcontinents.com

SARBANES-OXLEY ACT OF 2002

The Company is monitoring the introduction of this US legislation and the regulations that relate to it. The Company will take steps to comply with its requirements as they affect UK companies and, in particular, has introduced under the supervision of the Audit Committee, revised guidelines for the use of the external auditors for non-audit work.

INTRODUCTION

Although recent legislation requiring companies to put the Remuneration Report to the vote at their Annual General Meetings is technically effective for years ending on or after 31 December 2002, it has been decided that it would be best practice for the Company to comply in respect of this Report and a resolution is being put to the forthcoming Annual General Meeting. If, however, the proposed separation of businesses is effected, the two new companies – 'Hotels' and 'Retail' – will establish their own remuneration policies and structures, which will be explained to shareholders in the Circular convening the Extraordinary General Meeting to vote on that separation. The remuneration policy set out in this Report is therefore only likely to apply for a limited period.

1 COMPOSITION AND ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee consists of all the non-executive directors as follows:

Roger Carr – Chairman

Robert C Larson

Sir Geoffrey Mulcahy

Bryan Sanderson

Sir Howard Stringer

The Human Resources Director has direct access to the Chairman of the Committee. The Committee advises the Board on overall remuneration policy. The Committee also determines, on behalf of the Board, and with the benefit of advice from external consultants and the Human Resources Director, the remuneration packages of the executive directors and other members of the Strategic Business Committee. The remuneration of the non-executive directors is determined by the Board on the recommendation of the Strategic Business Committee, after market research.

The persons who provided to the Committee, material advice or services during the year were:

Jim Larson – Human Resources Director

David House – Head of Reward

Towers Perrin Inc.

Sir Ian Prosser – Chairman

Tim Clarke – Chief Executive

Messrs. Larson and House, who are employees of the Company with human resources training and experience, have advised the Committee on all aspects of the Company's reward policies and structures. Towers Perrin Inc., an external consultancy, advised the Committee on reward structures and levels applicable in the markets relevant to the Company. Towers Perrin Inc. did not provide other services to the Company, but did give a limited amount of pensions and remuneration advice to two subsidiary companies during the year.

Messrs. Larson and House and Towers Perrin Inc. were appointed by the Company.

2 POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

The following policy applies for the financial year 2003 and in future years, but if the proposed separation of the Company's businesses is effected, separate policies will be established for the two successor companies.

2.1 TOTAL LEVEL OF REMUNERATION

The Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors and senior executives of the right calibre. In particular, the Committee has regard to the levels of remuneration in the Group and in the specific industries and businesses with which Group companies compete and is also sensitive to levels in the wider community.

2.2 THE MAIN COMPONENTS

The Company operates performance-related reward policies. These are designed to provide the appropriate balance between fixed remuneration and variable 'risk' reward, which is linked to the performance of both the Group and the individual. The normal policy for executive directors with UK-based remuneration packages is that, using 'target' or 'expected value' calculations, their performance-related incentives will equate to approximately 60% of total remuneration. For directors with US-based remuneration packages the proportion would normally be 70%.

The main components of remuneration are:

Basic salary

The salary for each executive director is based on individual performance and on information from independent professional sources on the salary levels for similar jobs in groups of comparable companies. Salary levels in Group companies and in the wider employment market are also taken into account.

Annual performance bonus

Challenging performance goals are set and these must be achieved before the maximum bonus becomes payable. These goals include both personal objectives and targets linked to the Group's performance in increasing earnings per share. For executive directors in the United Kingdom, the maximum bonus opportunity is normally 50% of salary, with 10% linked to personal objectives and 40% to earnings per share. For executive directors with a US remuneration base, currently only Tom Oliver, the maximum bonus opportunity is 80% of salary, with 15% linked to personal objectives and 65% to earnings per share. A special deferred incentive plan has also been set up for each of Tim Clarke, Richard North and Tom Oliver, under which their annual bonus may be paid in Six Continents shares and deferred for 12 months. Matching shares may also be awarded up to 1.5 times the deferred amount. Such awards are conditional on their continued employment with Six Continents for specified periods.

Over time, the executive directors will be expected to hold all shares issued under the Company's remuneration plans until the value of their holding equates to twice their basic salary. This is a condition of future participation in the Special Deferred Incentive Plan.

Bonuses are not pensionable.

Executive share options

The Company believes that share ownership by executive directors and senior executives strengthens the link between the individual's personal interest and that of the shareholders. Grants of options are normally made annually and, except in exceptional circumstances, will not, in any year, exceed twice salary. If an individual's grant does exceed twice salary, it will be reported in the next annual report. A performance condition has to be met before options granted since 1994 can be exercised. The performance condition is set each year by the Remuneration Committee, having regard to recommendations of the Investment Protection Committees of the major investing institutions. For options granted in 2002, the Company's adjusted earnings per share must increase by six percentage points more than the increase in the RPI in a three-year period, before the options become exercisable. This was felt to be a realistic but challenging condition in current economic conditions. There will be retesting of the performance condition, on two occasions only, with measurement from a fixed point. The achievement or otherwise of the performance condition is assessed by the Company based on its published results; such assessment is then audited by the Company's external auditors.

Executive directors were not granted options in the year under review because of the constraints of the Company's Code for dealing in its securities.

Executive share options are not pensionable.

Long term incentives

A long term incentive plan (the 'Plan') was introduced in 1994 to encourage continuing improvement in the Group's performance over the longer term. Its participants are the executive directors and those senior executives, who are best placed to influence such performance.

To align the interests of the participants with those of the shareholders, the Plan is based on share, rather than cash, benefits.

Any awards under the Plan are not pensionable.

Generally, subject to the approval of the Remuneration Committee, a performance cycle commences each year and a performance condition is set. For cycles commencing up to and including 1999, the Company's total shareholder return (share value growth assuming reinvestment of gross dividends) is measured against those of 10 comparator companies. For these cycles, if Six Continents leads the group over the four-year period,

participants will be entitled to shares equivalent in value to between 6.25% and 50% (depending on seniority) of their cumulative basic salaries over that period. The benefit is reduced progressively so that, if Six Continents achieves fifth place in the group, the entitlement reduces to between 1.25% and 10%. Below fifth position there is no reward. If a benefit does accrue under the Plan, 50% of the shares, net of tax, are released in year five, 30% in year six and 20% in year seven.

For Tom Oliver, the executive director formerly based in the US, there are Plan benefits comparable to US market levels, producing a maximum potential benefit of 87.5% of cumulative basic salary.

For the fifth performance cycle, which ended on 30 September 2002, Six Continents finished in eighth position in the group of comparator companies. Accordingly, no awards were made.

For cycles of the Plan beginning on or after 1 October 2000, which are three years in length, the comparator group is 12 companies as follows:

Six Continents PLC
 Accor SA
 Enterprise Inns plc
 Hilton Group plc
 Hilton Hotels Corp.
 Host Marriott Corp.
 Marriott International Inc.
 Millennium & Copthorne plc
 Scottish & Newcastle plc
 Starwood Hotels & Resorts Worldwide Inc.
 J. D. Wetherspoon plc
 Whitbread plc

Awards will be made for median performance or better and total shareholder return will continue to be the performance measure. If Six Continents ends a plan cycle in first position, participants will be entitled to shares equivalent in value to between 180% and 20%, according to seniority, of basic salary at the start of the cycle.

For Tom Oliver, the executive director formerly based in the US, there are Plan benefits comparable to US market levels for UK parented companies, producing a maximum potential benefit of 315% of basic salary at the start of the cycle.

The measurement of the Company's total shareholder return performance and those of the comparator companies is carried out by the Company's external auditors, Ernst & Young LLP, and is certified by them to the Remuneration Committee.

If shares are awarded under the Plan, they are provided by the Company's Employee Share Ownership Plan (the ESOP).

2.3 COMPANIES USED FOR COMPARISON

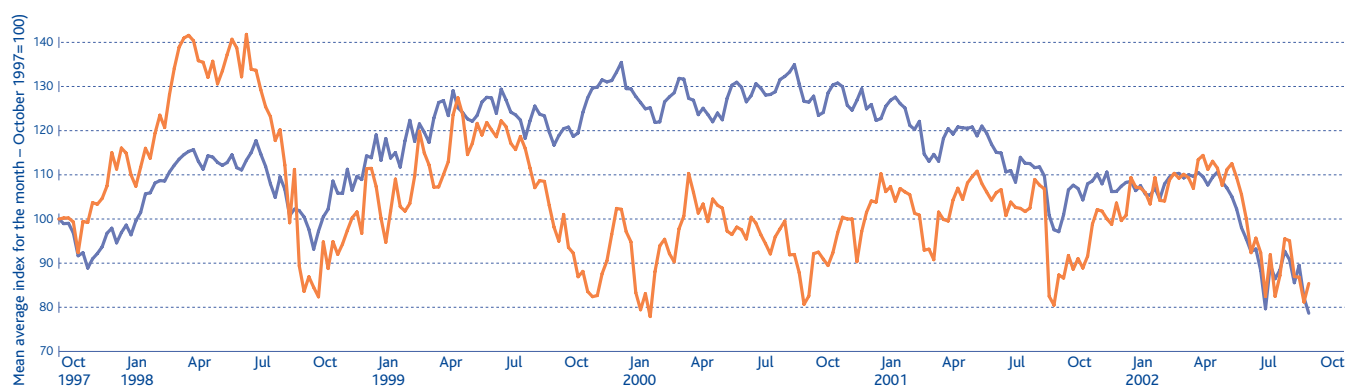
In assessing levels of pay and benefits, Six Continents compares the packages offered by three different groups of comparator companies. These companies are chosen having regard to:

- i size – turnover, profits and the number of people employed;
- ii diversity and complexity of businesses;
- iii geographical spread of businesses; and
- iv growth, expansion and change profile.

External consultants are used to advise the Committee on the structure and level of pay and benefits in the Company's markets.

2.4 PERFORMANCE GRAPH

For shareholders' information, the Company's total shareholder return performance, assuming dividends are reinvested, for the five years to 30 September 2002 is shown on the graph below compared with the return performance achieved by the FTSE 100 companies. The Company is a member of the FTSE 100 and uses that group of companies amongst others for comparison of pay and benefits levels.



SIX CONTINENTS TOTAL SHAREHOLDER RETURN v FTSE 100

Source: DATASTREAM

— Six Continents
— FTSE 100

2.5 POLICY ON EXTERNAL APPOINTMENTS

Six Continents recognises that its directors are likely to be invited to become non-executive directors of other large companies and that such non-executive duties can broaden experience and knowledge, which will benefit Six Continents. Executive directors are, therefore, allowed to accept up to two non-executive appointments, as long as these are not likely to lead to conflicts of interest, retaining the fees received.

2.6 CONTRACTS OF SERVICE

A) POLICY

In 1999, the Remuneration Committee carried out a review of the Company's policy on length of notice periods in directors' service contracts and payments on termination of such contracts. It agreed an objective to reduce notice periods for directors to 12 months as soon as obligations permit. An existing two-year notice period, which applies to one executive director, Richard North, will remain

in place normally until the job holder has a change of position. The other executive directors have notice periods of 12 months or less. All new appointments are intended to have 12 month notice periods, but it is recognised that, for some appointments, a longer period may initially be necessary for competitive reasons, reducing to 12 months thereafter.

With the move towards one year contracts, the Committee has decided that termination payments are not required to be specified in directors' contracts, save that in circumstances where a director's employment is terminated within 12 months following a change of control of the Company, the director would be entitled to compensation up to a sum equivalent to approximately 21 months' remuneration and 24 months' pension contributions. Upon the proposed separation of the Hotels and Retail businesses, Richard North's notice period will be reduced to 12 months and no provisions for compensation for termination following change of control will be included in the current directors' contracts.

B) DIRECTORS' CONTRACTS

Director	Contract date	Unexpired term/ notice period
Tim Clarke	13.1.1997	12 months
Richard North	19.10.1994	24 months
Tom Oliver	18.2.1997	4 months
Sir Ian Prosser	1.10.1988	7 months

2.7 POLICY REGARDING PENSIONS

UK-based executive directors and senior employees participate on the same basis in the Six Continents Executive Pension Plan and, if appropriate, the Six Continents Executive Top-Up Scheme. Tom Oliver, the executive director who transferred from the US to the United Kingdom and senior US-based executives participate in US retirement benefits plans. Executives in other countries, who do not participate in these plans, will participate in local plans, or the Six Continents International Retirement Income Plan.

3 ANNUAL EMOLUMENTS

	Basic salaries and fees £000	Performance payments £000	Benefits £000	Total emoluments excluding pensions	
				2002 £000	2001 £000
Executive directors					
Tim Clarke	575	93	26	694	725
Richard North	500	97	32	629	889
Tom Oliver	542	237	177	956	1,267
Sir Ian Prosser	816	136	19	971	1,200
Iain Napier (resigned 4.9.00)	–	–	–	–	985
Non-executive directors					
Roger Carr	46	–	–	46	38
Robert C Larson	36	–	–	36	36
Sir Peter Middleton (retired 31.7.01)	–	–	–	–	30
Sir Geoffrey Mulcahy	36	–	–	36	36
Sir Michael Perry (retired 31.7.01)	–	–	–	–	61
Bryan Sanderson (appointed 1.8.01)	36	–	–	36	6
Sir Howard Stringer (appointed 22.5.02)	13	–	–	13	–
Total 2002	2,600	563	254	3,417	
Total 2001	2,490	1,517	1,266		5,273

The figures above represent emoluments earned as directors during the relevant financial year. Details of long-term reward are shown on page 23.

'Performance payments' include the annual cash bonus and the value of ordinary shares allocated under the Employee Profit Share Scheme.

