Justerini & Brooks Limited

Directors' report and financial statements

30 September 1997
Registered number 68576

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COMPANIES HOUSE 29/07/98

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 1997.

Principal activities

The principal activity of the company continued to be the production, sale and export of wines and spirits, particularly J&B Rare Scotch Whisky. The company sells its products globally, the most significant markets being Spain, France, the USA, the UK, Thailand and Portugal. The directors currently foresee no material change in the nature of the company's activities.

Review of the business

The result for the year is set out in the profit and loss account on page 7. The directors consider the performance of the company to be satisfactory.

Dividend and transfer to reserves

An interim dividend of £40,000,000 was declared and paid on 3 April 1998 (1996: £40,015,000). A preference dividend of £41,600,000 (1996: £34,305,000) was paid.

After deducting the dividends the loss for the year taken to reserves is £18,032,000 (1996: profit £30,843,000).

Directors and directors' interests

The directors who held office during the year and in the period since 30 September 1997 were as follows:

WRF Bedloe		
EP Demery		
JJ Corbett		
G Williams		(appointed 25 October 1996)
NC Rose		(appointed 15 November 1996)
JB McGrath	(Chairman)	(appointed 18 November 1996)
RN Watling		(appointed 1 May 1997)
CJ Sandham		(resigned 25 October 1996)
CN Banks		(resigned 27 February 1997)
DB Rickard		(resigned 15 November 1996)

None of the directors who held office at the end of the financial year had, according to the register of directors' interests, any interest in the shares of group companies throughout the year other than those detailed below.

Directors' report *(continued)*

Directors and directors' interests (continued)

At 30 September, the interests, all beneficial, of the directors in the share capital of the ultimate holding company, Grand Metropolitan PLC (see note 21) were as follows:

Ordinary shares of 25p each	30 September 1996 (or on date of appointment)	30 September 1997	RSP Award*
WRF Bedloe	5,576	3,771	2,000
JJ Corbett	1,324	1,367	5,000
EP Demery	8,989	9,567	2,000
RN Watling	2,400	2,400	9,500

* Interest in the form of unvested awards under the Grand Metropolitan Restricted Share Plan, granted 1 January 1997.

Options	30 September 1996 (or on date of appointment)	Granted during year	Exercised during year	30 September 1997
WRF Bedloe	70,009	-	-	70,009
JJ Corbett	115,774	3,026	30,000	88,800
EP Demery	45,104	756	919	44,941
RN Watling	158,000	-	-	158,000

The directors held the above options under the Grand Metropolitan PLC share option schemes at prices between 314p and 474p per share exercisable by 2006.

The mid-market price of Grand Metropolitan Plc shares fluctuated between 428.5p and 625.5p during the year. The mid-market share price on 30 September 1997 was 592p.

As potential beneficiaries of the Grand Metropolitan PLC No. 1 Employee Share Trust, Mr JJ Corbett and Mr RN Watling had an interest at 30 Septmber 1997 in 251,818 shares registered title name of Greenwood Nominees Limited and 33,256,768 shares which were the subject of Call Options purchased by the trustees, Mourant & Co. Trustees Limited from SBC Warburg Dillon Read and National Westminster Bank plc.

Messrs NC Rose and G Williams are directors of the parent undertaking United Distillers and Vintners (HP) Limited (formerly International Distillers and Vintners Limited), and their interests in shares of Grand Metropolitan PLC are declared in the annual report of that company.

Mr JB McGrath is a director of the ultimate parent company, Grand Metropolitan PLC and his interests in the shares of that company are declared in its annual report.

Directors' report *(continued)*

Employee involvement

The company is committed to the development of employee consultation and, thereby, to employees' greater involvement in the company's operations. Consultation is achieved both on a formal basis in conjunction with trade unions and employee committees and also through more informal briefing sessions and discussions with wider groups of employees.

Following publication of the company's results, information is disseminated widely and briefing sessions held to discuss both the past year and future development.

Employment of disabled persons

The company recognises its obligations towards disabled people and endeavours to provide as much employment as the demands of the company's operations and the abilities of the disabled persons allow.

