

Guinness Overseas Limited
(Registered Number 778398)

Directors' Report And Financial Statements

30 June 1998



Guinness Overseas Limited

Directors' Report For The 18 Months Ended 30 June 1998

The Directors submit their Report and the audited financial statements of the Company 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 is the holding company for Guinness group companies engaged in the brewing and marketing of alcoholic beverages including Guinness Stout and Harp Lager in overseas countries except Western Europe and the USA, and in the production and marketing of soft drinks in certain territories.

The Company's activities are primarily carried out through related companies, which are principally:

Guinness Nigeria PLC

Operates breweries at Benin and Ogba, a bottling plant at Ikeja and sells and distributes Guinness Foreign Extra Stout, Harp Lager and Malta Guinness in Nigeria.

GAPL Pte Limited

Sells and distributes Guinness Foreign Extra Stout, Draught Guinness, Canned Draught Guinness, Anglia Shandy and ABC Stout in Singapore and Brunei.

Guinness Anchor Berhad

Operates a brewery in Kuala Lumpur and sells and distributes Guinness Foreign Extra Stout, Draught Guinness, Guinness Malta and Anglia Shandy in Malaysia and certain export territories and a range of alcoholic beverages previously produced by Malayan Breweries (Malaya) Sdn Berhad including Tiger, Anchor, Lion Stout and Heineken beers.

Guinness Ghana Limited

Operates a brewery at Kumasi and sells and distributes Guinness Foreign Extra Stout and Malta Guinness in Ghana.

Guinness Cameroun SA

Operates a brewery in Douala and sells and distributes Guinness Foreign Extra Stout, Satzenbrau, Gold Harp and Malta Guinness.

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 7 are for the eighteen months from 1 January 1997 to 30 June 1998.

Profit for the period was £23,222,000 (1996: £19,339,000) which, after dividends, resulted in a transfer from reserves of £3,062,000 (1996: transfer to reserves £13,947,000).

Guinness Overseas Limited

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

Board Of Directors

The Directors of the Company who have held office during the period are:

DHC Hampshire	
NE Salmon	(resigned 8 September 1997)
M Wych	(resigned 26 September 1997)
NT Fell	(appointed 8 September 1997)
RJ Joy	(appointed 26 September 1997)

Secretary

SME O'Donovan

On 1 June 1997 Mr MD Peters resigned as Secretary and Mr PM Forster was appointed in his stead. On 26 January 1998 Mr PM Forster resigned as Secretary and Miss SME O'Donovan was appointed in his stead.

Dividends

An interim dividend of £26,284,000 has been paid during the period (1996 - £5,392,000). The Directors do not recommend the payment of a final dividend.

Future Developments

The Company will continue to develop and expand its overseas contract and licence brewing operations.

Directors' Interests

No Director had any interest in the shares of the Company or of any other group company with the exception of non-beneficial interests as nominee and the interests in the ordinary shares of 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 of 25p each				
DHC Hampshire	24,262	148,313	28,745	145,678
NT Fell	4,163	90,556	3,064	59,383
RJ Joy	28,224	267,088	0	295,088

Guinness Overseas 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 the period		Options exercised during the period		
	Number	Price £	Number	Price £	Market price at date of exercise £
DHC Hampshire	9,403	*0.001	15,292	3.21	6.84
	19,078	*4.94	10,554	2.255	6.84
NT Fell	17,510	*0.001	-	-	-
	13,663	*4.94			
RJ Joy	-	-	28,000	**3.80	6.84

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

** These options were granted and exercised under the terms of the US \$ 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 1992 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 company 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 Accounts.

Guinness Overseas 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 operational implications as the Company has dealings with Member States of the European Union. The implications are currently being considered by a working party. These include continuing refinement of business systems for trading in euros; the potential impact of increased price transparency on price differentials between Member States; the benefits of elimination of exchange rate risk in cross border transactions within the common currency area and training and human resource issues.

The Company is also actively working with key business suppliers and customers regarding the implications of EMU. The potential benefits and costs to the Company have not been quantified.

Statement On 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 and loss of the Company for that period. In preparing those financial statements on pages 7 to 16, 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.

Guinness Overseas Limited

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

Statement Of Directors' Responsibilities (Continued)

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 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

SME O'Donovan

SME O'Donovan
Secretary

20 April 1999

Price Waterhouse



Auditors' Report To The Members Of Guinness Overseas Limited

We have audited the financial statements on pages 7 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on pages 4 and 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 judgments 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 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
London

20 April 1999

Guinness Overseas 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
Turnover – continuing operations	2	22,915	16,389
Net operating charges	3	(9,064)	(12,261)
Operating profit – continuing operations		13,851	4,128
Income from shares in group undertakings		13,394	15,847
Income from shares in associated undertakings		468	1,326
Income from other fixed asset investments		57	24
Other interest receivable		1,052	1,107
Profit on ordinary activities before taxation	4	28,822	22,432
Taxation on profit on ordinary activities	5	(5,600)	(3,093)
Profit for the Period after taxation		23,222	19,339
Dividends paid		(26,284)	(5,392)
Amount transferred (from)/to reserves	12	(3,062)	13,947

Amounts transferred (from)/to reserves stated on a historical cost basis are not 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 12 to the financial statements.

