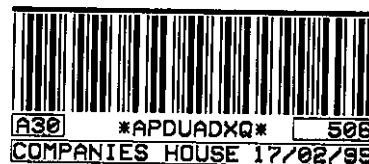


HKS Properties Limited
(Registered Number: 423978)

Directors' Report And Financial Statements

30 June 1998



HKS Properties Limited

Directors' Report For The 18 Months Ended 30 June 1998

The Directors submit their Report and audited financial statements for the 18 months ended 30 June 1998. On 17 December 1997, Grand Metropolitan PLC merged with Guinness PLC to form Diageo plc which as a result became the ultimate parent undertaking of the Company. The year end of Diageo plc and the Company was changed to 30 June and the financial statements have been prepared for an eighteen month period to 30 June 1998.

Review Of The Business And Principal Activities

The Company's income arose from rental on property, discount receivable on sales into the estate and amusement machine income.

During the period the Company disposed of its entire portfolio of freehold and leasehold investment properties and associated assets and liabilities, for total proceeds of £7,786,000 to Crown Buckley Limited. A provision of £858,000 for the permanent diminution in value of the investment properties and fixtures and fittings was made in the 1996 accounts (also see Note 7).

The Company currently retains an interest in one piece of land. It is management's intention to sell this interest in future years.

Results And Transfer From Reserves

The year end of the Company has changed to 30 June from 31 December, and the results for the period shown on page 5 are for the eighteen months from 1 January 1997 to 30 June 1998.

The Directors do not recommend the payment of a dividend. The profit for the year of £420,000 (1996 – loss £613,000) has been transferred to reserves.

Board Of Directors

The names of the Directors of the Company during the year are shown below:

SH Wingfield-Digby
B Beanland (Secretary)

Directors' Interests

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 1998 Options over Ordinary Shares	Ordinary Shares	At 1 January 1997 Options over Ordinary Shares
Ordinary Shares (25p units)				
S H Wingfield-Digby	27,619	47,866	29,848	62,588
B Beanland	8,580	24,132	17,548	46,324

HKS Properties Limited

Directors' Report For The 18 Months Ended 30 June 1998 (continued)

Directors' Interests (continued)

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

	Options granted during 1997/98		Options exercised during 1997/98		
	Number	Price (£)	Number	Price (£)	Market price at date of exercise (£)
SH Wingfield-Digby	2,453	*0.001	8,508	*3.21	4.75
	4,089	*4.94	10,932	*2.255	4.75
			1,824	*4.11	4.96
B Beanland	3,258	*0.001	8,941	*4.76	6.68
	2,896	*4.94	9,442	*4.93	6.68
			5,383	*5.34	6.68
			4,580	*4.56	6.68

* These options were granted and exercised under the terms of the Executive Share Option Scheme

The options outstanding at 30 June 1998 have been granted under Group employee share participation schemes and are exercisable at varying dates between 1994 and 2007 at varying prices between 225.5 pence and 533.5 pence. The mid-market price of the shares at 30 June 1998 was 711 pence. The highest mid-market price during the period was 762.5 pence and the lowest mid-market price was 533 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 1998 Annual Report and Accounts of Diageo plc. The ultimate parent undertaking purchases liability insurance covering the Directors and officers of Diageo plc and its subsidiaries.

Year 2000

The Guinness Group of Companies has recognised that Year 2000 is a major issue and has established a Group-wide program to co-ordinate the activities of the business. The impact assessment phase is complete, correction and testing of equipment is well advanced with implementation in progress in some areas. However, the general expectation by those who have studied the Year 2000 problem is that even the best run projects will face some Year 2000 compliance failures. The cost to the Company of modifying its systems is considered not to be material so has not been separately quantified. The cost to the Guinness Group is disclosed in the Guinness Limited 1998 Annual Report and Accounts.

HKS Properties Limited

Directors' Report For The 18 Months Ended 30 June 1998 (continued)

The euro

Economic and Monetary Union ("EMU") and the introduction of the euro on 1 January 1999 has had minimal operational implications as the Company has no dealings with Member States of the European Union. Therefore, the potential benefits and costs to the Company have not been quantified.

Statement Of Supplier Payments

The Company does not operate a standard code in respect of payments to suppliers. The Company is responsible for agreeing the terms and conditions under which business transactions with its suppliers are conducted, including terms of payment. It is Company policy that payments to suppliers are made in accordance with these terms.