Applications for employment from disabled people are studied with care. Every effort is made to find them, and any existing employees who become disabled, appropriate work and training where it is needed. Opportunities are offered to disabled employees to develop their knowledge and skills and undertake greater responsibilities.

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £3,000 this year (1996: £83,000).

Creditors payment policy

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

The number of days billings outstanding at the end of the financial year was 40. Some of the company's invoices for goods and services are settled by subsidiaries acting as agents for the company.

Directors' report *(continued)*

Secretary

On 30 April 1997 Ms M Petetin and Ms SM Bunn resigned as joint secretaries and Mr MD Peters was appointed secretary in their place.

Auditor

The auditor, KPMG Audit Plc, is willing to continue in office and a resolution concerning their re-appointment and remuneration will be submitted to the Annual General Meeting.

By order of the board

MD Peters
Secretary

61 St James's Street
London
SW1A 1LZ
23 July 1998

Statement of directors' responsibilities

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 for the financial year.

The directors, in preparing the financial statements on pages 7 to 21, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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.

The directors, having prepared the financial statements, have requested the auditor to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

J Corbett

KPMG

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Auditor's report to the members of Justerini & Brooks Limited

We have audited the financial statements on pages 7 to 21.

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 September 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

27 July 1998

Profit and loss account

for the year ended 30 September 1997

	Note	1997 £000	1996 £000
Turnover			
Continuing operations	*2*	307,756	294,20
Operating costs	*3-5*	(203,116)	(183,534)
Operating profit			
Continuing operations		104,640	110,669
Net interest receivable	*6*	498	25,853
Profit on ordinary activities before taxation		105,138	136,522
Tax on profit on ordinary activities	*7*	(41,570)	(31,359)
Profit on ordinary activities after taxation		63,568	105,163
Equity dividends paid and proposed	*8*	(40,000)	(40,015)
Non equity preference dividends	*8*	(41,600)	(34,305)
Retained (loss)/profit for the financial year		(18,032)	30,843

There are no recognised gains or losses other than the loss for the financial year.

Balance sheet

at 30 September 1997

	Note	1997 £000	1997 £000	1996 £000	1996 £000
Fixed assets					
Tangible assets	*9*		75,082		73,580
Investments	*10*		500,076		500,076
			575,158		573,656
Current assets					
Stocks	*11*	247,831		238,258	
Debtors	*12*	534,261		287,593	
Cash at bank and in hand		1,842		50,169	
		783,934		576,020	
Creditors: amounts falling due within one year	*13*	(646,306)		(416,851)	
Net current assets			137,628		159,169
Total assets less current liabilities			712,786		732,825
Provisions for liabilities and charges	*14*		(6,608)		(8,615)
Net assets			706,178		724,210
Capital and reserves					
Equity share capital	*15*		86		86
Non equity share capital	*15*		520,000		520,000
Called up share capital	*15*		520,086		520,086
Revaluation reserve	*16*	2,039		2,089	
Profit and loss account	*16*	184,053		202,035	
Reserves attributable to equity shareholdings			186,092		204,124
Shareholders' funds			706,178		724,210

Included within net current assets are debtors totalling £24,953,000 (1996: £24,038,000) which are due in more than one year (see note 12).

These financial statements were approved by the board of directors on 23 July 98 and were signed on its behalf by:

J Corbett

JJ Corbett
Director

Note of historical cost profits and losses

for the year ended 30 September 1997

	1997 £000	1996 £000
Reported profit on ordinary activities before taxation	105,138	136,522
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	50	44
Historical cost profit on ordinary activities before taxation	105,188	136,566
Historical cost (loss)/profit for the year retained after taxation and dividends	(17,982)	30,887

Reconciliation of movements in shareholders' funds

for the year ended 30 September 1997

	1997 £000	1996 £000
Profit for the financial year	63,568	105,163
Dividends	(81,600)	(74,320)
Retained (loss)/profit for the financial year	(18,032)	30,843
New non equity share capital subscribed	-	520,000
Net (decrease)/increase in shareholders' funds	(18,032)	550,843
Opening shareholders' funds	724,210	173,367
Closing shareholders' funds	706,178	724,210

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified by the revaluation of certain land and buildings.

