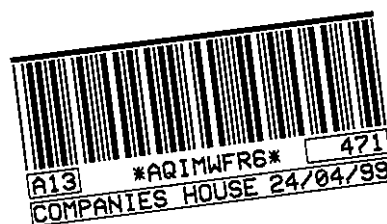


**EXPRESS FOODS GROUP (INTERNATIONAL) LIMITED**

**FINANCIAL STATEMENTS**

**PERIOD ENDED 30 JUNE 1998**

**Registered in England No. 14172**



## **DIRECTORS' REPORT**

The directors have pleasure in submitting their annual report, together with the audited financial statements for the nine months ended 30 June 1998.

On 17 December 1997 Grand Metropolitan PLC ("GrandMet") merged with Guinness PLC to form Diageo plc which as a result became the ultimate parent undertaking of the company.

### **Activities**

The company acts as an investment company and the directors foresee no material change in the nature of the company's activities.

On the 30 December 1996, the assets and trade of the businesses of Peter's Savoury Products, Brossard and Memory Lane Cakes were transferred to Montroue Limited, GrandMet Foods (UK) Limited and Precis (1057) Limited respectively. These latter three companies are all fellow subsidiary undertakings of Diageo plc.

### **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 Diageo Group may also be adversely affected by the inability of third parties to manage the Year 2000 problem.

**DIRECTORS' REPORT (continued)**

**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 Group 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.

**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 loss for the period transferred from reserves is £256,000 (1997 - (£15,999,000)). The directors do not recommend the payment of a dividend on either the ordinary or the 'A' ordinary shares (1997 - £nil).

**Directors**

The directors who served during the period were as follows:

M R Jamieson  
J M Summerlin

M R Jamieson resigned as director on the 24 July 1998. R J Gardner was appointed director on the same date.

**Directors' interests**

No directors 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.

**DIRECTORS' REPORT (continued)**

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 of 514  $\frac{12}{17}$  pence and the consolidation of existing shares from 25 pence ordinary shares to 28  $\frac{101}{108}$  pence ordinary shares. For every 1,000 existing ordinary shares shareholders received 864 consolidated ordinary shares and 136 B shares.

The directors who held office at the end of the financial period had the following interests in the shares of Diageo plc, the ultimate holding company:

**Shares and awards over ordinary shares**

	Ordinary shares of 25p or 28 $\frac{101}{108}$ p 1.10.97 or as at date of appointment	Ordinary Shares of 28 $\frac{101}{108}$ p	B Shares	MTEP Awards*	RSP Awards*
		30.6.98	30.6.98	30.6.98	30.6.98
MR Jamieson	-	-	-	-	4,630
JM Summerlin	634	2,500	-	-	4,820

**Options**

	1.10.97 or as at date of appointment	Granted during period	Exercised during period	30.6.98
MR Jamieson	45,000	-	-	45,000
JM Summerlin	95,493	-	10,500	84,993

The directors held the above options under Grand Metropolitan PLC and Diageo plc share option schemes at prices between 313p and 459p per share exercisable by 2006.

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

**DIRECTORS' REPORT (continued)**

J M Summerlin had an interest in 10,878,743 shares subject to call options held by the Grand Metropolitan PLC No.1 Employee Share Trust to satisfy grants made under the various Grand Metropolitan PLC share option schemes existing prior to the merger.

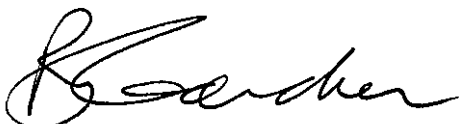
**\* Notes**

- (i) 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 were tailored to the particular division within which the relevant executive works and could be 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.
- (ii) The Grand Metropolitan Restricted Share Plan (RSP). In 1997, GrandMet shares or ADSs 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 the 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 the 50th percentile, no shares will be released. Releases between these points are on a sliding scale.

**Auditor**

A resolution is to be proposed at the annual general meeting for the re-appointment of KPMG Audit Plc as auditor of the company.

By order of the board



R J Gardner  
Secretary  
Harman House  
1 George Street,  
Uxbridge  
Middlesex, UB8 1QQ

21 April 1999

**DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS**

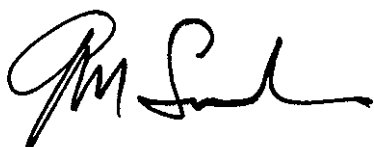
The following statement, which should be read in conjunction with the report of the auditor set out on page 6, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the financial year.

The directors consider that in preparing the financial statements on pages 7 to 16, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which they consider to be applicable have been followed and that it is appropriate to use a 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.