Statement Of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements on pages 5 to 12, 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



B Beanland
Secretary

1 February 1999

Price Waterhouse



Auditors' Report To The Shareholders Of HKS Properties Limited

We have audited the financial statements on pages 5 to 12 which have been prepared under the historical cost convention, modified to include the revaluation of land and buildings, and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3, 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 profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors
London

1 FEBRUARY 1999

HKS Properties Limited

Profit And Loss Account For The 18 Months Ended 30 June 1998

		18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
	<i>Note</i>		
Turnover - Continuing Operations	2	166	497
Other Operating Income	3	666	1,778
Other Operating Charges		(423)	(1,676)
Operating Profit - Continuing Operations		409	599
Profit /(Loss) On Disposal Of Fixed Assets	7	12	(341)
Write Down Of Fixed Assets	7	-	(858)
Interest Payable		(1)	(6)
Profit/(Loss) On Ordinary Activities Before Taxation	4	420	(606)
Taxation On Ordinary Activities	6	-	(7)
Amount Transferred To / (Withdrawn From) Reserves	13	420	(613)

Note of Historical Cost Profits and Losses

There is no difference between the reported profit and the profit on an historical cost basis.

Statement Of Total Recognised Gains And Losses

Other than the profit on ordinary activities after taxation, there have been no other recognised gains or losses.

The notes on pages 7 to 12 form part of these financial statements

HKS Properties Limited

Balance Sheet At 30 June 1998

	Note	30 June 1998		31 December 1996	
		£'000	£'000	£'000	£'000
Fixed Assets	7		-		7,877
Current Assets					
Stocks	8	-		59	
Debtors	9	14,648		6,971	
Cash At Bank And In Hand		-		151	
		14,648		7,181	
Creditors (Amounts Falling Due Within One Year)	10	(17,573)		(18,027)	
Net Current Liabilities			(2,925)		(10,846)
Total Assets Less Current Liabilities			(2,925)		(2,969)
Provisions For Liabilities And Charges					
Provision Against Long Term Leases			-		(376)
Net Liabilities			(2,925)		(3,345)
Capital And Reserves					
Called Up Share Capital	12		270		270
Profit And Loss Account	13		(3,195)		(3,615)
Equity Shareholders' Funds	14		(2,925)		(3,345)

Approved By The Board On 1 February 1999

SH Wingfield-Digby

SH Wingfield-Digby
Director

The notes on pages 7 to 12 form part of these financial statements

HKS Properties Limited

Notes To The Financial Statements - 30 June 1998

1 Accounting Policies

(1) Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of land and buildings, and in accordance with applicable accounting standards. Compliance with SSAP 19 "Accounting for Investment Properties" requires departure from the requirements of Companies Act 1985 relating to depreciation and an explanation of the departure is given in note 7 below.

(2) Going Concern Concept

The accounts have been prepared on a going concern basis based 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.

(3) Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation, on differences between the treatment of certain items for accounting and taxation purposes, is accounted for to the extent that a liability is expected to crystallise within the foreseeable future.

(4) Depreciation

Tangible assets are depreciated in equal instalments at rates calculated to write off their cost over the term of their estimated useful lives. Details of depreciation rates are given in note 7.

(5) Stocks

Valuation of stocks is at the lower of cost and net realisable value.

(6) Cash flow statement

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 1 (Revised 1996).

2 Turnover

Turnover derives from rental income receivable from tenants and arises within the United Kingdom.

HKS Properties Limited

Notes To The Financial Statements - 30 June 1998

3 Other Operating Income

	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
Other machine income	30	46
Amusement machine income	13	63
Release of provisions	376	-
Managed house sales	247	1,669
	666	1,778

4 Profit/(Loss) On Ordinary Activities Before Taxation

	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Depreciation	6	55
Rents payable	1	2
Repairs and maintenance expenditure	28	127
Auditors' remuneration	1	5
Managed house costs	297	1,394

5 Directors And Employees

The Company had no employees during 1997/98 and no Directors' emoluments or staff costs were incurred (1996: £Nil).