Tangible fixed assets

Tangible fixed assets are stated at cost, or at professional valuation, less appropriate provision for depreciation.

No depreciation is provided on freehold land. Other fixed assets are depreciated to residual values on a straight line basis over their estimated useful lives within the following ranges:

Freehold buildings	-	50 years
Plant and machinery	-	4-10 years
Fixtures, fittings, tools and equipment	-	3-10 years

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Transactions covered by forward currency contracts are recorded, and any resulting assets or liabilities are translated, at the contracted rate of exchange.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of its estimated useful life and the lease term. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Notes *(continued)*

1 Accounting policies (continued)

Investments

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

Pensions

The costs of providing pensions are charged against profits on a systematic basis, with pension surpluses and deficits allocated 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 are treated as assets or liabilities in the balance sheet. Deferred tax is accounted for on these assets and liabilities.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes, where appropriate, production and other direct overhead expenses included in the maturing process.

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

Turnover

Turnover consists of the proceeds of sales, less returns and VAT, and includes any duty thereon where appropriate.

2 Analysis of turnover and profit before taxation

Turnover and profit before taxation are attributable to one class of business.

All turnover originates in the United Kingdom. The turnover by geographical market is as follows:

	1997 £000	1996 £000
United Kingdom and Eire	**23,142**	40,119
Rest of Europe	**174,708**	163,466
North America	**41,995**	39,000
Africa and Middle East	**14,554**	17,933
Rest of world	**53,357**	33,685
	307,756	294,203

Notes *(continued)*

3 Operating costs

	1997 £000	1996 £000
(Increase)/decrease in maturing stocks and stocks of finished goods	(16,011)	5,352
Raw materials and consumables	120,535	106,54
Other external charges	79,069	60,239
Staff costs	21,670	20,922
Auditors' fees:		
Audit	66	65
Non audit	9	4
Depreciation of fixed tangible assets (see note 9)	5,211	5,724
Other operating income	(7,433)	(15,321)
	203,116	183,534

4 Remuneration of directors

	1997 £000	1996 £000
Directors' emoluments (excluding pension contributions)	295	364
Amounts receivable under long term incentive schemes	-	-
	295	364

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £92,623 (1996: £128,376). The highest paid director is a member of a defined benefit scheme under which his accrued pension at the year end was £26,257 (1996: £69,989), and during the year he exercised share options and also received options to acquire shares in the ultimate parent undertaking under a long term incentive scheme.

Six of the directors during the year (1996: 3) carried out non-executive roles within the company. They did not receive any emoluments from the company nor, in the opinion of the directors, did their emoluments from other roles with the GrandMet group include any significant amounts in respect of these services.

	1997 £000	1996 £000
The number of directors for whom retirement benefits are accruing under a defined benefit scheme was:	4	5
The number of directors who exercised share options was:	7	5
The number of directors in respect of whose services shares were receivable under long term incentive schemes* was:	3	-

*unvested awards under the Grand Metropolitan Restricted Share Plan

Notes *(continued)*

5 Staff numbers and costs

The average number of employees was 867 (1996: 882).

The aggregate payroll costs of these persons were as follows:

	1997 £000	1996 £000
Wages and salaries	20,783	20,136
Social security costs	1,802	1,700
Other pension costs	(915)	(914)
	21,670	20,922

6 Net interest (payable)/receivable

	1997 £000	1996 £000
External interest receivable	1,465	11,963
External interest payable on bank loans and overdrafts	(1,241)	(1,130)
Inter-group interest receivable	274	15,020
	498	25,853

Notes *(continued)*

7 Taxation

	1997 £000	1996 £000
UK corporation tax at 32% *(1996:33%)* on the profit for the year on ordinary activities	34,094	42,374
Deferred taxation	(18)	127
Adjustment in respect of prior years	7,494	(11,142)
	41,570	31,359

Deferred taxation not provided for in the period in respect of accelerated capital allowances, amounted to £321,807 (1996: £837,257).

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.

