

HKS Properties Limited

Directors' report and financial statements

Registered number 423978

30 June 1999



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Directors' report

The Directors present their annual report and the audited financial statements for the year ended 30 June 1999.

Review of the Business and Principal Activities

The Company has not traded in the year and the Directors do not expect the Company to trade in the foreseeable future.

Results and transfer to reserves

The Company did not trade in the year and hence made no profit after taxation for the period (1998: £421,000).

Year 2000

Most companies face a major challenge in making their business and other systems Year 2000 ready. The problem is caused by the inability of some systems to handle four-digit years. For example, without correction the two digit year '00', meaning 2000, could be recognised as 1900, causing systems to generate inaccurate information and potentially to fail.

The Diageo group recognises this challenge and has established a compliance programme to address the issue in all of its business units and subsidiaries. The implications for HKS Properties Limited are being addressed as part of the Guinness programme to allow it to operate successfully and safely into the new millennium. This includes potential risks to:

- Information systems used to support HKS Properties Limited's activities;
- Building services and computerised equipment in all premises from which the Company operates;
- Trading partners including suppliers of critical business and other support services to the Company.

Each programme involved the identification and assessment of items at risk in these areas, followed by the implementation of an appropriate strategy to avoid or minimise the impact of year 2000 related problems. Testing was performed as necessary, taking into account professional advice and a full assessment of risk.

All major stages of the programme were completed on target by 30 September 1999 and HKS Properties Limited is now Year 2000 ready. Procedures are in place to maintain a clean environment where risks have been addressed. Some outstanding work remains but is not business critical. This includes ongoing contact with key trading partners to share best practice and risk information.

Even the best run projects are likely to face some year 2000 compliance failures. There can be no certainty that the Year 2000 programmes will be successful or that the date change from 1999 to 2000 will not materially and adversely affect a company's operations and financial results. Based on the work already completed, we do not believe that the Year 2000 will give rise to significant operational problems for HKS Properties Limited. However, it may still be adversely affected by the general uncertainty inherent in the Year 2000. Business Continuity Plans are therefore in place, along with pro-active mitigation strategies (millennium operating procedures) for the key impact period. Both continue to be refined to reflect the best available risk information.

The full cost of managing the year 2000 problem for HKS Properties Limited has not been identified separately, but is included within the overall programme cost shown in the annual report of the ultimate parent company, Diageo plc.

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. The Company's euro-readiness is being managed as a discrete business project. The Company expects to have systems and procedures in place which will enable it to conduct euro transactions appropriate to local market requirements.

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

Key commercial risks, such as pricing transparency, have been analysed, with a view to reducing any impact through active management over the 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 United Kingdom) is being similarly analysed.

The cost associated with the euro-readiness project for HKS Properties Limited has not been identified separately but is included within the overall project cost in the annual report of the ultimate parent company, Diageo plc.

Directors and directors' interests

The Directors who held office during the year were as follows:

SH Wingfield-Digby
 B Beanland

Secretary: SME O'Donovan

On 1 March 1999 Mr B Beanland resigned as Secretary and Miss SME O'Donovan was appointed in his stead.

No Director had any interest in shares or debentures of the Company, of any subsidiary undertaking or of any subsidiary of the parent undertaking with the exception of non-beneficial interests as nominee and the interests in the ordinary shares of the ultimate holding company, Diageo plc, as set out below:

	Ordinary shares at 30 June 1999	Options over ordinary shares as at 30 June 1999	Ordinary shares at 1 July 1998	Options over ordinary shares as at 1 July 1998
Ordinary shares (25p units)				
SH Wingfield-Digby	28,441	49,903	27,619	47,866
B Beanland	8,325	29,256	8,580	24,132

Directors' report *(continued)*

Directors and directors' interests *(continued)*

During the year, the following movements in options over the ordinary shares of Diageo plc took place:

	Note	Granted	Exercised	Exercise price £/p	Market price at date of exercise £/p	Date from which exercisable	Expiry date
SH Wingfield-Digby	1	520		4.470		01.12.01	31.05.02
	3	3,232		Nil		01.01.01	01.01.01
	3	2,000		Nil		01.01.02	01.01.02
	1		1,262	3.280	6.940	01.12.98	01.01.99
	=		2,453	Nil	7.100		
B Beanland	1	433		4.970		01.12.01	31.05.02
	3	4,750		Nil		01.01.01	01.01.01
	3	4,250		Nil		01.01.02	01.01.02
	1		1,051	3.280	6.345	01.12.98	01.01.99
	=		3,258	Nil	7.100		

Notes:

- 1 These options were granted and exercised under the terms of the Save As You Earn scheme.
- 2 These options were granted and exercised under the terms of the Executive Share Options scheme.
- 3 These LTIPs were granted and exercised under the terms of the Diageo LTIP.
- = These options were originally granted under the terms of the Guinness MTEP. On 30 June 1998 this scheme was cancelled and the options paid in cash at the market price at that date.