6 Taxation On Profit/(Loss) On Ordinary Activities

Corporation tax is charged/(credited) as follows:	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
United Kingdom Corporation Tax at 31.3% (1996: 33%)	-	116
Prior year	-	(109)
Current year	-	7

HKS Properties Limited

Notes To The Financial Statements - 30 June 1998

7 Tangible Fixed Assets

	Land & buildings £'000	Fixtures & Fittings £'000	Total £'000
Cost or valuation			
At 1 January 1997	8,350	555	8,905
Disposals	(8,350)	(555)	(8,905)
At 30 June 1998	-	-	-
Accumulated depreciation			
At 1 January 1997	(758)	(270)	(1,028)
Charge for the year	-	(6)	(6)
Disposals	758	276	1,034
At 30 June 1998	-	-	-
Net book value			
At 30 June 1998	-	-	-
At 31 December 1996	7,592	285	7,877

In accordance with SSAP 19, investment properties are revalued annually by the Directors and the individual surpluses or deficits are transferred to revaluation reserve with any net deficit on the revaluation reserve transferred to the profit and loss account. No provision is made for depreciation of freehold properties or for amortisation of leasehold properties held on leases having more than 20 years unexpired. This departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated, is, in the opinion of the Directors, necessary for the accounts to show a true and fair view in accordance with applicable accounting standards.

The fixed assets of the business were valued by external valuers, Weatherall Green and Smith, as at 31 December 1994.

During the period the Company disposed of its remaining portfolio of freehold and leasehold investment properties and associated assets and liabilities, for the total net proceeds of £7,786,000 to Crown Buckley Limited. A loss of £858,000 incurred as a result of this disposal was recorded in the financial statements of the previous year.

The Company currently retains an interest in a piece of land which has been written down to £1 in the financial statements.

The principal rates of depreciation on fixtures and fittings are 5% - 25%.

HKS Properties Limited

Notes To The Financial Statements - 30 June 1998

8 Stocks

	30 June 1998 £'000	31 December 1996 £'000
Raw materials and consumables	-	59

9 Debtors

	30 June 1998 £'000	31 December 1996 £'000
Due within one year:		
Trade debtors	-	60
Amounts owed by group undertakings	14,648	6,906
Prepayments	-	5
	14,648	6,971

10 Creditors (Amounts Falling Due Within One Year)

	30 June 1998 £'000	31 December 1996 £'000
Trade creditors	-	264
Amounts owed to group undertakings	17,573	17,573
Accruals and deferred income	-	36
Taxation	-	154
	17,573	18,027

11 Provisions

	Long term leases £'000
At 1 January 1997	376
Released during the period	(376)
At 30 June 1998	-

HKS Properties Limited

Notes To The Financial Statements - 30 June 1998

12 Called Up Share Capital

	30 June 1998 £'000	31 December 1996 £'000
Authorised, issued and fully paid:		
Equity interests: Ordinary Shares of £1 each	250	250
Non-equity interests: 1% Cumulative Preference shares of £1 each	20	20
	<u>270</u>	<u>270</u>

The cumulative preference shares have priority over ordinary shares in winding-up. The preference shareholders have waived their rights to dividends. The preference shares are non redeemable and have no voting rights.

13 Profit And Loss Account

	£'000
At 1 January 1997	(3,615)
Profit for the year	<u>420</u>
At 30 June 1998	<u>(3,195)</u>

HKS Properties Limited

Notes To The Financial Statements - 30 June 1998

14 Reconciliation Of Movement In Shareholders' Funds

	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
Profit/(Loss) on ordinary activities after taxation		
transferred to/(from) reserves	420	(613)
Opening shareholders' funds	(3,345)	(2,732)
Closing shareholders' funds	(2,925)	(3,345)

The shareholders' funds include non equity interests of £20,000 (1996 : £20,000).

15 Parent Undertakings

The Company is a subsidiary undertaking of Guinness Limited. The ultimate parent undertaking is Diageo plc which is the parent undertaking of both the smallest and largest group for which group accounts incorporating those of the Company are prepared. Copies of the 1998 Annual Report and Accounts of Diageo plc can be obtained from:

Diageo plc
8 Henrietta Place
London
W1M 9AG

16 Related Party Disclosure

The Company has taken advantage of Section 3 in Financial Reporting Standard 8 Related Party Disclosures not to disclose transactions with other members of the Group.