WEST INDIES PULP AND PAPER GROUP

Notes to the Financial Statements

November 30, 1995

1. The Company

The company is incorporated in Jamaica and the ordinary stock units (see note 12) are listed on the Jamaica Stock Exchange. These financial statements are presented in Jamaican dollars.

The principal activities of the company and its wholly-owned subsidiaries, West Indies Paper Products Limited and West Indies Containers Limited, are the manufacture and sale of paper and cardboard products. On January 4, 1994, the company's paper milling and tissue converting plant at Freetown, Clarendon, was severely damaged by fire, shutting down its paper milling operations. Consequently, the company's main activity was for some time the purchase of finished goods for resale. In April 1995, it recommenced the converting of tissue products from imported jumbo rolls. The company also purchases supplies for a subsidiary and earns a commission.

The company is a subsidiary of Investment & Managment Services Limited, an Industrial and Provident society, incorporated in Jamaica.

2. Accounting basis

The financial statements have been prepared on the going concern basis, although the appropriateness of this basis is dependent on the ability of the company and its subsidiaries to obtain continued financing and, ultimately, on future profitable operations.

3. Significant accounting policies

(a) Accounting convention:

The financial statements are prepared under the historical cost convention, except for the inclusion of certain fixed assets at valuation.

(b) Basis of consolidation:

The consolidated financial statements include the financial statements of the wholly-owned subsidiaries, made up to November 30, 1995.

All significant inter-company transactions are eliminated. Goodwill arising on the acquisition of the subsidiaries has been written off.

The company and its wholly-owned subsidiaries are collectively referred to in these financial statements as the "group".

(c) Depreciation:

Fixed assets, with the exception of freehold land on which no depreciation is provided, are depreciated on the straight line basis at annual rates estimated to write off the assets over their expected useful lives. The depreciation rates are as follows:

Freehold improvements and buildings:	
Land improvements	5% - 10%
Buildings	2 1/2% - 6 2/3%
Plant and machinery	3 1/3% - 20%
Furniture and equipment	5% - 20%
Vehicles	25%

(d) Inventories:

Inventories are valued at the lower of cost, determined principally on a weighted average basis, and net realisable value.
Work-in-progress and finished products include cost of materials and labour with appropriate additions for production overhead expenses.

(e) Foreign currencies:

Foreign currency balances at the balance sheet date are translated at the rates of exchange ruling on that date.

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates included in the profit and loss account.

(f) Borrowing costs:

Borrowing costs are capitalised as part of the cost of fixed assets which take a substantial period of time to get them ready for their intended use, at which time capitalisation is discontinued.

The capitalisation rate is determined by applying the weighted average cost of new borrowings to the expenditures on the assets.

4. Accounts receivable

Accounts receivable is comprised as follows:

	Company		Group	
	1995	1994	1995	1994
Trade receivables	27,566,594	24,208,048	98,089,718	75,330,774
Less bad debt provision	(8,907,258)	(8,560,651)	(11,553,945)	(10,629,224)
	18,659,336	15,647,397	86,535,773	64,701,550
Insurance claims	-	78,758,621	-	78,758,621
Other receivables	4,165,833	6,691,459	18,238,941	12,380,170

	$22,825,169	**101,097,477**	**104,774,714**	**155,840,341**

5. Inventories

	Company		Group	
	1995	1994	1995	1994
Raw materials and supplies	9,735,708	2,585,579	70,833,365	13,365,385
Goods in transit	3,172,909	2,177,499	9,002,066	18,576,513
Work-in-progress	-	-	12,152,735	5,535,560
Finished products	19,584,719	-	28,699,893	8,882,793
Plant and machinery spare parts	1,589,519	-	49,789,264	39,284,741
Purchased finished products	-	8,233,550	-	8,233,550
	$34,082,855	12,996,628	170,477,323	93,878,542

6. Bank loans and overdrafts

	Company		Group	
	1995	1994	1995	1994
Bank overdrafts {note (i)} 43% and 44% (1994: 36% - 46%)	13,320,909	20,048,398	19,888,942	29,868,898
Promissory notes 60% (1994: 49%)	8,000,000	42,000,000	8,000,000	42,000,000
Demand loan {note (ii)}	15,000,000	15,000,000	15,000,000	15,000,000
15% US$ Promissory note	-	-	-	3,401,885
	$36,320,909	77,048,398	42,888,942	90,270,783

(i) The bank overdrafts of the company are secured by:

(a) a debenture over fixed and floating assets of the company stamped to cover $13.2 million;

(b) a legal mortgage over one of the company's properties;

(c) unlimited guarantees of the subsidiaries, the parent and two common directors.