**J M Summerlin**  
Director

21 April 1999

**REPORT OF THE AUDITOR, KPMG AUDIT PLC**  
**TO THE MEMBERS OF EXPRESS FOODS GROUP (INTERNATIONAL) LIMITED**

We have audited the financial statements on pages 7 to 16.

**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 affairs of the company as at 30 June 1998 and of its loss 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

*21 April 1999*

London

## **ACCOUNTING POLICIES**

### ***Basis of preparation***

The financial statements of the company are prepared under the historical cost convention and comply with applicable UK accounting standards. The bases used are consistent with those used in the previous period. The company has not presented group financial statements by virtue of section 228 of the Companies Act 1985.

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.

### ***Turnover***

Turnover excluded VAT but included subsidies receivable.

### ***Fixed assets and depreciation***

Fixed assets were stated at cost or valuation. Profit or loss on sale of assets was the difference between the disposal proceeds and the net book value.

No depreciation was provided on freehold land. Freehold buildings and long leaseholds were depreciated over 40 years. Other leaseholds were depreciated over the unexpired period of the lease. Other fixed assets were depreciated to residual values over their estimated useful lives within the following ranges:

- plant and machinery 2 to 20 years
- fixtures and fittings 1 to 5 years.

The company disposed of all of its fixed assets during the year ended 30 September 1997.

### ***Leases***

Operating lease payments were taken to the profit and loss account on a straight line basis over the life of the lease.



**ACCOUNTING POLICIES (continued)**

***Deferred Taxation***

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of short term timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

***Investments***

Investments are valued individually at the lower of cost and net realisable value. All investments are unlisted and net realisable value is estimated by the directors.

***Pensions and other post employment benefits***

The majority of company employees were members of group pension schemes operated by Grand Metropolitan PLC. The schemes were of the defined benefit type funded by payments to trustee administered funds. The costs of providing pensions and other post employment benefits are charged against profits on a systematic basis, with pension surpluses and deficits allocated on a straight line basis over the expected remaining service lives of current employees.

Differences between the amounts charged in the profit and loss account and payments made to the plans were treated as assets or liabilities in the balance sheet. Particulars of the valuations of the group plans were contained in the financial statements of Grand Metropolitan PLC.

**PROFIT AND LOSS ACCOUNT**

**For the period ended 30th June 1998**

	Notes	9 months ended 30 June 1998 £'000	12 months ended 30 Sept 1997 £'000
Turnover	1	-	34,029
Decrease in stocks of finished goods and work in progress		-	(497)
Raw materials and consumables		-	(17,462)
Other operating costs	2	-	(7,400)
Staff Costs	3	-	<u>(8,194)</u>
<b>Operating profit</b>		-	476
<b>Discontinued operations</b>			
Loss on disposal of business		(1,835)	(23,747)
Provision for loss on operation to be discontinued		-	(1,853)
Release of prior period provisions	5	<u>3,200</u>	<u>4,321</u>
<b>Profit / (loss) on ordinary activities before interest</b>		1,365	(20,803)
Interest receivable and similar income	6	609	5,659
Interest payable and similar charges	7	<u>(2,970)</u>	<u>(3,393)</u>
<b>Loss on ordinary activities before taxation</b>		(996)	(18,537)
Tax credit on loss on ordinary activities	8	<u>740</u>	<u>2,538</u>
<b>Loss on ordinary activities after taxation transferred from reserves</b>	14	<u>(256)</u>	<u>(15,999)</u>

All of the above relates to discontinued operations.

There are no recognised gains and losses other than the loss for the financial 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 loss for the period and the historical loss for the period and consequently no note of historical cost losses has been presented as part of the financial statements.

**BALANCE SHEET**  
**As at 30th June 1998**

	Notes	30 June 1998 £'000	30 September 1997 £'000
<b>Fixed assets</b>			
Investments	9	5,016	5,016
<b>Current assets</b>			
Debtors	10	369,839	364,512
Cash at bank and in hand		<u>1,618</u>	<u>2,220</u>
		371,457	366,732
<b>Creditors</b>			
Amounts falling due within one year	11	<u>(152,799)</u>	<u>(145,454)</u>
<b>Net current assets</b>		<u>218,658</u>	<u>221,278</u>
<b>Total assets less current liabilities</b>		223,674	226,294
<b>Provisions for liabilities and charges</b>	12	<u>(2,097)</u>	<u>(4,461)</u>
		<u>221,577</u>	<u>221,833</u>
<b>Capital and reserves</b>			
Called up equity and non-equity share capital	13	15,139	15,139
Share premium account		772	772
Other reserves		2,937	2,937
Profit and loss account		<u>202,729</u>	<u>202,985</u>
	14	<u>206,438</u>	<u>206,694</u>
<b>Total shareholders' funds</b>		<u>221,577</u>	<u>221,833</u>

