

# DESNOES & GEDDES LIMITED 1998

---

## Notes to the Financial Statements

30 June 1998

### 1. Identification

The company, incorporated in Jamaica, is a 58% subsidiary of Udiam Holdings AB, a company incorporated in Sweden. The ultimate parent company is Diageo PLC, a company formed in December 1997 following the merger of Guinness PLC (former parent company,) and Grand Metropolitan PLC. Diageo PLC, Grand Metropolitan PLC and Guinness PLC are all incorporated in the United Kingdom.

### 2. Significant Accounting Policies

#### (a) Accounting convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

#### (b) 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%.

They are currently not trading.

- (ii) The group turnover includes sales and other trading income, and includes duties on beverages where applicable.
- (iii) For the foreign subsidiary, the results for the period are translated into Jamaican dollars using an average rate of exchange for the period. 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 (Note 14).
- (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.

(c) Depreciation

Depreciation is calculated on the straight line basis at annual rates which will write off the carrying value of each asset over the period of its expected useful

life. Annual rates are as follows:

Buildings	2%
Plant and Equipment	
Computer equipment	25%
Vending equipment	20%
Plant and machinery	2%-12 1/2%
Motor vehicles	12 1/2% - 30%

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) Investments

Quoted investments are stated at the lower of cost or market value. Other investments are stated at cost less reductions to net realisable value where

appropriate.

### 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 \$847,749,000 (1996 - \$497,631,000).

### 4. Trading Profit

This is stated after charging/(crediting):

	Eighteen months ended 30.6.98 \$'000	Twelve months ended 31.12.96 \$'000
Auditors' remuneration		
Current period	8,100	5,161
Prior period	374	257
Depreciation -	230,806	140,812
Directors' emoluments		
Fees	1,400	3,047
Management remuneration	21,886	15,300
Dividends received		
Quoted investment	( 807)	-
Other investments	( 1,102)	( 3,438)
Overseas investments	( 8,260)	(19,426)
Interest charges -		
Loan	246,500	396,811
Overdraft	5,737	17,640
Other	3,487	641
Interest earned	<u>( 3,751)</u>	<u>( 7,627)</u>

### 5. Exceptional Items

	Eighteen months ended 30.6.98	Twelve months ended 31.12.96
--	--	---------------------------------------

Write-off of investment in and amounts due from West Indies Glass Company Limited	94,463	-
Redundancy payments	<u>225,958</u>	<u>104,347</u>
	<b><u>320,421</u></b>	<b><u>104,347</u></b>

#### 6. Taxation

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

	Eighteen months ended 30.6.98 \$'000	Twelve months ended 31.12.96 \$'000
Income tax at 33 1/3%	-	( 1,417)
Deferred taxation charge	<u>(143,259)</u>	<u>(44,712)</u>
	(143,259)	(46,129)
Prior year's under provision of subsidiaries taxation charge	6,344	-
Associated companies tax credit	-	<u>2,178</u>
	<b><u>(149,603)</u></b>	<b><u>(43,951)</u></b>

Subject to agreement with the Commissioner of Income Tax, losses available for offset against future taxable profits of the company amount to approximately \$479,000,000 (31.12.96 -\$517,628,000) and can be carried forward indefinitely.

#### 7. Prior Year Adjustment

	Eighteen months ended	Twelve months ended
--	-----------------------------	---------------------------

	30.6.98	31.12.96
	\$'000	\$'000
Capitalisation of spares	70,659	-
Adjustment to Receivables Settlement		
System balances	(52,623)	-
	<u>18,036</u>	<u>-</u>

During 1997 the directors considered it prudent to change the company's accounting policy for spares. Prior to 1 November 1997 spares were expensed upon receipt. Following the change, spares are capitalised in inventories upon receipt and expensed when issued.

#### 8. Earnings Per Stock Unit

The calculation of earnings per stock unit is based on the group's profit and the average number of stock units in issue (after the rights issue in July 1997) weighted on a time basis (30.6.98 - 297,574,364; 31.12.96 - 182,532,246).

#### 9. 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 employee contributions at rates varying between 6% and 10% of salary and employer 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.