8 Dividends

	1997 £000	1996 £000
Ordinary shares:		
Interim	40,000	40,015
Preference shares:		
Non-equity preference dividends paid	41,600	34,305
	81,600	74,320

Notes *(continued)*

9 Tangible fixed assets

	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Assets in the course of construction	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At beginning of year	48,629	73,766	5,105	45	127,545
Additions	1	6,375	1,146	-	7,521
Disposals	(83)	(400)	(1,413)	-	(1,895)
Transfers	-	-	45	(45)	-
At end of year	48,547	79,741	4,883	-	133,171
Depreciation					
At beginning of year	7,396	44,201	2,368	-	53,965
Charge for year	988	3,868	355	-	5,211
On disposals	-	(83)	(1,004)	-	(1,087)
At end of year	8,384	47,986	1,719	-	58,089
Net book value					
At 30 September 1997	**40,163**	**31,755**	**3,164**	**-**	**75,082**
At 30 September 1996	41,233	29,565	2,737	45	73,580

Notes *(continued)*

9 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	1997	1996
	£000	£000
Freehold land	**2,113**	2,113
Freehold buildings	**38,050**	39,120
	40,163	41,233

Particulars relating to revalued assets are given below:

	1997	1996
	£000	£000
Land and buildings		
At cost	46,033	46,115
At 1988 professional valuation	2,514	2,514
	48,547	48,629

The 1988 professional valuation was made on an open market existing use basis, except for distilleries which were valued on a depreciated replacement cost basis because of their specialised nature.

	1997	1996
	£000	£000
Historical cost of land and buildings	46,243	46,325
Aggregate depreciation based on historical cost	(8,119)	(7,181)
Historical cost net book value	38,124	39,144

Notes *(continued)*

10 Investments

	£000
At 30 September 1996	500,076
Disposal	-
At 30 September 1997	500,076

The investments, which are stated at cost, include 500,000,000 ordinary £1 shares in Grand Metropolitan Capital Company Limited, a fellow subsidiary company of Grand Metropolitan PLC. At 30 September 1997, this investment represented 17.9% of the issued ordinary share capital of Grand Metropolitan Capital Company Limited. Other investments comprise trade investments in an unlisted company, which was formerly a partnership prior to incorporation during the year.

11 Stocks

	1997 £000	1996 £000
Raw materials and consumables	4,686	11,124
Stocks of maturing scotch whisky	227,575	219,840
Finished goods and goods for resale	15,570	7,294
	247,831	238,258

Of the current year depreciation charge an amount was recovered to stocks of maturing scotch whisky. During the year, depreciation of £1,221,000 (1996: £1,244,000) previously recovered to stocks has been released to current operating costs.

12 Debtors

	1997 £000	1996 £000
Trade debtors	769	3,468
Amounts owed by group undertakings	505,184	256,354
Other debtors	3,052	1,637
Prepayments and accrued income	25,256	26,134
	534,261	287,593

Debtors are receivable within one year except for £24,663,000 (1996: £23,748,000) being the prepayment in respect of the group pension surplus and £290,000 (1996: £290,000) being an interest free loan, repayable on 1 October 2005.

Notes *(continued)*

13 Creditors: amounts falling due within one year

	1997 £000	1996 £000
Bank loans and overdrafts	**13,086**	5,023
Trade creditors	**22,078**	21,569
Amounts owed to group undertakings	**516,986**	288,529
Other creditors including taxation and social security:		
Corporation tax	**36,366**	39,044
Other including other taxes and social security	**698**	1,489
Accruals and deferred income	**17,092**	21,182
Equity dividend proposed	**40,000**	40,015
	646,306	416,851

14 Provisions for liabilities and charges

	Other provisions £000	Deferred taxation £000	Total £000
At beginning of year	2,835	5,780	8,615
Transfer to profit and loss account	(530)	(18)	(548)
Utilised in the period	(1,459)	-	(1,459)
At end of year	846	5,762	6,608

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1997 Provided £000	Unprovided £000	1996 Provided £000	Unprovided £000
Accelerated capital allowances on plant and machinery and industrial buildings	**-**	**10,008**	-	7,390
Short term timing differences	**5,762**	**-**	5,780	-
	5,762	**10,008**	5,780	7,390