The overdrafts and bank loans {see note 14(d)} of the subsidiaries are secured by:

(a) a legal mortgage over a subsidiary's property and debenture over the fixed and floating assets of that subsidiary, stamped to cover $32 million (1994: $32 million);

(b) unlimited guarantees of the company, the parent and two common directors.

(ii) The demand loan is secured by a bill of sale over certain equipment of the company and the assignment of peril insurance.

7. **Accounts payable**

Accounts payable is comprised as follows:

	Company		Group	
	1995	1994	1995	1994
Trade debt {note (i)}	147,508,150	73,878,765	147,508,150	73,878,765
Less amount falling due after one year	(44,002,150)	-	(44,002,150)	-
	103,506,000	73,878,765	103,506,000	73,878,765
Letters of credit (US$751,324) {note (ii)]	29,910,094	-	29,910,094	-
Due to company controlled by a director	1,794,084	-	1,794,084	1,290,698
Due to a director	-	186,528	731,941	186,528
Other trade payables				

and accruals	32,589,589	60,328,152	97,233,022	93,022,281
	$167,799,767	134,393,445	233,175,141	168,378,272

(i) This amount is denominated in United States Dollars (US$) and is secured by a floating charge, stamped to cover the J$ equivalent of US$1.5 million with power to upstamp, over certain inventories ranking after the charge described in note 6(a), and bank guarantee amounting to $21.6m (1994: $19.2m).

Based on credit terms agreed with the supplier, the outstanding amount of US$3,705,304 (J$147,508,150) as at November 30, 1995 will be settled by weekly instalments of US$50,000 (J$1,990,500) each. The amount of US$1,105,304 (J$44,002,150) falling due after November 30, 1996 is included in long-term liabilities {see note 14}.

(ii) These letters of credit bear interest at the rate of 3% to 6% per annum (calculated on the US$ balance).

8. Due to parent

This is comprised as follows:

	Company		Group	
	1995	1994	1995	1994
Loan	10,000,000	10,000,000	10,000,000	10,000,000
Current accounts	2,006,552	(269,693)	15,989,865	8,258,585
	$12,006,552	9,730,307	25,989,865	18,258,585

The loan is interest-free with repayment terms yet to be determined.

9. Interest in subsidiaries

This represents shares, at cost.

10. Deferred expenditure

	Company		Group	
	1995	1994	1995	1994
(a) Advertising and product launching expenses	1,514,246	-	1,514,246	-
(b) Refurbishment of plant and machinery	-	-	1,316,536	3,356,784
	$1,514,246	**-**	**2,830,782**	**3,356,784**

(a) This represents advertisement production costs, packaging design and product launching expenses which are being written-off over a period of twelve months.

(b) This represents costs of major refurbishment and repairs to plant and machinery of a subsidiary which are estimated to last between two to three years. These amounts have, therefore, been deferred and are being written off to the profit and loss account over a maximum of 36 months which commenced in June 1994.

11. Fixed assets

(a) Company:

	Freehold land, improvements and buildings	Plant and machinery	Furniture, equipment & vehicles	Capital work-in-progress	Total
At cost or valuation:					
November 30, 1994	23,167,595	29,524,231	6,487,325	64,022,901	123,202,052
Additions	3,148,596	-	3,016,509	29,485,628	35,650,733
Transfer	23,969,558	69,538,971	-	(93,508,529)	-
November 30, 1995	50,285,749	99,063,202	9,503,834	-	158,852,785

Broken down as follows:					
At cost	29,335,167	70,237,372	9,503,834	-	109,076,373
At valuation	20,950,582	28,825,830	-	-	49,776,412
	50,285,749	99,063,202	9,503,834	-	158,852,785
Depreciation:					
November 30, 1994	1,253,458	6,293,255	2,630,439	-	10,177,152
Charge for the year	978,622	4,885,455	1,020,635	-	6,884,712
November 30, 1995	2,232,080	11,178,710	3,651,074	-	17,061,864
Net book values:					
November 30, 1995	$48,053,669	87,884,492	5,852,760	-	141,790,921
November 30, 1994	$21,914,137	23,230,976	3,856,886	64,022,901	113,024,900

(b) Group:

