

# DESNOES & GEDDES LIMITED

## UNAUDITED OPERATING RESULTS

FOR THE PERIOD ENDED 31st DECEMBER 2003

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The Directors are pleased to present the unaudited results of the Group for the 6 months ended December 31, 2003.

### Highlights

	J\$ Millions		
	6 months ended		
	December 31		
	2003	2002	Change %
Turnover	4,138	3445	20%
Trading Profit	847	735	15%
Profit before Tax	870	742	17%
Earnings per stock unit (cents)	29.09	24.70	18%

The financials for the quarter ended December 31, 2003 and 2002 have been prepared in accordance with the International Financial Reporting Standards (IFRS), with a full restatement of prior year profit.

### Operating Performance

#### Sales

Domestic volumes                      YTD Growth %

	<b>vs Dec. 2002</b>
Red Stripe	(24%)
Guinness	(3%)
Heineken	(17%)
Dragon Stout	4%
Malta	(1%)
Smirnoff Ice	(34%)
<b>Total</b>	<b>(17%)</b>

Despite more difficult economic conditions, domestic volume performance of all key brands showed marked improvements at the end of the first half of the year declining by 17% following a slow-down in the first quarter at which time the decline was 22% (an improvement of 5%). This decline was triggered by the increases in prices (the first in four years) made necessary by the impact of devaluation and inflation on the cost base as well as to offset the increase (averaging 45%) in the rates of Special Consumption Tax. Dragon and Malta performed relatively well as we achieved full availability of stock over the last six months.

<b>Export volumes</b>	<b>YTD Growth % vs Dec. 2002</b>
USA	6%
Other	16%
<b>Total</b>	<b>7%</b>

Total exports increased by 7% while exports to the USA (which accounted for 84% of all exports) grew significant turnaround from the first quarter position when exports were declining by 2%. Note must be made however, that over the same period, actual sales in the USA grew by 17%. The disparity between shipments and sales was due to the front loading of shipments to the USA during May to June 2003.

### **Profit and Loss**

During the six months to December 31, 2003, turnover grew by 20% (\$3,445m to \$4,138m) as the period benefited from higher prices. Special Consumption Tax (SCT) due to the government increased by 81% (\$379m to \$686m) being directly impacted by the combination of the significantly higher SCT rates combined with higher prices. There was a 9% increase in cost of sales as gains made from continued focus on cost containment and improved efficiencies continue to be mitigated by the impact of higher inflation and devaluation.

Total marketing costs grew by 44% with increases in investments behind the brands on the domestic market as well behind Red Stripe in the USA.

General, Selling and Administrative Expenses increased by only 4% as focus continued on cost containment.

Trading profit grew by 15% over the same period, being the net result of the higher revenue and continued focus on cost containment. Interest income declined by 29% as much of the cash resources were used to pay for capital investments as well as other suppliers during the second half of last year. As there were no exceptional items in the first six months, profit before taxation increased by 17%.

### **Balance Sheet and Cash Flow**

Compared with the same time last year fixed assets increased by \$115m (from \$2,839m to \$2,954m) as we continued our investment program.

Accounts receivable was reduced by 43%, the result of intensified focus on that area over the peak Christmas selling period. Inventories remained relatively flat as the company successfully balanced stock availability with the demand requirement over Christmas. Accounts payable, which increased by 24%, was impacted by the significant purchases of raw materials in preparation for the Christmas peak period. Sales Taxes owed to the Government (General and Special Consumption Taxes) were 87% more than at the same time last year mainly due to the increases in the rates of SCT as well as GCT charged on higher prices.

At the end of first half, there was a relatively significant increase in cash due to the phasing of capital payments in the previous year. In addition, the company's cash balances were impacted significantly by the successful collection strategy employed during December.

Interim dividends amounting to \$702m were paid during the quarter.

