DESNOES & GEDDES LIMITED 2000

Notes to the Financial Statements

June 30, 2000

1. Identification

The company, incorporated in Jamaica, is a 58% subsidiary of Udiam Holdings AB, a company incorporated in Sweden. The ultimate parent company is Diageo PLC, a company formed in December 1997 following the merger of Guinness PLC (former parent company) and Grand Metropolitan PLC. Diageo PLC, Grand Metropolitan PLC and Guinness PLC are all incorporated in the United Kingdom. The principal activities of the group comprise the brewing, blending and distribution of beers, stouts, liquors and assorted beverages.

The financial statements are presented in Jamaican dollars. The number of employees at June 30, 2000 was 469 (1999: 762) for the company and the group.

2. Significant accounting policies

(a) Basis of preparation and statement of compliance:

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets at valuation and comply with the accounting standards issued by the Institute of Chartered Accountants of Jamaica and the requirements of the Companies Act. The Standard on discontinued operations is used before its adoption.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the balance sheet date and the income and expenses for the year then ended. Actual amounts could differ from these estimates.

(b) Consolidation:

(i) The group financial statements include the financial statements of the company and its subsidiaries, made up to June 30, 2000. The results of associated companies [note 7 (b)] are also included to the extent explained in note 2(b)(iv). The excess of the cost of shares in subsidiaries over the value of the net assets acquired (goodwill) is included in the consolidated reserves (note 11).

The subsidiaries, incorporated in Jamaica unless stated otherwise, consolidated are as follows:-

Wholly-owned -
D&G Wines Limited
Jamaica Metal Lithographers Limited
Foods of Jamaica (Export) Limited
D&G Provident Society Limited
GJL Limited [formerly Guinness (Jamaica) Limited]
RJ Imports Limited (Resident in the United States)

Partly-owned -
Jamfruit Exporters Limited - 51%

These companies are currently not trading and the shareholdings are the same for 2000 and 1999. The company and its subsidiaries are collectively referred to as the "group".

(ii) The group turnover includes sales of beverages and other trading income.

(iii) For the foreign subsidiary, the balance sheet is translated into Jamaican dollars using the rate of exchange ruling at the balance sheet date. The resultant translation losses are set off against capital reserves (note 11).

(iv) The equity method of accounting is adopted for associated companies. Under this method, the group's share of results of associated companies is included in the group profit and loss account and the tax attributable to the share of profits is included in the group's tax charge. In the group balance sheet, investments are shown at cost or written down value, plus the group's share of reserves arising since the acquisition of the investments.

(c) Depreciation:

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the carrying value of each asset over the period of its expected useful life. Annual rates are as follows:

Buildings	2%
Plant and equipment:	
Computer equipment	25%
Vending equipment	20%
Plant and machinery	2% - 12 1/2%
Motor vehicles	12 1/2% - 30%

(d) Inventories:

Inventories are stated mainly at standard cost (which approximates to actual on a FIFO basis) or net realisable value, whichever is lower. Standard cost, where applicable, includes an appropriate element of production overhead expenses. Used cases and bottles are stated at the customers' deposit value which is below original cost.

(e) Foreign currencies:

Transactions during the year are converted to Jamaican dollars at the appropriate rates of exchange ruling on transaction dates. Assets and liabilities denominated in foreign currencies are translated to Jamaican dollars at the appropriate rate of exchange ruling on the balance sheet date. Gains or losses arising from fluctuations in exchange rates are reflected in the group profit and loss account.

(f) Deferred taxation:

Full provision is made for deferred taxation at current tax rates for timing differences between profits as computed for taxation purposes and profits as stated in the financial statements.

(g) Pension costs:

Pension costs (see note 19) are accrued and funded annually. Such costs are actuarially determined and include amounts to fund past service benefits, expenses and future service benefits.

(h) Investments:

Quoted investments are stated at the lower of cost and market value. Other investments are stated at cost, less reductions to net realisable value, where appropriate.

(i) Accounts payable:

Trade and other payables, including provisions, are stated at their cost.

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

(j) Determination of profit and loss:

Profit is determined as the difference between the revenues from the goods and services rendered and the costs and other charges incurred during the year. Profits on transactions are taken in the year in which they are realised. A transaction is realised at the moment of delivery. Losses are taken in the year in which they are realised or predeterminable.

3. Securities purchased under agreements to resell

A reverse repurchase agreement ("Repo") is a short term transaction whereby the company "purchases" securities and simultaneously agrees to resell the securities on a specified date and at a specified price.

