

## **DIRECTORS' REPORT**

The directors have pleasure in submitting their report, together with the audited financial statements, for the nine months ended 30 June 1998.

On 17 December 1997 Grand Metropolitan PLC ("GrandMet") merged with Guinness PLC to form Diageo plc, which as a result became the ultimate parent undertaking of the company.

### **Activities**

The company acts as a holding company. The company did not trade during the period or the preceding financial year. The directors foresee no material changes in the nature of the company's activities.

### **Year 2000**

The Diageo group has recognised that Year 2000 is a major issue and has established a Year 2000 team, which has made good progress in establishing an effective post-integration framework for its Year 2000 programme, having completed their impact assessment and project plans. Based on the work detailed above, the company believes that once the testing and conversion of computer systems is complete, internal systems and equipment will not give rise to significant operational problems as a result of the Year 2000 issue.

The Diageo group is also working with key business suppliers, joint distribution arrangement partners and customers to prepare for the Year 2000 and is establishing contingency plans for Year 2000 failures by such business partners. Contingency plans are also being prepared for unexpected Year 2000 failures that may affect business critical systems and equipment.

The general expectation by those who have studied best practice in managing the Year 2000 problem is that even the best run projects will face some Year 2000 compliance failures. There can be no assurance that Year 2000 projects will be successful or that the date change from 1999 to 2000 will not adversely affect the company's operations and financial results. The Diageo group may also be adversely affected by the inability of third parties to manage the Year 2000 problem.

**DIRECTORS' REPORT (continued)**

**The euro**

In accordance with the Treaty on European Union, signed at Maastricht on 7 February 1992, the third stage of Economic and Monetary Union ("EMU") commenced on 1 January 1999. At that time, a single currency, the 'euro', was introduced. The Diageo group's euro-readiness is being managed as a discrete business project, the group has systems and procedures in place which will enable it to conduct euro transactions appropriate to local market requirements.

The Diageo group is also working actively with key business suppliers, joint distribution arrangement partners and customers in respect of EMU. In addition, monetary union may have a significant impact on macroeconomic factors, including interest and foreign exchange.

Looking forward, key commercial risks, such as pricing transparency, have been analysed, with a view to minimising the impact through active management in these areas over the EMU transition period and beyond. However, there can be no assurance that the euro will not have a negative impact. The impact of future entry to EMU of other European countries (particularly the UK) has been similarly analysed.

**Financial**

The financial year end of the company has been changed to 30 June from 30 September and the results for the period shown on page 7 are for the nine months from 1 October 1997 to 30 June 1998.

The directors do not recommend the payment of a dividend (1997 - £nil).

There was no result in the current financial period or preceding financial year.

**Directors**

The directors who served during the period were as follows:-

S M Bunn (appointed 27 March 1998)  
R H Myddelton  
M D Peters (appointed 27 March 1998)  
B E Wickham (resigned 27 March 1998)

**DIRECTORS' REPORT (continued)**

**Directors' interests**

No directors had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the period in any significant contract with the company.

On 2 February 1998 the company's ultimate parent company, Diageo plc, made a capital repayment to shareholders equivalent to 70 pence per Diageo plc ordinary share, which took the form of the issue of redeemable B shares of 514  $\frac{12}{17}$  pence and the consolidation of existing shares from 25 pence ordinary shares to 28  $\frac{101}{108}$  pence ordinary shares. For every 1,000 existing ordinary shares shareholders received 864 consolidated ordinary shares and 136 B shares.

The directors who held office at the end of the financial period had the following beneficial interests in the shares of the ultimate parent company, Diageo plc:-

**Shares and awards over ordinary shares**

	Ordinary shares of 25p or 28 $\frac{101}{108}$ p 1.10.97 or as at date of appointment	Ordinary shares Of 28 $\frac{101}{108}$ p 30.6.98	B Shares 30.6.98	MTEP Awards* 30.6.98	RSP Awards* 30.6.98
S M Bunn	-	-	-	-	-
R H Myddelton	21,368	20,049	-	-	18,081
M D Peters	5,943	2,733	224	1,434	-

**Options**

	1.10.97 or as at date of appointment	Granted during period	Exercised during period	30.6.98
S M Bunn	14,672	-	-	14,672
R H Myddelton	313,260	-	105,738	207,522
M D Peters	13,348	-	-	13,348

The directors held the above options under Grand Metropolitan PLC and Diageo plc share option schemes at prices between 314p and 494p per share exercisable by 2007.

The mid-market share price of Grand Metropolitan PLC/Diageo plc shares fluctuated between 535p and 762.5p per share during the period. The mid-market share price on 30 June 1998 was 711p.

R H Myddelton had an interest in 4,975,416 shares subject to call options held by trusts to satisfy grants made under the various GrandMet share option schemes existing prior to the merger.

**Directors' interests (continued)**

**\* Notes**

- (i) **The Guinness Medium Term Executive Plan ("MTEP")** was established in 1997. The plan was operated by the trustees of the Diageo plc Employee Incentive Trust 1997. Awards were made only to B grade executives and below world-wide. Performance conditions were tailored to the particular division within which the relevant executive works and could be adjusted when they moved within the group. The plan was wound up in June 1998 with cash payments made to participants in September 1998 in lieu of shares. Proportionate payments were made based on the time elapsed since the plan was first established.
- (ii) **The Grand Metropolitan Restricted Share Plan ("RSP")**. In 1997, GrandMet shares or ADSs were conditionally awarded to executives, with eventual release dependent on the performance of GrandMet's Total Shareholder Return ("TSR") compared with the TSR of the other FTSE 100 companies, over a minimum of three years. The allocation for UK directors was 100% of base salary, using the average share price for the calendar year prior to the date of the award. Following the merger, these awards have been converted to Diageo shares, and their release to participants will depend on the ranking of Diageo's TSR at the end of three years after the date of grant. If the company is ranked in the top 20% of selected companies, the maximum number of shares will be released; if it is ranked below the 50th percentile, no shares will be released. Releases between these points are on a sliding scale.

