DESNOES AND GEDDES LIMITED
UNAUDITED OPERATING RESULTS
FOR THE PERIOD ENDED MARCH 31, 2008

The Directors wish to present the unaudited results of the Group for the 9-month period (or third quarter) ended March 31, 2008.

Profit &Loss Highlights

	J$ Millions					
	9-months ended Mar 31			**3-months ended Mar 31**		
	2008	2007	Change %	2008	2007	Change %
Turnover	9,274	8,214	13%	2,796	2,568	9%
Trading profit	1,258	1,323	-5%	360	207	74%
Profit before tax	1,329	1,303	2%	382	193	98%
Profit after tax	853	878	-3%	246	122	101%
Earnings per stock unit (cents)	30.38	31.27	-3%	8.75	4.35	101%

Turnover was $9,274 million representing a 13% increase compared to the same nine-month period in the previous year with the increase being attributable to 1% higher volumes as well as domestic price increases. During the 3-month period ended March 31, 2008, the year-to-date accrual for export marketing expenses was adjusted to reflect actual amounts spent, resulting in a 74% increase in trading profit for the period.

Year-to-date trading profit was $1,258 million or 5% less than the same period last year as the improved third quarter results and the higher year-to-date turnover was not enough to fully cover the impact of higher production, marketing and overhead expenses. Profit before tax was 2% higher than last year, with the current period also benefiting from the inclusion of $60.7 million of employee benefits income. Profit after tax was $853 million, or a 3% decline against last year's similar nine-month's performance.

Volume performance

Volume summary		
Segment	growth (vs same period in previous year)	growth (vs same period in previous year)
	9 months ended Mar. 31, 2008	3 months ended Mar. 31, 2008
Domestic	1%	(5%)
Export: USA	3%	5%
Other	(4%)	2%
Total Exports	1%	5%
Total volumes	1%	(2%)

Total year-to-date sales volume was 1% higher with both domestic and exports performing marginally above the comparative prior period volumes. The third quarter domestic volume was 5% lower reflecting ongoing decline in consumer spending power. However, the launch of the new Malta variants – *Malta Velvet*® and *Malta Refresh*® provided a boost to volume performance. Export volume grew by 5% during the third quarter resulting in the segment moving to a 1% year-to-date growth, driven by shipments to the US market.

Expenses

Cost of sales was $4,732 million or 16% higher than the comparative period last year, with global increases in key raw material costs such as malt and hops, as well as increases in production overheads including energy, fuel, shipping expenses and salaries and wages. Gross profit was $3,195 million, an increase of 10% over last year's nine-month period.

Total marketing expenses were $1,172 million or 13% more than last year's comparative period. Of that amount, $497 million or 8% less was spent in the domestic segment reflecting phasing of consumer activities. Investments to support Red Stripe sales in export markets, particularly in the USA, were $674 million or 36% more than the same period last year.

General, selling and administrative expenses increased by 32% to end the period at $743 million. Increased wages, new hires, up-weighted personnel training and development and inflation-related wage increases accounted for the higher costs.

Balance Sheet Highlights

The company continued to invest in modernizing its plant and equipment with $298 million spent in the nine-month period.

Inventory was valued at $1,723 million or 23% higher than the year-end closing position due to increased costs as well as a build-up of raw materials and finished goods (which included the new spirits portfolio).

Amounts due from Diageo Group companies were $312 million (June 30, 2007: $245 million), being the value of exports not yet due for payment. Amounts due to Diageo Group companies was $1,028 million (June 30, 2007: $467 million), mainly representing increased trading in raw materials and marketing expenditure incurred in the United States on the company's behalf.

Accounts receivable balance was $565 million or 54% higher than the $367 million recorded at the June 30, 2007 year-end, due mainly to the impact of higher prices and the inclusion of receivables previously classified as inter-company balances.

Corporate Update

In the third quarter, Red Stripe received the Jamaica Chamber of Commerce 2007 Best of the Chamber Award for outstanding contribution to the local economy. Red Stripe gained top scores for highest sector performance and best practices in the areas of products and service quality, increase in net worth, human resource development and corporate citizenship. Red Stripe is the only company to have earned this honour on four separate occasions.