Repurchase and reverse repurchase agreements are accounted for as short-term collateralized borrowing and lending, respectively.

4. Accounts receivable

Accounts receivable is stated net of doubtful debt provision of $19,165,000 (1999: $58,855,000) for the company and the group.

5. Inventories

	Company and Group	
	2000	1999
	$'000	$'000
Raw materials	128,113	347,311
Work-in-progress	161,974	110,185
Finished goods	40,371	152,529

Used cases and bottles	216,278	298,879
Plant and equipment spares	73,153	93,615
	619,889	**1,002,519**

6. Bank borrowings

Bank borrowings are secured by a letter from Diageo PLC in support of the facilities. Borrowings include drawdowns under a revolving scheme from the National Export-Import Bank of Jamaica Limited and Citibank, secured on the invoiced value of export shipments.

7. Investments

	Company		Group	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
(a) Investments comprise:				
Associated companies:				
At cost	57,823	57,823	57,823	57,823
Group's share of Reserves	-	-	(36,178)	(36,178)
	57,823	57,823	21,645	21,645
Other, at cost:				
Quoted	-	3,085	-	3,085
Unquoted	7,132	22,791	7,132	22,791
Long term receivables	-	-	18	18
Subsidiaries	17,742	17,038	-	-
	82,697	**100,737**	**28,795**	**47,539**

Unquoted investments include $Nil (1999: $15,453,000) invested in United States dollar denominated bonds issued by the Government of Jamaica. These bonds are due to mature on October 24, 2000 and have been acquired as part of the company's strategy of hedging against foreign currency liabilities. For 2000, this amount is included in securities purchased under agreements to resell.

(b) Associated companies, incorporated in Jamaica unless stated otherwise, are as follows:

Group's percentage

	interest 2000	1999
West Indies Yeast Company Limited	28.0	28.0
Jamaica Extracts Limited	20.0	20.0
Challenge Enterprises Limited	50.0	50.0
Red Stripe Marketing Company Limited (Resident in the United Kingdom)	50.0	50.0

(c) The market value of quoted investments at June 30, 2000 was $Nil (1999: $4,788,000) for the company and the group.

8. National Housing Trust Contributions

These contributions are recoverable in the years 2001 to 2004.

9. Fixed assets

Company

	Freehold land and building $'000	Plant and and equipment $'000	Construction in progress (CIP) $'000	Total $'000
Cost or valuation:				
June 30, 1999	861,829	3,420,348	559,926	4,842,103
Additions	12,103	116,730	25,127	153,960
Transfers from CIP	61,933	490,588	(552,521)	-
Disposals	(114,908)	(726,791)	-	(841,699)
June 30, 2000	820,957	3,300,875	32,532	4,154,364
At cost	172,689	1,101,565	32,532	1,306,786
At valuation	647,168	2,199,310	-	2,847,078
	820,457	3,300,875	32,532	4,154,364
Depreciation:				
June 30, 1999	332,467	1,549,171	-	1,881,638
Charge for the year	20,175	221,616	-	241,791
Eliminated on disposals	(75,427)	(263,486)	-	(338,913)

June 30, 2000	277,215	1,507,301	-	1,784,516
Net book values:				
June 30, 2000	543,742	1,793,574	32,532	2,369,848
June 30, 1999	529,362	1,871,177	559,926	2,960,465

Group

	Freehold land and building $'000	Plant and and equipment $'000	Construction in progress (CIP) $'000	Total $'000
Cost or valuation:				
June 30, 1999	861,829	3,422,610	559,926	4,844,365
Additions	12,103	116,730	25,127	153,960
Transfers from CIP	61,933	490,588	(552,521)	-
Disposals	(114,908)	(726,791)	-	(841,699)
June 30, 2000	820,957	3,303,137	32,532	4,156,626
At cost	172,689	1,101,565	32,532	1,306,786
At valuation	647,768	2,201,572	-	2,849,340
	820,957	3,303,137	32,532	4,156,126
Depreciation:				
June 30, 1999	332,467	1,551,433	-	1,883,900
Charge for the year	20,175	221,616	-	241,791
Eliminated on disposals	(75,427)	(263,486)	-	(338,913)
June 30, 2000	277,215	1,509,563	-	1,786,778
Net book values:				
June 30, 2000	543,742	1,793,574	32,532	2,369,848
June 30, 1999	529,362	1,871,177	559,926	2,960,465

The company's plant and equipment were revalued as of September 30, 1993 on the basis of depreciated replacement cost by Baird and Henderson Valuators Limited. The surplus arising on revaluation was credited to capital reserves (note II).

