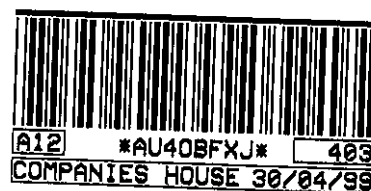


WATCHDIRECT LIMITED
Registered in England No. 2476751
FINANCIAL STATEMENTS
30 JUNE 1998



DIRECTORS' REPORT

The directors have pleasure in submitting their report, together with the 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, as a result of which, Diageo plc became the ultimate parent undertaking of the company.

Activities

The company did not trade during the period or the preceding financial year. The directors foresee no changes in the company's activities.

Year 2000 & the euro

In the opinion of the directors there are no risks or uncertainties with the Year 2000 problem or the euro due to the company's dormant status.

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

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

The profit transferred to reserves was £nil (1997 - £nil).

Directors

The directors during the period were as follows:

S M Bunn (appointed 27 March 1998)
R H Myddelton
M D Peters (appointed 27 March 1998)
B E Wickham (resigned 27 March 1998)

DIRECTORS' REPORT (continued)

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.

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

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

Shares and awards over ordinary shares

	Ordinary shares of 25p or 28 ¹⁰¹ / ₁₀₈ p 1.10.97 or as at date of appointment	Ordinary shares of 28 ¹⁰¹ / ₁₀₈ p 30.6.98	B Shares 30.6.98	MTEP Awards* 30.6.98	RSP Awards* 30.6.98
S M Bunn	-	-	-	-	-
R H Myddelton	21,368	20,049	-	-	18,081
M D Peters	5,943	2,733	224	1,434	-

Options

	1.10.97 or as at date of appointment	Granted during period	Exercised during period	30.6.98
S M Bunn	14,672	-	-	14,672
R H Myddelton	313,260	-	105,738	207,522
M D Peters	13,348	-	-	13,348

The directors held the above options under Grand Metropolitan PLC, Guinness PLC and Diageo plc share option schemes at prices between 314p and 494p per share exercisable by 2007.

The mid-market share price of Grand Metropolitan PLC/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.

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

DIRECTORS' REPORT (continued)

Directors' interests (continued)

* 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 Total Shareholder Return ("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.

Secretary

On 1 June 1998 S M Bunn resigned as secretary of the company and V A Lynch was appointed in her place.

By order of the Board



V A Lynch
Secretary
8 Henrietta Place
London
W1M 9AG

19 April 1999

PROFIT AND LOSS ACCOUNT

FOR THE NINE MONTHS ENDED 30 JUNE 1998

During the financial period and the preceding financial year, the company did not trade and received no income and incurred no expenditure. Consequently, during those periods, the company made neither a profit nor a loss, and there were no other recognised gains or losses.

Accordingly, neither a profit and loss account, a statement of recognised gains and losses, a note of historical cost profits and losses or a reconciliation of movements in shareholders' funds has been presented.

WATCHDIRECT LIMITED
9 Months to 30 June 1998

Page 5

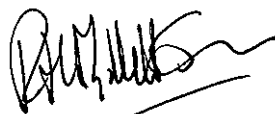
BALANCE SHEET

AS AT 30 JUNE 1998

		30 June 1998	30 September 1997
	Note	£	£
Current assets			
Other debtors due within one year		<u>2</u>	<u>2</u>
Capital and reserves			
Called up share capital	3	<u>2</u>	<u>2</u>

The company was dormant, within the meaning of Section 250 of the Companies Act 1985, throughout the financial period.

The financial statements on pages 4 to 6 were approved by the Board of Directors on 19 April 1999 and signed on its behalf by:



RH Myddelton
Director

NOTES (forming part of the financial statements)

1. Accounting policies

The financial statements have been prepared under the historical cost convention and comply with applicable UK accounting standards.

2. Profit and loss

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

3. Share capital

	30 June 1998	30 September 1997
	£	£
<u>Authorised</u>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<u>Allotted, called up and fully paid</u>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

4. Immediate and ultimate parent undertaking

The immediate parent undertaking is Grand Metropolitan PLC, 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 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.