Guinness Publishing Limited

Directors' Report and Accounts

30 June 1998

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COMPANIES HOUSE 29/01/99

Company registered in England, No. 541295

GUINNESS PUBLISHING LIMITED

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the eighteen months ended 30 June 1998. On 17 December 1997 Grand Metropolitan Public Limited Company merged with Guinness PLC to form Diageo plc, which as a result became the ultimate parent of the company. Subsequent to the merger, the year end of Diageo plc and of the company has been changed to 30 June and these financial statements have been prepared for the eighteen months to 30 June 1998.

Activities

Guinness Publishing Limited is engaged in the publication and licensing of intellectual property. Print sales of the company's main brand, *The Guinness Book of Records*, increased by over 10%, with more than 670,000 units sold. The directors intend to pursue the strategy of investing in *The Guinness Book of Records* brand in a variety of media world-wide. The company's publishing selling season is highly skewed in favour of the Christmas market due to the attractiveness of its books as gifts. A consequence of the change in accounting year end is that the eighteen-month period to 30 June 1998 includes an additional six-month period (compared to the year ended 31 December 1996) of low sales activity which contributes significantly to the reported loss.

As a continuation of the company's rationalisation of its publishing activities, during the period the company terminated its publishing arrangements with Square One Books Limited for consideration of £375,000.

The company has invested £358,000 during the period on brand research and development. This has given the directors an enhanced understanding of the potential of the company's main intellectual property assets and the likely future direction of licensing activities.

During the period the company has relocated its operations to central London. £127,000 of costs relating to the move are reflected in the 1997-98 accounts (1996 - £290,000). One of the main benefits of the move has been to bring all employees from different sites together in one location whilst improving accessibility for the company's large number of overseas customers and colleagues.

Since the year end the company has achieved a significant breakthrough in its television licensing activities with the broadcast of a series of **Guinness World Records:** *Primetime* programmes on USA network television. The directors consider the television exposure will substantially raise the profile of *The Guinness Book of Records* and that this should contribute to increased publishing and licensing sales in the relevant territory.

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, with the majority of operating units having completed their impact assessment and project plans. The correction and testing phase is well advanced in most significant units and has started in others. 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.

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998 (Continued)

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 company may also be adversely affected by the inability of third parties to manage the Year 2000 problem.

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) will commence on 1 January 1999. At that time, a single currency, the 'euro', will be introduced. The Diageo group'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 Diageo group is also working actively with key business suppliers, joint distribution arrangement partners and customers to prepare for 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 31 December, and the results for the period shown on page 8 are for the eighteen months from 1 January 1997 to 30 June 1998.

The loss after taxation for the eighteen-month period was £475,000 (1996 - loss £283,000).

The directors do not recommend the payment of a dividend for the eighteen-month period (1996 – nil).

GUINNESS PUBLISHING LIMITED

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998 (Continued)

Directors

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

A Avis (appointed 1 January 1997)
F Buxton (resigned 28 November 1997)
I Castello-Cortes (appointed 1 January 1998)
F I Chapman, CBE
N T Fell (appointed as a director 6 May 1998; appointed Chairman 18 September 1998)
C C Irwin
S F Raja-Brown (nee Brown)
M C Roughead (appointed 1 January 1998)
C A Storm (appointed Chairman 1 January 1998; resigned as Chairman and as a director 18 September 1998)
P E Yea (resigned as Chairman and as a director 1 January 1998)

Directors' Interests

No director 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 or any subsidiary.

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:-

Ordinary Shares and options over ordinary shares

Ordinary shares of 28 $^{101}/_{108}$p per share

	Ordinary Shares		B Shares*		MTIP** Awards 1997	LTIP*** Awards	
	1.1.97 or date of appointment	30.6.98	1.1.97 or date of appointment	30.6.98		1.1.97 or date of appointment	30.6.98
A Avis	499	2,044	0	205	2,550	-	-
I Castello-Cortes	867	1,329	0	117	-	-	-
F I Chapman	5,000	3,000	-	-	-	-	-
N T Fell	3,747	3,747	416	416	-	17,510	17,510
C C Irwin	1,154	3,058	0	326	3,017	-	-
S F Raja-Brown	330	1,409	0	139	1,563	-	-
M C Roughead	2,117	1,757	0	287	1,609	-	-
C A Storm	30,317	40,687	0	260	-	23,371	23,371

