DESNOES & GEDDES LIMITED 1998

Directors' Report

The Directors hereby submit their Report and Audited Group Financial Statements for the 18 months to 30th June 1998. This 18 month accounting period is due to the change in year end date from December to June, brought about by the merger of Guinness PLC and Grand Metropolitan PLC to create Diageo PLC, our new parent company.

Results of Operations

For the 18 month period, turnover increased by $3,496m or 62% compared to the 12 month figures for 1996. Group Earnings before tax showed a profit of $313m compared to a profit of $46m for 1996 (restated for prior year adjustments).

Highlights of the trading period compared to 1996 are:

	18 Months 1997/98 $m	Restated 12 Months 1996 $m
Turnover	9,078	5,581
Consumption Tax/Excise Duty	(848)	(498)
Profit before Interest and Tax	565	453
Profit Before Tax	313	46

Profit after Tax	164	2
Earnings per Stock Unit ($ per share)	$0.54	$0.01

Operations

For the second consecutive financial period, profits have increased significantly with the Group recording a Profit after Tax of $164m compared with a restated profit of $2m for 1996 and a loss of $(112)m for 1995. Given the continued difficulties within the Jamaican economy, this is once again a highly creditable achievement and one which shows that we are continuing to make progress towards our goal of becoming globally competitive.

The period in question heralded some major changes for Desnoes and Geddes Limited. With ever growing demand for Carbonated Soft Drinks in the convenient new PET package, demand for Soft Drinks in returnable bottles decreased dramatically and the Production facility that had been operating at Montego Bay for at least 30 years proved to be surplus capacity that the Company could not afford to keep running. A decision was taken to close the facility in March 1997 with the loss of 158 jobs. Although the Company was very reluctant to take this difficult decision, we cannot praise

highly enough the loyalty of the staff in Montego Bay who worked as normal to the day of closure and who helped to make the shut down of operations one of the most successful such closures in recent times. It was also pleasing to see that many of the employees from the distribution plant found new employment with Krasne Peart, our former Director of Sales who was appointed as our Franchise Distributor for the Montego Bay area. The cost reductions made possible by these moves will contribute to a reduced cost base for the future and will therefore assist us towards our objectives.

As the year progressed, the high debt burden being carried by Desnoes and Geddes Limited, the high interest rates and the decreasing lending power of the commercial banks due to the worsening banking crisis, all put pressure on D&G's financial resources. With further capital investment still required to fund a $2,500 million programme over the next 5 years, the Board decided to proceed with a Rights Issue to enable this capital programme to be adequately funded. This Rights Issue was a complete success and raised a net $862 million. It also allowed for a wider share ownership and we are particularly pleased that it gave Sigma Investment Management Systems Limited, a part of the Mechala Group, a chance to build up a significant 8% equity share in the business.

Beer and Stout volumes for the 12 months of 1997 were behind the previous 12 month period, and for the 6 months to June 1998 were also below the same period last year, but by a smaller margin. This decline reflects the slowdown in the economy as a whole and represents a fair performance in very difficult market conditions. On the other hand, competition and increased activity in the Soft Drinks market increased consumption significantly and total volumes were ahead in the 12 months of 1997 by 5% versus 1996 and by 9% for the 6 months to June 1998 compared to last year. The consumer trend away from the traditional returnable glass bottles to the more convenient PET package continued strongly. With this in mind, the Board agreed to install a PET packaging line at the Hunt's Bay site and orders were placed for the equipment in early 1998. This line will be operational from November 1998 and will remove our need to import PET from Trinidad and the USA, with the obvious savings in cost and foreign exchange requirements. We will also be progressing initiatives in parallel to provide for the collection and disposal of PET bottles and discussions are underway between D&G and other interested parties in this regard.

Capital Expenditure

Capital expenditure for the 18 month period was $436 million compared with $422 million for the previous 12 month period. Emphasis continues on investments in renewing the infrastructure of the business including electricity, steam and refrigeration as well as the installation of draught equipment and cooling equipment in trade. The initial payments on the new PET line were also significant spends towards the end of the 18 month period.

Corporate

D&G continues to play an integral part in the Jamaican way of life. Our support to the community during the period in question extended to The United Way, Duke of Edinburgh Awards scheme, the Guinness Leeds scholarship, the Sickle Cell Unit Outreach programme, health and educational programmes and several other charitable projects within local communities all over Jamaica. Our commitment to sporting activities also continues strongly; including Cricket (Red Stripe One Day Championship), Horse Racing (Red Stripe Derby and Sweepstakes), Football (sponsorship of the Reggae Boyz and Pepsi Schoolboy Competition), Golf (Ting Championships) and many others. We mentioned last year that we hoped to win the Governor General's Award for Good Corporate Citizenship, having achieved runner-up status in 1996. We are happy to record that D&G did indeed win the Cup and feel very proud that our social and cultural contributions have been rewarded with such a prestigious prize.

Export

The 12 months of 1997 produced a landmark figure for Red Stripe exports as we passed the one million case figure in that year for the first time ever. Export volumes in total grew at 22% for this 12month period versus 1996 and by 21 % for the 6 months to June 1998 compared to the same period last year. Performance to the USA was particularly good with Red Stripe sales increasing by 33% for 1997 vs 1996 and by 43% for the 6 months to June 1998 compared to the equivalent period last year. We have been very encouraged by the gains in distribution we have made in the USA, generated by the sales and marketing efforts of our distributor in the States, the Guinness Import Company.

Subsidiaries and Associates

In January 1998, we completed the sale of our 49.5% shareholding in West Indies Glass Ltd (WIG) to Wray and Nephew, the other major shareholders in the business. This led to an exceptional charge of $94 million in the period to write off the difference between the sale proceeds and the holding value of D&G's net investment in WIG Limited. We currently continue to source our glass bottle requirements from WIG.

Other Development

In early 1997, our ultimate parent company Guinness PLC announced its intention to merge with Grand Metropolitan PLC, another UK based company with interests in Drinks (International Distillers and Vintners), Restaurants (Burger King) and Foods (Pillsbury). The deal was completed in December 1997 and the combined entity changed its corporate name to Diageo PLC.

Benefits from the merger are likely to accrue to D&G in many ways including enhanced purchasing power and access to even greater insight into consumer and marketing information from around the world.

Outlook

Our strategy for the business is to develop the best brands and the best people; to be consumer and customer oriented and to produce our products and service at prices that are globally competitive.

The Board is confident that the adopted strategy for D&G is the correct approach and that the consistency of purpose is working. Our cost reduction programmes are on track to reduce the cost base of the business.

The capital expenditure programmes are on target to deliver cost efficient production and our marketing plans will extract the maximum value from our brands. The Rights Issue supplied the appropriate financial gearing for the company and we must now continue to build on these foundations to ensure that D&G achieves its full potential.

We recognise that our success is due to our employees, distributors, customers and the Jamaican people. Let us thank you for your continued support.

We would also like to acknowledge the important roles played by those directors who have retired during the year and welcome the new members of the Board.
In particular, we would like to thank Terry Challenor, our former President who left to take up another appointment within the Guinness group in 1997.

Signed on behalf of the Board

The Hon P.H.O.Rousseau,O.J.,	Brian C. Duffy
Chairman	President