Note:

In addition to restating the Profit and Loss in line with the International Financial Reporting Standards (IFRS), this opportunity has been taken to update the classification of expenses in order to provide more useful information to shareholders. The following may help readers to understand the new classification more fully:

1. **Turnover** is comprised of sale of products and services net of returns and discounts plus other trading income such as rental income and royalty income.
  2. **Special Consumption Tax (SCT)** is the income paid to the government on the sale of products containing alcohol.
  3. **Cost of Sales** represents the total cost of manufacturing and distributing the products, including the cost of staff engaged in these activities.
  4. **Marketing Costs** are the amounts spent on all advertising and promotions for the brands. This does not include staff costs for the Marketing Department.
  5. **General, Selling and Administrative Expenses (GS&A)** are the remaining costs of doing business. This includes the remaining staff costs which covers departments such as Sales, Marketing, Finance, IS, HR, Communications, and other administrative functions.
  6. **Other Income/Expenses** includes dividends received, exchange gains/losses and re-organisation costs that are not sufficiently large to be treated as exceptional.
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## GROUP BALANCE SHEET

	Unaudited as at 31.12.03 \$'000	Unaudited as at 31.12.02 \$'000	Audited for year ended 30.06.03 \$'000
<b>CURRENT ASSETS</b>			
Cash resources	1,070,083	161,811	446,403
Short -term deposits	381,975	481,929	727,681
Accounts receivable	519,012	902,754	491,727
Inventories	765,756	734,364	929,099
	<u>2,736,826</u>	<u>2,280,858</u>	<u>2,594,910</u>

**CURRENT LIABILITIES**

Accounts payable	785,766	632,180	656,853
Special and General Consumption Tax	274,222	146,483	120,187
Taxation payable	5,350	(47,753)	42,167
Current portion of long-term liabilities	4,553	4,553	4,553
Diageo group companies	276,539	242,725	573,579
	<u>1,346,431</u>	<u>978,188</u>	<u>1,397,339</u>

**WORKING CAPITAL**

**1,390,395**                      **1,302,670**                      **1,197,571**

**INVESTMENTS**

45,148                              45,237                              45,167

**INVESTMENT PROPERTIES**

39,900                              39,900                              39,900

**FIXED ASSETS**

2,954,191                          2,838,715                          3,064,080

**RETIREMENT ASSETS**

705,500                              703,000                              679,000

5,135,134                          4,929,521                          5,025,718

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Financed by:

**STOCKHOLDERS' EQUITY**

Share capital                      1,404,566                      1,404,586                      1,404,586

Share premium                      770,394                      770,394                      770,394

Capital reserves                      1,024,812                      1,017,987                      1,028,014

Investment revaluation reserve                      38,474                      38,474                      38,474

Retained earnings                      1,328,402                      1,193,677                      1,218,119

4,566,647                          4,425,117                          4,459,587

**LONG-TERM LIABILITY**

(0)                                      4,174                                      2,277

**DEFERRED TAXATION**

561,020                              492,584                              556,407

**MINORITY INTEREST**

7,447                                      7,447                                      7,447

5,135,134                          4,929,521                          5,025,718

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**GROUP PROFIT AND LOSS ACCOUNT**

	Unaudited 6 months to Dec. 31, 2003 \$'000	Unaudited 6 months to Dec. 31, 2002 \$'000
Turnover	4,138,084	3,445,442
Special Consumption Tax (SCT)	(686,595)	(378,815)
<b>Net Sales</b>	<b>3,451,489</b>	<b>3,066,627</b>
Cost of sales	(1,838,923)	(1,689,791)
<b>Gross Profit</b>	<b>1,612,566</b>	<b>1,376,836</b>
Marketing costs	(516,370)	(359,021)
<b>Contribution after Marketing</b>	<b>1,096,196</b>	<b>1,017,816</b>
General, selling and administrative expenses	(283,882)	(272,789)
Other income / expenses	34,405	(10,273)
<b>Trading Profit</b>	<b>846,719</b>	<b>734,754</b>
Interest income	24,813	35,040
Interest expense	(1,380)	(1,624)
<b>Profit before exceptional item</b>	<b>870,152</b>	<b>768,170</b>
Exceptional item	0	(26,134)
<b>Profit before taxation</b>	<b>870,152</b>	<b>742,036</b>
Taxation	(52,966)	(48,271)
<b>Profit after Tax</b>	<b>817,186</b>	<b>693,765</b>
Earnings per stock unit	29.09c	24.70c