Notes *(continued)*

15 Called up share capital

Equity	**1997**	1996
	£000	£000
Authorised		
400,000,000 ordinary shares of £1 each	**400,000**	400,000
Allotted, called up and fully paid		
86,500 ordinary shares of £1 each	**86**	86
Non equity		
Authorised		
600,000,000 preference shares of £1 each	**600,000**	600,000
Allotted, called up and fully paid		
520,000,000 preference shares of £1 each	**520,000**	520,000

The preference shares carry a fixed cumulative preference dividend of 8% per annum. The preference shares are redeemable at par at the option of the company at the earliest of 2001.

16 Reserves

	Revaluation reserve	**Profit and loss account**	**Total**
	£000	£000	£000
At beginning of year	2,089	202,035	204,124
Retained loss for the year	-	(18,032)	(18,032)
Depreciation on revalued assets	(50)	50	-
At end of year	2,039	184,053	186,092

The surplus on revaluation of land and buildings does not constitute a timing difference for deferred tax purposes. No tax liability would arise on any disposal of these assets after taking account of claims for rollover relief.

Notes *(continued)*

17 Contingent liabilities

In the opinion of the directors there are no contingent liabilities requiring disclosure at 30 September 1997 (1996: £Nil), except that a letter of indemnity has been given in respect of the operation by International Distrillers to Vintners Export Limited of a bank account.

18 Cash flow statement

A cash flow statement is not presented as the company is a member of a group, whose ultimate holding company, Grand Metropolitan PLC, includes a group cash flow statement in its financial statements.

19 Commitments

(i) Capital commitments at the end of the financial year for which no provision has been made in these financial statements are as follows:

	1997 £000	1996 £000
Contracted	300	200

(ii) Annual commitments under operating leases are as follows:

	Plant and machinery	
	1997 £000	1996 £000
Operating leases which expire:		
Within one year	19	-
In the second to fifth years inclusive	85	241
Over five years	175	118
	279	359

Notes *(continued)*

20 Pensions

The majority of company employees are members of group pension schemes operated by Grand Metropolitan PLC. Contributions by this company are based on pension costs across the Grand Metropolitan group as a whole. The schemes are of the defined benefit type, funded by payments to trustee administered funds.

Particulars of the valuations of the group schemes are contained in the financial statements of Grand Metropolitan PLC.

21 Ultimate holding company

The company is a wholly owned subsidiary of United Distillers & Vintners (HP) Limited (formerly International Distillers & Vintners Limited) and its ultimate holding company as at 30 September 1997 was Grand Metropolitan Public Limited Company ("Grand Metropolitan"). Both companies are incorporated and registered in England. A copy of the financial statments of the later can be obtained from 8 Henrietta Place, London W1M 9AG.

On 17 December 1997 Grand Metropolitan merged with Guiness PLC to form Diageo plc,. which as a result, became the ultimate parent undertaking of the company. The merger was effected by a Scheme of Arrangement under the terms of which for each ordinary share of 25 pence held in Grand Metropolitan, shareholders received one ordinary share of 25 pence in Guinness PLC (which was renamed Diageo plc) and each Grand Metropolitan ordinary share was cancelled.

Diageo plc is a company incorporated and registered in England and its accounting period end will be 30 June. The first consolidated accounts of Diageo plc will be for the eighteen month period ending 30 June 1998 and will be obtainable from the address shown above.

22 Related party transactions

The exemption from disclosing transactions with fellow subsidiary undertakings 90 per cent or more of whose voting rights are controlled within the Grand Metropolitan PLC group has been invoked.

23 Post balance sheet event

On 8 June 1998 the company purchased various interests in the Bombay Gin brands and on 16 June sold these interests, together with its existing interests, to the Bacardi group, as part of the overall disposal of the brand.

The proceeds of the disposal are being allocated over the individual parties and, in the opinion of the directors, the company will make a profit of not less than £95 million on the disposal. The tax liability as a result of this transaction is estimated to be £30 million.