The financial statements on pages 7 to 16 were approved by the Board of Directors on 21 April 1999 and were signed on its behalf by:



**J M Summerlin**  
**Director**

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

**For the period ended June 1998**

	<b>9 months ended 30 June 1998 £'000</b>	<b>12 months ended 30 Sept 1997 £'000</b>
<b>Loss for the period</b>	<b>(256)</b>	<b>(15,999)</b>
<b>Total shareholders' funds at beginning of period</b>	<b><u>221,833</u></b>	<b><u>237,832</u></b>
<b>Total shareholders' funds at end of period</b>	<b><u>221,577</u></b>	<b><u>221,833</u></b>

**NOTES (forming part of the financial statements)**

**1. Analysis of turnover and loss before taxation**

The company ceased trading during the year ended 30 September 1997. In the year ended 30 September 1997 the turnover and loss before taxation were attributable to the processing, manufacture and distribution of food products, all of which were carried out in the United Kingdom.

**2. Other operating costs**

	<b>9 months ended 30 June 1998 £'000</b>	<b>12 months ended 30 Sept 1997 £'000</b>
Loss on ordinary activities before taxation is stated after charging;		
Depreciation of tangible fixed assets	-	927
Operating lease rentals for plant and machinery	-	836
Other operating lease rentals	-	2
Research and development expenditure	<u>-</u>	<u>73</u>

Auditor's remuneration was paid on behalf of the company by a fellow group undertaking.

**3. Staff numbers and costs**

<b>Average number of employees</b>	<b>9 months ended 30 June 1998 No.</b>	<b>12 months ended 30 Sept 1997 No.</b>
Brossard and Memory Lane Cakes	-	1,799
Peter's Savoury Products	<u>-</u>	<u>698</u>
	<u>-</u>	<u>2,497</u>

The average staff numbers shown reflects the level of staff during the period in which the company's division traded.

<b>The aggregate payroll costs of these persons were as follows:</b>	<b>9 months ended 30 June 1998 £'000</b>	<b>12 months ended 30 Sept 1997 £'000</b>
Employee costs		
Wages and salaries	-	7,620
Employer's social security costs	<u>-</u>	<u>574</u>
	<u>-</u>	<u>8,194</u>

**NOTES (continued)**

**4. Directors' emoluments**

No director has been paid any remuneration during the period, or previous period, for his services as a director of Express Foods Group (International) Limited.

The directors were remunerated for their services either as directors or senior executives of Pillsbury U.K. Limited and, where appropriate, emoluments are disclosed in the financial statements of that company.

**5. Discontinued operations**

	<b>9 months ended</b>		<b>12 months ended</b>	
	<b>30 June 1998</b>		<b>30 Sept 1997</b>	
	<b>£'000</b>		<b>£'000</b>	
	<b>Provision</b>		<b>Provision</b>	
	<b>(Loss)</b>	<b>released</b>	<b>(Loss)</b>	<b>released</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Discontinued operations	<u>(1,835)</u>	<u>3,200</u>	<u>(23,747)</u>	<u>4,321</u>

The loss on discontinued operations arises from residual costs incurred following the disposal of previous businesses owned by the company in the prior years.

The tax credit on these items amounted to £nil (1997 - £86,764).

**6. Interest receivable and similar income**

	<b>9 months ended</b>	<b>12 months ended</b>
	<b>30 June 1998</b>	<b>30 Sept 1997</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable on short term deposits	-	764
Other external interest receivable	609	-
Interest receivable from group undertakings	<u>-</u>	<u>4,895</u>
	<u>609</u>	<u>5,659</u>

**NOTES (continued)**

**7. Interest payable and similar charges**

	<b>9 months ended 30 June 1998</b>	<b>12 months ended 30 Sept 1997</b>
	<b>£'000</b>	<b>£'000</b>
Interest payable to group undertakings	2,970	3,392
Interest on bank loans	<u>-</u>	<u>1</u>
	<b><u>2,970</u></b>	<b><u>3,393</u></b>

**8. Tax on loss on ordinary activities**

	<b>9 months ended 30 June 1998</b>	<b>12 months ended 30 Sept 1997</b>
	<b>£'000</b>	<b>£'000</b>
UK corporation tax credit at 31% (1997 – 32%) on the loss for the period	<u>740</u>	<u>2,538</u>