The notes on pages 9 to 16 form part of these financial statements.

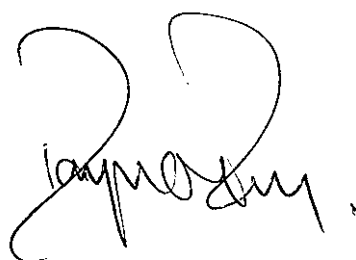
Guinness Overseas Limited

Balance Sheet – 30 June 1998

	Note	30 June 1998 £'000	31 December 1996 £'000
Fixed assets			
Investments	7	26,364	25,001
Current assets			
Debtors	8	26,770	22,082
Investments	9	339	-
Cash at bank and in hand		1,755	6,675
		28,864	28,757
Creditors - amounts falling due within one year	10	(38,951)	(34,419)
Net current liabilities		(10,087)	(5,662)
Total assets less current liabilities		16,277	19,339
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account	12	16,277	19,339
Equity shareholders' funds	13	16,277	19,339

Approved By The Board On *20 April* 1999

Director



The notes on pages 9 to 16 form part of these financial statements.

Guinness Overseas 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 and in accordance with applicable accounting standards.

Consolidated financial statements have not been prepared as the Company is a wholly-owned subsidiary of Diageo plc, which is incorporated in Great Britain, nor has a statement of cash flows been provided because the Diageo plc 1998 Annual Report and Accounts include such a statement.

(2) Investment income

In respect of subsidiary and associated undertakings, and other investments, only dividends declared payable during the period have been credited to the profit and loss account.

(3) TSF and royalties

Technical service fees ("TSF") and royalties are included in turnover when due. Full provision is made against TSF and royalties until such amounts due are received from countries operating exchange control restrictions. (See note 8).

(4) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies have been translated into sterling using contracted rates of exchange (where applicable) or the rates of exchange ruling at the balance sheet date. Exchange differences arising from currency transactions in the normal course of trading are dealt with in the profit and loss account.

(5) Taxation

The charge for taxation is based on the profit for the year 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 or an asset is expected to crystallise within the foreseeable future.

Guinness Overseas Limited

Notes To The Financial Statements – 30 June 1998

1 Accounting Policies (Continued)

(6) Investments

Investments in subsidiary, associated and other undertakings are stated at cost less provision for diminution in value.

2 Turnover

Turnover represents amounts receivable in respect of TSF and royalties after writing back provisions for non-receipt of TSF and royalties in the amount of £401,000 (1996: £146,000). Turnover includes customs and excise duties where applicable but excludes value added and sales taxes.

The following table analyses turnover by customer location:

	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
Africa	7,443	4,725
Asia Pacific	11,954	9,787
Americas	3,518	1,877
	<hr/> 22,915	<hr/> 16,389

3 Net Operating Charges

	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
Other operating charges	9,090	12,159
Exchange movements	(26)	102
	<hr/> 9,064	<hr/> 12,261

Guinness Overseas Limited

Notes To The Financial Statements – 30 June 1998

4 Profit On Ordinary Activities Before Taxation

Profit on ordinary activities before taxation is stated after charging:

	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
Auditors' remuneration	20	21

5 Taxation On Profit On Ordinary Activities

	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
United Kingdom taxation Corporation tax at 30% (1996: 33%)	10,300	10,028
Double taxation relief	(7,200)	(8,535)
	3,100	1,493
Prior year adjustments	-	(141)
Overseas taxation	2,500	1,741
	5,600	3,093

Double taxation relief from UK corporation tax relates to underlying tax on dividends declared by overseas subsidiaries and the related withholding tax, where applicable.

6 Staff Costs, Employees And Directors

The Company has no direct employees. Staff costs are covered by a management charge from Guinness Limited, a fellow subsidiary of Diageo plc.

The Directors received no emoluments in respect of their services to the Company.

