

# CARIBBEAN CEMENT COMPANY LTD

## Notes to the Financial Statements

31 December 1995

### **1. Principal Activities**

The company produces cement for sale on the local and overseas markets. The subsidiaries are involved in the mining and sale of gypsum, and the operation of a mineral spa.

These financial statements are expressed in Jamaican dollars unless otherwise stated.

### **2. Significant Accounting Policies**

#### **(a) Consolidation**

The group's financial statements present the results of operations and financial position of the company and its wholly owned subsidiaries, Jamaica Gypsum and Quarries Limited and Rockfort Mineral Bath Complex Limited.

#### **(b) Inventories**

Cement and in-process stocks are stated at the lower of average cost

(based on normal production) which includes materials, labour and factory overheads and estimated realisable value. Stores and spare parts are stated at average cost.

**(c) Capital work in progress**

Capital work in progress includes capitalised labour and factory overheads, loan interest and exchange gains and losses up to the date that the work in progress is completed.

**(d) Depreciation**

Depreciation is provided on fixed assets on the straight line basis at the following rates to write off their carrying value over the period of their estimated useful lives.

Freehold buildings and structures	20 - 40 years
Leasehold improvements	50 years
Machinery and equipment	3 - 35 years
Furniture and fixtures	3 - 40 years
Motor vehicles	3 - 5 years

**(e) Foreign currency translation**

Foreign currency balances are translated into Jamaican dollars at the exchange rate at balance sheet date. Until completion (see note 2 (c)), exchange gains or losses in respect of foreign borrowings for capital work in progress are capitalised. Other exchange gains or losses are reflected in the profit and loss account.

**(f) Deferred taxation**

Deferred taxation is not recognised in these financial statements because timing differences are not considered likely to reverse in the foreseeable future.

**(g) Deferred expenditure**

- (i) The practice of deferring stripping costs is normal in the Mining Industry as it is necessary to strip in advance for the purposes of continuous production. This expenditure will be written off against future production costs as mining of gypsum progresses and the reserves which have been stripped are depleted.
- (ii) Development expenses in relation to shale mining are deferred and will be written off against future production costs as mining progresses.

### **3. Related Party Transactions**

- (a) During the year, \$30,325,000 (1994 - \$30,550,000) in technical fees were paid to Scancem ANS., a 10% shareholder, in accordance with a Technical Assistance Agreement. The fees relate to the provision of cement engineering staff by Scancem ANS.
- (b) The company leases certain machinery and equipment to a subsidiary for a 4 year period from December 1993. The annual lease charges payable by the subsidiary to the company are approximately \$21,748,000. The leased assets are included in the company's fixed assets.

### **4. Turnover**

Turnover consists of sales to all customers, less intra-group sales and excludes general consumption tax.

### **5. Exceptional Item**

This represents redundancy and reorganisation costs incurred by the company.

### **6. Taxation**

- (a) Current

There is no tax charge for the current and prior year due to claims for capital allowances on additions over depreciation charge. Tax losses

available to the group at 31 December 1995 for set-off against future taxable profits amount to approximately \$179,443,000 (The Company \$121,000,000), subject to agreement by the Commissioner of Income Tax. These losses can be carried forward indefinitely.

(b) Deferred

At 31 December 1995, the company has claimed additional capital allowances for taxation purposes, in excess of book depreciation, of approximately \$965,000,000 (1994 \$660,000,000). These additional capital allowances at the current rate of income tax, give rise to a potential deferred tax liability of approximately \$322,000,000 at 31 December 1995 and \$220,000,000 at 31 December 1994. The company has not recorded this potential deferred tax liability in its financial statements as it is of opinion that based on its planned level of future capital expenditure and future additional capital allowances, the deferred tax liability is not expected to reverse in the near future.

**7. Net Profit and Retained Earnings**

(i) The net profit is dealt with in the financial statements as follows:

	1995	1994
	\$'000	\$'000
Holding company	206,301	158,320
Subsidiaries	( 26,950)	( 10,193)
	179,351	148,127

(ii) The retained earnings are reflected in the financial statements as follows:

1995	1994
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	\$'000	\$'000
Holding company	667,592	492,944
Subsidiaries	( 17,682)	9,267
	649,910	502,211

### 8. Earnings Per Stock Unit

The calculation of earnings per stock unit is based on the net profit for each year and 422,042,136 ordinary stocks in issue at the end of both years.

