

# DESNOES & GEDDES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 1995

### 1. IDENTIFICATION

The company, incorporated in Jamaica, is a 51% subsidiary of Udiam Holdings AB, a company incorporated in Sweden. The ultimate parent company is Guinness PLC, a company incorporated in the United Kingdom.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Principles of consolidation

All amounts are stated in Jamaican dollars.

- ( i) The group financial statements present the results of operations and financial position of the company and its subsidiaries, and associated companies to the extent explained in Note 2(iv). The excess of the cost of shares in subsidiaries over the value of the net assets acquired is classified as goodwill arising on consolidation.

The subsidiaries 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%

- ( ii) The group turnover includes sales and other trading income after the elimination of transactions between group companies, and includes duties on beverages where applicable.
- (iii) For the foreign subsidiary, the results for the year are translated into Jamaican dollars using an average rate of exchange for the year. The balance sheet is translated into Jamaican dollars using the rate of exchange ruling at balance sheet date. The resultant translation losses are set off against capital reserves. (See Note 15).
- (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.

(b) Depreciation

Depreciation is calculated on the straight line basis at annual rates which will write off the carrying value of each asset over the term of its expected useful life. Annual depreciation rates are 1.7% to 4% for buildings, 2% to 10% for plant and equipment and 20% for vehicles.

(c) 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.

(d) Foreign currencies

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

(e) 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.

(f) Pension costs

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

**3. PRINCIPAL ACTIVITIES OF THE GROUP**

The principal activities of the group comprise the brewing, blending and distribution of beers, stouts, wines, liquors and assorted beverages. The group turnover includes consumption duties of \$402,836,000 (fifteen months ended 31.12.94 - \$343,352,000).

**4. TRADING (LOSS)/PROFIT**

This is stated after charging/(crediting):

	Year ended 31.12.95 \$'000	Restated Fifteen Months ended 31.12.94 \$'000
Auditors' remuneration	5,065	4,336

Depreciation	133,074	135,703
Directors' emoluments -		
Fees	3,217	2
Management remuneration	18,778	18,811
Dividends received -		
Quoted investment	( 223)	( 228)
Other investments	( 603)	( -)
Overseas investments	( 7,271)	( 8,348)
Interest charges -		
Loan	197,964	101,337
Overdraft	29,099	24,282
Other	19,707	954
Interest earned	(17,978)	( 44,027)
Provision for loss on investment	18,385	2,242

#### 5. EXCEPTIONAL ITEM

	Year ended 31.12.95 \$'000	Fifteen months ended 31.12.94 \$'000
Redundancy payments	50,470	-

#### 6. TAXATION

The taxation charge is based on the group results for the period adjusted for taxation purposes and comprises:-

	Year ended 31.12.95 \$'000	Fifteen Months ended 31.12.94 \$'000
Income tax at 33 1/3%	(14,779)	( 86,561)
Bonus issue tax credit	-	15,211
Deferred taxation credit/(charge)	16,388	( 67,132)

Prior year over/(under) accrual	2,506	( 167)
	4,115	(138,649)
Associated companies tax charge	( 3,868)	( 3,942)
	247	(142,591)

Subject to agreement with the Commissioner of Income Tax, losses available for offset against future taxable profits of the company amount to approximately \$487,415,000 and can be carried forward indefinitely.

## 7. CHANGES IN ACCOUNTING POLICY

### (a) 1995 - Foreign currencies

The directors have considered it prudent to change the company's accounting policy of capitalisation of foreign exchange losses on recently acquired fixed assets to conform with Guinness PLC accounting practice, whereby all exchange losses are reflected in the profit and loss account. Foreign exchange losses capitalised at 31 December 1994 (less depreciation) amounted to \$70,120,000. In restating the results for the fifteen months ended 31 December 1994 on the basis of the new policy, the foreign exchange losses expensed in that year have been increased by \$44,218,000. The remainder, \$25,902,000 relating to 1993 and earlier years, has been charged against retained earnings at the beginning of the 1994 period. As a result of the change in accounting policy, \$56,314,000 representing foreign exchange losses on recently acquired fixed assets has been expensed in 1995.