'Benefits' incorporate all tax assessable benefits arising from employment by the Company, which relate, in the main, to the provision of a company car and, for Tom Oliver, additionally include certain UK living allowances. As stated in the Annual Report 2001, Mr Napier, a former director, was entitled to certain benefits under the terms of an agreement reached with him prior to the sale of Bass Brewers. Specifically, Mr Napier is entitled to an annuity (index linked up to 5% p.a.) after 22 May 2003 of approximately £24,000 p.a. (or an appropriate lump sum).

Messrs. Clarke, North and Oliver are entitled under the Special Deferred Incentive Plan to defer all or part of their annual cash bonus and convert the value into the Company's shares which will be released to those directors after at least 12 months, together with an award in shares provided by the Company. Such awards are conditional on the directors being employed by the Group at the release dates.

The table below shows the maximum share awards, assuming the directors elect to defer their 2002 bonuses.

SPECIAL DEFERRED INCENTIVE PLAN	Year earned	Ordinary shares 000	Value** £000	Release date***
Tim Clarke	2002*	22	128	18.12.03
	2001	44	263	18.12.02
Richard North	2002*	23	134	18.12.03
	2001	72	429	18.12.02
Tom Oliver	2002*	19	112	10.3.03
	2001	15	90	10.3.03
	2000	29	170	10.3.03
	1999	14	83	10.3.03
	1998	16	96	10.3.03

* Maximum matching award assuming director elects to participate.

** Based on share price at 30 September 2002 – £5.93.

*** Awards are conditional on employment by the Group at the release date.

4 DIRECTORS' PENSIONS

The following information relates to the pension arrangements provided for Sir Ian Prosser, Tim Clarke and Richard North, under the Six Continents Executive Pension Plan (the Plan) and in the cases of Tim Clarke and Richard North, under the unfunded Six Continents Executive Top-Up Scheme (SCETUS).

The Plan is a funded, Inland Revenue approved, final salary, occupational pension scheme. Its main features applicable to the executive directors are:

- i a normal pension age of 60;
- ii pension accrual of 1/30th of final pensionable salary for each year of pensionable service;
- iii life assurance cover of four times pensionable salary;
- iv pensions payable in the event of ill health; and
- v spouse's and dependants' pensions on death.

All Plan benefits are subject to Inland Revenue limits. Where such limitation is due to the earnings 'cap', SCETUS is used to increase pension and death benefits to the level that would otherwise have applied.

Tom Oliver, the executive director formerly based in the US, has retirement benefits provided via the 401(k) Retirement Plan for Employees of Six Continents Hotels and the Six Continents Hotels Deferred Compensation Plan (DCP).

The 401(k) Retirement Plan is a tax qualified plan providing benefits on a money purchase basis, with the member and the Company both contributing.

The DCP is a non-tax qualified plan, providing benefits on a money purchase basis, with the member and the Company both contributing.

DIRECTORS' PENSION BENEFITS	Age at 30 Sept 2002	Directors' contributions (note 1) £	Transfer value of accrued pension		Increase in transfer value over year, less directors' contributions £	Increase in accrued pension (note 2) £ pa	Increase in accrued pension (note 3) £ pa	Accrued pension at 30 Sept 2002 (note 4) £ pa
			30 Sept 2001 £	30 Sept 2002 £				
Tim Clarke	45	14,400	924,500	1,261,000	322,100	44,900	43,300	193,200
Richard North	52	14,400	1,015,000	1,408,800	379,400	28,500	27,300	134,700
Sir Ian Prosser	59	39,100	9,113,800	9,888,100	735,200	–	(6,000)	544,000

note 1 Contributions paid in the year by the directors under the terms of the plans.

note 2 The absolute increase in accrued pension during the year.

note 3 The increase in accrued pension during the year, excluding any increase for inflation. In Sir Ian Prosser's case, the accrued pension is unchanged in absolute terms and so decreases after taking account of inflation.

note 4 Accrued pension is that which would be paid annually on retirement at 60, based on service to 30 September 2002.

note 5 Members of the Plan joining before 1989 have the option to pay Additional Voluntary Contributions, subject to Inland Revenue limits; neither the contributions, nor the resulting benefits, are included in the above table.

note 6 Tom Oliver is no longer a member of a defined benefit pension arrangement. Over the year he contributed £7,400 to the 401(k) Retirement Plan and £220,900 to the DCP. The Company contributed £7,900 to the 401(k) Retirement Plan and £122,500 to the DCP on his behalf. The Company's contributions to Tom Oliver's plans in the year to 30 September 2001 totalled £151,800.

The following is additional information relating to directors' pensions under the Plan and SCETUS:

A NORMAL PENSION AGE

The normal pension age is 60. Sir Ian Prosser's pension arrangements have already been funded and charged in the Company's accounts in previous years, except for Company contributions payable at the ordinary rate for Plan members, so that the accrued pension can already be drawn as of right without reduction. The accrued pension is £544,000 per annum.

B DEPENDANTS' PENSIONS

On the death of a director before his normal retirement age, a widow's pension equal to one-third of his own pension is payable; a child's pension of one-sixth of his pension is payable for each of a maximum of two eligible children.

On the death of a director after payment of his pension commences, a widow's pension of two-thirds of the director's full pension entitlement is payable; in addition, a child's pension of one-sixth of his full pension entitlement is payable for each of a maximum of two eligible children.

C EARLY RETIREMENT RIGHTS

After leaving the service of the Company, the member has the right to draw his accrued pension at any time after his 50th birthday, subject to a discount for early payment.

D PENSION INCREASES

All pensions (in excess of Guaranteed Minimum Pensions) are subject to contractual annual increases in line with the annual rise in the RPI, subject to a maximum of 5% per annum. In addition, it is the Company's present aim to pay additional increases based on two-thirds of any rise in the RPI above 5% per annum.

E OTHER DISCRETIONARY BENEFITS

Other than the discretionary pension increases mentioned in D, there are no discretionary practices which are taken into account in calculating transfer values on leaving service.

5 LONG TERM REWARD

The 1998/2002 cycle of the Six Continents Long Term Incentive Plan was completed on 30 September 2002. No award was made.

	Pre tax value of award	
	2002 £000	2001 £000
Executive directors		
Tim Clarke	–	124
Richard North	–	131
Tom Oliver	–	162
Sir Ian Prosser	–	245

The executive directors are currently included in the Plan for the cycles 1999/2003, 2000/2003 and 2001/2004, which may or may not provide awards, depending on the Company's performance. Maximum potential awards are detailed in the description of the Plan on page 19. No Plan cycle has commenced in 2002.

	Ordinary shares under option				1.10.01	Price	
	30.09.02	Granted	Lapsed	Exercised		Weighted average option price	Option price
6 DIRECTORS' OPTIONS							
Tim Clarke		1,583*					600p
A	24,600						554p
B	102,400						855p
C	249,502						685p
Total	376,502	1,583	–	–	374,919	723p	
Richard North							
A	77,800						591p
B	95,600						756p
C	243,000						680p
Total	416,400	–	–	–	416,400	681p	
Tom Oliver							
B	141,300						848p
C	284,000						703p
Total	425,300	–	–	–	425,300	751p	
Sir Ian Prosser							
A	30,000						545p
B	246,700						866p
C	445,375						678p
Total	722,075	–	–	–	722,075	737p	

There was no option exercised by the Board (2001 527 shares). The gain on exercise by the Board in aggregate was £448 in 2001.

Options are held under the Executive Share Option and Employee Savings Share Schemes. The option grant marked * was made under the Employee Savings Share Scheme and is exercisable between 1 October 2005 and 31 March 2006. No options were granted to directors under the Executive Share Option Scheme.

Options are exercisable, subject to the achievement of performance conditions for Executive Share Options, between the date of this report and 1 March 2011.

Shares under option at 30 September 2002 are designated as:

- A where the options are exercisable and the market price per share at 30 September 2002 was above the option price;
- B where the options are exercisable but the market price at 30 September 2002 was below the option price; and
- C where the options are not yet exercisable.

The market price on 30 September 2002 was 593p per share and the range during the year was 541p to 783p per share.

7 DIRECTORS' SHAREHOLDINGS	30 September 2002	1 October 2001*
	Ordinary shares of 28p	Ordinary shares of 28p
Executive directors		
Tim Clarke	76,330	63,147
Richard North	80,649	66,759
Tom Oliver	68,105	52,283
Sir Ian Prosser	276,238	251,010
Non-executive directors		
Roger Carr	1,785	1,785
Robert C Larson	11,571**	11,571**
Sir Geoffrey Mulcahy	1,785	1,785
Bryan Sanderson	–	–
Sir Howard Stringer	–	–

* Or date of appointment, if later.

** Held in the form of American Depositary Receipts.

The above shareholdings are all beneficial interests and include shares held on behalf of executive directors by the Trustees of the Employee Profit Share Scheme and of the Company's ESOP. None of the directors has a beneficial interest in the shares of any subsidiary, nor in the debenture stocks issued by the Company or any subsidiary.

At 30 September 2002, the executive directors, as potential beneficiaries under the Company's ESOP, were each technically deemed to be interested in 117,466 unallocated Six Continents PLC ordinary shares held by the Trustees of the ESOP.

In the period from 1 October 2002 to 30 November 2002, there has been no change in the Directors' Interests.

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of directors' shareholdings and share options.

By order of the Board

Richard Winter
Company Secretary
4 December 2002

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GROUP PROFIT AND LOSS ACCOUNT

	note	2002			2001 restated*		
		Before major exceptional items £m	Major exceptional items £m	Total £m	Before major exceptional items £m	Major exceptional items £m	Total £m
FOR THE YEAR ENDED 30 SEPTEMBER 2002							
Turnover – continuing operations	2	3,615	–	3,615	4,033	–	4,033
Costs and overheads, less other income	3	(2,997)	(77)	(3,074)	(3,241)	(43)	(3,284)
Operating profit – continuing operations	4	618	(77)	541	792	(43)	749
Non-operating exceptional items	9	–	53	53	(2)	2	–
analysed as:							
Continuing operations							
Loss on disposal of fixed assets		–	–	–	(2)	–	(2)
Loss on disposal of operations		–	–	–	–	(36)	(36)
Demerger costs		–	(4)	(4)	–	–	–
Discontinued operations							
Profit on disposal of operations		–	57	57	–	38	38
Profit on ordinary activities before interest	4	618	(24)	594	790	(41)	749
Interest receivable		116	–	116	165	–	165
Interest payable and similar charges	10	(176)	–	(176)	(224)	–	(224)
Profit on ordinary activities before taxation		558	(24)	534	731	(41)	690
Tax on profit on ordinary activities	11	(167)	115	(52)	(222)	(1)	(223)
Profit on ordinary activities after taxation		391	91	482	509	(42)	467
Minority equity interests		(25)	–	(25)	(24)	–	(24)
Earnings available for shareholders		366	91	457	485	(42)	443
Dividends on equity shares	12	(305)	–	(305)	(293)	–	(293)
Retained for reinvestment in the business	32	61	91	152	192	(42)	150
Earnings per ordinary share:	13						
Basic		–	–	53.0p	–	–	51.3p
Diluted		–	–	52.7p	–	–	51.0p
Adjusted		42.4p	–	–	56.2p	–	–

* Restated on the adoption of FRS 19 (see page 30).

No profit and loss account is presented for Six Continents PLC as permitted by Section 230 of the Companies Act 1985.

Notes on pages 30 to 55 form an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GROUP GAINS AND LOSSES

FOR THE YEAR ENDED 30 SEPTEMBER 2002	2002 £m	2001 restated* £m
Earnings available for shareholders	457	443
Reversal of previous revaluation gains due to impairment	(36)	–
Exchange differences**		
Goodwill eliminated (see note 33)	(98)	9
Other assets and liabilities	62	(2)
Other recognised gains and losses	(72)	7
Total recognised gains for the year	385	450
Prior year adjustment on adoption of FRS 19	(264)	
Total recognised gains since previous year end	121	

NOTE OF HISTORICAL COST GROUP PROFITS AND LOSSES

FOR THE YEAR ENDED 30 SEPTEMBER 2002	2002 £m	2001 restated* £m
Reported profit on ordinary activities before taxation	534	690
Realisation of revaluation gains of previous periods	3	324
Adjustment for previously recognised revaluation losses	(37)	–
Historical cost profit on ordinary activities before taxation	500	1,014
Historical cost profit retained after taxation, minority equity interests and dividends	118	474

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 30 SEPTEMBER 2002	2002 £m	2001 restated* £m
Earnings available for shareholders	457	443
Dividends	(305)	(293)
	152	150
Other recognised gains and losses	(72)	7
Issue of ordinary shares	3	9
Repurchase of ordinary shares	–	(103)
Movement in goodwill – exchange differences**	98	(9)
Net addition to shareholders' funds	181	54
Opening shareholders' funds as previously reported	5,449	5,379
Prior year adjustment on adoption of FRS 19	(264)	(248)
Opening shareholders' funds as restated	5,185	5,131
Closing shareholders' funds	5,366	5,185

* Restated on the adoption of FRS 19 (see page 30).

** Foreign currency denominated net assets, including goodwill purchased prior to 30 September 1998 and eliminated against Group reserves, and related foreign currency borrowings and currency swaps, are translated at each balance sheet date giving rise to exchange differences which are taken to Group reserves as recognised gains and losses during the period.

Notes on pages 30 to 55 form an integral part of these financial statements.