The company also earned the top prize for Human Resource Flagship Golden Award at the Human Resource Management Association of Jamaica's HR Innovation Awards Banquet recently. The award recognizes innovation and creativity in HR management. The company's *"Partnership For Growth"* development programme was highlighted as best practice.

In the area of corporate citizenship, Red Stripe continued its contribution to numerous entities including the Bustamante Hospital for Children, United Way of Jamaica and the National Blood Transfusion Service among others.

Over the years Red Stripe has invested millions of dollars in the music industry through sponsorship of music events such as Reggae Sumfest and Sting. In recent times, a negative trend of inciting violence has crept into some of the music. Red Stripe has in place the strictest marketing code in the industry, and violence of any kind runs counter to this code. Red Stripe has worked with the artistes and promoters and also led the creation of a Coalition of Corporate Sponsors in a bid to help raise the standard of the music. This has had some measure of success but did not go far enough to secure 100% compliance with the company’s Code of Marketing. It is for this reason that the company announced its withdrawal of sponsorship of live music events in Jamaica in a recent , which included the proviso that the company ‘looks forward to the time when good sense will prevail and we can see a return to improved quality and standard of music that all Jamaica can be proud of. At that time, we will review our position.’

We acknowledge the contribution of our employees, customers, consumers, suppliers and other stakeholders for their contribution to the business results.

Richard Byles
Chairman
May 15, 2008

Mark McKenzie
Managing Director
May 15, 2008

DESNOES AND GEDDES LIMITED

COMPANY BALANCE SHEET

As at March 31, 2008

	Unaudited March 31, 2008 $'000	Unaudited March 31, 2007 $'000	Audited June 30, 2007 $'000
ASSETS			
Investments	511,380	46,286	511,380
Investment properties	84,500	36,000	84,500
Property, plant and equipment	5,758,924	3,690,873	5,682,522
Employee benefits asset	1,171,373	930,000	1,104,000
Total non-current assets	**7,526,177**	**4,703,159**	**7,382,402**
Cash and cash equivalents	126,680	347,788	285,249
Short-term deposits	142,440	444,608	165,864
Accounts receivable	564,966	409,138	366,583
Due from fellow subsidiaries	312,088	353,561	245,405
Inventories	1,723,245	1,356,218	1,398,234
Total current assets	**2,869,419**	**2,911,313**	**2,461,335**
Accounts payable	1,172,735	1,441,696	1,446,230
Taxation payable	228,164	256,538	298,194
Due to fellow subsidiaries	1,028,597	245,490	467,142
Total current liabilities	**2,429,496**	**1,943,725**	**2,211,566**
Net current Assets	**439,923**	**967,589**	**249,769**
Total assets less current liabilities	**7,966,100**	**5,670,748**	**7,632,171**
EQUITY			
Share capital	2,174,980	2,174,980	2,174,980
Capital reserves	2,159,588	809,055	2,141,578
Other reserve	1,189,568	644,473	1,189,568
Retained earnings	1,146,446	1,156,524	872,817
Total equity	**6,670,582**	**4,785,032**	**6,378,943**
NON-CURRENT LIABILITIES			
Employee benefits obligation	75,000	75,000	75,000
Long-term liability	157,235	157,235	157,235
Deferred tax liabilities	1,063,283	653,482	1,020,993
Total non-current liabilities	**1,295,518**	**885,717**	**1,253,229**
Total equity and liabilities	**7,966,100**	**5,670,748**	**7,632,171**