### 9. Fixed Assets

	THE GROUP					
	Freehold Land	Leasehold Improvements	Buildings	Machinery, Equipment, Vehicles	Capital Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost/Valuation -						
1 January 1995	342	32,690	535,447	2,232,768	689,253	3,490,500
Additions	-	1,287	3,330	27,606	578,058	610,281
Transfers from CWIP	-	-	162,325	658,377	(820,702)	-
Disposals	-	-	-	( 7,122)	-	( 7,122)
31 December 1995	342	33,977	701,102	2,911,629	446,609	4,093,659
Depreciation -						
1 January 1995	-	2,142	125,878	391,651	-	519,671
Charge for the year	-	1,491	18,501	114,277	-	134,269
Disposals	-	-	-	( 2,038)	-	( 2,038)
31 December 1995	-	3,633	144,379	503,890	-	651,902
Net book value -						
31 December 1995	342	30,344	556,723	2,407,739	446,609	3,441,757
31 December 1994	342	30,548	409,569	1,841,117	689,253	2,970,829

THE COMPANY

	Freehold Land	Buildings	Machinery, Equipment, Vehicles	Capital Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost/Valuation -					
1 January 1995	302	530,815	2,193,181	689,253	3,413,551
Additions	-	2,426	24,715	578,058	605,199
Transfers from CWIP	-	162,325	658,377	(820,702)	-
Disposals	-	-	( 1,108)	-	( 1,108)
31 December 1995	302	695,566	2,875,165	446,609	4,017,642
Depreciation -					
1 January 1995	-	125,389	384,561	-	509,950
Charge for the year	-	18,394	109,420	-	127,814
Disposals	-	-	( 602)	-	( 602)
31 December 1995	-	143,783	493,379	-	637,162
Net Book Value -					
31 December 1995	302	551,783	2,381,786	446,609	3,380,480
31 December 1994	302	405,426	1,808,620	689,253	2,903,601

In 1991, Production Line #4 line was professionally revalued at depreciated replacement cost by F.L. Smith & Company Limited of the United Kingdom. The unrealised surplus arising on the revaluation was credited to capital reserves (Note 19).

In prior years, certain major items of fixed assets were professionally revalued at depreciated replacement cost. The unrealised surpluses arising on these revaluations were credited to capital reserves (Note 19).

During the year, interest cost of \$136,100,000 (1994 - \$155,500,000) relating to capital work in progress was capitalised.

#### 10. Deferred Expenditure

This comprises:

	Group		Company	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
(a) Stripping costs	51,800	7,363	-	-
(b) Research and Development	1,621	1,621	-	-
(c) Rockfort Mineral Bath Complex Limited	401	801	-	-
	53,822	9,785	-	-

- (a) Deferred stripping costs are in respect of work carried out at the gypsum mines. During the year, land with 5,600,000 tons of proven gypsum reserves at three of the mines - 'Bito', 'Brooks' and 'Upper Quarry', were stripped. These mines represent almost 100% of the proven reserves.
- (b) The research and development expenditure is in respect of shale mining. This product is used in the manufacture of cement.

These expenditures will be written off as part of production costs as described in note 2(g).

- (c) Certain expenses incurred by Rockfort Mineral Bath Complex Limited in recommencing the operations of the mineral spa were deferred. These amounts are being amortised over a three year period.

## 11. Investments

	Group		Company	
	1995	1994	1995	1994
	\$'000	\$,000	\$,000	\$'000
Subsidiaries-				
Jamaica Gypsum and Quarries Limited				
3,000,000 ordinary shares of \$1.00 each	-	-	4,000	4,000
Rockfort Mineral Bath Complex Limited				
10,000 ordinary shares of \$1.00 each	-	-	10	10
Other -				
Jamaica Production Fund Limited 5,000,000 shares of \$1.00 each	5,000	-	5,000	-
	<b>5,000</b>	<b>-</b>	<b>9,010</b>	<b>4,010</b>

The company is committed to investing in 20,000,000 shares of Jamaica Production Fund Limited and at 31 December 1995, \$5,000,000 had been disbursed (Note 24).

## 12. Long Term Receivable

This amount represents contributions to the National Housing Trust and is recoverable in the years 2001 to 2004.