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2002		note	2002 £m	2002 £m	2001 £m	2001 £m
Operating activities		14		720		984
Interest paid			(186)		(229)	
Dividends paid to minority shareholders			(13)		(5)	
Interest received			124		160	
Returns on investments and servicing of finance				(75)		(74)
UK corporation tax paid			(96)		(102)	
Overseas corporate tax paid			(27)		(47)	
Taxation				(123)		(149)
Paid: Tangible fixed assets			(648)		(939)	
Fixed asset investments			(14)		(37)	
Received: Tangible fixed assets			134		101	
Fixed asset investments			15		7	
Capital expenditure and financial investment				(513)		(868)
Acquisitions			(24)		(1,014)	
Cash and overdrafts acquired			–		262	
Disposals			9		624	
Cash and overdrafts disposed			–		(1)	
Acquisitions and disposals				(15)		(129)
Equity dividends				(299)		(290)
Net cash flow		14		(305)		(526)
Management of liquid resources and financing		18		295		493
Movement in cash and overdrafts				(10)		(33)

Notes on pages 30 to 55 form an integral part of these financial statements.

BALANCE SHEETS

30 SEPTEMBER 2002	note	Group		Company	
		2002 £m	2001 restated* £m	2002 £m	2001 restated* £m
Fixed assets					
Intangible assets	20	173	174	–	–
Tangible assets	21	7,641	7,558	10	10
Investments	22	249	266	8,310	8,093
		8,063	7,998	8,320	8,103
Current assets					
Stocks	23	91	90	–	–
Debtors	24	623	577	825	490
analysed as:					
Amounts falling due within one year		538	527	747	444
Amounts falling due after one year		85	50	78	46
Investments		218	366	157	110
Cash at bank and in hand		84	67	4	8
		1,016	1,100	986	608
Creditors: amounts falling due within one year	25	(2,273)	(2,009)	(2,392)	(2,511)
Net current liabilities		(1,257)	(909)	(1,406)	(1,903)
Total assets less current liabilities		6,806	7,089	6,914	6,200
Creditors: amounts falling due after one year	26	(764)	(1,180)	(1,902)	(2,794)
Provisions for liabilities and charges		(527)	(591)	(21)	(12)
analysed as:					
Deferred taxation	27	(495)	(487)	(21)	(12)
Other provisions	28	(32)	(104)	–	–
Minority equity interests		(149)	(133)	–	–
Net assets	19	5,366	5,185	4,991	3,394
Capital and reserves					
Equity share capital	31	243	242	243	242
Share premium account	32	802	799	802	799
Revaluation reserve	32	1,020	1,025	1	1
Capital redemption reserve	32	853	853	853	853
Profit and loss account	32	2,448	2,266	3,092	1,499
Equity shareholders' funds		5,366	5,185	4,991	3,394

* Restated on the adoption of FRS 19 (see page 30).

Signed on behalf of the Board

Sir Ian Prosser

Richard North

4 December 2002

Notes on pages 30 to 55 form an integral part of these financial statements.

BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets. They have been drawn up to comply with applicable accounting standards, including Financial Reporting Standard (FRS) 19 'Deferred Tax' which applies for the first time this year.

FRS 19 'DEFERRED TAX'

FRS 19 'Deferred Tax' requires full provision, subject to certain exceptions, for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Previously, Statement of Standard Accounting Practice (SSAP) 15 'Accounting for deferred tax' required recognition of deferred tax assets and liabilities to the extent it was probable timing differences would reverse in the foreseeable future. This change in accounting policy has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly. The effect on the Group profit and loss account has been to increase the tax charge by £18m (2001 £14m) and to increase minority equity interests by £3m (2001 £2m). The Group balance sheet effect is to increase deferred tax provisions by £298m (2001 £279m) and reduce minority interests by £12m (2001 £15m). The effect on the Company profit and loss account has been to increase the tax charge by £9m (2001 £9m). The Company balance sheet effect is to increase deferred tax provisions by £12m (2001 £12m) and reduce debtors by £1m in 2001. In applying FRS 19, deferred tax provisions have not been calculated on a discounted basis. FRS 19 has no impact on cash flows.

BASIS OF CONSOLIDATION

The Group financial statements comprise the financial statements of the parent company and its subsidiary undertakings. The results of those businesses acquired or disposed of during the year are consolidated for the period during which they were under the Group's dominant influence.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions, adjusted for the effects of any hedging arrangements. Assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

The results of overseas operations are translated into sterling at weighted average rates of exchange for the period. Exchange differences arising from the retranslation of opening net assets (including any goodwill previously eliminated against reserves) denominated in foreign currencies and foreign currency borrowings and currency swap agreements used to hedge those assets are taken directly to reserves. All other exchange differences are taken to the profit and loss account.

TREASURY INSTRUMENTS

Net interest arising on interest rate agreements is taken to the profit and loss account.

Premiums payable on interest rate agreements are charged to the profit and loss account over the term of the relevant agreements.

Currency swap agreements are retranslated at exchange rates ruling at the balance sheet date with the net amount being included in either current asset investments or borrowings. Interest payable or receivable arising from currency swap agreements is taken to the profit and loss account on a gross basis over the term of the relevant agreements.

Gains or losses arising on forward exchange contracts are taken to the profit and loss account in line with the transactions they are hedging.

FIXED ASSETS AND DEPRECIATION**I Goodwill**

Any excess of purchase consideration for an acquired business over the fair value attributed to its separately identifiable assets and liabilities represents goodwill. Goodwill is capitalised as an intangible asset. Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves. To the extent that goodwill denominated in foreign currencies continues to have value, it is translated into sterling at each balance sheet date and any movements are accounted for as set out under 'foreign currencies' above. On disposal of a business, any goodwill relating to the business and previously eliminated against reserves, is taken into account in determining the profit or loss on disposal.

II Other intangible assets

On acquisition of a business, no value is attributed to other intangible assets which cannot be separately identified and reliably measured. No value is attributed to internally generated intangible assets.

III Tangible assets

Freehold and leasehold land and buildings are stated at cost, or valuation, less depreciation. All other fixed assets are stated at cost less depreciation.

When implementing FRS 15 'Tangible Fixed Assets' in the year to 30 September 2000, the Group did not adopt a policy of revaluing properties. The transitional rules of FRS 15 were applied so that the carrying values of properties include an element resulting from previous valuations.

IV Revaluation

Surpluses or deficits arising from previous professional valuations of properties, realised on the disposal of an asset, are transferred from the revaluation reserve to the profit and loss account reserve.

V Impairment

Any impairment arising on an income-generating unit, other than an impairment which represents a consumption of economic benefits, is eliminated against any specific revaluation reserve relating to the impaired assets in that income-generating unit with any excess being charged to the profit and loss account.

VI Depreciation and amortisation

Goodwill and other intangible assets are amortised over their estimated useful lives, generally 20 years.

Freehold land is not depreciated. All other tangible fixed assets are depreciated to a residual value over their estimated useful lives, namely:

Freehold buildings	50 years
Leasehold buildings	lesser of unexpired term of lease and 50 years
Fixtures, fittings and equipment	3-25 years
Plant and machinery	4-20 years

All depreciation and amortisation is charged on a straight line basis.

VII Investments

Fixed asset investments are stated at cost less any provision for diminution in value.

DEFERRED TAXATION

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Those timing differences recognised include accelerated capital allowances, unrelieved tax losses and short-term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets, the gain on sale of assets rolled into replacement assets and the distribution of profits from overseas subsidiaries in the absence of any commitment by the subsidiary to make the distribution.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

LEASES

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

PENSIONS

The Group continues to account for pensions in accordance with SSAP 24 'Accounting for pension costs'. The regular cost of providing pensions to current employees is charged to the profit and loss account over the average expected service life of those employees. Variations in regular pension cost are amortised over the average expected service life of current employees on a straight line basis.

Accumulated differences between the amount charged to the profit and loss account and the payments made to the pension plans are treated as either prepayments or creditors in the balance sheet.

The additional disclosures required by the transitional arrangements of FRS 17 'Retirement Benefits' are given in note 7 to the accounts.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

TURNOVER

Turnover represents sales (excluding VAT and similar taxes) of goods and services, net of discounts, provided in the normal course of business.

Turnover in the Hotels division primarily comprises room and food and beverage sales in the owned and leased estate, franchise fees received in connection with the franchise of the Group's brands, and management fees earned on hotels managed under contracts with hotel owners. Owned and leased estate turnover is recognised when rooms are occupied, franchise and management fees are recognised as they are earned.

LOYALTY PROGRAMME

The Hotel Loyalty Programme, Priority Club Rewards, enables members to earn points during each stay at a Six Continents hotel and redeem the points at a later date for free accommodation or other benefits. The future redemption liability is included in creditors less than, and greater than, one year and is estimated using actuarial methods to give eventual redemption rates and points values. The programme is funded through hotel assessments.

GLOSSARY

Additional information concerning terms used in these financial statements can be found in the glossary on page 60.

1 EXCHANGE RATES

The results of overseas operations have been translated into sterling at weighted average rates of exchange for the year. In the case of the US dollar, the translation rate is £1 = \$1.48 (2001 £1 = \$1.44). In the case of the euro, the translation rate is £1 = €1.60 (2001 £1 = €1.62).

Foreign currency denominated assets and liabilities have been translated into sterling at the rates of exchange on 30 September 2002. In the case of the US dollar, the translation rate is £1 = \$1.56 (2001 £1 = \$1.47). In the case of the euro, the translation rate is £1 = €1.59 (2001 £1 = €1.61).

2 TURNOVER*

	2002			2001		
	External £m	Inter- divisional £m	Total £m	External £m	Inter- divisional £m	Total £m
Hotels: (see note 5)						
Americas	584	–	584	1,045	–	1,045
EMEA	819	–	819	750	–	750
Asia Pacific	129	–	129	101	–	101
	1,532	–	1,532	1,896	–	1,896
Retail:						
Pubs & Bars	866	–	866	832	–	832
Restaurants	609	–	609	564	–	564
Inns	–	–	–	124	–	124
Other	–	–	–	37	–	37
	1,475	–	1,475	1,557	–	1,557
Soft Drinks	602	–	602	571	–	571
Other activities	6	2	8	9	7	16
	3,615	2	3,617	4,033	7	4,040
		By origin £m	By destination £m	By origin £m	By destination £m	
United Kingdom		2,491	2,485	2,446	2,440	
Rest of Europe, the Middle East and Africa		411	416	441	446	
United States of America		476	476	908	908	
Rest of Americas		108	108	137	137	
Asia Pacific		129	130	101	102	
		3,615	3,615	4,033	4,033	

* Reflects 52 weeks (2001 52 weeks) trading, with the exception of Hotels which reflects 12 months (2001 12 months) trading.

3 COSTS AND OVERHEADS, LESS OTHER INCOME

	2002 £m	2001 £m
Raw materials and consumables	737	788
Changes in stocks of finished goods and work in progress	(2)	–
Staff costs (see note 6)	1,037	1,098
Depreciation of tangible fixed assets	261	228
Impairment of tangible fixed assets	77	–
Amortisation of goodwill	10	10
Hire of plant and machinery	49	51
Property rentals	100	216
Income from fixed asset investments	(8)	(18)
Other external charges	813	911
	3,074	3,284
Major operating exceptional items included above:		
Impairment of tangible fixed assets	77	–
Staff costs	–	2
Other external charges	–	41
	77	43

3 COSTS AND OVERHEADS, LESS OTHER INCOME (CONTINUED)

	2002 £m	2001 £m
Auditors' remuneration paid to Ernst & Young		
Group audit fee	1.1	1.0
Non-audit services – UK	4.1	2.9
– overseas	1.5	3.4
	6.7	7.3

Non-audit services provided in the year were taxation advice £1.2m (2001 £1.4m), transaction support £2.1m (2001 £3.4m), local statutory audits and regulatory and compliance work £1.7m (2001 £0.8m) and other services £0.6m (2001 £0.7m).

	2002			2001		
	Operating profit before exceptional items £m	Exceptional items £m	Profit on ordinary activities before interest £m	Operating profit before exceptional items £m	Exceptional items £m	Profit on ordinary activities before interest £m
4 PROFIT*						
Hotels: (see note 5)						
Americas	178	(46)	132	240	(11)	229
EMEA	125	(15)	110	202	(18)	184
Asia Pacific	24	(14)	10	18	–	18
Other	(65)	–	(65)	(33)	(14)	(47)
	262	(75)	187	427	(43)	384
Retail:						
Pubs & Bars	190	(1)	189	187	–	187
Restaurants	98	(1)	97	87	–	87
Inns	–	–	–	24	(36)	(12)
Other	–	–	–	7	–	7
	288	(2)	286	305	(36)	269
Soft Drinks	63	–	63	57	1	58
Other activities	5	(4)	1	3	(3)	–
Continuing operations	618	(81)	537	792	(81)	711
Discontinued operations**	–	57	57	–	38	38
	618	(24)	594	792	(43)	749
United Kingdom	397	39	436	431	(15)	416
Rest of Europe, the Middle East and Africa	60	(3)	57	116	(3)	113
United States of America	114	(36)	78	190	(25)	165
Rest of Americas	26	(10)	16	40	–	40
Asia Pacific	21	(14)	7	15	–	15
	618	(24)	594	792	(43)	749

* Reflects 52 weeks (2001 52 weeks) trading, with the exception of Hotels which reflects 12 months (2001 12 months) trading.

** Represents Bass Brewers.

	2002		2001	
	Turnover \$m	Operating profit* \$m	Turnover \$m	Operating profit* \$m
5 HOTELS				
Americas	862	264	1,502	345
EMEA	1,209	184	1,079	290
Asia Pacific	191	36	145	26
Other	–	(97)	–	(48)
	2,262	387	2,726	613

The sterling equivalents of the US dollar turnover and operating profit, translated at the weighted average rate of exchange for the year (see note 1), are shown in notes 2 and 4 respectively.