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DESNOES AND GEDDES LIMITED

GROUP BALANCE SHEET

As at March 31, 2008

	Unaudited March 31, 2008 $'000	Unaudited March 31, 2007 $'000	Audited June 30, 2007 $'000
ASSETS			
Investments	510,225	45,131	510,225
Investment properties	84,500	36,000	84,500
Property, plant and equipment	5,758,924	3,690,873	5,682,522
Employee benefits asset	1,171,373	930,000	1,104,000
Total non-current assets	**7,525,022**	**4,702,004**	**7,381,247**
Cash resources	128,436	349,544	287,005
Short-term deposits	142,440	444,608	165,864
Accounts receivable	564,966	409,138	366,583
Due from fellow subsidiaries	312,088	353,561	245,405
Inventories	1,723,245	1,356,218	1,398,234
Total current assets	**2,871,175**	**2,913,069**	**2,463,091**
Accounts payable	1,175,441	1,444,401	1,448,936
Taxation payable	228,154	256,528	298,184
Due to fellow subsidiaries	1,028,597	245,490	467,142
Total current liabilities	**2,432,192**	**1,946,420**	**2,214,262**
Net current assets	**438,983**	**966,649**	**248,829**
Total assets less current liabilities	**7,964,005**	**5,668,653**	**7,630,076**
EQUITY			
Share capital	2,174,980	2,174,980	2,174,980
Capital reserves	2,167,358	816,825	2,149,348
Other reserves	1,189,568	644,473	1,189,568
Retained earnings	1,286,368	1,296,447	1,012,740
Shareholders equity	**6,818,274**	**4,932,725**	**6,526,636**
Minority interest	7,447	7,447	7,447
Total equity	**6,825,721**	**4,940,172**	**6,534,083**
NON-CURRENT LIABILITIES			
Employee benefits obligation	75,000	75,000	75,000
Deferred tax liabilities	1,063,283	653,481	1,020,993
Total non-current liabilities	**1,138,283**	**728,481**	**1,095,993**
Total equity and liabilities	**7,964,005**	**5,668,653**	**7,630,076**

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DESNOES AND GEDDES LIMITED

Company and Group Income Statements

9-month period ended March 31, 2008

	Unaudited 9 months to Mar.31, 2008 $'000	Unaudited 9 months to Mar. 31, 2007 $'000	Unaudited 3 months ended Mar.31, 2008 $'000	Unaudited 3 months ended Mar. 31, 2007 $'000
Turnover	9,274,387	8,213,625	2,796,037	2,567,831
Special Consumption Tax (SCT)	(1,347,355)	(1,224,091)	(397,565)	(381,635)
Net sales	7,927,032	6,989,534	2,398,472	2,186,196
Cost of sales	(4,732,055)	(4,093,329)	(1,534,311)	(1,400,806)
Gross profit [2008: 34.45% (2007: 35.26%) of turnover]	3,194,977	2,896,205	864,161	785,390
Marketing cost	(1,171,793)	(1,036,193)	(253,157)	(378,663)
Contribution after marketing	2,023,184	1,860,012	611,004	406,727
General, selling and administration expenses	(743,528)	(565,092)	(252,453)	(189,144)
Other income / (cost)	(21,458)	28,536	1,603	(10,800)
Trading profit	1,258,198	1,323,456	360,154	206,784
Employee benefits income	60,675	(64,168)	20,225	(24,413)
Interest income	9,697	48,843	1,432	15,182
Loss on disposal of property, plant & equipment	0	(4,842)	0	(4,842)
Profit before taxation	1,328,570	1,303,290	381,811	192,711
Taxation	(475,098)	(424,943)	(136,108)	(70,604)
Profit after taxation	853,472	878,347	245,703	122,107
Earnings per stock unit	30.38 ¢	31.27 ¢	8.75 ¢	4.35