Preliminary results of the latest actuarial valuation as of 31 December 1997 disclosed that the scheme was adequately funded at that date.

(b)	Eighteen	Twelve
	months	months
	ended	ended
	30.60	31.12
	\$'000	\$'000
Total contributions by the group	<u>69,951</u>	<u>48,615</u>

10. Fixed Assets

	Freehold Land & Buildings \$'000	Plant and Equipment \$'000	THE GROUP Construction in progress \$'000	Total \$'000
Cost or Valuation -				
At 1 January 1997	752,338	2,993,243	568,270	4,313,851
Additions	-	1,611	434,205	435,816
Transfers from CIP	103,404	734,168	(837,572)	-
Disposals	( 5)	( 328,780)	( 13,718)	( 342,503)
At 30 June 1998	<u>855,737</u>	<u>3,400,242</u>	<u>151,185</u>	<u>4,407,164</u>
Depreciation -				
At 1 January 1997	293,859	1,402,135	-	1,695,994
Charge for the period	26,434	204,372	-	230,806
On disposals	-	( 222,393)	-	( 222,393)
At 30 June 1998	<u>320,293</u>	<u>1,384,114</u>	<u>-</u>	<u>1,704,407</u>
Net Book Value -				
At 30 June 1998	<b><u>535,444</u></b>	<b><u>2,016,128</u></b>	<b><u>151,185</u></b>	<b><u>2,702,757</u></b>
At 31 December 1996	<b><u>458,479</u></b>	<b><u>1,591,108</u></b>	<b><u>568,270</u></b>	<b><u>2,617,857</u></b>
Cost or valuation				
At 1 January 1997	742,558	2,977,670	568,270	4,288,498
Additions	-	1,611	434,205	435,816
Transfers from CIP	103,404	734,168	(837,572)	-
Transfers from subsidiaries	9,780	13,311	-	23,091
Disposals	( 5)	( 328,780)	(13,718)	( 342,503)
At 30 June 1998	<u>855,737</u>	<u>3,397,980</u>	<u>151,185</u>	<u>4,404,902</u>
Depreciation-				
At 1 January 1997	289,306	1,390,217	-	1,679,523
Charge for the period	26,434	204,372	-	230,806
Transfers from subsidiaries	4,554	9,589	-	14,143
On disposals	-	( 222,327)	-	( 222,327)
At 30 June 1998	<u>320,294</u>	<u>1,381,851</u>	<u>-</u>	<u>1,702,145</u>

Net Book Value -				
At 30 June 1998	<b>535,443</b>	<b>2,016,129</b>	<b>151,185</b>	<b>2,702,757</b>
At 31 December 1996	<b>453,252</b>	<b>1,587,453</b>	<b>568,270</b>	<b>2,608,975</b>

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 14).

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.

#### 11. Investments

	Group		Company	
	30.6.98	31.12.96	30.6.98	31.12.96
(a) Investments comprise				
'Associated companies -				
At cost	67,970	111,985	67,970	111,985
Group's share of reserves	(36,178)	( 10,388)	-	-
	<u>31,792</u>	<u>101,597</u>	<u>67,970</u>	<u>111,985</u>
At cost -				
Quoted	3,085	3,085	3,085	3,085
Other	7,410	6,983	7,410	6,983
Subsidiaries	-	-	17,038	17,038
	<b>42,287</b>	<b>111,665</b>	<b>95,503</b>	<b>139,091</b>

(b) Associated companies are as follows:

	Group's percentage interest	
	30.6.98	31.12.96
West Indies Glass Company Limited	-	49.50
West Indies Yeast Company Limited	28.00	28.00



Jamaica Extracts Limited	20.00	20.00
Challenge Enterprises Limited	50.00	50.00
Red Stripe Marketing Company Limited (Resident in the United Kingdom)	50.00	50.00

(c) Quoted investments

	Group and Company	
	30.6.98	31.12.96
	\$'000	\$'000
Market value	<b><u>6,226</u></b>	<b><u>9,528</u></b>