* Operating profit before exceptional items.

6 STAFF	2002 £m	2001 £m
Costs:		
Wages and salaries	942	997
Social security costs	84	89
Pensions (see note 7)	11	12
	1,037	1,098
Average number of employees, including part-time employees	2002	2001
Hotels	28,183	35,514
Retail	38,740	41,273
Soft Drinks	2,821	2,859
Other activities	209	244
	69,953	79,890

7 PENSIONS	2002 £m	2001 £m
Regular cost	32	29
Variations from regular cost	(28)	(28)
Notional interest on prepayment	(3)	(2)
Pension cost in respect of the two principal plans	1	(1)
Other plans	10	13
	11	12

Retirement and death benefits are provided for eligible Group employees in the United Kingdom principally by the Six Continents Pension Plan (SCPP) which covers approximately 7,875 (2001 6,989) employees and the Six Continents Executive Pension Plan (SCEPP) which covers approximately 411 (2001 396) employees. The plans are predominantly defined benefit schemes for current members. For new entrants, the plans will provide defined contribution benefits. The assets of the plans are held in self-administered trust funds separate from the Group's assets. The Group operates a number of minor pension schemes outside the United Kingdom, the most significant of which is a defined contribution scheme in the United States; there is no material difference between the pension costs of, and contributions to, these schemes.

The Group has no other significant post-retirement obligations.

The Group continues to account for its defined benefit obligations in accordance with SSAP 24. The pension costs related to the two principal plans are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. They reflect the 31 March 1999 actuarial valuations. The significant assumptions in these valuations were that wages and salaries increase on average by 4% per annum, the long-term return on assets is 6% per annum, and pensions increase by 2.5% per annum. The average expected remaining service life of current employees is 14 years.

At 31 March 1999, the market value of the combined assets of the two principal plans was £2,132m and the value of the assets was sufficient to cover 117% of the benefits that had accrued to members after allowing for expected increases in earnings. The assets and liabilities of the plans reduced significantly following the pension scheme transfers that arose from the disposal of Bass Brewers in August 2000.

Actuarial valuations as at 31 March 2002 are in the process of being finalised. Initial results reveal that experience has been adverse since 1999, which will result in an increased pension cost with effect from 1 October 2002, but that the plans were fully funded on an actuarial basis at that time.

In the year to 30 September 2002, the Group made regular contributions to the two principal plans of £18m (2001 £17m) and additional contributions of £15m (2001 nil). The agreed employer contribution rates to the defined benefit arrangements for the year to 30 September 2003 are 11.0% for the SCPP and 27.1% for the SCEPP. In addition, it has been agreed that further additional contributions of £45m will be made, most of which is expected to be paid in the year to 30 September 2003.

7 PENSIONS (CONTINUED)

FRS 17 disclosures

The valuations used for FRS 17 disclosures are based on the initial results of the actuarial valuations at 31 March 2002 updated by independent qualified actuaries to 30 September 2002. Scheme assets are stated at market value at 30 September 2002 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the two principal plans are now closed as defined benefit schemes, the current service cost as calculated under the projected unit method will increase as members approach retirement.

The principal assumptions used by the actuaries to determine the liabilities on an FRS 17 basis were:

	At 30 September 2002	At 30 September 2001
Wages and salaries increases	3.8%	3.9%
Pensions increases	2.3%	2.4%
Discount rate	5.5%	6.1%
Inflation rate	2.3%	2.4%

The combined assets of the two principal schemes and expected rate of return were:

	Long-term rate of return expected at 30 September 2002 %	Value at 30 September 2002 £m	Long-term rate of return expected at 30 September 2001 %	Value at 30 September 2001 £m
Equities	8.0	507	7.5	700
Bonds	4.7	397	5.1	304
Other	8.0	92	7.5	94
Total market value of assets		996		1,098
Present value of scheme liabilities		(1,311)		(1,107)
Deficit in the scheme		(315)		(9)
Related deferred tax asset		95		3
Net pension liability		(220)		(6)

If FRS 17 had been recognised in the accounts, the effects would have been as follows:

Operating profit charge	2002 £m
Current service cost	31
Past service cost	–
Total operating profit charge	31
Finance income	2002 £m
Expected return on pension scheme assets	75
Interest on pension scheme liabilities	(69)
Net return	6
Actuarial loss recognised in the Statement of Total Recognised Group Gains and Losses (STRGL)	2002 £m
Actual return less expected return on pension scheme assets	(173)
Experience gains and losses arising on the scheme liabilities	(24)
Changes in assumptions underlying the present value of the scheme liabilities	(117)
Actuarial loss recognised in the STRGL	(314)

7 PENSIONS (CONTINUED)

Movement in deficit during the year	2002 £m
At 30 September 2001	(9)
Current service cost	(31)
Contributions	33
Finance income	6
Actuarial loss	(314)
At 30 September 2002	(315)
History of experience gains and losses	2002
Difference between the expected and actual return on scheme assets	
Amount (£m)	(173)
Percentage of scheme assets	(17%)
Experience gains and losses on scheme liabilities	
Amount (£m)	(24)
Percentage of the present value of the scheme liabilities	(2%)
Total amount recognised in the STRGL	
Amount (£m)	(314)
Percentage of the present value of the scheme liabilities	(24%)

	2002		2001 restated*	
	Net assets £m	Profit and loss account reserve £m	Net assets £m	Profit and loss account reserve £m
Group net assets and reserves reconciliation				
As reported	5,366	2,448	5,185	2,266
Less: SSAP 24 pension prepayment (net of deferred tax of £25m (2001 £15m))	(57)	(57)	(35)	(35)
FRS 17 net pension liability	(220)	(220)	(6)	(6)
Restated for FRS 17	5,089	2,171	5,144	2,225

* Restated on the adoption of FRS 19 (see page 30).

8 DIRECTORS' EMOLUMENTS

	2002 £000	2001 £000
Basic salaries, fees, performance payments and benefits	3,417	5,273
Long-term reward	–	662

More detailed information on the emoluments, pensions, option holdings and shareholdings for each director is shown in the Directors' Report on pages 14 to 24.

	note	2002			2001 restated*		
		Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
9 EXCEPTIONAL ITEMS							
Operating exceptional items							
Hotels impairment charge**	a	(77)	–	(77)	–	–	–
Hotels exceptional costs**	b	–	–	–	(43)	–	(43)
Total operating exceptional items		(77)	–	(77)	(43)	–	(43)
Non-operating exceptional items							
Profit/(loss) on disposal of operations:							
Bass Brewers**	c	–	57	57	–	38	38
Other operations**	d	–	–	–	(36)	–	(36)
		–	57	57	(36)	38	2
Loss on disposal of fixed assets		–	–	–	(2)	–	(2)
Demerger costs**	e	(4)	–	(4)	–	–	–
Total non-operating exceptional items		(4)	57	53	(38)	38	–
Total exceptional items before taxation		(81)	57	(24)	(81)	38	(43)
Tax (charge)/credit on above items		(9)	–	(9)	3	(4)	(1)
Exceptional tax credit**	f	–	114	114	–	–	–
Total exceptional items after taxation		(90)	171	81	(78)	34	(44)

a Tangible fixed assets have been written down by £113m following an impairment review of the hotel estate. £77m has been charged above as an operating exceptional item and £36m reverses previous revaluation gains (see note 32).

b Related to exceptional reorganisation, restructuring and strategic appraisal costs in the Hotels division.

c Bass Brewers was disposed of in August 2000. The profit in 2002 comprises £9m received in respect of the finalisation of completion account adjustments, together with the release of disposal provisions no longer required of £48m. The profit in 2001 arose from deferred consideration and the finalisation of the pension scheme transfer.

d Related to and resulted from the disposal of 988 smaller unbranded pubs by the Retail division.

e On 1 October 2002, the Board announced its intention to demerge the Group's Retail business from its Hotels and Soft Drinks operations (see note 38). The costs of evaluating the demerger incurred to 30 September 2002 were £4m, comprising external professional fees.

f Represents the release of over provisions for tax in respect of prior years.

* Restated on the adoption of FRS 19 (see page 30).

** Major exceptional items for the purpose of calculating adjusted earnings per ordinary share (see note 13).

	2002 £m	2001 £m
10 INTEREST PAYABLE AND SIMILAR CHARGES		
Bank loans and overdrafts	21	26
Other	155	198
	176	224

11 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Before major exceptional items £m	2002 Major exceptional items £m	Total £m	2001 restated* Total £m
Tax charge				
UK corporation tax at 30% (2001 30%):				
Current year	106	–	106	95
Prior years	(15)	(114)	(129)	(13)
	91	(114)	(23)	82
Foreign tax:				
Current year	65	–	65	92
Prior years	(1)	–	(1)	20
	64	–	64	112
Total current tax	155	(114)	41	194
Deferred tax:				
Origination and reversal of timing differences	18	(1)	17	72
Adjustments to estimated recoverable deferred tax assets	11	–	11	(35)
Prior years	(17)	–	(17)	(8)
Total deferred tax	12	(1)	11	29
Tax on profit on ordinary activities	167	(115)	52	223
Further analysed as tax relating to:				
Profit before exceptional items	157	–	157	222
Exceptional items (see note 9):				
Operating	–	–	–	(10)
Non-operating	10	(1)	9	11
Tax credit	–	(114)	(114)	–
	167	(115)	52	223

In 2001, all tax on exceptional items was in respect of major items.

* Restated on the adoption of FRS 19 (see page 30).

	2002 %	2001 %
Tax reconciliation		
UK corporation tax standard rate	30.0	30.0
Permanent differences	1.3	0.3
Capital allowances in excess of depreciation	(3.7)	(2.6)
Other timing differences	(1.3)	(1.0)
Net effect of different rates of tax in overseas businesses	3.1	0.3
Adjustment to tax charge in respect of prior years	(2.9)	1.0
Capital gains	1.3	(0.1)
Exceptional items	(20.1)	0.2
Effective current tax rate	7.7	28.1
Effective current tax rate before major exceptional items	27.8	28.0

Factors which may affect future tax charges

The key factors which may affect future tax charges include the availability of accelerated tax depreciation, utilisation of unrecognised losses, changes in tax legislation and the proportion of profits subjected to higher overseas tax rates.

12 DIVIDENDS

	2002 pence per share	2001 pence per share	2002 £m	2001 £m
Dividends on ordinary shares				
Interim	10.7	10.4	92	86
Proposed final	24.6	23.9	213	207
	35.3	34.3	305	293

The proposed final dividend is payable on the shares in issue at 20 December 2002.

13 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share are calculated by dividing the earnings available for shareholders of £457m (2001 £443m*) by 863m (2001 863m), being the weighted average number of ordinary shares, excluding investment in own shares, in issue during the year.

Diluted earnings per ordinary share are calculated by adjusting basic earnings per ordinary share to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the year. The resulting weighted average number of ordinary shares is 867m (2001 869m).

Adjusted earnings per ordinary share are calculated as follows:

	note	2002 pence per ordinary share	2001 restated* pence per ordinary share
Basic earnings		53.0	51.3
Major exceptional items, less tax thereon	9, 11	(10.6)	4.9
Adjusted earnings		42.4	56.2
Adjusted earnings as previously reported		–	60.1

Adjusted earnings per ordinary share are disclosed in order to show performance undistorted by abnormal items.

* Restated on the adoption of FRS 19 (see page 30).

14 NET CASH FLOW

	note	2002 £m	2001 £m
Operating profit before major exceptional items		618	792
Depreciation and amortisation		271	238
Other non-cash items		(4)	1
Earnings before interest, taxation, depreciation and amortisation, and major exceptional items		885	1,031
Increase in stocks		(1)	–
(Increase)/decrease in debtors		(92)	83
Decrease in creditors		(37)	(94)
Provisions expended	28	(18)	(13)
Operating activities before expenditure relating to major exceptional items		737	1,007
Major operating exceptional expenditure		(17)	(23)
Operating activities		720	984
Net capital expenditure	16	(513)	(868)
Operating cash flow	17	207	116
Net interest paid		(62)	(69)
Dividends paid		(312)	(295)
Tax paid		(123)	(149)
Normal cash flow		(290)	(397)
Acquisitions		(24)*	(752)
Disposals		9	623
Net cash flow		(305)	(526)

* Includes £20m in respect of Posthouse, the hotel business acquired in April 2001.

	Cash and overdrafts			Liquid resources	Financing		Total £m
	Cash at bank and in hand £m	Overdrafts £m	Total £m	Current asset investments £m	Other borrowings due within one year £m	Other borrowings due after one year £m	
15 NET DEBT							
At 30 September 2001	67	(37)	30	366	(378)	(1,019)	(1,001)
Net cash flow (see note 14)	(276)	(29)	(305)*	–	–	–	(305)
Management of liquid resources and financing	295	–	295*	(232)	(414)	354	3
Exchange adjustments	(2)	–	(2)	84	10	34	126
At 30 September 2002	84	(66)	18	218	(782)	(631)	(1,177)
At 30 September 2000	125	(49)	76	862	(70)	(1,213)	(345)
Net cash flow (see note 14)	(538)	12	(526)*	–	–	–	(526)
Management of liquid resources and financing	493	–	493*	(497)	(276)	186	(94)
Other movements arising on acquisitions	–	–	–	–	(38)	–	(38)
Exchange and other adjustments	(13)	–	(13)	1	6	8	2
At 30 September 2001	67	(37)	30	366	(378)	(1,019)	(1,001)

Current asset investments include currency swaps.

* Represents a movement in cash and overdrafts of £10m outflow (2001 £33m outflow) (see Group cash flow statement).