DESNOES & GEDDES LIMITED

Unaudited Group Statement of Changes in Equity

9 months ended March 31, 2008

	Attributable to equity holders of the parent company					
	Share capital	Capital reserves	Other reserves	Retained earnings	Minority interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balances at June 30, 2006	**2,174,980**	**850,546**	**644,474**	**1,114,763**	**7,447**	**4,792,210**
Profit for the year	-	-	-	1,421,874	-	1,421,874
Revaluation surplus		1,667,366	-	-	-	1,667,366
Fair value adjustment	-	-	465,094	-	-	465,094
Deferred taxation on revalued property, plant and equipment	-	(323,601)	-	-	-	(323,601)
Transfer to pension equalisation reserve	-	-	80,000	(80,000)	-	-
Transfer of depreciation charge on revaluation surplus of property, plant and equipment	-	(44,963)	-	44,963	-	-
Dividends	-	-	-	(1,488,860)	-	(1,488,860)
Balances at June 30, 2007	**2,174,980**	**2,149,348**	**1,189,568**	**1,012,740**	**7,447**	**6,534,083**
Profit for the period	-	-	-	853,472	-	853,472
Transfer of depreciation charge on revaluation surplus of property, plant and equipment	-	18,009	-	(18,009)	-	-
Balances at March 31, 2008	**2,174,980**	**2,167,358**	**1,189,568**	**1,286,368**	**7,447**	**6,825,721**
Reflected in the financial statements of:						
The Company	2,174,980	2,159,588	1,189,568	1,146,446	-	6,670,582
Subsidiaries	-	7,770	-	139,923	7,447	155,140
March 31, 2008	**2,174,980**	**2,167,358**	**1,189,568**	**1,286,368**	**7,447**	**6,825,721**
The Company	2,174,980	2,141,578	1,189,568	872,817	-	6,378,943
Subsidiaries	-	7,770	-	139,923	7,447	155,140
June 30, 2007	**2,174,980**	**2,149,348**	**1,189,568**	**1,012,740**	**7,447**	**6,534,083**

DESNOES & GEDDES LIMITED

Group Statement of Cash Flows

9 months ended March 31, 2008

	Unaudited March 31, 2008 $'000	Unaudited March 31, 2007 $'000
CASHFLOW FROM OPERATING ACTIVITIES		
Net profit for the period	**853,472**	**878,347**
Adjustments to reconcile net profit to net cash provided by operating activities:		
Interest income	(9,697)	(48,843)
Depreciation	221,963	209,811
Loss on diposal of property, plant and equipment	0	4,842
Deferred taxation	42,290	(34,866)
Tax charge	432,808	459,809
(Increase)/decrease in employee benefits asset	(60,675)	64,168
	1,480,161	1,533,268
(Increase)/decrease in current assets:		
Accounts receivable	(198,568)	36,624
Due from fellow subsidiary	(66,683)	(88,287)
Inventories	(325,011)	(287,178)
Increase/(decrease) in current liabilities:		
Accounts payable	(396,495)	96,516
Due to fellow subsidiaries	684,455	82,718
Cash generated from operations	1,177,859	1,373,660
Income taxes paid	(502,837)	(229,129)
Net cash provided by operating activities	675,022	1,144,531
CASHFLOW FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(298,365)	(356,761)
Proceeds from disposal of property, plant and equipment	0	1,651
Interest received	9,882	48,210
Pension contribution	(6,698)	(10,168)
Net cash used by investing activities	(295,181)	(317,067)
CASHFLOWS FROM FINANCING ACTIVITIES		
Dividend payments	(561,834)	(730,384)
Net cash used by financing activities	(561,834)	(730,384)
Net increase/(decrease) in cash resources	(181,993)	97,079
Cash resources at beginning of year	452,869	697,073
Cash resources at end of period	**270,876**	**794,152**
Comprised of:-		
Cash resources	128,436	349,544
Short-term deposits	142,440	444,608
	270,876	**794,152**