## 13. Inventories

	Group		Company	
	1995	1994	1995	1994

	\$'000	\$'000	\$'000	\$'000
Cement and in-process stocks	328,277	230,951	121,915	74,111
Stores and spare parts	524,874	447,185	521,250	441,123
Goods in transit	55,871	44,516	54,900	44,516
	909,022	722,652	698,065	559,750

#### 14. Subsidiary companies

	1995	1994
	\$'000	\$'000
Current account balances-		
Jamaica Gypsum and Quarries Limited	208,321	193,910
Rockfort Mineral Bath Complex Limited	35,583	36,959
	243,904	230,869

#### 15. Cash and Deposits

	Group		Company	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
Deposits and other bank balances	263,443	59,065	263,443	57,159
Cash in hand	24,665	21,049	21,565	20,977
	<b>288,108</b>	<b>80,114</b>	<b>285,008</b>	<b>78,136</b>

#### 16. Payables

Group	Company
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	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
Trade creditors	352,616	326,786	345,686	326,359
Interest	100,456	56,716	99,843	56,716
Statutory obligations	16,463	17,121	14,561	15,884
Advances from customers	9,311	11,538	9,311	11,538
Other	67,604	56,264	66,536	54,514
	<b>546,450</b>	<b>468,425</b>	<b>535,937</b>	<b>465,011</b>

#### 17. Short Term Loans

These represent commercial paper transactions with varying interest rates of 12.75% - 14.50% and 44.50% - 48.99% per annum for US\$ and J\$ transactions respectively. The repayment periods vary between 30 - 90 days. Amounts repayable in foreign currency are US\$8,006,000. Loans totalling \$200,000,000 which will be refinanced from the proceeds of a medium term loan to be obtained in June 1996 (note 20), have been reclassified to long and medium term loans.

#### 18. Share Capital

	1995	1994
	\$'000	\$'000
Authorised -		
Ordinary shares of 50c each	225,000	225,000
1 special share of \$1.00	-	-
	225,000	225,000
Issued and fully paid-		
Ordinary stock units of 50c each	211,021	211,021

1 special rights preference share of \$1.00	-	-
	<b>211,021</b>	<b>211,021</b>

(a) Special Share

The special share is held by the Accountant General on behalf of the Government of Jamaica. The Special Shareholder is entitled to receive notice of and to attend and speak at all General Meetings and meetings of any class of shareholders but not to vote at such meetings.

The consent of the Special Shareholder is required before any of the "Entrenched provisions" of the Memorandum of Association of the company can be altered.

(b) National Investment Bank of Jamaica Limited

At 31 December 1995, the parent company, National Investment Bank of Jamaica Limited (NIBJ) held 57,565,941 (13.6%) of the company's stock units. These stock units do not carry voting rights as long as they are held by NIBJ, the Government or its agents.

(c) Limitations on stockholdings

The company's Memorandum and Articles of Association impose limitations on stockholdings in the company in so far as:

- (i) Any stockholder who has an interest in stocks of 5% or more of the total voting stocks of the company is required to notify the company.
- (ii) Any person who has or appears to have an interest in stocks which carry more than 10% of the total voting rights in the company will be ineligible to vote any stock after service of notice by the Registrar and Transfer Agent until the excess over 10% has been sold.

**19. Capital Reserves**

	The Group		The Company	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
Share premium	213,628	213,628	213,628	213,628
Revaluation surplus(note 9)	843,325	843,325	843,325	843,325
Realised capital gains	91	91	86	86
Excess of cost of investment in subsidiaries over net assets at date of acquisition	(17,757)	( 17,757)	-	-
	1,039,287	1,039,287	1,057,039	1,057,039

## 20. Long and Medium Term Loans

	%	Repayable	The Group		The Company	
			1995	1994	1995	1994
			\$'000	\$'000	\$'000	\$'000
(a) Government of Jamaica						
(i) (1) Loan	9 1/4	1992/97	198,000	198,000	198,000	198,000
(2) Loan	4	1992/97	10,836	10,836	10,836	10,836
(3) Capitalised interest payable	9 1/4	1992/97	54,666	54,666	54,666	54,666
(ii) Import duties payable (interest free)		1988/97	16,325	24,507	16,325	24,507
(b) Eagle Trade Services Limited	43	1994/97	-	15,892	-	15,892
(c) Eagle Merchant Bank Ltd.	43	1997	75,000	30,000	75,000	30,000
(d) Crown Eagle Life Insurance Company Limited	43	1997	160,000	-	160,000	-