### (b) 1994 - Deferred taxation

During 1994 the company obtained certification as a "qualifying business" thereby enabling it to benefit from the special accelerated capital allowances tax regime for plant and machinery. The directors therefore considered it prudent to change the company's accounting policy to account for deferred taxation at current tax rates on timing differences between profits as computed for taxation purposes and profits as stated in the financial statements. As a result of this change, \$33,700,000 was charged against profits for the 1994 period and the cumulative effect of \$44,452,000 adjusted against retained earnings previously reported at the beginning of the 1994 financial period.

## 8. DIVIDENDS

	Year ended 31.12.95 \$'000	Fifteen Months ended 31.12.94 \$'000
Ordinary -		
Interim dividend paid, 22.5% gross	-	6,845
Proposed, 45% gross	-	40,970
	-	47,815

## 9. (LOSS)/EARNINGS PER STOCK UNIT

The calculation of (loss)/earnings per stock unit is based on the group net (loss)/profit, and stock units in issue at the end of the period.

## 10. PENSION SCHEME

- (a) The company operates a defined benefit pension scheme which is open to all permanent employees and is managed by an independent outside agency. The scheme is funded by employees' contributions at rates varying between 6% and 10% of salary, and employer's contributions at a rate recommended by independent actuaries. 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 of 31 December 1994 disclosed that the scheme was adequately funded at that date.

- (b)

	Year ended 31.12.95	Fifteen Months ended 31.12.94
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	\$'000	\$'000
Total contributions by the group	28,920	28,773

- (c) One of the subsidiaries holds assets in trust which are intended to supplement the company's pension scheme. These assets and the related liability amount to approximately \$3,242,000 (1994 - \$3,242,000) and are not reflected in the group balance sheet.

#### 11. FIXED ASSETS

	Restated THE GROUP			
	Freehold Land & Buildings \$'000	Plant and Equipment \$'000	Construction in progress \$'000	Total \$'000
Cost or valuation -				
At 1 January 1995	686,131	2,368,176	490,001	3,544,308
Additions	-	58,581	307,475	366,056
Transfers from CIP	45,137	102,335	( 147,472)	-
Disposals	( 2,520)	( 5,167)	-	( 7,687)
At 31 December 1995	728,748	2,523,925	650,004	3,902,677
Depreciation -				
At 1 January 1995	263,120	1,163,600	-	1,426,720
Charge for the year	15,419	117,655	-	133,074
On disposals	( 99)	( 1,744)	-	( 1,843)
At 31 December 1995	278,440	1,279,511	-	1,557,951
Net book value				
At 31 December 1995	450,308	1,244,414	650,004	2,344,726
At 31 December 1994	423,011	1,204,576	490,001	2,117,588

Restated THE COMPANY				
	Freehold Land & Buildings \$'000	Plant and Equipment \$'000	Construction in progress \$'000	Total \$'000
Cost or valuation-				
At 1 January 1995	673,771	2,342,175	490,001	3,505,947
Additions	-	57,639	307,475	365,114
Transfers from CIP	45,137	102,335	(147,472)	-
Disposals	-	( 5,167)	-	( 5,167)
At 31 December 1995	718,908	2,496,982	650,004	3,865,894
Depreciation -				
At 1 January 1995	259,187	1,147,540	-	1,406,727
Charge for the year	15,059	116,345	-	131,404
On disposals	-	( 1,743)	-	( 1,743)
At 31 December 1995	274,246	1,262,142	-	1,536,388
Net book value -				
At 31 December 1995	444,662	1,234,840	650,004	2,329,506
At 31 December 1994	414,584	1,194,635	490,001	2,099,220

The company's plant and equipment were revalued as of 30 September 1993 on the basis of depreciated replacement cost by Baird and Henderson Valuers Limited. The surplus arising on revaluation was credited to capital reserve (Note 15).

The company's freehold land and buildings are stated at 1992 professional valuations and those of subsidiaries at 1983 valuations. All subsequent additions for the group are included at cost.