**Secretary**

On 1 June 1998 S M Bunn resigned as secretary of the company and V A Lynch was appointed in her place.

**Auditor**

The company having been dormant within the meaning of section 250 of the Companies Act 1985 during the period will submit a special resolution to the AGM exempting the company from the obligation to appoint an auditor.

By order of the Board



V A Lynch  
Secretary  
8 Henrietta Place  
London  
W1M 9AG

19 April 1999

**DIRECTORS' RESPONSIBILITIES  
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the report of the auditor set out on page 6, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

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

The directors, in preparing the financial statements on pages 7 to 10, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards that they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on a going concern basis.

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 AUDITOR  
TO THE MEMBERS OF GRAND HOTELS (MAYFAIR) LIMITED**

We have audited the financial statements on pages 7 to 10.

**Respective responsibilities of the directors and auditor**

As described on page 5, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 1998 and of its result for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
London

19 April 1999

**PROFIT AND LOSS ACCOUNT**

**FOR THE NINE MONTHS ENDED 30 JUNE 1998**

During the financial period and the preceding financial year, the company did not trade and received no income and incurred no expenditure. Consequently, during those periods, the company made neither a profit nor a loss, and there were no other recognised gains or losses.

Accordingly, neither a profit and loss account, a statement of recognised gains and losses, a note of historical cost profits and losses or a reconciliation of movements in shareholders' funds has been presented.

**GRAND HOTELS (MAYFAIR) LIMITED**  
**9 months to 30 June 1998**

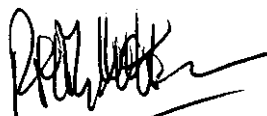
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**BALANCE SHEET**

**AS AT 30 JUNE 1998**

		<b>30 June 1998 £</b>	<b>30 September 1997 £</b>
	<b>Notes</b>		
<b>Fixed assets</b>			
Investments	3	120,003	120,003
<b>Current assets</b>			
Debtors	4	28,022,961	28,022,961
<b>Creditors - amounts falling due within one year</b>	5	<u>(6,468,944)</u>	<u>(6,468,944)</u>
<b>Net current assets</b>		21,554,017	21,554,017
		<u>21,674,020</u>	<u>21,674,020</u>
<b>Capital and reserves</b>			
Called up share capital	6	1,420,639	1,420,639
Share premium account		763,184	763,184
Profit and loss account		<u>19,490,197</u>	<u>19,490,197</u>
		<u>21,674,020</u>	<u>21,674,020</u>

The financial statements on pages 7 to 10 were approved by the Board of Directors on 19 April 1999 and were signed on its behalf by:



**R H Myddelton**  
**Director**



**NOTES (forming part of the financial statements)**

**1. Accounting policies**

***Basis of preparation***

The financial statements of the company are prepared under the historical cost convention and comply with applicable UK accounting standards. The bases used are consistent with those used in the previous period. The company has not presented group financial statements by virtue of section 228 of the Companies Act 1985.

***Investments***

Fixed asset investments are stated individually at cost less, where appropriate, provision for diminution in value where such diminution is expected by the directors to be permanent.

**2. Profit and loss account**

None of the directors received any remuneration during the period in respect of their services as directors of the company (1997 - £nil).

Auditor's remuneration was paid on behalf of the company by a group undertaking.

**3. Fixed asset investments**

	<b>Subsidiary undertakings £</b>
<u>Cost:</u>	
At beginning and end of the period	<u>2,992,314</u>
<u>Provisions:</u>	
At beginning and end of the period	<u>2,872,311</u>
<u>Net book value</u>	
30 June 1998 and 30 September 1997	<u>120,003</u>

The subsidiary undertakings, all of which are non-trading, registered in England and wholly owned, are:

Forum Hotels International Limited  
Belfast Europa Limited

In the opinion of the directors, the investments in and amounts due from the company's subsidiary undertakings are worth at least the values at which they are stated in the financial statements.

**NOTES (continued)**

**4. Debtors: due within one year**

	<b>30 June 1998 £</b>	<b>30 September 1997 £</b>
Amounts due from group undertakings	27,973,217	27,973,217
Taxation recoverable	<u>49,744</u>	<u>49,744</u>
	<b><u>28,022,961</u></b>	<b><u>28,022,961</u></b>

**5. Creditors: amounts falling due within one year**

	<b>30 June 1998 £</b>	<b>30 September 1997 £</b>
Trade creditors	13,545	13,545
Amounts owed to group undertakings	6,439,537	6,439,537
Other creditors	<u>15,862</u>	<u>15,862</u>
	<b><u>6,468,944</u></b>	<b><u>6,468,944</u></b>

**6. Share capital**

	<b>30 June 1998 £</b>	<b>30 September 1997 £</b>
<b>Authorised</b>		
10,000,000 ordinary shares of 20p each	<u>2,000,000</u>	<u>2,000,000</u>
<b>Allotted, called up and fully paid</b>		
7,103,194 ordinary shares of 20p each	<u>1,420,639</u>	<u>1,420,639</u>

Ordinary shares are entitled to one vote per share.

**7. Immediate and ultimate parent undertaking**

The immediate parent undertaking is Grand Metropolitan PLC, a company registered in England.

The ultimate parent undertaking of the company as at 30 June 1998 was Diageo plc, a company registered in England. Diageo plc's accounting period end is 30 June. The first consolidated accounts of Diageo plc for the eighteen month period ended 30 June 1998, can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.