(e)	Eagle Commercial Bank Limited (US\$2.0 million Demand loan)	16	1999	79,594	-	-	-
(f)	Mutual Security Merchant Bank and Trust Company Limited	65	1992/96	-	10,000	-	10,000
(g)	Concem Trade Limited -	12	1995	-	24,973	-	24,973
(h)	Scancem ANS	12	1995	-	54,422	-	54,422
(i)	International Finance Corporation Limited	8 1/2	1995/2002	278,578	266,399	278,578	266,399
(j)	NCB Trust and Merchant Bank Limited	53	1993/97	-	29,714	-	29,714
(k)	Citizens Bank Limited						
	(i) Demand Loan	63	1995	-	10,000	-	10,000
	(ii) Loan	44 1/2	1992/95	-	411	-	411
	(iii) US\$2.36 million Demand loan	12	1992/96	93,918	78,587	93,918	78,587
(l)	Mayberry Investments Limited						
	(i) Loan	49	1997	50,000	50,000	50,000	50,000
	(ii) Loan	49	1997	50,000	50,000	50,000	50,000
	(iii) Loan	33	1996	-	86,915	-	86,915
	(iv) Loan	32	1996	-	23,525	-	23,525
	(v) Loan	46 1/2	1996	151,089	-	151,089	-
(m)	NCB (Investments) Limited						
	(i) Loan	35	1995	-	10,000	-	10,000
	(ii) Loan	32	1995	-	10,000	-	10,000
(n)	Citizens Trust and Merchant Bank Limited US\$0.7 million	16	1995/2000	23,570	25,610	23,570	25,610
(o)	Citibank NA						
	(i) Loan	50	1992/94	-	2,500	-	2,500
	(ii) Loan	40	1997	2,482	4,774	2,482	4,774
(p)	Bank of Nova Scotia Jamaica Limited						
	(i) Loan	46	2001	100,000	-	100,000	-

	(ii) Loan	46	1998	33,000	-	33,000	-
	(iii) US\$0.8 million	12	1998	31,997	-	31,997	-
	(iv) US\$2 million	13	1998	79,594	-	79,594	-
(q)	National Investment Bank of Jamaica Limited (interest free)		-	9,105	10,474	-	-
(r)	Syndicated loan	60	1997	5,417	30,318	5,417	30,318
(s)	Syndicated loan, US\$0.8 million	13	1996	30,743	51,216	30,743	51,216
(t)	US\$3.4 million Bearer Bonds	12	1995/97	137,054	70,666	137,054	70,666
(u)	Buck Securities Limited	14 1/4	-	19,949	-	19,949	-
(v)	Sigma Investments Limited	46	1996	48,911	-	48,911	-
(w)	Caldon Finance Merchant Bank Limited	46-47	1997	82,128	77,329	82,128	77,329
Total loans				1,821,956	1,311,734	1,733,257	1,301,260
Less: Current portion				131,184	103,169	104,348	103,169
				<b>1,690,772</b>	<b>1,208,565</b>	<b>1,628,909</b>	<b>1,198,091</b>

(a) By agreement dated 21 May 1987, the Government of Jamaica assumed the exchange risk for loans a(i).

(b) The International Finance Corporation Limited loans are evidenced by negative pledges not to encumber assets without prior consent.

(c) The Eagle Merchant Bank Limited, Mayberry Investments Limited, and the Syndicated loans are evidenced by promissory notes.

The company has entered into an agreement with Caldon Finance Group Limited whereby it will obtain loans totalling \$200,000,000 at 45% per annum in June 1996 and repayable in July 1997. These loans are to be evidenced by promissory notes, and are to be used to repay loans and suppliers' balances. Interest rates on loan balances are stated at amounts which prevailed at

the end of the year.

**21. Deferred Income**

Deferred income represents profit arising from the sale of certain fixed assets under the sale and leaseback agreements. The gains are being credited to the profit and loss over a five year period which commenced January 1993.

**22. Pension Scheme**

The company has a defined contribution pension scheme for all permanent employees which is managed by an outside agency. The company's liability is restricted to its contributions. Total contributions for the year amounted to \$15,568,096 (1994 - \$12,498,849).

**23. Contingencies**

A claim was made by the company in 1987 against National Limestone & Quarries Limited for monies due and owing. National Limestone & Quarries Limited has counter-claimed for damages in respect of an alleged breach of contract. The amount of the counter-claim is \$7,400,000.

In the opinion of management and the company's attorneys, this counter claim is unlikely to succeed and no material losses are likely to be sustained.

Accordingly, no provision has been made for either the claim or counter claim in these financial statements.

**24. Capital Commitments**

- (a) At 31 December 1995, contracts for capital expenditures not provided for in these financial statements were \$33,029,000 (1994 - \$101,716,000).
- (b) The company is committed to investing a further \$15,000,000 in Jamaica

Production Fund Limited. Of this amount, \$10,000,000 is payable by 31 December 1996 and the remainder by 31 December 1997 (Note 11).

**25. Operating Lease Commitments**

Lease commitments at 31 December 1995 amounted to approximately \$55,072,000 and are scheduled for payment as follows:

	The Group and and company \$'000
In the year ending 31 December 1996	52,928
1997	1,072
1998	1,072