Notes:

(1) The calculation of earnings per stock unit is based on the group's profit for the half year of \$817,186,000 (Dec 31, 2002: \$693,765,000) and 2,809,171,266 stock units, being the number of stock units in issue at the end of the period.

(2) The marketing support behind Red Stripe in the USA (\$89,559,000 for the 6 months ending December 31, 2002) has been re-phased into the prior period for ease of comparison, as the full amount was agreed and charged in the last quarter of the year ended June 30, 2003.

(3) Reconciliation of previously reported profit before taxation to net profit for period ended December 31, 2002:

	<u>J\$'000</u>
Profit before taxation for six months ended December 31, 2002 as previously reported	821,119
Impact of IFRS adoption:	
IAS 37 - General provision made under Jamaican GAAP now reversed to conform with IFRS	<u>10,476</u>
	831,595
Other adjustments:	
Adjustment for under provision of tax on investment income	(48,271)
Rephasing of Red Stripe USA marketing support from 4th quarter into 1st half	(89,559)
Restated net profit for six months ended December 31, 2002	<u>693,765</u>

### GROUP STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Total	Share Capital	Share Premium	Capital Reserves	Investment Rev. Reserve	Retained Earnings
<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Balances at June 30, 2002	1,404,586	770,394	1,041,889	38,474	1,435,051
4,690,394					
Net profit for the period	-	-	-	-	1,328,112
1,328,112					

Deferred taxation on revalued assets <b>33,930</b>			33,930	-	
Reduction in unrealised surplus for impairment on revalued building, plant and machinery <b>(47,805)</b>			(47,805)	-	
Dividends <u>(1,545,044)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,545,044)</u>
Bonus shares issued <u>0</u>	<u>-</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Balances at June 30, 2003</b> <b>4,459,587</b>	<b>1,404,586</b>	<b>770,394</b>	<b>1,028,014</b>	<b>38,474</b>	<b>1,218,119</b>
Reduction in revalued asset value due to disposal <b>(3,202)</b>			(3,202)		
Dividend payment <b>(702,293)</b>					(702,293)
Deferred taxation on pension assets <b>(4,611)</b>					(4,611)
Net profit for the period <b>817,186</b>	-	-	-	-	817,186
<b>Balances at December 31, 2003</b> <b><u>4,566,667</u></b>	<b><u>1,404,586</u></b>	<b><u>770,394</u></b>	<b><u>1,024,312</u></b>	<b><u>38,474</u></b>	<b><u>1,328,402</u></b>

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**GROUP STATEMENT OF CASHFLOWS**



	Unaudited as at 31.12.03 \$'000	Unaudited as at 31.12.02 \$'000
<b>CASHFLOW FROM OPERATING ACTIVITIES</b>		
Net profit attributable to stockholders	817,186	693,765
Adjustment to reconcile profit to net cash provided/ (used) by operating activities:		
Items not involving cash:		
Depreciation	130,666	84,466
Depreciation on fixed assets in associated company	0	0
Loss/(Profit) on disposal /write-off of fixed assets	(11,009)	0
Deferred taxation charge	4,612	1
Retirement benefits asset (net)	(26,500)	24,000
Reduction in value of property, plant and equipment	<u>0</u>	<u>0</u>
	914,955	802,232
(Increase)/decrease in current assets:		
Accounts receivable	(27,285)	(437,310)
Inventories	163,343	1,187
Increase /(decrease) in current liabilities:		
Accounts payable	128,913	274,253
Special and General Consumption Tax	154,035	81,123
Taxation payable	(36,817)	(80,470)
Diageo group companies	<u>(297,040)</u>	<u>(317,051)</u>
Net cash provided by operating activities	<u>1,000,105</u>	<u>323,964</u>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of investments	19	32
Acquisition of fixed assets	(32,371)	(168,505)
Dividend payments	(702,293)	(983,210)
Proceeds from disposal of fixed assets	<u>14,791</u>	
Net cash used by investment activities	<u>(719,854)</u>	<u>(1,151,683)</u>
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>		
Long term liabilities repaid	<u>(2,277)</u>	<u>(2,655)</u>

