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

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 Public Limited Company ("GrandMet") merged with Guinness PLC to form Diageo plc, as a result of which, Diageo plc, became the ultimate parent of the company.

Activities

The company continues to identify and be involved in the sale of development sites within the property portfolio of the Diageo group. 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 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) 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 company 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.

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

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 9 are for the nine months from 1 October 1997 to 30 June 1998.

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

The profit for the period retained in the company is £241,517 (1997 - £306,902).

Directors

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

S M Bunn (appointed 27 March 1998)
D C Carter
J J Corbett
R H Myddelton
M D Peters (appointed 27 March 1998)
D E Tagg
B E Wickham (resigned 27 March 1998)

Subsequent to the period end D E Tagg resigned as a director on 31 July 1998.

Emoluments

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

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.

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 and the consolidation of existing 25 pence ordinary shares to 28 $^{101}/_{108}$ pence ordinary shares. For every 1,000 existing ordinary shares shareholders received 864 consolidated ordinary shares and 136 B shares.

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

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 awards over ordinary shares

	Ordinary Shares of 25p each	Ordinary Shares of $28^{101}/_{108}$p each	B Shares	RSP* Awards	MTEP** Awards
	1.10.97 or date of appointment	30.6.98	30.6.98	30.6.98	30.6.98
S M Bunn	-	-	-	-	-
D C Carter	-	-	-	5,100	-
J J Corbett	1,367	1,380	-	5,000	-
R H Myddelton	21,368	20,049	-	18,081	-
M D Peters	5,973	2,733	-	-	1,434
D E Tagg	25,140	36,720	-	75,669	-

Options

	1.10.97 or date of appointment	Granted during period	Exercised during period	30.6.98
S M Bunn	14,672	-	-	14,672
D C Carter	179,446	-	119,946	59,500
J J Corbett	88,800	-	23,997	64,803
R H Myddelton	313,260	-	105,738	207,522
M D Peters	13,348	-	-	13,348
D E Tagg	656,905	-	652,832	3,973

The directors held the above options under Diageo plc share option schemes at prices between 313p and 494p 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.

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

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

Directors interests (continued)

Notes

* The Grand Metropolitan Restricted Share Plan (RSP). In 1997, GrandMet shares were conditionally awarded to executives, with eventual release dependent on the performance of GrandMet's 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 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 50th percentile, no shares will be released. Releases between these points are on a sliding scale.

** 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 are tailored to the particular division within which the relevant executive works and may have been 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.

Secretary

On 1 June 1998 S M Bunn resigned as secretary of the company and C J Taylor was appointed in her place.

By order of the board

CTaylor

C J Taylor
Company Secretary

Date: 26 April 99

8 Henrietta Place
London
W1M 9AG

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, 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 at the end of the financial period and of the profit of the company for the financial period.

The directors, in preparing the financial statements on pages 7 to 13 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 that 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 METROPOLITAN ESTATES (DEVELOPMENTS) LIMITED

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

Respective responsibilities of 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 profit for the nine month 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

Date: 28 April 1999

ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention, (modified by the revaluation of certain land and buildings) and comply with applicable UK accounting standards.

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

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 exception 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 balances) with entities that are part of the Diageo plc group or investees of the Diageo plc group.

These financial statements have been prepared on a going concern basis since the immediate holding company, Grand Metropolitan Estates Limited, has confirmed that it will continue to support the company to the extent necessary to enable it to carry on its activities in the normal way for the forseeable future.

Tangible fixed assets

Fixed assets are stated at cost.

No depreciation is provided on freehold land. Leaseholds are depreciated over the unexpired period of the lease.

ACCOUNTING POLICIES (continued)

Fixed asset investments

Income from fixed asset investments, is credited to the profit and loss account when it is declared by the paying company. Investments are stated individually at cost less, where appropriate, provision for diminution in values where such diminution is expected by the directors to be permanent.

Turnover

Turnover represents the net invoice value of goods and services to third parties. It includes rents and royalties receivable but excludes value added tax.

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. Provision is made for deferred taxation if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

No provision is made for taxation deferred by accelerated taxation allowances on UK capital expenditure. The company is a member of a group which provides for any deferred tax payable in the foreseeable future on a group basis.

The deferred taxation provision therefore relates to those other material taxation liabilities which are deferred because items of expense or income are allowed or assessed for tax purposes in periods different from those in which they enter the profit and loss account.

PROFIT AND LOSS ACCOUNT

For the 9 month period ended 30 June 1998

	Notes	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
Turnover		-	61
Operating costs		(39)	(97)
Operating loss		**(39)**	**(36)**
Interest receivable		389	494
Profit on ordinary activities before taxation		**350**	**458**
Tax on profit on ordinary activities	1	(108)	(151)
Transferred to reserves		242	307

There are no recognised gains or losses other than the profit for the period and consequently a statement of total recognised gains and losses has not been presented as part of the financial statements.

There is no difference between the profit for the period and the historical profit for the period and consequently no note of historical cost profits has been presented as part of the financial statements.

BALANCE SHEET

	Notes	30 June 1998 £000	30 June 1998 £000	30 September 1997 £000	30 September 1997 £000
Fixed assets					
Tangible assets at cost (property)			3,425		3,425
Current assets					
Debtors - due within one year	3	17,144		13,186	
Cash at bank and in hand	4	7,441		7,049	
		24,585		20,235	
Creditors - due within one year					
Other creditors	5	(31,933)		(27,825)	
		(31,933)		(27,825)	
Net current liabilities			(7,348)		(7,590)
Net liabilities			(3,923)		(4,165)
Capital and reserves					
Called up share capital			-		-
Profit and loss account			(3,923)		(4,165)
Shareholder deficit			(3,923)		(4,165)

The financial statements on pages 7 to 13 were approved by the board of directors on 26 April 99 and signed on its behalf by:

RH Myddelton
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Tax on profit on ordinary activities

	9 months ended 30 June 1998 £000	12 months ended 30 September 1997 £000
UK corporation tax payable at 31% (1997 - 32%) on the profits of the period	108	151

The charge for UK corporation tax includes amounts which may be paid to other companies in the Diageo plc group in return for the surrender of tax losses.

2. Fixed assets - investments

Fixed asset investments comprise shares in a subsidiary acquired for a cost of £3,000 (1997 - £3,000), which has been fully provided for.

The subsidiary and undertaking and the percentage of equity owned are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Class and percentage of shares held
Metropolitan In Town Limited	England & Wales	Property development	100% ordinary shares

In accordance with Financial Reporting Standard No.8 'Related Party Transactions' the company is exempt from disclosing details of arrangements with other companies in the Diageo group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Debtors: amounts falling due within one year

	1998 £000	1997 £000
Amounts owed by group undertakings	17,132	13,143
Other debtors	12	43
	17,144	13,186

4. Cash at bank and in hand

The company has entered into a joint and several guarantee with certain other Diageo plc UK subsidiary undertakings such that any balance on the company's bank accounts within the cashpool may be offset against the bank balances or overdrafts of those companies included in the cashpool.

5. Creditors: amounts falling due within one year

	1998 £000	1997 £000
Amounts owed to group undertakings	31,656	27,668
Corporate taxation	260	151
Other creditors	17	6
	31,933	27,825

6. Share capital

	1998 £	1997 £
Authorised, allotted, called up and fully paid		
Equity - 100 Ordinary shares of £1 each	100	100

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Ultimate parent undertaking

The company's immediate parent company is Grand Metroplitan Estates Limited, a company incorporated and registered in England.The company's ultimate parent company is Diageo plc, a company incorporated and registered in England.

The 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.