16 NET CAPITAL EXPENDITURE

	2002 £m	2001 £m
Hotels	259	607
Retail	227	288
Soft Drinks	31	28
Other activities	(4)	(55)
	513	868

17 OPERATING CASH FLOW

	2002 £m	2001 £m
Hotels	60	(80)
Retail	144	66
Soft Drinks	77	99
Other activities	(74)	(9)
Continuing operations	207	76
Discontinued operations*	–	40
	207	116

* Relates to Bass Brewers.

18 MANAGEMENT OF LIQUID RESOURCES AND FINANCING

	2002 £m	2001 £m
New borrowings*	8,260	5,510
Net commercial paper repaid	–	(21)
Other borrowings repaid*	(8,200)	(5,399)
	60	90
Ordinary shares issued	3	9
Ordinary shares repurchased	–	(103)
Financing	63	(4)
Movement in liquid resources**	232	497
	295	493

* Includes amounts rolled over under bank loan facilities.

** Liquid resources primarily comprise short-term deposits of less than one year, short-term investments and currency swaps.

19 ASSETS	2002		2001 restated*	
	Total £m	Net operating £m	Total £m	Net operating £m
Hotels	4,553	3,990	4,640	3,949
Retail	3,642	3,467	3,506	3,328
Soft Drinks	405	246	375	252
Other activities	479	151	577	23
	9,079	7,854	9,098	7,552
Non-operating assets:				
Current asset investments		218		366
Cash at bank and in hand		84		67
Corporate taxation		1		9
Non-operating liabilities:				
Borrowings		(1,479)		(1,434)
Proposed dividend		(213)		(207)
Corporate taxation		(455)		(548)
Deferred taxation		(495)		(487)
Minority equity interests		(149)		(133)
	9,079	5,366	9,098	5,185
United Kingdom	5,994	5,233	5,949	4,973
Rest of Europe, the Middle East and Africa	1,160	1,039	1,088	930
United States of America	1,328	1,013	1,462	1,100
Rest of Americas	130	121	99	77
Asia Pacific	467	448	500	472
	9,079	7,854	9,098	7,552
Net non-operating liabilities		(2,488)		(2,367)
	9,079	5,366	9,098	5,185

* Restated on the adoption of FRS 19 (see page 30).

20 INTANGIBLE FIXED ASSETS	Goodwill £m
Cost:	
At 30 September 2001	189
Acquisitions	11
Exchange adjustments	(3)
At 30 September 2002	197
Amortisation:	
At 30 September 2001	15
Exchange adjustments	(1)
Provided	10
At 30 September 2002	24
Net book value:	
At 30 September 2002	173
At 30 September 2001	174

21 TANGIBLE FIXED ASSETS

	Hotels £m	Retail £m	Soft Drinks £m	Other activities £m	Total £m
Cost or valuation:					
At 30 September 2001	4,204	3,517	408	34	8,163
Exchange and other adjustments	(87)	–	–	–	(87)
Additions	362	254	36	2	654
Disposals	(110)	(51)	(36)	(5)	(202)
Impairment	(36)	–	–	–	(36)
At 30 September 2002	4,333	3,720	408	31	8,492
Depreciation:					
At 30 September 2001	271	139	175	20	605
Exchange and other adjustments	(16)	–	–	–	(16)
Provided	132	86	42	1	261
On disposals	(16)	(29)	(29)	(2)	(76)
Impairment	77	–	–	–	77
At 30 September 2002	448	196	188	19	851
Net book value:					
At 30 September 2002	3,885	3,524	220	12	7,641
At 30 September 2001	3,933	3,378	233	14	7,558

Tangible fixed assets have been written down in total by £113m following an impairment review of the hotel estate. The impairment has been measured by reference to the value in use of income-generating units, using discount rates ranging between 10.0% and 11.5% depending on the geographical location of the income-generating unit.

Properties

Properties, comprising land, buildings and certain fixtures, fittings and equipment, are included above at cost or valuation, less depreciation as required. The transitional rules of FRS 15 have been followed permitting the carrying values of properties as at 1 October 1999 to be retained.

The most recent valuation of properties was undertaken in 1999 and covered all properties then owned by the Group other than hotels acquired or constructed in that year and leasehold properties having an unexpired term of 50 years or less. This valuation was undertaken by external Chartered Surveyors and internationally recognised valuers (Jones Lang LaSalle Hotels in respect of hotels and Chesterton plc in respect of pubs and other properties) in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The basis of valuation was predominantly existing use value and, in the case of pubs and hotels, had regard to trading potential.

Historical cost

The comparable amounts under the historical cost convention for properties would be:

	2002 £m	2001 £m
Group		
Cost	4,998	4,876
Depreciation	(199)	(105)
Net book value	4,799	4,771
Company		
Net book value	7	7

21 TANGIBLE FIXED ASSETS (CONTINUED)

	Land and buildings £m	Fixtures, fittings and equipment £m	Plant and machinery £m	Group total £m	Company total £m	
Cost or valuation:						
At 30 September 2001	5,836	2,198	129	8,163	29	
Exchange and other adjustments	(59)	(28)	–	(87)	–	
Additions	261	381	12	654	1	
Disposals	(96)	(101)	(5)	(202)	(1)	
Impairment	(36)	–	–	(36)	–	
At 30 September 2002	5,906	2,450	136	8,492	29	
Depreciation:						
At 30 September 2001	51	480	74	605	19	
Exchange and other adjustments	(4)	(12)	–	(16)	–	
Provided	26	223	12	261	1	
On disposals	(3)	(69)	(4)	(76)	(1)	
Impairment	77	–	–	77	–	
At 30 September 2002	147	622	82	851	19	
Net book value:						
At 30 September 2002	5,759	1,828	54	7,641	10	
At 30 September 2001	5,785	1,718	55	7,558	10	
		2002				
	Cost or valuation £m	Depreciation £m	Group total £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Land and buildings						
Freehold	4,692	(94)	4,598	4,644	6	6
Leasehold: unexpired term of more than 50 years	948	(16)	932	919	1	1
unexpired term of 50 years or less	266	(37)	229	222	1	1
	5,906	(147)	5,759	5,785	8	8
Cost or valuation of properties comprises:						
1999 valuation	3,032					
1992 valuation	29					
Cost	2,845					
	5,906					

22 FIXED ASSET INVESTMENTS	Group		Company		Total £m
	Investments and advances £m	Shares in Group undertakings £m	Loans to Group undertakings £m	Other investments and advances £m	
Cost:					
At 30 September 2001	396	6,758	1,366	34	8,158
Exchange and other adjustments	(19)	–	–	–	–
Additions	14	2,787	1,441	–	4,228
Disposals and repayments	(21)	(2,644)	(1,366)	(3)	(4,013)
At 30 September 2002	370	6,901	1,441	31	8,373
Provision for diminution in value:					
At 30 September 2001	130	63	–	2	65
Exchange and other adjustments	(7)	–	–	–	–
On disposals	(2)	–	–	(2)	(2)
At 30 September 2002	121	63	–	–	63
Net book value:					
At 30 September 2002	249	6,838	1,441	31	8,310
At 30 September 2001	266	6,695	1,366	32	8,093

Investments and advances	2002		2001	
	Cost less amount written off £m	Market value £m	Cost less amount written off £m	Market value £m
Group				
Listed investments*	147	109	155	119
Unlisted investments	102		111	
	249		266	
Company				
Listed investments*	31	22	32	26

All listed investments are listed on a recognised investment exchange.

* Includes £31m (2001 £32m) in respect of 3.8m (2001 3.8m) Six Continents PLC ordinary shares held by employee share trusts.

23 STOCKS	Group	
	2002 £m	2001 £m
Raw materials	8	9
Work in progress	22	19
Finished stocks	47	48
Consumable stores	14	14
	91	90

The replacement cost of stocks approximates to the value stated above.

24 DEBTORS	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 restated* £m
Trade debtors	289	281	1	1
Amounts owed by Group undertakings	–	–	620	331
Other debtors	153	134	45	12
Corporate taxation	1	9	58	65
Pension prepayment**	82	50	78	46
Other prepayments	98	103	23	35
	623	577	825	490

Group other debtors and other prepayments include amounts falling due after more than one year of £2m (2001 nil) and £1m (2001 nil) respectively.

* Restated on the adoption of FRS 19 (see page 30).

** Falling due after more than one year.

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
25 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Borrowings (see note 29)	848	415	646	180
Trade creditors	178	198	1	1
Corporate taxation	455	548	–	–
Other taxation and social security	82	88	–	2
Accrued charges	274	313	42	61
Proposed dividend	213	207	213	207
Amounts owed to Group undertakings	–	–	1,464	2,032
Other creditors	223	240	26	28
	2,273	2,009	2,392	2,511

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
26 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR				
Borrowings (see note 29)	631	1,019	572	752
Amounts owed to Group undertakings	–	–	1,330	2,042
Other creditors and deferred income	133	161	–	–
	764	1,180	1,902	2,794

	Group £m	Company £m
27 DEFERRED TAXATION		
At 30 September 2001 as previously reported		208
Prior year adjustment on adoption of FRS 19		279
At 30 September 2001 as restated		487
Exchange and other adjustments		(3)
Profit and loss account		11
At 30 September 2002		495

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Analysed as tax on timing differences related to:				
Fixed assets	437	430	–	–
Deferred gains on loan notes	125	142	–	–
Losses	(67)	(75)	–	–
Pension prepayment	25	15	23	14
Other	(25)	(25)	(2)	(2)
	495	487	21	12

The deferred tax asset of £67m (2001 £75m) recognised in respect of losses includes £30m (2001 £30m) of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and £37m (2001 £45m) in respect of revenue tax losses. Tax losses with a value of £157m (2001 £141m), including capital losses with a value of £111m (2001 £104m), have not been recognised as their use is uncertain or not currently anticipated.

No provision has been made for deferred tax on the sale of properties at their revalued amounts. The total amount unprovided is estimated at £284m (2001 £317m).

No provision has been made for deferred tax on the sale of properties where gains have been, or are expected to be, deferred against expenditure on replacement assets for an indefinite period until the sale of the replacement assets. The total amount unprovided is estimated at £145m (2001 £147m). It is not anticipated that any such tax will be payable in the foreseeable future.

28 OTHER PROVISIONS FOR LIABILITIES AND CHARGES	Reorganisation* £m	Onerous contracts** £m	Other*** £m	Total £m
Group				
At 30 September 2001	9	22	73	104
Profit and loss account	2	–	(56)	(54)
Expenditure	–	(10)	(8)	(18)
At 30 September 2002	11	12	9	32

* Relates to fundamental reorganisations charged as non-operating exceptional items and is expected to be largely utilised in the year to 30 September 2003.

** Primarily relates to onerous fixed lease contracts acquired with the InterContinental hotels business and having expiry dates to 2008.

*** Represents liabilities with varying expected utilisation dates. During the year, disposal provisions no longer required of £48m were released to the profit and loss account as a non-operating exceptional item (see note 9).

29 BORROWINGS	Group 2002			Group 2001 £m	Company 2002			Company 2001 £m
	Within one year £m	After one year £m	Total £m		Within one year £m	After one year £m	Total £m	
Bank loans and overdrafts								
Secured:								
Bank loans*	4	55	59	136	–	–	–	61
Unsecured:								
Bank loans	579	46	625	278	579	46	625	278
Overdrafts	66	–	66	37	67	–	67	67
Total bank loans and overdrafts	649	101	750	451	646	46	692	406
Other borrowings								
Secured:								
2016 debenture stock 10.375%**	–	250	250	250	–	250	250	250
Other debenture stock and loans***	7	2	9	12	–	–	–	–
Unsecured:								
2002 Guaranteed Notes 8.125% (\$350m)	–	–	–	239	–	–	–	–
2003 Guaranteed Notes 6.625% (\$300m)	192	–	192	204	–	–	–	–
2007 Guaranteed Notes 5.75% (£250m)	–	250	250	250	–	250	250	250
Other loan stock	–	28	28	28	–	26	26	26
Total other borrowings	199	530	729	983	–	526	526	526
Total borrowings	848	631	1,479	1,434	646	572	1,218	932

* Secured by way of mortgage over individual hotel properties. The terms, rates of interest and currencies of these bank loans vary.

** Secured by a first floating charge on the assets of the Company and certain of its UK subsidiaries and by cross guarantees given by these subsidiaries.

*** Secured on the individual assets purchased by using such borrowings. The terms, rates of interest and currencies of these borrowings vary.

29 BORROWINGS (CONTINUED)	Group 2002			Group 2001 £m	Company 2002 £m	Company 2001 £m
	Bank loans and overdrafts £m	Other borrowings £m	Total £m			
Analysis by year of repayment						
Due within one year (see note 25)	649	199	848	415	646	180
Due: between one and two years	3	11	14	421	10	212
between two and five years	68	16	84	47	62	40
after five years	30	503	533	551	500	500
Due after more than one year (see note 26)	101	530	631	1,019	572	752
Total borrowings	750	729	1,479	1,434	1,218	932
Amounts repayable by instalments, some of which fall due after five years	23	–	23	39	–	–
Facilities committed by banks					2002 £m	2001 £m
Utilised					684	414
Unutilised					944	1,470
					1,628	1,884
Unutilised facilities expire:						
within one year					590	225
after one year but before two years					30	809
after two years					324	436
					944	1,470

30 FINANCIAL INSTRUMENTS

Details of the Group's policies on the use of financial instruments are given in the Operating and Financial Review on pages 12 and 13 and in the accounting policies on page 30. The following disclosures provide additional information regarding the effect of these instruments on the financial assets and liabilities of the Group, other than short-term debtors and creditors.