Net (decrease) /increase in cash resources	277,974	830,374
Net cash at beginning of year	1,174,084	1,474,114
Net cash at end of year	<u>1,452,058</u>	<u>643,740</u>
Comprised of:-		
Cash	1,070,083	161,811
Short-term deposits	381,975	481,929
	<u>1,452,058</u>	<u>643,740</u>

### Financial Information by Geographical Segment

	<u>Domestic</u>		<u>Export</u>		<u>Group</u>	
	<u>Unaudited</u> <u>6 months to</u> <u>31.12.03</u> <u>\$'000</u>	<u>Unaudited</u> <u>6 months to</u> <u>31.12.02</u> <u>\$'000</u>	<u>Unaudited</u> <u>6 months to</u> <u>31.12.03</u> <u>\$'000</u>	<u>Unaudited</u> <u>6 months to</u> <u>31.12.02</u> <u>\$'000</u>	<u>Unaudited</u> <u>6 months to</u> <u>31.12.03</u> <u>\$'000</u>	<u>Unaudited</u> <u>6 months to</u> <u>31.12.02</u> <u>\$'000</u>
Turnover	3,628,878	3,067,815	509,206	377,627	4,138,084	3,445,442
Special Consumption Tax	<u>(686,595)</u>	<u>(378,815)</u>	<u>0</u>	<u>0</u>	<u>(686,595)</u>	<u>(378,815)</u>
Net sales	2,942,283	2,689,000	509,206	377,627	3,451,489	3,066,627
Cost of sales	<u>(1,461,923)</u>	<u>(1,330,191)</u>	<u>(377,000)</u>	<u>(359,600)</u>	<u>(1,838,923)</u>	<u>(1,689,791)</u>
Gross profit	1,480,360	1,358,809	132,206	18,027	1,612,566	1,376,836
Marketing costs	<u>(388,699)</u>	<u>(269,462)</u>	<u>(127,671)</u>	<u>(89,559)</u>	<u>(516,370)</u>	<u>(359,021)</u>
Segment result	<u>1,091,661</u>	<u>1,089,347</u>	<u>4,535</u>	<u>(71,532)</u>	<u>1,096,196</u>	<u>1,017,816</u>
	=====	=====	=====	=====	=====	=====
General, selling & administrative expenses					(283,882)	(272,789)
Other income and expenses					<u>34,405</u>	<u>(10,273)</u>

Trading profit					846,719	734,754
Interest income					24,813	35,040
Interest expense					(1,380)	(1,624)
Profit before exceptional items					<u>870,152</u>	<u>768,170</u>
Exceptional item					0	(26,134)
Profit before taxation					<u>870,152</u>	<u>742,036</u>
Taxation					<u>(52,966)</u>	<u>(48,271)</u>
Net profit for the period					<u>817,186</u>	<u>693,765</u>
Segment Assets	6,189,895	5,641,863	291,670	265,847	6,481,565	5,907,710
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
Depreciation	(109,590)	(70,842)	(21,076)	(13,624)	(130,666)	(84,466)
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
Capital Expenditure	32,371	168,505	0	0	32,371	168,505
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

Note: In reviewing the segment report, it is important to note that exports bear a full share of fixed costs.