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998 (continued)

Directors' Interests (continued)

Options

	1.1.97. or date of appointment	Granted during period	Exercised during period	30.6.98
A Avis	34,297	6,376	-	40,673
I Castello-Cortes	-	-	-	-
F I Chapman	-	-	-	-
N T Fell	73,046	-	-	73,046
C C Irwin	44,756	6,738	-	51,484
S F Raja-Brown	3,682	3,648	-	7,330
M C Roughead	7,668	-	-	7,668
C A Storm	247,325	-	18,394	228,931

The directors held the above options under Diageo plc share option schemes at prices between 225.5p and 533.5p per share exercisable by 2007.

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

Notes

* On 1 August 1998 all outstanding B shares were converted into ordinary shares at a rate of 70.993915 ordinary shares for every 100 B shares held.

** The Medium Term Executive Plan was established in 1997. The plan is operated by the trustees of the Diageo plc Employee Incentive Trust 1997. Awards are made only to B grade executives and below world-wide.

Performance conditions are tailored to the particular division within which the relevant executive works and may be adjusted when they move 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.

GUINNESS PUBLISHING LIMITED

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998 (continued)

Directors' Interests (continued)

*** Long Term Incentive Plan (LTIP) - Under a plan approved by shareholders in 1996, awards over shares were conditionally granted to executives in 1996, with eventual transfer dependent on the performance of Guinness' total shareholder return ("TSR") against a comparator group of companies selected by the Guinness non-executive committee. Following the merger, performance targets attached to awards granted in 1996 were waived. The awards granted in 1997 are now dependent upon the performance of Diageo's TSR against the same comparator group of companies. Transfer of shares to executives 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 25% of selected companies, the maximum 100% number of shares will be transferred. If it is ranked below the 60th percentile, no shares will be transferred. Transfers between these points are on a sliding scale. The last grants of awards under this plan were made in April 1997, and will lapse (at the latest) at the end of three years from date of grant.

Political and Charitable Contributions

The company made no political or charitable contributions during the period.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the report of the auditors, is made with the view of 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 period which give a true and fair view of the state of affairs of the company at the end of the financial period and of the profit or loss of the company for the financial period. The directors, in preparing the financial statements on pages 8 to 16, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the 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.

GUINNESS PUBLISHING LIMITED

DIRECTORS' REPORT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 1998 (continued)

Auditor

The auditor, Price Waterhouse has indicated its intention to resign. The directors intend to appoint KPMG Audit plc as auditor of the company at the Extraordinary General Meeting to be convened on 23 December 1998.

By Order of the Board

S M Bunn
Company Secretary

8 Henrietta Place
London
W1M 9AG
23 November 1998

GUINNESS PUBLISHING LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF GUINNESS PUBLISHING LTD

We have audited the financial statements on pages 8 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on pages 5 and 6, 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 were 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 loss 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
10 Bricket Road
St Albans
Hertfordshire AL1 3JX

23 November 1998

GUINNESS PUBLISHING LIMITED

PROFIT AND LOSS ACCOUNT FOR THE 18 MONTHS ENDED 30 JUNE 1998

	Notes	18 months to 30 June 1998 £000s	12 months to 31 December 1996 £000s
Turnover	2	10,053	7,042
Cost of sales		(4,690)	(2,999)
Gross profit		5,363	4,043
Distribution costs		(400)	(369)
Administrative expenses		(5,838)	(3,905)
Other operating income		375	-
Operating loss	3	(500)	(231)
Interest receivable		-	9
Loss on ordinary activities before tax		(500)	(222)
Tax on loss on ordinary activites	6	25	(61)
Loss for the financial period		(475)	(283)

The loss for the period includes all recognised gains and losses.

All activities are continuing.

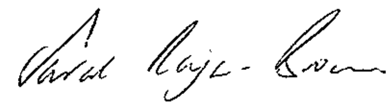
The notes on pages 10 to 16 form part of these accounts.