Interest rate risk

In order to manage interest rate risk, the Group enters into interest rate swap, interest rate option and forward rate agreements. The interest rate profile of the Group's material financial assets and liabilities, after taking account of the interest rate swap agreements and currency swap agreements, was:

	2002						
	Net debt £m	Currency swap agreements £m	Total £m	Principal		Interest at fixed rate	
				At variable rate* £m	At fixed rate £m	Weighted average rate %	Weighted average period for which rate is fixed (years)
Current asset investments and cash at bank and in hand:							
Sterling	196	2,153	2,349	2,349	–	–	–
US dollar	30	–	30	30	–	–	–
Other	76	–	76	76	–	–	–
Borrowings:							
Sterling	(532)	–	(532)	(327)	(205)	10.2	13.5
US dollar	(463)	(1,490)	(1,953)	(1,195)	(758)	5.4	2.1
Euro	(183)	(628)	(811)	(598)	(213)	4.9	1.9
Hong Kong dollar	(215)	–	(215)	(158)	(57)	3.2	1.0
Other	(86)	(35)	(121)	(104)	(17)	4.7	2.0
	(1,177)	–	(1,177)	73	(1,250)	6.0	4.2

* Primarily based on the relevant inter-bank rate.

	2001						
	Net debt £m	Currency swap agreements £m	Total £m	Principal		Interest at fixed rate	
				At variable rate* £m	At fixed rate £m	Weighted average rate %	Weighted average period for which rate is fixed (years)
30 FINANCIAL INSTRUMENTS (CONTINUED)							
Current asset investments and cash at bank and in hand:							
Sterling	352	2,111	2,463	2,463	–	–	–
US dollar	18	–	18	18	–	–	–
Other	63	–	63	63	–	–	–
Borrowings:							
Sterling	(547)	–	(547)	(344)	(203)	11.1	15.0
US dollar	(449)	(1,552)	(2,001)	(1,196)	(805)	6.4	2.7
Euro	(168)	(525)	(693)	(420)	(273)	4.9	2.4
Hong Kong dollar	(212)	–	(212)	(212)	–	–	–
Other	(58)	(34)	(92)	(61)	(31)	7.1	1.1
	(1,001)	–	(1,001)	311	(1,312)	6.9	5.0

* Primarily based on the relevant inter-bank rate.

At 30 September 2002, the Group had investments and advances, excluding shares held by employee share trusts, totalling £218m (2001 £234m) on which no interest is receivable and which do not have a maturity date. These interests are denominated primarily in US dollars.

The Group had other creditors and deferred income, denominated primarily in US dollars, due after one year of £133m at 30 September 2002 (2001 £161m) on which no interest is payable.

At 30 September 2002, the Group had entered into the following interest rate option agreements:

	2002				2001		
	Principal	Cap rate	Swap rate	Maturity	Principal	Cap rate	Maturity
US dollar swaption – interest payable	US\$250m	–	3.47%	2005	–	–	–
US dollar cap – interest payable	US\$100m	4.00%	–	2005	–	–	–
Australian dollar cap – interest payable	–	–	–	–	A\$50m	6.92%	2002

Currency risk

In order to manage currency risk, the Group enters into agreements for the forward purchase or sale of foreign currencies as well as currency options. Foreign currency flows in respect of imports and exports are also netted where practical. As virtually all foreign exchange gains and losses are charged to the Statement of Total Recognised Group Gains and Losses under the hedging provisions of SSAP 20, no disclosure of the remaining currency risks has been provided on the grounds of materiality.

At 30 September 2002, the Group had contracted to exchange within one year the equivalent of £35m (2001 £23m) of various currencies.

Liquidity risk

A liquidity analysis of the Group's borrowings is provided in note 29, along with details of the Group's material unutilised committed borrowing facilities.

The liquidity analysis of the Group's other financial liabilities is set out below:

	2002 Other creditors and deferred income £m	2001 Other creditors and deferred income £m
Due: between one and two years	40	18
between two and five years	50	56
after five years	43	87
	133	161

30 FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

The net book values and related fair values of the Group's financial assets and liabilities are:

	2002		2001	
	Net book value £m	Fair value £m	Net book value £m	Fair value £m
Fixed asset investments*	218	189	234	206
Cash and overdrafts	18	18	30	30
Current asset investments	178	178	336	336
Currency swap agreements	40	44	30	30
Other borrowings	(1,413)	(1,535)	(1,397)	(1,496)
Net debt	(1,177)	(1,295)	(1,001)	(1,100)
Other financial liabilities	(133)	(133)	(161)	(161)
Interest rate swap agreements	–	(24)	–	(11)
Forward exchange contracts	–	(1)	–	–
	(1,092)	(1,264)	(928)	(1,066)

The fair values of listed fixed asset investments and borrowings are based on market prices at the year end. Other assets and liabilities have been fair valued by discounting expected future cash flows to present value.

* Excluding shares held by employee share trusts.

Hedges

The Group's unrecognised gains and losses for the year on derivative financial instruments are:

	Gains £m	Losses £m	Total £m
Unrecognised at 30 September 2000	8	(8)	–
Recognised in the year	(3)	3	–
Arising in the year but not recognised	5	(16)	(11)
Unrecognised at 30 September 2001	10	(21)	(11)
Recognised in the year	(5)	16	11
Arising in the year but not recognised	19	(40)	(21)
Unrecognised at 30 September 2002	24	(45)	(21)
Expected to be recognised in the year ended 30 September 2003	9	(19)	(10)
Expected to be recognised thereafter	15	(26)	(11)

31 SHARE CAPITAL

	Authorised		Allotted and fully paid	
	millions	£m	millions	£m
Ordinary shares of 28p each				
At 30 September 2001	1,073	300	866	242
Issued under option schemes	–	–	1	1
At 30 September 2002	1,073	300	867	243
Non-cumulative redeemable preference shares of 95.5p each				
At 30 September 2002 and 30 September 2001	889	849	–	–

The aggregate consideration in respect of ordinary shares issued in respect of option schemes during the year was £3m (2001 £9m).

31 SHARE CAPITAL (CONTINUED)

millions

Options to subscribe for ordinary shares	
At 30 September 2001	24.7
Granted	7.2
Exercised	(0.5)
Foregone	(6.0)
At 30 September 2002	25.4
Option exercise price per ordinary share (pence)	470.0 – 1,014.5
Final exercise date	19 June 2012

The authority given to the Company at the Annual General Meeting on 14 February 2002 to purchase its own shares is still valid at 30 September 2002. A resolution to extend the authority will be put to shareholders at the Annual General Meeting on 13 February 2003.

32 RESERVES – EQUITY INTERESTS

Group	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 30 September 2001 as previously reported	799	1,025	853	2,530	5,207
Prior year adjustment on adoption of FRS 19	–	–	–	(264)	(264)
At 30 September 2001 as restated	799	1,025	853	2,266	4,943
Premium on allotment of ordinary shares*	3	–	–	(1)	2
Retained earnings for the year	–	–	–	152	152
Goodwill (see note 33)	–	–	–	98	98
Revaluation surplus realised on disposals	–	(3)	–	3	–
Transfer of previously recognised revaluation losses	–	37	–	(37)	–
Reversal of previous revaluation gains due to impairment	–	(36)	–	–	(36)
Exchange adjustments on:					
assets	–	(3)	–	(63)	(66)
borrowings and currency swaps	–	–	–	128	128
goodwill eliminated (see note 33)	–	–	–	(98)	(98)
At 30 September 2002	802	1,020	853	2,448	5,123
Company					
At 30 September 2001 as previously reported	799	1	853	1,512	3,165
Prior year adjustment on adoption of FRS 19	–	–	–	(13)	(13)
At 30 September 2001 as restated	799	1	853	1,499	3,152
Premium on allotment of ordinary shares*	3	–	–	(1)	2
Retained earnings for the year	–	–	–	1,594	1,594
At 30 September 2002	802	1	853	3,092	4,748

The Company profit and loss account reserve includes an amount of £1,422m (2001 £1,422m) which is not distributable.

* Includes transfer of £1m from the profit and loss account reserve in respect of shares issued to the qualifying employee share ownership trust in respect of the Six Continents Employee Savings Share Scheme.

	Group		
	Cost of goodwill eliminated £m	Exchange adjustments £m	Total £m
33 GOODWILL ELIMINATED*			
Eliminated to 30 September 2001	2,403	220	2,623
Exchange adjustments	–	(98)	(98)
Eliminated to 30 September 2002	2,403	122	2,525

* Represents goodwill purchased prior to 30 September 1998 and eliminated against Group reserves.

34 PARENT COMPANY

Profit on ordinary activities after taxation dealt with in the financial statements of the Company amounts to £1,899m (2001 £327m, restated on the adoption of FRS 19).

35 FINANCIAL COMMITMENTS

The Group has annual commitments under operating leases at 30 September 2002 which expire as follows:

	Properties		Other	
	2002 £m	2001 £m	2002 £m	2001 £m
Within one year	3	2	4	6
Between one and five years	17	12	9	7
After five years	75	78	–	–
	95	92	13	13

36 CONTRACTS FOR EXPENDITURE ON FIXED ASSETS

	Group	
	2002 £m	2001 £m
Contracts placed for expenditure on fixed assets not provided for in the financial statements	314	106

37 CONTINGENCIES

Contingent liabilities not provided for in the financial statements relate to:

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Guarantees:				
Liabilities of subsidiaries	–	–	480	442
Other	16	96	–	–
Other	–	26	–	–
	16	122	480	442

In limited cases, the Group may provide performance guarantees to third-party owners to secure management contracts. It is the view of the directors that, other than to the extent that liabilities have been provided for in these financial statements, such guarantees are not expected to result in financial loss to the Group.

The Group has given warranties in respect of the disposal of certain of its former subsidiaries. It is the view of the directors that, other than to the extent that liabilities have been provided for in these financial statements, such warranties are not expected to result in financial loss to the Group.

38 POST BALANCE SHEET EVENTS

On 1 October 2002, the Board announced its intention to demerge the Group's Retail business from its Hotels and Soft Drinks operations, and to return £700m of capital to shareholders. These proposals are subject to shareholder and regulatory approval and are not expected to become effective before April 2003.

On 5 December 2002, the Group announced a tender offer for the repurchase of all outstanding medium-term loan notes. The offer will apply to the £10m Notes due 2004, the €25m Notes due 2006 and the £250m Notes due 2007, and is due to close on, or around 20 December 2002. On 5 December 2002, the Group also announced its intention to repurchase the £250m debenture stock due 2016.

39 PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS

Six Continents PLC is the beneficial owner of all (unless specified) of the equity share capital, either itself or through subsidiary undertakings, of the following companies:

Corporate activities

Asia Pacific Holdings Limited (note a)

SixCo North America Inc.
(incorporated and operates in the United States)

SC Luxembourg Investments SARL
(incorporated and operates in Luxembourg)

Six Continents Hotels International Limited (note a)

Six Continents Holdings Limited (note a)

Six Continents Overseas Holdings Limited (note a)

Six Continents International Holdings BV
(incorporated and operates in the Netherlands)

Six Continents Investments Limited (notes a and b)

Hotels

BHR Holdings BV
(incorporated and operates in the Netherlands)

BHR Luxembourg SARL
(incorporated and operates in Luxembourg)

Six Continents Hotels Limited
(formerly Posthouse Hotels Limited)

Six Continents Hotels Operating Corporation
(incorporated and operates principally in the United States)

Six Continents Hotels (UK) Limited

Holiday Inn Limited (note a)

Retail

Six Continents Retail Limited

Six Continents Retail Germany GmbH
(incorporated and operates in Germany)

Soft Drinks

Britannia Soft Drinks Limited (50% Six Continents Investments Limited, 25% Whitbread PLC, 25% Allied Domecq PLC) (note c)

Britvic Soft Drinks Limited (90% Britannia Soft Drinks Limited, 10% PepsiCo Holdings Limited)

Robinsons Soft Drinks Limited
(100% Britannia Soft Drinks Limited)

Other activities

Standard Commercial Property Developments Limited (note a)

White Shield Insurance Company Limited
(incorporated and operates in Gibraltar) (note a)

note a Shares held directly by Six Continents PLC.

note b Six Continents PLC owns all the 5% and 7% Cumulative Preference shares of Six Continents Investments Limited.

note c The Group holds a majority of voting rights (50% plus one ordinary share) in, and exercises dominant influence over, Britannia Soft Drinks Limited, which is, accordingly, treated as a subsidiary undertaking.

note d Unless stated otherwise, companies are incorporated in Great Britain, registered in England and Wales and operate principally within the United Kingdom.

note e The companies listed above include all those which principally affect the amount of profit and assets of the Group. A full list of subsidiary and associated undertakings at 30 September 2002 will be annexed to the next annual return of Six Continents PLC to be filed with the Registrar of Companies.

40 US ACCOUNTING PRINCIPLES

The financial statements set out on pages 26 to 52 are prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP) which differ from those generally accepted in the United States (US GAAP). The significant differences, as they apply to the Group, are summarised below.

Notes 41 and 42 provide a reconciliation between earnings available for shareholders under UK GAAP and net income under US GAAP and between shareholders' funds under UK GAAP and shareholders' equity under US GAAP respectively.

Pension costs

The Group provides for the cost of retirement benefits based upon consistent percentages of employees' pensionable pay as recommended by independent qualified actuaries. Under US GAAP, the projected benefit obligation (pension liability) in respect of the Group's two principal pension plans would be matched against the fair value of the plans' assets and would be adjusted to reflect any unrecognised obligations or assets in determining the pension cost or credit for the year.