The company's freehold land and buildings are stated at 1992 professional valuations and those of subsidiaries at 1993 valuations. All subsequent additions are included at cost.

10. Share capital

	2000 $'000	1999 $'000
Authorised:		
1,115,000,000 (1999: 415,000,000) Ordinary shares of 50¢ each	557,500	207,500
Issued and fully paid:		
1,095,193,476 (1999: 365,064,492) Ordinary stocks of 50¢ each	547,597	182,532

(a) At the December 1999 Annual General Meeting, the company increased its authorised share capital to $557,500,000 by the creation of 700,000,000 ordinary shares of 50 cents each ranking pari passu in all respects with the existing ordinary shares. The company then made a bonus issue of two shares for each share held. The shares issued were subsequently converted to fully paid stock units.

(b) The directors have recommended for the approval of the stockholders at the 2000 annual general meeting:

(i) An increase of $428,500,000 in the authorised share capital by the creation of 857,000,000 ordinary shares of 50¢ each, such shares to rank pari passu in all respects with the existing ordinary stock units of the company.

(ii) The capitalisation of $438,077,391, out of the profits of the company for the year ended June 30, 2000, to be applied in paying up in full, 876,154,781 unissued shares of the company, to be allotted, as fully paid up bonus shares (to be converted into stock units at the time of issue), to members of the company in the ratio of 4 shares for every 5 ordinary stock units held at the closure of the register of members on December 29, 2000.

11. Capital reserves

	Company		Group	
	2000	1999	2000	1999
Realised surplus on disposal of fixed assets	-	859	4,169	5,028
Unrealised surplus on				

revaluation of fixed assets (note 9)	977,774	1,281,245	981,375	1,284,846
Additional depreciation due to revaluation of fixed assets of associated company	-	-	(4,088)	(4,088)
Goodwill arising on consolidation [note 2 (b)(i)	-	-	(12,308)	(12,308)
Translation losses	-	-	(33,565)	(33,565)
	977,774	**1,282,104**	**935,583**	**1,239,913**

12. Long-term liabilities

	Company		Group	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
Subsidiaries	157,235	157,235	-	-
NDB/BNS	20,489	22,766	20,489	22,766
Current portion	(4,553)	(2,277)	(4,553)	(2,277)
	15,936	20,489	15,936	20,489
	173,171	177,724	15,936	20,489

The loans from subsidiaries are unsecured, bore no interest for 2000 and 1999, and are repayable by periodic instalments.

The loan from the National Development Bank of Jamaica Limited (NDB) and Bank of Nova Scotia Jamaica Limited (BNS) bears interest at the rate of 12% per annum, is repayable in sixty instalments commencing January 2000 and is secured by a letter from Diageo PLC in support of the facility.

13. Turnover

Turnover is comprised of the sales and other trading income of the group.

14. Profit before exceptional items

Profit/(loss) before exceptional items is stated after charging/(crediting):

	2000 $'000	1999 $'000
Auditors' remuneration -		
Current year	6,000	6,000
Prior year/period	-	190
Depreciation	241,791	201,931
Directors' emoluments -		
Fees	180	595
Management remuneration	20,029	19,724
Dividends received -		
Quoted investments	-	(311)
Other investments	(251)	(611)
Overseas investments	(8,026)	(16,651)
Interest charges -		
Loan	24,167	60,245
Overdraft	39	1,272
Other	1,037	20
Royalties earned	(74,083)	(78,835)
Interest earned	**(99,835)**	**(22,223)**

15. Exceptional items

	2000 $'000	1999 $'000
Gain on disposal of soft drinks business	154,752	-
Redundancy payments	(28,568)	(133,773)
	126,184	(133,773)

16. Taxation

The taxation charge is based on the group results for the year as adjusted for taxation purposes and comprises:

	2000 $'000	1999 $'000
Income tax at 33 1/3 %	372,873	117,291

Tax credit arising in respect of bonus share issue [see (b) below]	(104,916)	(91,266)
	267,957	26,025
Deferred taxation (credit)/charge	(48,770)	78,844
	219,187	104,869
Prior year's over-provision of taxation charge	(11,118)	-
	208,069	104,869

(a) 2000 taxation charge, excluding the tax credit on bonus shares, but including deferred taxation, was 26.64% (1999: 20.75%) of the pre-tax profit, compared to a statutory rate of 33 1/3%, predominantly because of capital gains and the utilisation in 1999 of tax losses brought forward.