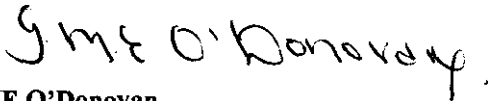
Directors' report *(continued)*

Directors and directors' interests *(continued)*

The options outstanding at 30 June 1999 have been granted under Group employee share participation schemes and are exercisable at varying dates between 1991 and 2007 at varying prices between 359.0 pence and 494.0 pence. The mid-market price of the shares at 30 June 1999 was 662.5 pence. The highest mid-market price during the period was 778.5 pence and the lowest mid-market price was 480.5 pence.

Directors of subsidiaries of Diageo plc are deemed to be interested as employees in shares held by an employee share trust, details of which are disclosed in the 1999 Annual Report and Accounts of Diageo plc. The ultimate parent Company purchases liability insurance covering the Directors and officers of Diageo plc and its subsidiaries.

By Order of the Board



SME O'Donovan
Secretary

26 April 2000

Statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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



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Auditor's report to the members of HKS Properties Limited

We have audited the financial statements on pages 7 to 13.

Respective responsibilities of directors and auditors

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 1999 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor

28 April 2000

Profit and loss account
for the year ended 30 June 1999

	<i>Notes</i>	12 months ending 30 June 1999 £000	18 months ending 30 June 1998 £000
Turnover			
Discontinuing operations	2	-	166
Other operating income	3	-	666
Net Operating Charges		-	(423)
		<hr/>	<hr/>
Operating profit			
Discontinuing operations		-	409
Profit on disposals of fixed assets		-	12
Net interest payable and similar charges		-	(1)
		<hr/>	<hr/>
Profit on ordinary activities before and after taxation	1-4	-	420
		<hr/>	<hr/>
Amount transferred to reserves	9	-	420
		<hr/>	<hr/>

Results stated on an historical cost basis are no different from those shown above.

There have been no recognised gains or losses other than those in the profit and loss account.

Movements on reserves are shown in note 9 to the financial statements.

The notes on pages 10 to 13 form part of these financial statements.

Balance sheet
at 30 June 1999

	<i>Note</i>	1999 £000	1998 £000
Current assets			
Debtors	6	14,648	14,648
Creditors: amounts falling due within one year	7	(17,573)	(17,573)
Net liabilities		(2,925)	(2,925)
Capital and reserves			
Called up share capital	8	270	270
Profit and loss account	9	(3,195)	(3,195)
Equity shareholders' funds		(2,925)	(2,925)

These financial statements were approved by the Board of Directors on

26 April 2000

and were signed on its behalf by:



Director

Reconciliation of movements in shareholders' funds
for the year 30 June 1999

	1999 £000	1998 £000
Retained profit for the financial year	-	420
Net addition to shareholders' funds	-	420
Opening shareholders' funds	(2,925)	(3,345)
Closing shareholders' funds	(2,925)	(2,925)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996). The Company is also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions (but not the balances) with entities that are part of the Diageo plc group or investees of the Diageo plc group.

Going concern

The accounts have been prepared on a going concern basis upon assurances given by the parent company that it will provide sufficient finance to enable the company to meet its liabilities as they fall due.

2 Analysis of turnover and profit on ordinary activities before taxation

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

Notes (continued)

3 Other operating income

	1999 £000	1998 £000
Other machine income	-	30
Amusement machine income	-	13
Release of provisions	-	376
Managed house sales	-	247
	<u>-</u>	<u>666</u>
	<u>-</u>	<u>666</u>

4 Profit on ordinary activities before taxation

	1999 £000	1998 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration	-	1
Depreciation	-	6
Rents payable	-	1
Repairs and maintenance expenditure	-	28
Managed house costs	-	297
	<u>-</u>	<u>333</u>
	<u>-</u>	<u>333</u>

5 Directors and employees

The Company has no employees. The Directors received no emoluments for their services to the Company.

Notes (continued)

6 Debtors

	1999 £000	1998 £000
Amounts owed by group undertakings	14,648	14,648
	<u>14,648</u>	<u>14,648</u>

7 Creditors: amounts falling due within one year

	1999 £000	1998 £000
Amounts owed to group undertakings	17,573	17,573
	<u>17,573</u>	<u>17,573</u>

8 Called up share capital

	1999 £000	1998 £000
<i>Authorised</i>		
250,000 ordinary shares of £1 each	250	250
20,000 1% cumulative preference shares of £1 each	20	20
	<u>270</u>	<u>270</u>
	<u>270</u>	<u>270</u>
<i>Allotted, called up and fully paid</i>		
250,000 ordinary shares of £1 each	250	250
20,000 1% cumulative preference shares of £1 each	20	20
	<u>270</u>	<u>270</u>
	<u>270</u>	<u>270</u>

Notes *(continued)*

9 Reserves

	Profit and loss account £000
At 30 June 1999 and 1 July 1998	(3,195)

10 Parent undertaking

The Company is a subsidiary undertaking of Guinness Limited. Diageo plc is the ultimate parent undertaking of the smallest and largest group for which group accounts incorporating those of the Company are prepared. Copies of the 1999 Annual Report and Accounts of Diageo plc can be obtained from 8 Henrietta Place, London, W1 9AG.