At 30 September 2002, the accumulated benefit obligations exceeded the fair value of the plans' assets. In these circumstances, US GAAP requires the recognition of the difference as a balance sheet liability and the elimination of any amounts previously recognised as a prepaid pension cost. An equal amount, not exceeding the amount of unrecognised past service cost, is recognised as an intangible asset with the balance reported in other comprehensive income.

Intangible fixed assets

Goodwill and separately identifiable intangible fixed assets arising on the acquisition of subsidiaries and associates are capitalised and amortised over their estimated useful lives. Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves. Under US GAAP, all intangible fixed assets would be capitalised and amortised to the income statement over their estimated useful lives, not exceeding 40 years. Under US GAAP, goodwill arising on acquisitions after 30 June 2001 is not amortised but is subject to an annual impairment test. The reconciling adjustments in note 41 in respect of amortisation and in note 42 in respect of intangible fixed assets relate almost entirely to Six Continents Hotels.

In addition, under US GAAP, contingent consideration is not recognised until the related contingencies are resolved.

Tangible fixed assets

Prior to 1 October 1999, the Group's properties were valued from time to time by professionally qualified external valuers. Book values were adjusted to accord with the valuations, except where a director's valuation was deemed more appropriate. Under US GAAP, revaluations would not have been permitted.

Depreciation is based on the book value of assets, including revaluation where appropriate. Prior to 1 October 1999, freehold pubs and hotels were not depreciated under UK GAAP, as any charge would have been immaterial given that such properties were maintained, as a matter of policy, by a programme of repair and maintenance such that their residual values were at least equal to their book values. Following the introduction of FRS 15, which was implemented by the Group with effect from 1 October 1999, all properties are depreciated under UK GAAP. There is now no difference between UK GAAP and US GAAP with regard to depreciation policies.

Under UK GAAP, the impairment of tangible fixed assets is measured by reference to discounted cash flows. Under US GAAP, if the carrying value of assets is supported by undiscounted cash flows, there would be no impairment.

The reconciling adjustment in note 42 in respect of tangible fixed assets relates primarily to Six Continents Retail.

Staff costs

The Group charges against earnings the cost of shares acquired to settle awards under certain incentive schemes. The charge is based on an apportionment of the cost of shares over the period of the scheme. Under US GAAP, these awards would be accounted for as variable plans and the charge would be based on the intrinsic value of the shares using the share price at the balance sheet date.

A charge would also be made under US GAAP based on the intrinsic value at the date of grant of options under the Group's Employee Savings Share Scheme, and the charge would be recognised over the period of the savings contracts. Since 24 January 2002, an employer's offer to enter into new contracts at a lower exercise price than the price under existing contracts, causes variable plan accounting to apply in respect of certain options. This could result in an additional charge for those options that qualify for variable plan accounting.

Under US GAAP, a charge would also be made in respect of option grants under the Group's Executive Share Option Schemes. Variable plan accounting would apply and the charge would be recognised over the period of the schemes.

Provisions

Included in provisions for liabilities and charges are amounts which relate to the restructuring of certain of the Group's operations. Under US GAAP, certain of these amounts would be charged to net income as incurred.

Deferred taxation

The Group provides for deferred taxation in respect of timing differences, subject to certain exceptions, between the recognition of gains and losses in the financial statements and for tax purposes. Timing differences recognised, include accelerated capital allowances, unrelieved tax losses and short-term timing differences. Under US GAAP, deferred taxation would be computed on all differences between the tax bases and book values of assets and liabilities which will result in taxable or tax deductible amounts arising in future years.

Fixed asset investments

Included in investments and advances are amounts in respect of Six Continents PLC ordinary shares held by employee share trusts. Under US GAAP, these amounts would be treated as Treasury Stock and deducted from shareholders' equity.

Fixed asset investments are stated at cost less any provision for diminution in value. Under US GAAP, these investments are recorded at market value and unrealised gains and losses are reported in other comprehensive income.

Derivative instruments and hedging

Under US GAAP, all derivative instruments (including those embedded in other contracts) are recognised on the balance sheet at their fair values. Changes in fair value are recognised in net income unless specific hedge criteria are met. If a derivative qualifies for hedge accounting as defined under US GAAP, changes in fair value are recognised periodically in net income or in shareholders' equity as a component of other comprehensive income depending on whether the derivative qualifies as a fair value or cash flow hedge. Substantially all derivatives held by the Group during the year did not qualify for hedge accounting under US GAAP.

Proposed dividends

Final ordinary dividends are provided for in the year in respect of which they are proposed by the Board for approval by the shareholders. Under US GAAP, dividends would not be provided for until the year in which they are declared.

Discontinued operations

Under US GAAP, discontinued operations (which must have been previously reported as business segments) would be recognised at the time management commits itself to a formal plan. Under UK GAAP, recognition does not occur unless the discontinuance has been completed before the earlier of three months after the balance sheet date or the date on which the financial statements are approved.

41 NET INCOME UNDER US GAAP

The significant adjustments required to convert earnings available for shareholders in accordance with UK GAAP to net income in accordance with US GAAP are:

	Group			
	2002 £m	2001 restated* £m	2002** \$m	2001** restated* \$m
Earnings available for shareholders in accordance with UK GAAP	457	443	676	638
Adjustments:				
Pension costs	(21)	(22)	(31)	(32)
Amortisation of intangible fixed assets	(101)	(104)	(149)	(150)
Disposal of tangible and intangible fixed assets	6	339	9	488
Impairment of tangible fixed assets	77	–	114	–
Provisions	–	(4)	–	(6)
Staff costs	–	(1)	–	(1)
Change in fair value of derivatives***	79	(5)	117	(7)
Deferred taxation: on above adjustments	(4)	26	(6)	37
methodology	(43)	33	(64)	48
	(7)	262	(10)	377
Minority share of above adjustments	3	2	4	3
	(4)	264	(6)	380
Net income in accordance with US GAAP	453	707	670	1,018
Continuing operations	281	191	415	275
Discontinued operations: result for the period *****	172	491	255	707
surplus on disposal of Bass Brewers	–	25	–	36
	453	707	670	1,018
	2002	2001	2002**	2001**
	£	restated* £	\$	restated* \$
Net income per American Depositary Share				
Basic****				
Continuing operations	0.32	0.22	0.48	0.32
Discontinued operations	0.20	0.60	0.30	0.86
	0.52	0.82	0.78	1.18
Diluted*****				
Continuing operations	0.32	0.22	0.48	0.32
Discontinued operations	0.20	0.59	0.29	0.85
	0.52	0.81	0.77	1.17

* Restated (i) to reflect the adoption of FRS 19 under UK GAAP with no net effect on net income reported under US GAAP and, (ii) to revise the calculations of the US GAAP adjustments for the profit on disposal of fixed assets and the change in fair value of derivatives which have reduced previously reported net income under US GAAP by £44m (\$63m), comprising gross fixed asset and derivative adjustments of £37m (\$53m) and £26m (\$37m) respectively less associated tax of £19m (\$27m).

**** Calculated by dividing net income in accordance with US GAAP of £453m (2001 £707m), by 863m (2001 863m) shares, being the weighted average number of ordinary shares in issue during the year. Each American Depositary Share represents one ordinary share.

** Translated at the weighted average rate of exchange for the year of £1 = \$1.48 (2001 £1 = \$1.44).

***** Calculated by adjusting basic net income in accordance with US GAAP to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the year. The resulting weighted average number of ordinary shares is 867m (2001 869m).

*** Comprises net gains in the fair value of derivatives that do not qualify for hedge accounting of £75m (2001 £12m losses) and net gains reclassified from other comprehensive income of £4m (2001 £7m).

***** The Group's Retail business, which is subject to the demerger proposals (see note 38), is a discontinued operation under US GAAP for both years.

42 SHAREHOLDERS' EQUITY UNDER US GAAP

The significant adjustments required to convert shareholders' funds in accordance with UK GAAP to shareholders' equity in accordance with US GAAP are:

	Group			
	2002 £m	2001 restated* £m	2002** \$m	2001** restated* \$m
Shareholders' funds in accordance with UK GAAP	5,366	5,185	8,371	7,622
Adjustments:				
Intangible fixed assets:				
Cost: goodwill	2,124	2,201	3,313	3,235
other	1,194	1,285	1,863	1,889
Accumulated amortisation	(947)	(896)	(1,477)	(1,317)
	2,371	2,590	3,699	3,807
Pension intangible fixed asset	24	–	37	–
	2,395	2,590	3,736	3,807
Tangible fixed assets:				
Cost	(956)	(1,004)	(1,491)	(1,476)
Accumulated depreciation	(133)	(211)	(208)	(310)
	(1,089)	(1,215)	(1,699)	(1,786)
Fixed asset investments:				
Investments and advances	(60)	(61)	(93)	(90)
Current assets:				
Pension prepayment	(82)	89	(128)	131
Derivatives	24	13	37	19
Creditors: amounts falling due within one year:				
Proposed dividends	213	207	332	304
Staff costs	–	(1)	–	(1)
Derivatives	(3)	(4)	(4)	(6)
Creditors: amounts falling due after one year:				
Borrowings	4	6	6	9
Derivatives	(41)	(20)	(64)	(29)
Other	7	–	11	–
Provisions for liabilities and charges:				
Provisions	13	13	20	19
Accrued pension cost	(235)	–	(367)	–
Deferred taxation: on above adjustments	(206)	(330)	(321)	(485)
methodology	(214)	(171)	(334)	(251)
	726	1,116	1,132	1,641
Minority share of above adjustments	(58)	(61)	(90)	(90)
	668	1,055	1,042	1,551
Shareholders' equity in accordance with US GAAP	6,034	6,240	9,413	9,173

* Restated (i) to reflect the adoption of FRS 19 under UK GAAP with no net effect on shareholders' equity reported under US GAAP and, (ii) to reflect the adjustments for tangible fixed assets and derivatives referred to on page 54 which have reduced previously reported shareholders' equity under US GAAP by £30m (\$44m).

** Translated at the rate of exchange ruling at the balance sheet date £1 = \$1.56 (2001 £1 = \$1.47).

DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the report of the independent auditors set out below, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

Following discussions with the auditors, the directors consider that in preparing the financial statements on pages 26 to 55 inclusive, the Company

has used appropriate accounting policies, applied in a consistent manner and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE INDEPENDENT AUDITORS

AUDITORS' REPORT TO THE SHAREHOLDERS OF SIX CONTINENTS PLC

We have audited the financial statements for the year ended 30 September 2002 which comprise the Group profit and loss account, Group balance sheet, Company balance sheet, Group cash flow statement, Group statement of total recognised gains and losses and the related notes 1 to 42. These financial statements have been prepared on the basis of the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are solely responsible for preparing the Annual Report. As described above, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the OFR, Directors' Report (which includes corporate governance and remuneration), Chairman's Statement, Executive Directors' Review and the Five Year Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

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

Ernst & Young LLP,
Registered Auditor, London. 4 December 2002

FIVE YEAR REVIEW

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER	2002 £m	2001 restated* £m	2000 restated* £m	1999** restated* £m	1998 restated* £m
Hotels	1,532	1,896	1,581	1,162	853
Retail	1,475	1,557	1,674	1,428	1,368
Soft Drinks	602	571	539	543	527
Other activities	8	16	24	27	27
Inter-divisional	(2)	(7)	(43)	(50)	(44)
Continuing operations	3,615	4,033	3,775	3,110	2,731
Discontinued operations	–	–	1,383	1,576	1,878
Turnover	3,615	4,033	5,158	4,686	4,609
Hotels	262	427	376	321	260
Retail	288	305	346	298	269
Soft Drinks	63	57	46	44	38
Other activities	5	3	8	1	5
Continuing operations before exceptional items	618	792	776	664	572
Operating exceptional items: major	(77)	(43)	–	–	–
Continuing operations	541	749	776	664	572
Discontinued operations	–	–	129	160	186
Operating profit	541	749	905	824	758
Non-operating exceptional items:					
major	53	2	1,293	(110)	200
other	–	(2)	3	(2)	(10)
Profit before interest	594	749	2,201	712	948
Interest	(60)	(59)	(152)	(140)	(97)
Profit before tax	534	690	2,049	572	851
Tax	(52)	(223)	(342)	(190)	(223)
Profit after tax	482	467	1,707	382	628
Minority interests	(25)	(24)	(16)	(8)	(5)
Earnings	457	443	1,691	374	623
Dividends	(305)	(293)	(292)	(277)	(240)
Retained for reinvestment in the business	152	150	1,399	97	383
Statistics					
Adjusted interest cover***	10.3x	13.4x	6.0x	5.9x	7.7x
Earnings per share:					
basic	53.0p	51.3p	193.7p	46.9p	75.0p
adjusted pre-FRS 15****	n/a	n/a	n/a	60.8p	53.3p
adjusted post-FRS 15****	42.4p	56.2p	58.4p	56.5p	50.1p
Dividend per share	35.3p	34.3p	33.3p	32.3p	30.0p
Adjusted dividend cover***	1.2x	1.7x	1.7x	1.7x	1.8x

* Restated on the adoption of FRS 19 (see page 30).

** 53 weeks for all divisions other than Hotels (12 months).

*** Calculated after excluding the effect of major exceptional items and any relevant tax.

**** Adjusted earnings per share calculated assuming that the depreciation requirements of FRS 15 had applied during the year.