(b) Tax credits claimed in respect of the proposed bonus issue [note 10 (b)(ii)] are subject to the agreement of the Commissioner of Taxpayer Audit and Assessment.

17. Earnings per stock unit

The calculation of earnings per stock unit is based on the group's profit for the year of $1,004,135,000 (1999: $840,504,000) and 1,095,193,476 stock units being the number of stock units in issue at the end of the year. The 1999 figure has been restated to give effect to the bonus issue made in December 1999.

18. Dividends

	2000 $'000	1999 $'000
Ordinary dividends:		
Interim paid in respect of 2000 - 20¢ per stock unit - gross	219,039	-
Final proposed for 2000 - 60¢ (1999: 28¢) per stock unit - gross	657,116	102,218
Capital distributions:		
Final proposed for 1999 - 22¢ per stock unit - gross	-	80,314

Interim paid in respect of 2000 - 55¢ per stock unit - gross	602,356	-
	1,478,511	182,532

Interim dividends of 55¢ (1999:Nil) per stock unit, in the form of a capital distribution, less transfer tax, and an ordinary dividend of 20¢ (1999:Nll) (gross) per stock unit, was paid on March 17, 2000.

The directors have proposed a final dividend of Nil (1999:22¢) per stock unit, in the form of a capital distribution, less transfer tax, and a final ordinary dividend of 60¢ (1999: 28¢) (gross) per stock unit, to be paid to the stockholders on the company's register of members at the close of business on November 17, 2000 (December 2, 1999).

19. Pension scheme

The company operates a defined benefit pension scheme [see note 2(g)] which is open to all permanent employees and is managed by an independent outside agency. The scheme is funded by employee contributions at rates varying between 6% and 10% of salary and employer contributions at rates recommended by independent actuaries from time to time. Retirement and other benefits are based on average salary for the last three years of pensionable service.

The results of the latest actuarial valuation as at December 31, 1997 disclosed that the scheme was adequately funded at that date. The company has accepted the actuaries' recommendation that contributions be suspended until the next actuarial valuation at December 31, 2000. Consequently, contributions for the company and the group for the year were $Nil (1999: $Nil).

20. Capital Expenditure

Capital expenditure authorised, but not committed at June 30, 2000, not provided for in the financial statements, amounted to $140,660,000 (1999: $22,766,000) for the company and the group.

21. Related party transactions

The company carried out transactions in the ordinary course of business during the year with its former parent company, Guinness PLC and its affiliates as follows:

	2000 $'000	1999 $'000
Sales	406,429	320,981
Interest income	5,945	-
Royalties	64,686	57,378
Salary and administration	69,284	68,522
Purchases of raw materials and finished goods	**256,468**	**187,873**

22. Year 2000

The Year 2000 issue arises because many computerised systems use two digits rather than four to identify a year. Date-sensitive systems may recognise the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

23. Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise or a financial liability or equity instrument of another enterprise.

Exposure to credit, interest rate and currency risk arises in the ordinary course of the company's and the group's business. Derivative financial instruments are not presently used to reduce exposure to fluctuations in interest and foreign exchange rates.

(a) Fair values:

Fair value amounts represent estimates of the consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

The fair value of cash, short-term deposit accounts, accounts receivable, bank borrowings, accounts payable and Guinness group companies' balances approximate carrying values due to their short term nature.

(b) Credit risk:

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The company generally does not require collateral in respect of financial assets, predominantly, trade receivables. Management has a credit policy in place to minimise exposure to credit risk. Credit evaluations are performed on all customers requiring credit.

At balance sheet date, there were no significant concentrations of credit risk and the maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(c) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company materially contracts financial liabilities at fixed interest rates for the duration of the term. Bank overdrafts are subject to fixed interest rates which may be varied by appropriate notice by the lender. At June 30, 2000, financial liabilities subject to fixed interest rates aggregated $77,233,000 (1999: $337,074,000).

(d) Foreign currency risk:

The company is exposed to significant foreign currency risk. The company manages this risk by maximising foreign currency sales and holding foreign currency balances.

At June 30, 2000, the company and the group had net foreign assets amounting to approximately US$19,199,000 (1999: US$5,904,000).