Guinness Overseas Limited

Notes To The Financial Statements – 30 June 1998

7 Investments

	Shares in group undertakings £'000	Shares in associated undertakings £'000	Other Investments £'000	Total £'000
Cost				
Listed	2,427	6,800	-	9,227
Unlisted	11,678	763	3,333	15,774
At 31 December 1996	14,105	7,563	3,333	25,001
Additions:	917	446	-	1,363
Reclassification	10,126	(6,800)	(3,326)	-
At 30 June 1998	25,148	1,209	7	26,364
	£'000	£'000	£'000	£'000
Cost				
At 30 June 1998				
Listed	13,425	-	-	13,425
Unlisted	11,723	1,209	7	12,939
	25,148	1,209	7	26,364

On 2 January 1997, 139,039,441 ordinary shares of 50 kobo were allotted to Guinness Overseas Limited in respect of a N426,871,000 irredeemable convertible loan stock converted into shares by Guinness Nigeria PLC. This transaction increased Guinness Overseas Limited's investment in Guinness Nigeria PLC to more than 50% and accordingly was reclassified from shares in associated undertakings and other investments to shares in group undertakings.

The market value of shares in associated undertakings listed on recognised stock exchanges outside Great Britain is £Nil (1996 - £1,678,000).

The directors' valuation of shares in unlisted associated undertakings is £9,425,000 (1996 - £4,355,000) and the valuation of other investments is £5,152 (1996 - £3,328,000).

Guinness Overseas Limited

Notes To The Financial Statements – 30 June 1998

7 Investments (Continued)

The subsidiary and associated undertakings of the Company comprise the following:

	Percentage of share capital owned at 30 June 1998	Country of incorporation and principal country of operation
GAPL Pte Limited	49.99	Singapore
Guinness Australasia Pty Limited	100.00	Australia
Grenada Breweries Limited	55.54	Grenada
Guinness Canada Limited	51.00	Canada
Guinness (Caribbean) Limited	100.00	Trinidad & Tobago
Guinness Ghana Limited	60.37	Ghana
Guinness Italia Srl	100.00	Italy
Guinness GmbH	100.00	Germany
Guinness Liberia Incorporated	100.00	Liberia
Guinness Nigeria PLC	53.48	Nigeria
Guinness Anchor Berhad	100.00	Malaysia
Phoenix CI SARL	100.00	Ivory Coast
Seychelles Breweries Limited	30.00	Seychelles
Sierra Leone Brewery Limited	28.13	Sierra Leone
Guinness South Africa (Pty) Ltd	100.00	South Africa
Phoenix Gabon SARL	100.00	Gabon
Atalantaf Limited	100.00	Bermuda
Creative Support Services SARL	100.00	Cameroon
Monrovia Breweries Ltd	7.50	Liberia
Guinness Cameroun SA	70.05	Cameroon
Uganda Breweries Ltd	14.85	Uganda
Dominica Brewery & Beverages Ltd	8.95	Dominican Republic

All subsidiary and associated undertakings are engaged in brewing and/or marketing of beer and related products. All holdings are of ordinary share capital or its equivalent.

In the opinion of the Directors, the value of the Company's investments in its subsidiaries and the amounts owed by its subsidiaries is not less than the aggregate amount at which they are shown in the Company's balance sheet.

Guinness Overseas Limited

Notes To The Financial Statements – 30 June 1998

8 Debtors

	30 June 1998 £'000	31 December 1996 £'000
Trade debtors	1,213	1,715
Amounts owed by group undertakings	3,323	3,738
Amounts owed by group undertakings in which the company has a participating interest	476	365
Amounts owed by other group undertakings	21,690	15,940
Other debtors	68	324
	<hr/>	<hr/>
	26,770	22,082

Trade debtors are stated net of provisions of £144,511 (1996 - £1,076,514) for non-receipt of TSF, royalties and dividends.

9 Current asset investments

	30 June 1998 £	31 December 1996 £
Shares in Seychelles Brewery Limited	339	-

10 Creditors (amounts falling due within one year)

	30 June 1998 £'000	31 December 1996 £'000
Trade creditors	71	83
Amounts owed to parent undertaking	38,337	32,719
Corporation tax accrual	543	1,617
	<hr/>	<hr/>
	38,951	34,419

Guinness Overseas Limited

Notes To The Financial Statements – 30 June 1998

11 Called Up Share Capital

	30 June 1998 £	31 December 1996 £
Authorised, allotted, called up and fully paid: 100 ordinary shares of £1 each	100	100

12 Profit And Loss Account

	£'000
At 1 January 1997	19,339
Retained loss for the year	(3,062)
At 30 June 1998	16,277

13 Reconciliation Of Movements In Shareholders' Funds

	18 months ended 30 June 1998 £'000	12 months ended 31 December 1996 £'000
Profit for the Period	23,222	19,339
Dividends paid	(26,284)	(5,392)
Net (reduction in)/addition to shareholders' funds	(3,062)	13,947
Opening shareholders' funds	19,339	5,392
Closing shareholders' funds	16,277	19,339

Guinness Overseas Limited

Notes To The Financial Statements – 30 June 1998

14 Parent Undertaking

The immediate parent undertaking is Guinness Overseas Holdings Limited and the ultimate parent undertaking is Diageo plc. Diageo plc is the parent undertaking of 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

15 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.