12. Inventories

	Group and Company	
	30.6.98	31.12.96
	\$'000	\$'000
Raw materials	225,558	223,096*
Work-in-process	81,994	84,915
Finished goods	129,584	129,339*
Used cases and bottles	336,282	354,266
Spares	92,390	70,659
	<b><u>865,808</u></b>	<b><u>862,275</u></b>

13. Share Capital

	30.6.98	31.12.96
	\$'000	\$'000
Authorised -		
415,000,000 Ordinary shares of 50c each (31.12.96 - 185,000,000)	<b><u>207,500</u></b>	<b><u>92,500</u></b>
Issued and fully paid -		
365,064,492 Ordinary stock units of 50c each (31.12.96- 182,532,246)	<b><u>182,532</u></b>	<b><u>91,266</u></b>

During the year the company increased its authorised capital to \$207,500,000 by the

creation of 230,000,000 ordinary shares of 50 cent each ranking pari passu in all respects with the existing ordinary shares. The company then made a rights issue of one ordinary share for each share held, at a price of \$4.80, resulting in 182,532,246 shares being subscribed for giving rise to a share premium of \$770,394,000 (note 14). The shares issued were subsequently converted to fully paid stock units.

\*Reclassified for comparative purposes

#### 14. Capital Reserves

	Group		Company	
	30.6.98	31.12.96	30.6.98	31.12.96
	\$'000	\$'000	\$'000	\$'000
At beginning of period				
Realised surplus on sale of fixed assets	5,028	1,398	859	859
Unrealised surplus on revaluation of fixed assets	1,397,212	1,397,212	1,384,712	1,384,712
Additional depreciation due to revaluation of fixed assets of associated company	(4,088)	(2,044)	-	-
Goodwill arising on consolidation	(12,308)	(12,308)	-	-
	<u>1,385,844</u>	<u>1,384,258</u>	<u>1,385,571</u>	<u>1,385,571</u>
Movement during the period -				
Transfer from retained earnings:				
Realised gain on disposal of equipment	-	3,630	-	-
Transfer to profit and loss account:				

for additional depreciation due to revaluation of fixed assets of associated company	-	(2,044)	-	-
Reduction in capital reserve relating to the disposal of an associated company	(8,899)	-	-	-
Share premium arising from the rights issue	770,394	-	770,394	
Write off of revaluation surplus on plant and machinery scrapped	( 103,467)	-	(103,467)	-
	2,043,872	1,385,844	2,052,498	1,138,571
Translation losses	(33,565)	(32,109)	-	-
Balance at end of period	<u>2,010,307</u>	<u>1,353,735</u>	<u>2,052,498</u>	<u>1,385,571</u>

15. Long Term Liabilities

	Group		Company	
	30.6.98 \$'000	31.12.96 \$'000	30.6.98 \$'000	31.12.96 \$'000
Subsidiaries	-	-	156,189	139,799*
9.665% Guinness PLC	-	408,281	-	408,281
US\$ loan repayable in 1998	<u>-</u>	<u>408,281</u>	<u>-</u>	<u>408,281</u>
		<b><u>408,281</u></b>	<b><u>156,189</u></b>	<b><u>548,080</u></b>

These loans are unsecured and are repayable by periodic instalments.

16. Capital Expenditure

Capital expenditure authorised at 30 June 1998 not provided for in these financial statements, amounted to:

Group & Company	
30.6.98	31.12.96

	\$'000	\$'000
Authorised but not committed	<b><u>523,100</u></b>	<b><u>392,200</u></b>

17. Foreign Exchange Exposure

At 30 June 1998, the group had net foreign liabilities amounting to approximately US\$4,450,000 (31.12.96 - US\$21,707,000).

18. Related Party Transactions

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

	Eighteen months ended 30.6.98 \$'000	Twelve months ended 31.12.96 \$'000
Sales	390,057	21,304
Interest expense	22,499	44,314
Royalties	91,544	55,308
Salary and administration costs	98,281	57,048
Purchases of raw materials and finished goods	<b><u>690,711</u></b>	<b><u>333,673</u></b>

\* Reclassified for comparative purposes

---