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER	2002 £m	2001 £m	2000 £m	1999* £m	1998 £m
EBITDA**	885	1,031	1,191	1,050	976
Working capital movements	(148)	(24)	(88)	(64)	(38)
Major operating exceptional expenditure	(17)	(23)	–	–	–
Operating activities	720	984	1,103	986	938
Net capital expenditure (see below)	(513)	(868)	(654)	(501)	(587)
Trade loans	–	–	23	32	27
Dividends from associates	–	–	11	10	3
Operating cash flow (see below)	207	116	483	527	381
Interest	(62)	(69)	(137)	(130)	(105)
Dividends	(312)	(295)	(290)	(250)	(250)
Taxation	(123)	(149)	(158)	(174)	(152)
Normal cash flow	(290)	(397)	(102)	(27)	(126)
Major acquisitions	(24)	(752)	(400)	–	(817)
Major disposals	9	623	2,234	–	1,306
Net cash flow	(305)	(526)	1,732	(27)	363
Net capital expenditure					
Hotels	(259)	(607)	(326)	(270)	(155)
Retail	(227)	(288)	(204)	(140)	(230)
Soft Drinks	(31)	(28)	(48)	(34)	(45)
Other activities	4	55	(19)	(8)	(2)
Continuing operations	(513)	(868)	(597)	(452)	(432)
Discontinued operations	–	–	(57)	(49)	(155)
	(513)	(868)	(654)	(501)	(587)
Operating cash flow					
Hotels	60	(80)	114	68	105
Retail	144	66	213	212	80
Soft Drinks	77	99	36	41	30
Other activities	(74)	(9)	(35)	3	11
Continuing operations	207	76	328	324	226
Discontinued operations	–	40	155	203	155
	207	116	483	527	381

* 53 weeks for all divisions other than Hotels (12 months).

** Earnings before interest, taxation, depreciation and amortisation, and major exceptional items.

GROUP BALANCE SHEET AT 30 SEPTEMBER	2002 £m	2001 restated* £m	2000 restated* £m	1999 restated* £m	1998 restated* £m
Fixed assets	8,063	7,998	7,121	6,335	5,576
Stocks	91	90	97	189	204
Debtors	623	577	600	701	736
Investments	218	366	862	333	307
Cash at bank and in hand	84	67	125	182	149
Short-term creditors	(2,273)	(2,009)	(1,604)	(1,803)	(1,989)
Net current (liabilities)/assets	(1,257)	(909)	80	(398)	(593)
Long-term creditors	(764)	(1,180)	(1,376)	(2,231)	(2,012)
Provisions	(527)	(591)	(580)	(521)	(517)
Minority interests	(149)	(133)	(114)	(109)	(104)
Net assets	5,366	5,185	5,131	3,076	2,350
Shareholders' funds	5,366	5,185	5,131	3,076	2,350
Comprising:					
Hotels	3,990	3,949	2,637	2,118	1,687
Retail	3,467	3,328	3,728	2,653	2,221
Soft Drinks	246	252	292	281	285
Other activities	151	23	31	125	95
Continuing operations	7,854	7,552	6,688	5,177	4,288
Discontinued operations	–	–	–	949	1,026
Net operating assets	7,854	7,552	6,688	6,126	5,314
Net debt	(1,177)	(1,001)	(345)	(1,995)	(1,950)
Other**	(1,311)	(1,366)	(1,212)	(1,055)	(1,014)
Shareholders' funds	5,366	5,185	5,131	3,076	2,350
Statistics					
Gearing***	21.9%	19.3%	6.7%	64.9%	83.0%
Return on net operating assets****	7.9%	10.5%	13.5%	13.5%	14.3%

* Restated on the adoption of FRS 19 (see page 30).

** Proposed dividend, corporate taxation, deferred taxation and minority interests.

*** Net debt expressed as a percentage of shareholders' funds.

**** Operating profit before major exceptional items expressed as a percentage of net operating assets.

ADJUSTED	excluding the effect of major exceptional items and any relevant tax.	MAJOR EXCEPTIONAL ITEMS	exceptional items which, by virtue of their nature and materiality, are excluded in arriving at 'adjusted' results in order to give a more meaningful measure of performance.
AVERAGE DAILY RATE (ADR)	room revenue divided by the number of room nights sold. Also known as average room rate.	MANAGEMENT CONTRACT	a contract to operate a hotel on behalf of the hotel owner.
BASIC EARNINGS PER SHARE	earnings available for ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.	MARKET CAPITALISATION	the value attributed to a listed company by multiplying its share price by the number of shares in issue.
BOND	a long-dated note, being an obligation to repay.	MIDSCALE HOTEL	a hotel in the three/four star category, e.g. Holiday Inn, Holiday Inn Express.
COMMERCIAL PAPER	a negotiable short-term unsecured promissory note, issued by a corporate or other borrower normally for a maximum of one year.	NET CAPITAL EXPENDITURE	cash expended on fixed assets, less cash received from selling fixed assets, excluding major acquisitions and disposals.
COMMUNITY PUB	an outlet serving the immediate locality.	NET CASH FLOW	cash flow from all operations, including major and one-off payments and receipts.
COMPETITIVE SEGMENT	the broad market segment against which a hotel brand competes.	NET DEBT	borrowings less current asset investments and cash at bank and in hand.
COMPETITIVE SET	the specific local hotels against which a particular hotel competes.	NET OPERATING ASSETS	total assets less liabilities, excluding all assets and liabilities of a financing nature.
CONTINGENT LIABILITY	a liability that is contingent upon the occurrence of one or more uncertain future events.	NORMAL CASH FLOW	cash flow from all operations before major and one-off payments and receipts.
CONTINUING OPERATIONS	operations not classified as discontinued and including acquisitions made during the year.	OCCUPANCY RATE	rooms occupied by hotel guests, expressed as a percentage of rooms that are available.
CURRENCY SWAP	an exchange of a deposit and a borrowing, each denominated in a different currency, for an agreed period of time.	ONGOING ESTATE	the pub and restaurant estate remaining after disposal of the 988 smaller unbranded pubs.
DEBENTURE	a long-term loan, usually secured by property.	OPERATING CASH FLOW	cash flow from operations but before payments for tax and to providers of finance (through interest and dividends), and before major and one-off payments and receipts.
DISCONTINUED OPERATIONS	operations that have been sold or terminated and where the sale or termination has had a material effect on the nature and focus of the Group's operations.	OPERATING MARGIN	operating profit expressed as a percentage of turnover.
EXCEPTIONAL ITEMS	material items deriving from the ordinary activities but which are disclosed separately because of their size or incidence.	OUTLET	a pub, bar or restaurant.
EXTENDED-STAY HOTEL	a hotel designed for guests staying for longer periods of time than a few nights and tending to have a higher proportion of suites than normal hotels, e.g. Staybridge Suites.	PIPELINE	signed/executed agreements, including franchises and management contracts, for hotels which will enter the Six Continents Hotels system at a future date.
FORWARD RATE AGREEMENT	a contract to receive or pay the difference between an agreed interest rate and the actual rate at an agreed future date, on a specified notional principal.	REVENUE PER AVAILABLE ROOM (RevPAR)	room revenue divided by the number of room nights that are available (can be mathematically derived from occupancy rate multiplied by average room rate).
FRANCHISEE	operator who uses a brand under licence from the brand owner (e.g. Six Continents Hotels).	ROOM REVENUE	revenue generated from the sale of room nights.
FRANCHISOR	brand owner (e.g. Six Continents Hotels) who licenses brands for use by other operators.	ROYALTY RATE	the percentage of room revenue that a franchisee pays to the brand owner for use of the brand name.
GEARING	net debt expressed as a percentage of shareholders' funds.	SUBSIDIARY UNDERTAKING	a company in which the Group holds a stake and over which it exercises dominant influence.
GOODWILL	the difference between the consideration given for a business and the total of the values of the separable assets and liabilities comprising that business.	SYSTEM SIZE	number of hotels (or rooms) owned, managed or franchised by Six Continents Hotels.
GROSS OPERATING MARGIN	operating profit before fixed costs and overheads, expressed as a percentage of turnover.	UNDERLYING	adjusted to remove items that distort comparability between both years.
HEDGING	the reduction of risk, normally in relation to foreign currency or interest rate movements, by making offsetting commitments.	UNINVESTED LIKE-FOR-LIKE	based on those outlets that have been operated in comparable circumstances, and without significant investment, in both years.
INCOME-GENERATING UNIT	a portfolio of similar assets that are subject to the same economic and commercial influences.	UPSCALE HOTEL	a four/five star full-service hotel characterised by superior service, e.g. InterContinental, Crowne Plaza.
INTEREST COVER	the number of times that interest payable and similar charges, less interest receivable, is covered by profit before interest.	UK GAAP	accounting principles generally accepted in the United Kingdom.
INTEREST RATE SWAP	an agreement to exchange fixed for floating interest rate streams (or vice versa) on a notional principal.	US GAAP	accounting principles generally accepted in the United States.
INVESTED LIKE-FOR-LIKE	based on those outlets that have been operated in comparable circumstances, with or without significant investment, in both years.	WEIGHTED AVERAGE EXCHANGE RATE	the average of the monthly exchange rates, weighted by reference to monthly operating profit.
		WORKING CAPITAL	the sum of stocks, debtors, creditors and accruals of a trading nature, excluding financing items such as corporate taxation and proposed dividends.

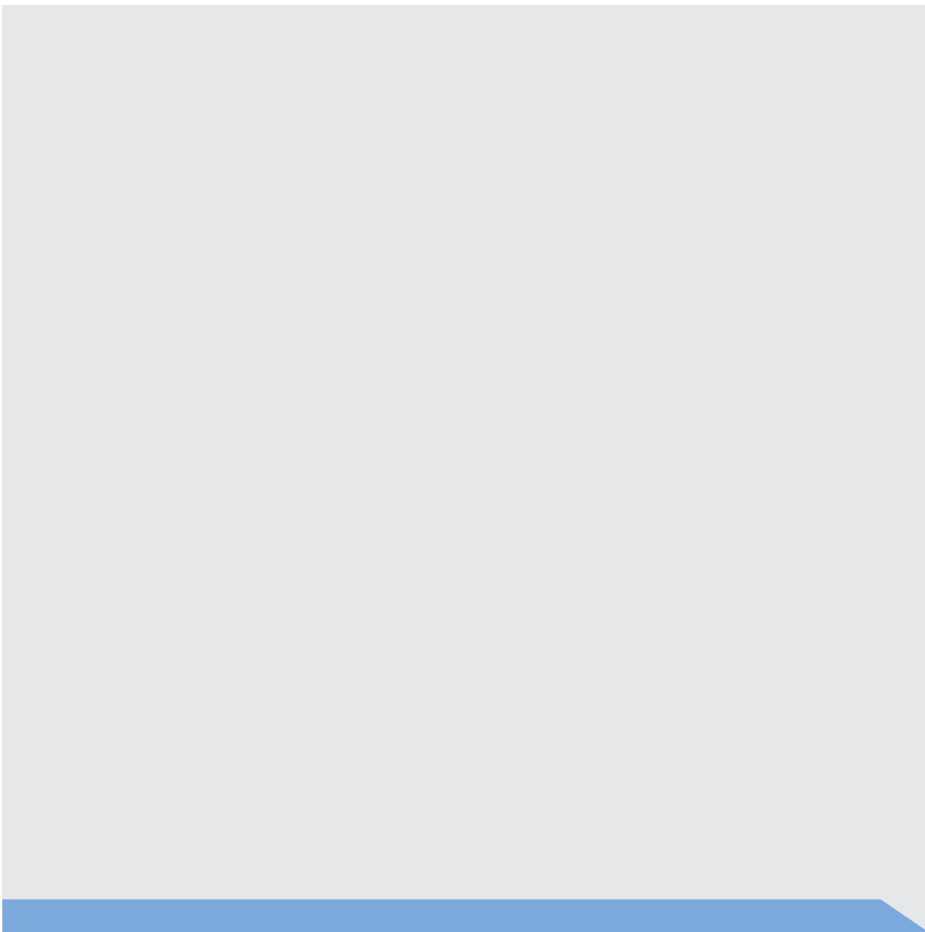
FORWARD-LOOKING STATEMENTS

Both the Annual Review and Summary Financial Statement 2002 and the Annual Report and Financial Statements 2002 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934) with respect to the financial condition, results of operations and business of Six Continents and certain plans and objectives of the board of directors of Six Continents with respect thereto. Such statements include, but are not limited to, statements made in the Chairman's Statement and the Executive Directors' Review. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are based on assumptions and assessments made by Six Continents' management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in, or implied by, such forward-looking statements, including, but not limited to: expected benefits of the demerger of Six Continents' Hotels and Soft Drinks businesses from its Leisure Retail business; events that impact domestic or international travel; levels of consumer and business spending in major economies where Six Continents does business; changes in consumer tastes and preferences; levels of marketing and promotional expenditure by Six Continents and its competitors; changes in the cost and availability of raw materials, key personnel and changes in supplier dynamics; significant fluctuations in exchange rates, interest rates and tax rates; the availability and effects of future business combinations, acquisitions or dispositions, the impact of legal and regulatory actions or developments; the impact of the European Economic and Monetary Union; the ability of Six Continents to maintain appropriate levels of insurance; exposures relating to franchise or management contract operations; the maintenance of Six Continents' IT structure, including its centralised reservation system; the development of new and emerging technologies; competition in the markets in which Six Continents operates; political and economic developments and currency exchange fluctuations; economic recession; management of Six Continents' indebtedness and capital resource requirements; material litigation against Six Continents; substantial trading activity in Six Continents' shares; the reputation of Six Continents' brands; the level of costs associated with leased properties; and the weather.

Other factors that could affect the business and financial results are described in Item 3 Risk Factors in the Six Continents Form 20-F for the financial year ended 30 September 2001, or any subsequent year, filed with the US Securities and Exchange Commission.

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*With effect from 13 January 2003