DESNOES & GEDDES LIMITED 1999

Directors Report

INTRODUCTION

We are pleased to report that the Group achieved record profit levels with a strengthened asset base that should hold it in good stead in the years ahead despite the poor economic environment that continues to hamper Jamaica's progress. The year ended June 30, 1999 was characterised by increased focus on driving export sales of Red Stripe' and greater efficiencies being achieved through improved processes and systems, supported by our extensive capital expenditure programme.

The benefits of the successful Rights Issue in 1997 ensured that Desnoes & Geddes Limited (D&G) was able to avoid the costs associated with the persistently high interest rates that prevailed during the year. In addition, a more stable exchange rate allowed the Group to plan for the future of the business with more certainty.

FINANCIAL RESULTS

	12 Months to 30 June, 1999 $'M	12 Months to 30 June, 1998 $'M

Turnover	6,308	9,078
Consumption Tax/Excise Duty	558	779
Profit Before Interest and Tax	981	570
Profit Before Tax	945	313
Profit After Tax	841	164
Earnings Per Stock Unit	$2.30	$0.54

The overall volume performance in,both the brewed and soft drink segments remained poor, driven by the adverse economic climate and increased competitor activity. Whilst the domestic business struggled, the export business continued to flourish, with exports of Red Stripe' to the USA increasing by 11 %.

In the twelve month period, turnover was $6,308M compared to the $9,078M in the eighteen month period ended June 30, 1998. Group Earnings Before Tax showed a profit of $945M, which represented a 202% increase on last period's figure.

For the third successive financial period, the Group recorded an improvement in its Profit After Tax position, which increased to $841M.

Exceptional items declined to $134M from the prior period's $320M, primarily as a result of lower redundancy costs.

Interest charges were significantly reduced, falling to $60M from $247M in the previous period. This was due mainly to the Rights Issue in July 1997 which converted $840M in debt to equity. Against this background, the Group is ahead of cash flow projections in the Rights Issue prospectus by $300M and has lower than projected interest

charges, currently running at just J$1 M per month. Although the Group has a cash surplus, it is taking advantage of loan facilities from the National Development Bank Limited and Bank of Nova Scotia Jamaica Limited at concessionary rates of between 8-12%.

The Group is presently hedged against foreign exchange depreciation and forward purchases by way of holding a Government US$401,171 Bond which matures in October 2000 and cash deposits of US$6M, which together represent 2 months raw material requirements. The Group's corporate tax burden at 11% of Profit Before Tax has remained lower than the nominal 33%, due in the main to its utilisation of prior year tax losses and accelerated depreciation allowances resulting from the capital expansion programme.

Earnings attributable to each stock unit increased to $2.30 for the twelve month period from $0.54 for the eighteen month period last year. The Directors are therefore optimistic that this will result in an ongoing improvement in earnings per stock unit.

YEAR 2000 READINESS DISCLOSURE

All major stages of the programme are now complete and the business formally confirmed Y2K readiness by the September 30, 1999 target.

Business Continuity Plans have been prepared and Trading Partner Assessment Programmes completed for all critical and major customers and suppliers but both will continue to be updated to reflect the best available information. Final preparations are being made to manage the millennium transition period.

DIVIDEND

The Board of Directors have proposed a final divi~ dend of 50.0 cents to be paid on each stock unit of paid-up capital stock of the company to stockholders on record as at the close of business on December 2, 1999, and that the same be payable on December 17,1999, subject to stockholders' approval.

BONUS SHARE ISSUE

The Board of Directors have also recommended a bonus issue of 2 shares for every 1 held subject to the stockholders approval. The bonus issue will be made to all stockholders on the Company's Register at December 30, 1999.

CAPITAL EXPENDITURE

The extensive capital expenditure programme continued during the year, with a $470M spend compared to $436M in the last eighteen month period. The successful implementation of the new PET Line significantly improved the Group's position to compete in this growing segment; whilst increased numbers of new beer coolers supported the "Cold Beer" campaign.

VISION AND VALUES

During the year in review, work was undertaken to establish and develop a set of Vision and Values to be adopted by D&G. The Guinness vision of being the "World's Favourite Beer Company" fits well with D&G's own vision. The four values of:

- Freedom to Succeed
- Be the Best
- Passionate about our Consumers
- Proud of what we do will underpin all our activities and actions.

SUBSIDIARIES AND ASSOCIATES

The Company disposed of its Wines and Spirits business as well as surplus lands, as part of a drive to focus on our core business and release cash to the business during the year. In addition, following the approval of the Annual Accounts, the Directors entered into a conditional agreement to sell the soft drink business to Pepsi-Cola Puerto Rico Bottling Company. This transaction marks

the completion of D&G's transformation into a focussed brewing business.

It is the view of the Directors that this deal will add significant value to the stockholders' investment as well as allowing D&G to focus on driving the sale of Red Stripe both in Jamaica and overseas. Further, it is our belief, that the exclusive focus that will be given by Pepsi will ensure sustained growth and development of the soft drink business.

DIRECTORATE

Two members of the Executive Committee, Brian Duffy and Arthur Ziadic, have left D&G after making outstanding contributions to the development of the company.
Brian, who served as President of D&G for a two-year period, took up duties as Managing Director of Guinness Ireland Group based in Dublin, Ireland.

CORPORATE SOCIAL REVIEW

During the year, D&G continued its support for national community based organisations. The Mobile Dental Unit operated by the company and the Ministry of Health treated more than three thousand school children. Tangible sup~ port was also given to the Sickle Cell Unit at the University of the West Indies; an Ambulance was donated to the St. Arm's Bay Hospital and the Bustamante Children's Hospital was the recipient of a Heart Monitoring Machine. Other signifi~ cant contributions were made to projects in the field of education, sports, cultural and human development activities.

OUTLOOK

The Board is confident that the Group is poised to benefit from the significant restructuring that has taken place over the past few years. Going forward, the Board will focus on growing the topline by reinvigorating the beer and stout segments. This will be achieved by using

consumer insights to meet and exceed their needs. In addition, driving export growth will be critical to the Group in order to meet its strategic objectives. Greater efficiency and international cost competitiveness will continue to be the watchwords by which the Group operates.

It is recognised that the Group's continued success is due to all it's stockholders, employees, customers, distributors and consumers who con~ tinue to support D&G and its brands. We would like to take this opportunity to thank you all for your contributions to this success.

We would also like to acknowledge the important roles played by those Directors who have retired during the year and welcome the new members to the Board. In particular, we would like to thank Brian Duffy, our former president who left to take up another appointment within the Guinness Group.

The Company received a number of awards and commendations for its involvement in national and community activities. However, one of the most prestigious was the Governor General's Award presented by the Jamaica Manufacturers' Association. This award, which is presented to the leading manufacturing company in Jamaica, has been awarded to D&G for the sixth time, which is a source of pride to all those employed in the Group.

The Hon. P H. Rousseau, O.J.,
Chairman

John Irving
President