## 12. INVESTMENTS

	Group		Company	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
(a) Investments comprise				
Associated companies-				
At cost	111,985	91,985	111,985	91,985
Group's share of reserves	25,851	55,324	-	-
	137,836	147,309	111,985	91,985
At cost-				
Quoted	3,085	3,085	3,085	3,085
Other	6,483	24,868	6,483	24,867
Subsidiaries	-	-	17,038	17,038
	147,404	175,262	138,591	136,975

(b) Associated companies are as follows:-

	Group's Percentage interest	
	1995	1994
West Indies Glass Company Limited	47.7	47.7
West Indies Yeast Company Limited	28	28
Jamaica Extracts Limited	20	20
Challenge Enterprises Limited	50	50
Kiskimo Limited	50	50
Labco Limited	50	50
Red Stripe Marketing Company Limited (Resident in the United Kingdom)	50	50

(c) Quoted Investments

Group and Company	
1995	1994

	\$'000	\$'000
Market value	6,077	17,027

**13. INVENTORIES**

	Group		Company	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
Raw materials	243,295	247,890	191,635	193,052
Work-in-process	96,631	80,854	77,787	52,385
Finished goods	164,238	154,320	87,848	72,348
Used cases and bottles	373,753	151,903	344,926	151,903
	877,917	634,967	702,196	469,688

**14. SHARE CAPITAL**

	1995	1994
	\$'000	\$'000
Authorised - 185,000,000 ordinary shares of 50cents each	92,500	92,500
Issued and fully paid - 182,532,246 stock units of 50cents each	91,266	91,266

**15. CAPITAL RESERVES**

	Group		Company	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
At beginning of period -				
Share premium	-	1,306	-	1,306
Realised surplus on sale of fixed assets	1,398	1,398	859	859
Unrealised surplus on				

revaluation of fixed assets	1,397,212	1,397,983	1,384,712	1,383,439
Goodwill arising on consolidation	( 12,308)	( 12,308)	-	-
	1,386,302	1,388,379	1,385,571	1,385,604

Movement during the period-

Unrealised surplus on revaluation of fixed assets	-	1,273	-	1,273
Transfer to profit and loss account:				
in respect of bonus share issue	-	( 1,306)	-	( 1,306)
for additional depreciation due to revaluation of fixed assets of associated company	( 2,044)	( 2,044)	-	-
	1,384,258	1,386,302	-	1,385,571
Translation losses	( 34,039)	( 30,667)	-	-
Balance at end of period	1,350,219	1,355,635	1,385,571	1,385,571

#### 16. LONG TERM LIABILITIES

		Group		Company	
		1995	1994	1995	1994
		\$'000	\$'000	\$'000	\$'000
Rate	Repayable				
Agricultural Credit Bank:					
14%	1995	-	664	-	664
9%	1994	-	32	-	32
14%	1994	-	97	-	97
Rehabilitation Fund:					
18%	1995	-	191	-	191
21%	1996	175	409	175	409

Bank of Nova Scotia:					
9.5%	1996 (US\$)	-	25,015	-	25,015
Schechter Inc.					
8%	(US\$)	-	1,000	-	-
United Kingdom Investment Limited					
11%	1996 (Stg)	25,740	36,247	25,740	36,247
Guinness PLC					
9.665%	(US\$)	322,001	268,603	322,001	268,603
12.125%	(US\$)	-	16,683	-	16,683
12.25%	(US\$)	-	33,367	-	33,367
		347,916	382,308	347,916	381,308
Less: Current portion		25,915	46,855	25,915	46,855
		<b>322,001</b>	<b>335,453</b>	<b>322,001</b>	<b>334,453</b>

These loans are unsecured and are repayable by periodic instalments.

#### 17. CAPITAL EXPENDITURE

Capital expenditure authorised at 31 December 1995 not provided for in these financial statements, amounted to:

	Group and Company	
	1995	1994
	\$'000	\$'000
Authorised but not committed	475,000	800,000

#### 18. FOREIGN EXCHANGE EXPOSURE

At 31 December 1995, the group had net foreign liabilities amounting to approximately US\$13,677,000 (1994- US\$13,163,000).

#### 19. RELATED PARTY TRANSACTIONS

The company carried out transactions with its ultimate parent company, Guinness PLC and its affiliates in the normal course of business during the period and was charged as follows:

	Year ended	Fifteen months ended
	31.12.95	31.12.94
	\$'000	\$'000
Interest	26,707	25,880
Royalties	27,028	20,001
Purchases of raw materials and finished goods	272,057	77,455
Salary and administration costs	49,906	48,850