

HKS PROPERTIES LIMITED
(Registered Number 423978)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1996



HKS PROPERTIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996

The Directors submit their Report and audited financial statements for the year ended 31 December 1996.

REVIEW OF THE BUSINESS AND PRINCIPAL ACTIVITIES

During the year the Company held various freehold properties and leasehold interests which it acquired from Stadis Brewery Plc (formerly Buckley's Brewery Plc) at 31 December 1991, and which it managed throughout the year.

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

During 1997 the Company disposed 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 has been made in these accounts (also see Note 7).

RESULTS AND TRANSFER FROM RESERVES

The Company's results are set out in the profit and loss account on page 5. The Directors do not recommend the payment of a dividend. The loss for the year of £613,000 (1995 - profit £110,000) has been transferred from reserves.

BOARD OF DIRECTORS

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

SH Wingfield-Digby

B Beanland

(Secretary)

HKS PROPERTIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

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 parent undertaking Guinness PLC, as set out below:

	<u>At 31 December 1996</u>		<u>At 1 January 1996</u>	
	Ordinary Shares	Options over Ordinary Shares	Ordinary Shares	Options over Ordinary Shares
SH Wingfield-Digby	29,848	62,588	31,253	53,122
B Beanland	17,548	46,324	14,543	40,301

During the year, the following movements in options over the ordinary shares of Guinness PLC took place:

	<u>Options granted during 1996</u>		<u>Options exercised during 1996</u>		
	Number	Price (£)	Number	Price (£)	Market price at date of exercise (£)
S H Wingfield-Digby	1,101*	3.54	-	-	-
	8,365	4.60			
B Beanland	6,746	4.60	1,824	4.11	4.44
	1,101*	3.54			

*These options were granted and exercised under the terms of the Savings Related Share Option Scheme.

The options outstanding at 31 December 1996 have been granted under Group employee share participation schemes (including the Executive Share Options Scheme and the Savings Related Share Option Scheme) and are exercisable at varying dates between 1997 and 2006 at varying prices between £2.255 and £5.485. The market price of the shares at 31 December 1996 was £4.57½ and the range during 1996 was £4.30 to £4.91.

Directors of subsidiaries of Guinness PLC are deemed to be interested as employees in shares held by an employee share trust, details of which are disclosed in note 21(c) to the Group accounts of Guinness PLC.

The ultimate parent undertaking purchases liability insurance covering the Directors and officers of Guinness PLC and its subsidiaries.

HKS PROPERTIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

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 of the Company 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 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.

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.

AUDITORS

The auditors, Price Waterhouse, have expressed their willingness to continue in office and a resolution for their re-appointment, also authorising the Directors to fix their remuneration, will be proposed at the Annual General Meeting.

By Order of the Board



B Beanland
Secretary

2nd October 1997

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 then fair view of the state of the Company's affairs as at 31 December 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

16 Oct 1997

HKS PROPERTIES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

	Notes	1996 £'000	1995 £'000
TURNOVER - CONTINUING OPERATIONS	2	497	515
Other operating income	3	<u>1,778</u>	<u>1,840</u>
		2,275	2,355
Other operating charges		<u>(1,676)</u>	<u>(2,027)</u>
OPERATING PROFIT - CONTINUING OPERATIONS		599	328
(Loss)/Profit on disposal of fixed assets	7	(341)	25
Write down of fixed assets	7	(858)	-
Interest payable		<u>(6)</u>	<u>(9)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	(606)	344
Taxation on ordinary activities	6	<u>(7)</u>	<u>(234)</u>
AMOUNT (WITHDRAWN FROM)/TRANSFERRED TO RESERVES	12	<u>(613)</u>	<u>110</u>

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 31 DECEMBER 1996

	Note	1996		1995	
		£'000	£'000	£'000	£'000
FIXED ASSETS	7		7,877		9,375
CURRENT ASSETS					
Stocks	8		59		83
Debtors	9		6,971		6,507
Cash at bank and in hand			<u>151</u>		<u>160</u>
			7,181		6,750
CREDITORS (amounts falling due within one year)	10	<u>(18,027)</u>		<u>(18,481)</u>	
NET CURRENT LIABILITIES			<u>(10,846)</u>		<u>(11,731)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			(2,969)		(2,356)
PROVISIONS FOR LIABILITIES AND CHARGES					
Provision against long term leases			<u>(376)</u>		<u>(376)</u>
NET LIABILITIES			<u>(3,345)</u>		<u>(2,732)</u>
			<u>=====</u>		<u>=====</u>
CAPITAL AND RESERVES					
Called up share capital	11		270		270
Profit and loss account	12		<u>(3,615)</u>		<u>(3,002)</u>
EQUITY-SHAREHOLDERS' FUNDS	13		<u>(3,345)</u>		<u>(2,732)</u>
			<u>=====</u>		<u>=====</u>

APPROVED BY THE BOARD ON

20th 1997

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 - 31 DECEMBER 1996

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 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 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) Prior year figures

Some cost and income comparatives have been restated to a basis consistent with the disclosure in the current year. This has been done to achieve a clearer presentation of these items.

