DESNOES & GEDDES LIMITED

DIRECTORS' REPORT TO THE STOCKHOLDERS

The Directors hereby submit their Report and Audited Group Financial Statements for the year ended to 31st December, 1995.

It should be noted that the last set of audited statements covered the period for the fifteen months from 1st October, 1993 to 31st December, 1994. For ease of comparability, adjusted figures to reflect the twelve months to 31st December, 1994 have been included in the Directors' Report.

RESULTS OF OPERATIONS

For the comparable twelve month period, turnover increased by $484,067,000 or 12% on 1994. However, comparable Group earnings after tax showed a loss of $112,362,000 compared with a profit of $161,348,000 in the preceding year. The highlights of the period's results compared to 1994 are:

	1995	12 Months 1994	15 Months 1993/4*
	$'000	$'000	$'000
Turnover	4,615,021	4,130,954	4,968,954
Consumption Tax/Excise Duty	402,836	281,352	343,352
Profit Before Interest and Tax	116,183	361,975	419,975
(Loss)/Profit Before Tax	(112,609)	279,429	337,429
(Loss)/Profit After Tax	(112,362)	161,348	194,838
Earnings per stock unit ($)	(0.64)	0.88	1.07

*Per 1994 Audited Accounts

OPERATIONS

D&G recorded a disappointing trading loss in 1995. The result was caused by a number of adverse factors during the year, most notably the deteriorating economic climate, devaluation of the Jamaican dollar, high interest costs, industrial action and several exceptional costs associated with restructuring the business.

There is no doubt that the continuing high inflation and interest rates contributed to reduced levels of demand in the economy. The company held market share in a declining market which was down by 11.3% compared to 1994. Within this market downturn, D&G Soft Drink volumes were up by 5% versus last year, although much of this growth was in the PET (plastic) bottle sector. This sector has grown at an enormous rate, fuelled by imports from Trinidad, where production costs are lower. This growth represents a threat to the economy as a whole, firstly, from the foreign exchange payments needed to import the goods, secondly, pollution problems arising due to the poor recycling facilities in Jamaica and finally, as volume is taken away from returnable glass bottles, there is an impact on the local Jamaican bottle manufacturers.

The current high interest rate, together with increasing debt levels required to fund our capital refurbishment programme, have both led to increasing financing charges, with interest costs of $228,792,000 compared to $82,546,000 for 1994 on a comparable basis.

The 20% devaluation of the Jamaican dollar in the final quarter of the year impacted on foreign exchange borrowings and has resulted in a loss of $95,453,000. This includes foreign exchange losses on borrowings used to acquire fixed assets which were written off to the Profit and Loss Account for the first time this year as a result of a change in accounting policy. Previously, losses on recently acquired fixed assets were capitalised and written off over three years. It is the company's view that it is more prudent to recognise the loss on realisation and record it in the year of occurrence and our auditors, Price Waterhouse have concurred with our view.

Any report on events affecting the 1995 results would be incomplete without mentioning the industrial relations situation. For the second year in succession, D&G suffered from a strike by its work-force in this instance undertaken by the weekly paid unionised work-force. Production activities at the Hunts Bay and Montego Bay plants were arrested for 10 days at a critical period in preparation for Christmas. This did not allow sufficient time to rebuild stocks before the holiday period and at least one week's sales were lost at a critical period in the year. It is difficult to be exact on the matter, but with additional stockholding costs during the year and the December strike, the cost to the company could have been up to an estimated $100,000,000 in lost profit. Agreement has since been reached with both weekly and monthly paid unions and we look forward to a period of stability and co-operation during 1996 and beyond.

Finally, the combination of high labour inflation costs, high interest rates and reduced demand have further exposed D&G's cost base as being uncompetitive in both the domestic and export markets. In an effort to reduce costs, investment in technology has been made and has led to some reductions in manning levels. The introduction of plastic crates is a key part of this programme and is still on track for completion by the end of 1996 for all beer brands. Other similar efficiency improvements have produced a net reduction in numbers employed of approximately 180 people, which in turn led to redundancy costs in excess of $50,000,000 for 1995. Benefits from this reduction will be seen in 1996 through a reduced wage bill, although with payroll settlements of 13% above inflation for 1995, further reductions will be necessary to give D&G a competitive cost base.

CAPITAL EXPENDITURE

Capital expenditure for the year under review was $366,056,000, bringing the spend for the last two years to $826,067,000. This is less than was forecast in the Directors' Report last year, the reduction being made to minimise the debt burden on the company. Spend for 1996 will probably also be in the same region although it may have to be reduced dependent on the foreign exchange position, interest rates and general trading conditions.

It is still our intention to upgrade production facilities wherever this will improve productivity, quality and reduce the cost base. Plans for 1996 include the continuing refurbishment of the beer and soft drinks packaging lines, fitting electronic bottle inspectors on all lines to improve product quality, new carbon dioxide storage vessels, upgraded computer systems and improved security on site with closed circuit television. Our investment in plastic crates will also continue in an effort to smoothen product handling both within the brewery and for our customers and distributors.

CORPORATE

The transition from a family-owned company to being part of Guinness Brewing Worldwide continues to proceed, although at a slower pace than previously anticipated. It is still the long term aim of Guinness to maintain D&G as an independent Jamaican company, however, in the short term Guinness continue to provide technical and management support from overseas in order to bring the company up to international standards.

Within Jamaica, D&G is still committed to supporting local culture and events and play a major role in the sporting community. This support comes in the form of sponsorships (Red Stripe Cup, Red Stripe Triple Crown, Pepsi Golf Classic, Heineken Startime) and work within the communities (e.g. water of life, scholarships, schools programmes, health fields, community development, the arts, etc).

EXPORTS

Once again, export volumes increased with sales 10% higher than the previous year. Shipments to our major export market, the USA, were up by 12% compared to 1994.

In December 1995 we changed our main distributor in the USA with the contract switching from Labatts to Guinness Import Company. GIC is one of the major importers of bottled beer in the USA and their extensive salesforce and network of distributorships across the country should lead to a faster rate of volume growth than would have been possible with Labatts and we look forward to a prosperous long term partnership with them.

D&G WINES LIMITED

D&G Wines Limited had a slow start to the year but came back strongly during the second half. Profits declined by 44% to $20,160,000 against last period on a comparable basis.

OTHER SUBSIDIARIES/ASSOCIATES

West Indies Glass Company Limited launched a rights issue during 1995, D&G took up an equal share in this associated company with the other major shareholder.

DIVIDENDS

Due to the substantial loss position for the year, your Directors recommend that both the interim and final dividends be passed over for 1995.

OUTLOOK

Our major focus for 1996 and beyond will be to establish D&G as a competitive producer of beers and soft drinks within Jamaica and combat the threat of imports, whilst developing the organisation to grow our exports. To succeed, we must build on our local strengths whilst also changing the cost base of the business to enable us to compete with the best throughout the world supported by our traditional links with local communities, charitable donations and sports sponsorships. With the co-operation of our employees and customers, I believe that we will see real progress during 1996 on the road to long term success again for Desnoes and Geddes.

At this point, I would like to record the appreciation of the Board and all Desnoes and Geddes' employees to the Hon. Paul Geddes who retired as Chairman this year after 68 years of service to the company. He will be a great loss to Desnoes and Geddes, although I am very pleased to confirm that he will continue to contribute to the company both as a member of the Board and in his newly assumed role of Chairman Emeritus, a lifetime appointment.

Signed on behalf of the Board

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