GUINNESS PUBLISHING LIMITED

BALANCE SHEET AT 30 JUNE 1998

	Notes	30 June 1998 £000s	31 December 1996 £000s
Fixed assets			
Intangible assets	7	210	300
Tangible assets	8	536	453
		746	753
Current assets			
Stocks	9	1,614	332
Debtors	10	6,639	5,400
Cash at bank and in hand		2	2
		8,255	5,734
Creditors			
(amounts falling due within one year)	11	8,325	5,336
Net current assets		(70)	398
Total assets less current liabilities		676	1,151
Equity capital and reserves			
Called up share capital	13	-	-
Profit and loss account	14	676	1,151
		676	1,151

Director



S F Raja-Brown
Signed on behalf of the Board on 23 November 1998

The notes on pages 10 to 16 form part of these accounts.

GUINNESS PUBLISHING LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998

1 Accounting Policies

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The financial period end has been changed to 30 June 1998. Accordingly, the current accounting period runs from 1 January 1997 to 30 June 1998.

(a) Revenue Recognition

Revenue from the sale of publications is recognised as goods are shipped to customers. Royalties from licences granting publication and other rights and net fees from exhibitions are recognised on a receivables basis.

(b) Depreciation

Tangible fixed assets are depreciated on a straight-line basis at annual rates estimated to write-off their book value over the terms of their useful lives. Details of the depreciation rates per annum used are as follows:

Plant and machinery	- 5% and 12½%
Computer equipment	- 25%
Motor vehicles	- 20%

(c) Taxation

Deferred taxation in respect of capital allowances and other timing differences is provided only to the extent that it is probable that the liability will become payable within the foreseeable future.

(d) Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date except that where hedging arrangements are in place the relevant agreed rate is applied. Exchange gains and losses are charged to the profit and loss account.

(e) Pensions

The cost of providing pension benefits is charged to the profit and loss account over the period benefiting from employees' services.

(f) Pre-Publication Expenditure

Expenditure on books not yet published is included as work-in-progress and treated as cost of finished goods on publication.

GUINNESS PUBLISHING LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998 (continued)

(g) Stocks

Stocks are stated at the lower of cost and net realisable value and valued on a first in, first out basis.

(h) Intangible Asset

Amortised on a straight line basis corresponding with the benefit gained from the acquisition over a maximum period of five years.

2 Analysis of Turnover

Turnover represents the net sales of publications and net royalties and fees receivable from licences granting intellectual property rights to certain overseas publishers and other third parties and income from franchised exhibitions.

3 Operating Loss

Operating loss is stated after taking account of the following:

	18 months to 30.06.98 £000s	**12 months to 31.12.96 £000s**
Auditors' remuneration	18	17
Redundancy costs	85	228
Office relocation costs	127	290
Depreciation and amortisation	353	153
Brand research and development costs	358	-

During the period ended 30 June 1998 the company's publishing arrangements with Square One Books Ltd were terminated in exchange for a payment of £375,000.

GUINNESS PUBLISHING LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998 (continued)

4 Staff Costs and Employees

The staff costs for the period (including directors' emoluments) were as follows:

	18 months to 30.06.98 £000s	12 months to 31.12.96 £000s
Salaries and wages	2,717	1,556
Social security costs	220	99
Pension costs	221	172
	3,158	1,827

The average number of employees, including directors, was 60 (1996 - 56).

5 Emoluments of Directors

The total emoluments paid by the company to the directors are as follows:

	18 months to 30.06.98 £000s	12 months to 31.12.96 £000s
Emoluments	695	408

Included in the above emoluments for the period to 30 June 1998 is a termination payment of £55,000 in respect of loss of office and £12,000 representing the net book value of a vehicle transferred to the departing director on loss of office.

Five directors were members of defined benefit pension schemes in 1997-98 (1996 - four).