DESNOES AND GEDDES LIMITED

Financial Information by Geographical Segment

9-month period ended March 31, 2008

	Domestic		Export		Group	
	Unaudited Mar. 31, 2008 $'000	Unaudited Mar. 31, 2007 $'000	Unaudited Mar. 31, 2008 $'000	Unaudited Mar. 31, 2007 $'000	Unaudited Mar. 31, 2008 $'000	Unaudited Mar. 31, 2007 $'000
Turnover	7,294,520	6,479,998	1,979,867	1,733,627	9,274,387	8,213,625
Special consumption tax	(1,347,355)	(1,224,091)	-	-	(1,347,355)	(1,224,091)
Net sales value	5,947,165	5,255,907	1,979,867	1,733,627	7,927,032	6,989,534
Cost of sales	(3,229,025)	(2,760,332)	(1,503,030)	(1,332,997)	(4,732,055)	(4,093,329)
Gross profit	2,718,141	2,495,576	476,836	400,629	3,194,977	2,896,205
Marketing costs	(497,449)	(540,690)	(674,344)	(495,503)	(1,171,793)	(1,036,193)
Segment result	2,220,692	1,954,886	(197,508)	(94,874)	2,023,184	1,860,012
General, selling & administration expenses					(743,528)	(565,092)
Other income					(21,458)	28,536
Trading profit					1,258,198	1,323,456
Employee benefits income					60,675	(64,168)
Interest income					9,697	48,843
Profit before taxation					1,328,570	1,303,290
Taxation					(475,098)	(424,943)
Profit after taxation					853,472	878,347
Segment assets	7,906,593	5,615,902	2,489,604	1,999,170	10,396,197	7,615,073
Segment liabilities	2,177,202	2,257,096	1,393,273	417,805	3,570,476	2,674,901
Depreciation	(159,814)	(140,574)	(62,150)	(69,238)	(221,963)	(209,811)
Capital expenditure	214,823	239,030	83,542	117,731	298,365	356,761

1. Identification

Desnoes & Geddes Limited ("the company") is incorporated and domiciled in Jamaica and is a 58% subsidiary of Udiam Holdings AB, a company incorporated in Sweden. The ultimate parent company is Diageo PLC, incorporated in the United Kingdom. The company's registered office is located at 214 Spanish Town Road, Kingston 11. The principal activities of the company comprise the brewing, bottling and distribution of beers and stouts.

2. Basis of preparation

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations, adopted by the International Accounting Standards Board (IASB), and comply with the provisions of the Companies Act.

(b) Basis of measurement:

The financial statements are prepared on the historical cost basis, except for available-for-sale investments (except for those for which a reliable measure of fair value is not available), investment properties and certain classes of property, plant and equipment at fair value.

(c) Functional and presentation currency:

The financial statements are presented in Jamaica dollars, which is the company's functional currency. All financial information presented has been rounded to the nearest thousand unless otherwise indicated.

(d) Use of estimates and judgements:

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, contingent assets and contingent liabilities at the balance sheet date and the income and expenses. Actual amounts could differ from those estimates.

The estimates and underlying assumption are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period, if the revision and future periods of the revision affects both future periods, if the revision affects both current and future periods.

2. Basis of preparation (cont'd)

(d) Use of estimates and judgements (cont'd):

The significant area of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is in respect of the measurement of defined benefit obligations.

The amounts recognised in the balance sheets and group income statements for pension and other post-retirement benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

The expected return on plan assets is assumed considering the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the company's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

The carrying amount for available for sale investment is determined by a professional valuator using a maintainable earnings approach. Certain assumptions are made in respect of increased profitability, future tax rate, applicable multiple and discount rate for a minority share in an unquoted investment.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by group companies.

(a) Basis of consolidation:

(i) Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3. Significant accounting policies (cont'd)

(a) Basis of consolidation: (cont'd)

(i) Continued:

The consolidated financial statements include the financial statements of the company and its subsidiaries, made up to March 31, 2008.

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

Wholly-owned –
D & G Wines Limited (In liquidation)
Jamaica Metal Lithographers Limited (In liquidation)
Foods of Jamaica (Export) Limited
Red Stripe Brewing Company Limited [formerly GJL Limited]

These companies are currently inactive and the shareholdings are the same for 2007 and 2006. The cost of the company's interest in these subsidiaries was previously written-off. The company and its subsidiaries are collectively referred to as the "group".

(ii) Associates:

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the group's shares of losses exceeds its interest in an associate, the group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Transactions eliminated on consolidation:

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Revenue:

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and special consumption taxes. Revenue is recognised in the income statements when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

3. Significant accounting policies (cont'd)

(c) Property, plant and equipment:

(i) Items of property, plant and equipment are measured at cost, except for plant and equipment and freehold land and buildings which are measured at valuation, less accumulated depreciation and impairment losses [see note 3(k)].

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

The market value of freehold land and building is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction considering its existing condition and location. The market value of plant and equipment is estimated using the depreciated replacement cost approach. Gains and losses arising from changes in market value is taken to capital reserve. Annual transfers are made from capital reserve to retained earnings, equivalent to increased depreciation arising from revaluation of property, plant and equipment.