2 TURNOVER

Turnover derives from rental income receivable from tenants on the estate.

3 OTHER OPERATING INCOME

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Other machine income	46	-
Amusement machine income	63	95
Managed house sales	<u>1,669</u>	<u>1,745</u>
	1,778	1,840
	=====	=====

HKS PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

4 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>1996</u> £'000	<u>1995</u> £'000
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Depreciation	55	55
Rents payable	2	10
Repairs and maintenance expenditure	127	115
Auditors' remuneration	5	5
Managed house costs	1,394	1,449

5 DIRECTORS AND EMPLOYEES

The Company had no employees during 1996 and no Directors' emoluments or staff costs were incurred (1995: £Nil).

6 TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

Corporation tax is charged/(credited) as follows:	<u>1996</u> £'000	<u>1995</u> £'000
United Kingdom Corporation Tax at 33% (1995: 33%)		
Prior year	116	122
Current year	<u>(109)</u>	<u>112</u>
	7	234
	<u> </u>	<u> </u>

HKS PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

7 TANGIBLE FIXED ASSETS

	Land & buildings £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation			
At 1 January 1996	8,955	543	9,498
Additions	-	47	47
Disposals	<u>(605)</u>	<u>(35)</u>	<u>(640)</u>
At 31 December 1996	8,350	555	8,905
	=====	=====	=====
Accumulated depreciation			
At 1 January 1996	-	(123)	(123)
Charge for the year	-	(55)	(55)
Disposals	-	8	8
Write down of fixed assets	<u>(758)</u>	<u>(100)</u>	<u>(858)</u>
At 31 December 1996	(758)	(270)	(1,028)
	=====	=====	=====
Net book value			
At 31 December 1996	<u>7,592</u>	<u>285</u>	<u>7,877</u>
At 31 December 1995	8,955	420	9,375
	=====	=====	=====

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 depreciation (which would, had the provisions of the Act been followed, have reduced profit for the year) is only one of the factors reflected in the annual valuation and the amount attributable to this factor cannot reasonably be separately identified or quantified.

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

Subsequent to the year end the Company disposed of its remaining portfolio of freehold and leasehold investment properties and associated assets and liabilities, for net proceeds of £7,786,000 to Crown Buckley Limited. The total loss incurred as a result of this disposal of properties amounted to £858,000. The loss on disposal of properties has been provided for in these financial statements as a permanent diminution in the value of investment properties and fixtures and fittings.

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

HKS PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

7 TANGIBLE FIXED ASSETS (CONTINUED)

During the year the Company disposed of properties with a NBV of £621,000 for proceeds of £280,000. This resulted in a loss on disposal of fixed assets of £341,000.

The net book value of land and buildings at 31 December 1996 includes the following:

	£'000
Freehold	7,324
Long leasehold (over 50 years unexpired)	<u>268</u>
	7,592
	<u> </u>

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

8 STOCKS

	<u>1996</u> £'000	<u>1995</u> £'000
Raw materials and consumables	<u>59</u>	<u>83</u>

The replacement cost of stocks is not materially different from their book value.

9 DEBTORS

	<u>1996</u> £'000	<u>1995</u> £'000
Due within one year:		
Trade debtors	60	72
Amounts owed by group undertakings	6,906	6,434
Prepayments	5	1
Other debtors	<u>-</u>	<u>-</u>
	6,971	6,507
	<u> </u>	<u> </u>

HKS PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

10	CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)		
		<u>1996</u>	<u>1995</u>
		£'000	£'000
	Trade creditors	264	594
	Amounts owed to group undertakings	17,573	17,573
	Accruals and deferred income	36	20
	Taxation	<u>154</u>	<u>294</u>
		18,027	18,481
		=====	=====
11	CALLED UP SHARE CAPITAL		
		<u>1996</u>	<u>1995</u>
		£'000	£'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	<u>20</u>	<u>20</u>
		270	270
		=====	=====
	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.		
12	PROFIT AND LOSS ACCOUNT		£'000
	At 1 January 1996		(3,002)
	Loss for the year		<u>(613)</u>
	At 31 December 1996		<u>(3,615)</u>

HKS PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

13 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1996</u> £'000	<u>1995</u> £'000
(Loss)/profit on ordinary activities after taxation transferred to reserves	(613)	110
Opening shareholders' funds	<u>(2,732)</u>	<u>(2,842)</u>
Closing shareholders' funds	<u>(3,345)</u>	<u>(2,732)</u>

The shareholders' funds include non equity interests of £20,000 (1995 : £20,000).

14 PARENT UNDERTAKINGS

The Company is a subsidiary undertaking of Guinness Brewing Worldwide Limited. The ultimate parent undertaking is Guinness 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 consolidated accounts of Guinness PLC can be obtained from Guinness PLC.

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