The amounts in respect of the highest paid director are as follows:

	18 months to 30.06.98 £000s	12 months to 31.12.96 £000s
Emoluments	229	105
Accrued pension	10	6

GUINNESS PUBLISHING LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998 (continued)

6 Taxation

	18 months to 30.06.98	12 months to 31.12.98
	£000s	£000s
Current year:		
Corporation tax at 31.5% (1996 - 33%)	105	15
Group relief surrendered at 31%	(160)	-
Less relief for overseas taxation	(79)	(45)
	(134)	(30)
Adjustment to prior year corporation tax	30	46
Overseas taxation	79	45
	(25)	61

7 Intangible Assets

	30.06.98	31.12.96
	£000s	£000s
Copyright acquired at cost (September 1996)	300	300
Amortisation	90	-
Net book amount	210	300

GUINNESS PUBLISHING LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998 (continued)

8 Tangible Assets

	Plant & machinery, computer equipment	Motor vehicles	Total
	£000s	£000s	£000s
Cost			
At 31 December 1996	817	103	920
Additions	333	38	371
Disposals	(394)	(20)	(414)
At 30 June 1998	756	121	877
Depreciation			
At 31 December 1996	444	23	467
Charge for year	228	35	263
Disposals	(377)	(6)	(383)
Transfers on group additions/(disposals)	(9)	3	(6)
At 30 June 1998	286	55	341
Net book amount			
At 30 June 1998	470	66	536
At 31 December 1996	373	80	453

The disposals include items scrapped on the relocation of offices to central London (£293,000 cost and accumulated depreciation).

9 Stocks

	30.06.98	31.12.96
	£000s	£000s
Work in progress	1,238	46
Finished goods (books for resale)	376	286
	1,614	332

GUINNESS PUBLISHING LIMITED

NOTES TO THE ACCOUNTS - 30 JUNE 1998 (continued)

10 Debtors

	30.06.98	31.12.96
	£000s	£000s
Trade debtors	210	3,799
Amounts owed by group undertakings	5,934	1,432
Other debtors	73	101
Prepayments and accrued income	422	68
	6,639	5,400

11 Creditors (amounts falling due within one year)

	30.06.98	31.12.96
	£000s	£000s
Overdraft	37	172
Trade creditors	814	553
Amounts owed to group undertakings	6,976	4,020
Accruals and deferred income	498	591
	8,325	5,336

All balances with group undertakings are regarded as falling due within one year.

12 Deferred Taxation

There is no deferred tax liability at 30 June 1998. (No liability at 31 December 1996.)

13 Equity Share Capital

The company has 100 authorised, allotted and fully paid ordinary shares of £1 each.

14 Reconciliation of Movements in Shareholders' Funds

	1997-98	1996
	£000s	£000s
Shareholders' funds at 1 January 1997	1,151	1,434
Loss for the financial period	(475)	(283)
Shareholders' funds at 30 June 1998	676	1,151

15 Pensions

The company is a member of a group pension scheme which is operated by its parent undertaking, Diageo plc. The scheme is a defined benefit scheme and is administered by trustees and maintained independently of the finances of Diageo plc and its subsidiaries.

Contributions to the scheme are assessed by a qualified actuary based on the costs of providing pensions across all participating group undertakings. Costs are not determined for each individual undertaking and, accordingly, contributions are charged to the profit and loss account when they become payable.

A valuation of the scheme was performed in 1995 by the actuary and particulars of the valuation are included in the accounts of Diageo plc. The contributions attributable to the company in the 18-month period to 30 June 1998 amounted to £215,000 (1996 year - £172,000).

16 Future Capital Expenditure

At 30 June 1998 no capital expenditure was contracted for but not provided for in the accounts (1996 - £143,000). At 30 June 1998 and 31 December 1996 no capital expenditure was authorised to be incurred but not contracted for.

17 Cashflow Statement and Related Parties

The company has taken advantage of the exemption from preparing a cashflow statement given in Financial Reporting Standard 1 (Revised). The company is a wholly owned subsidiary of Diageo plc which provides a group cashflow statement. The company has also taken advantage of the exemption from disclosure of related party transactions with other group companies given in Financial Reporting Standard 8.

18 Parent Company

The immediate and ultimate parent company and parent for the smallest group of undertakings of which the company is a member and for which group accounts are prepared is Diageo plc, a company incorporated and registered in England. The consolidated accounts of Diageo plc for the 18-month period ended 30 June 1998 can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.