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

**9. Fixed asset investments**

	<b>Subsidiary undertakings £'000</b>
<b>Shares at cost (unlisted)</b>	
At beginning and end of period	127,721
<b>Provisions</b>	
At beginning and end of period	<u>(122,705)</u>
<b>Net book value</b>	
At 30 September 1997 and 30 June 1998	<u><u>5,016</u></u>

The company's principal subsidiary undertakings are as follows:

<u>Subsidiary undertaking</u>	<u>Country of registration</u>	<u>Principal activity</u>	<u>Class and percentage of shares held</u>
Spiers and Pond Limited	England	Investment company	2,131,028 ordinary shares of 25p each - 100% directly owned 509,807 4.55% cumulative preference shares of £1 each – 100% directly owned
PSP (Sales and Distribution) Limited	England	Investment company	8,079,999 ordinary shares of 10p each - 100% directly owned 7,070,000 'A' ordinary non-voting shares of 10p each – 100% directly owned

In the opinion of the directors, the investment in and amounts due from the company's subsidiaries are worth at least the amount at which they are stated in the financial statements. A full list of subsidiaries, all of which are consolidated, will be included in the company's next annual return.

**NOTES (continued)**

**10. Debtors - amounts falling due within one year**

	<b>30 June 1998</b>	<b>30 Sept 1997</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed by group undertakings	366,140	361,985
Other debtors	1,900	1,462
Corporation Tax	<u>1,799</u>	<u>1,065</u>
	<b><u>369,839</u></b>	<b><u>364,512</u></b>

The UK trade debtors ledger is factored without recourse through Diageo Finance Ireland, a fellow subsidiary undertaking. Accordingly, trade debtors are included within amounts owed by the holding company and fellow subsidiary undertakings.

**11. Creditors - amounts falling due within one year**

	<b>30 June 1998</b>	<b>30 Sept 1997</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	-	316
Amounts owed to group undertakings	152,780	141,964
Other taxation including social security	-	3
Accruals and deferred income	<u>19</u>	<u>3,171</u>
	<b><u>152,799</u></b>	<b><u>145,454</u></b>

**12. Provisions for liabilities and charges**

	<b>30 June 1998</b>
	<b>£'000</b>
At beginning of period	4,461
Utilised during the period	<u>(2,364)</u>
At end of period	<b><u>2,097</u></b>

The provision was set up in prior years for a number of businesses and is principally to cover future liabilities in respect of redundant properties and potential disposal warranty claims.



**NOTES (continued)**

**13. Share capital**

	<b>Authorised</b>		<b>Allotted, called up and fully paid</b>			
	<b>30 June 1998</b>	<b>30 June 1998</b>	<b>30 June 1998</b>	<b>30 Sept 1997</b>	<b>30 Sept 1997</b>	
	<b>No.</b>	<b>No.</b>	<b>£'000</b>	<b>No.</b>	<b>£'000</b>	
Ordinary shares of 25p each	800,000	800,000	200	800,000	200	
'A' Ordinary shares of 25p each	53,800,000	52,918,181	13,229	52,918,181	13,229	
7% Cum.Pref shares of £1 each	100,000	100,000	100	100,000	100	
7% 'A' Cum.Pref shares of £1 each	1,000,000	902,601	903	902,601	903	
6% Cum.Pref shares of £1 each	200,000	200,000	200	200,000	200	
6% 'A' Cum.Pref shares of £1 each	<u>550,000</u>	<u>507,110</u>	<u>507</u>	<u>507,110</u>	<u>507</u>	
			<u>15,139</u>		<u>15,139</u>	
Total equity share capital			13,429		13,429	
Total non-equity share capital			<u>1,710</u>		<u>1,710</u>	
			<u>15,139</u>		<u>15,139</u>	

None of the preference stock is redeemable.

The arrears in dividends for the cumulative preference shares amounts to £nil (1997 - £nil).

**14. Reserves**

	<b>Share premium account £'000</b>	<b>Other reserves £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
At beginning of period	772	2,937	202,985	206,694
Retained Loss for period	-	-	(256)	(256)
At end of period	<u>772</u>	<u>2,937</u>	<u>202,729</u>	<u>206,438</u>

**15. Guarantees**

The company has other guarantees of £nil (1997 - £1,155,000).

**16. Immediate and ultimate parent undertaking**

The immediate parent undertaking is GrandMet Foods (UK) Limited a company registered in England.

The ultimate parent undertaking of the company as at 30 June 1998 was Diageo plc, a company registered in England. Diageo plc's accounting period end is on 30 June. The first 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.