(ii) 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%-2½%
Plant and equipment	2%-12½%
Furniture, fixtures and computer equipment	25%
Vending equipment	20%

The depreciation methods, useful lives and residual values are reassessed annually.

(d) Inventories:

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based mainly on standard cost (which approximates to actual on a FIFO basis). Standard cost, where applicable, includes an appropriate share of production overheads based on normal operating capacity. Used cases and bottles are stated at the customers' deposit value which is below original cost. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

3. Significant accounting policies (cont'd)

(e) Foreign currencies:

Transactions in foreign currencies are converted at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising from fluctuations in exchange rates are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the values were determined.

(f) Taxation:

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Employee benefits:

Employee benefits are all forms of consideration given by the group in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care and housing, post-employment benefits such as pension and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post employment benefits are accounted for as described below.

3. Significant accounting policies (cont'd)

(g) Employee benefits (cont'd):

Employee benefits comprising pensions and other post-employment obligations included in these financial statements have been actuarially determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuation was conducted in accordance with IAS 19, and the financial statements reflect the company's and group's post-employment benefit asset and obligations as computed by the actuary. In carrying out their audit, the auditors rely on the actuary's report.

Pension scheme costs are accrued and funded annually. Such costs are actuarially determined and include amounts to fund past service benefits, expenses and future service benefits.

The company's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to the yield at the balance sheet date on long-term government bonds with maturities approximating the terms of the company's obligation. The calculation is performed by a qualified actuary, using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statements on the straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, the expense is recognised immediately in the income statements.

To the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statements over a period of the average remaining working lives of staff members in the plan.

When the fair value of planned assets exceeds the present value of the obligation, a pension asset is recorded to the extent of economic benefits which can be derived in the form of reduction in future contributions to the plan.

The company also provides post-retirement health benefits to employees upon retirement. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for the defined benefit pension plan and the present value of future benefits at the balance sheet date is shown as an obligation on the balance sheet.

(h) Financial instruments:

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, short-term deposits, related party balances, trade and other payables and long-term liabilities.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd):

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the company's and group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Short-term deposits, with maturities ranging from one to three months, which form part of the group's cash management, are included in cash and cash equivalents for the purpose of the company and group statement of cash flows.

Non-derivative financial instruments are subsequently measured as follows:

(i) Unquoted equity investment is classified as available-for-sale financial asset. Subsequent to initial recognition, they are measured at fair value, except where fair value cannot be reliably determined, they are measured at cost. Gains and losses arising from changes in fair value, except for impairment losses [see note 3 (k)], is recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Fair value is estimated using a valuation technique.

(ii) Debt securities are classified as loans and receivable and after initial recognition is subsequently measured at amortised cost using the effective interest method, less impairment losses.

(iii) Other non-derivative financial instruments including cash and cash equivalents, short-term deposits, trade and other receivables, related party balances, trade and other payables and long-term liabilities are measured at amortised cost using the effective interest method, less any impairment losses in respect of financial assets.

(i) Investment properties:

Investment properties are measured at fair value determined annually by an independent registered valuator or the directors (note 5). Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from change in fair value is recognised in the income statements. In carrying out the audit, the auditors relied on the valuator's and directors' reports.

3. Significant accounting policies (cont'd)

(j) Provision:

A provision is recognised in the balance sheet when the group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Impairment:

(i) Financial assets:

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original interest rate. Receivables with a short duration are not discounted. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets:

The carrying amounts of the company's and the group's non-financial assets, other than investment property and inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

3. Significant accounting policies (cont'd)

(k) Impairment (cont'd):

(ii) Non-financial assets (cont'd) :

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Finance income and expenses:

Finance income comprises interest income on funds invested, dividend and foreign exchange gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the company's and group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings and foreign currency losses. Borrowing costs are recognised in profit or loss using the effective interest method.

(m) Segment reporting:

A segment is a distinguishable component of the company that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. Significant accounting policies (cont'd)

(n) Earnings per share:

The group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the year.