	Freehold land, improvements and buildings	Plant and machinery	Furniture, equipment & vehicles	Capital work-in-progress	Total
At cost or valuation:					
November 30, 1994	65,305,815	107,254,825	8,327,806	79,954,828	260,843,274
Additions	5,225,566	35,024,769	3,921,482	29,485,628	73,657,445
Disposals	-	(1,444,864)	-	-	(1,444,864)
Transfers	23,969,548	85,470,908	-	(109,440,456)	-
Revaluation adjustment	45,784,821	-	-	-	45,784,821
November 30, 1995	140,285,750	226,305,638	12,249,288	-	378,840,676
Broken down as follows:					
At cost	29,335,167	139,002,871	12,249,288	-	180,587,326
At valuation	110,950,583	87,302,767	-	-	198,253,350
	140,285,750	**226,305,638**	**12,249,288**	**-**	**378,840,676**

Depreciation:					
November 30, 1994	5,021,504	20,243,409	3,420,555	-	28,685,468
Charge for the year	2,292,888	12,994,444	1,293,238	-	16,580,570
Revaluation adjustment	(5,082,312)	-	-	-	(5,082,312)
November 30, 1995	2,232,080	33,237,853	4,713,793	-	40,183,726
Net book values:					
November 30, 1995	$138,053,670	193,067,785	7,535,495	-	338,656,950
November 30, 1994	$ 60,284,311	87,011,416	4,907,251	79,954,828	232,157,806

Freehold land, improvements and buildings include land at cost of $713,606 for the company and $3,870,380 for the group, and at valuation of $4,000,000 for the company and $38,300,000 for the group.

Plant and machinery of the company and subsidiaries were revalued by Baird and Henderson Valuators Limited of Kingston, Jamaica, at June 27, 1990 on a depreciated replacement cost basis. Freehold land improvements and buildings of the company and subsidiaries were revalued by C. D. Alexander Company (Realty) Limited, Valuators, Appraisers and Auctioneers of Kingston, Jamaica on November 30, 1992. Certain freehold land, improvements and buildings of a subsidiary were revalued as at November 30, 1995 on an open market basis also by C. D. Alexander Company (Realty) Limited. Surpluses arising on revaluations, inclusive of depreciation no longer required, are included in capital reserve (note 13).

Buildings include capitalised interest amounting to $1,213,916 (1994:$Nil) for the company and the group.

Plant and machinery includes capitalised interest amounting to $14,629,312 (1994: $Nil) for the company and $24,182,421(1994: $Nil) for the group.

12. Share capital

	1995	1994

Authorised:				
9,500,000	7 1/2%	Non-cumulative redeemable preference shares of $1 each	9,500,000	9,500,000
1,457,105	"A"	Ordinary shares of 50c each	728,552	728,552
23,649,800		Ordinary shares of 50c each	11,824,900	11,824,900
			$22,053,452	22,053,452

			1995	1994
Issued and fully paid:				
9,500,000	7 1/2%	Non-cumulative convertible redeemable preference shares [see note (a) below]	9,500,000	9,500,000
800,000	"A"	Ordinary stock units [see note (b) below]	400,000	400,000
23,416,862		Ordinary stock units (see note 1)	11,708,431	11,708,431
			$21,608,431	**21,608,431**

(a) On December 1, 1989, 9,500,000 7 1/2% non-cumulative convertible preference shares of $1 each were issued in accordance with the terms and conditions of the agreement for the divestment of the Government of Jamaica's holding in the company.

These shares are convertible to ordinary stock units after the redemption of any preference capital held by the Government of Jamaica and the repayment of the 7 1/2% unsecured Government of Jamaica loan [note 14(a)].

(b) Each "A" ordinary stock unit carries three and one-half times the voting, dividend and distribution rights attached to each of the other ordinary stock units. These stock units are not included in those listed on the Jamaica Stock Exchange (see note 1).

13. Net reserves

Company	Group

	1995	1994	1995	1994
Capital				
Share premium	100,000	100,000	100,000	100,000
Capital redemption reserve fund	52,000	52,000	52,000	52,000
Revaluation reserve:				
Unrealised:				
At beginning of the year	51,059,655	107,335,929	147,931,083	204,207,357
Revaluation surplus (note 11)	-	-	50,867,132	-
Transferred to profit and loss account on disposal of fixed assets	-	(56,276,274	-	(56,276,274)
At end of the year	51,059,655	51,059,655	198,798,215	147,931,083
Realised:				
Gain on disposal transferred from profit and loss account	21,146,873	21,146,873	25,118,906	25,118,906
	72,358,528	72,358,528	224,069,121	173,201,989
Revenue:				
Deficit	(22,720,746)	(26,916,383)	(57,107,141)	(53,055,745)*
	$49,637,782	45,442,145	166,961,980	120,146,244

*Restated (see note 19)

14. Long-term liabilities

	Company		Group	
	1995	1994	1995	1994
(a) 7 1/2% unsecured loans - Government of Jamaica	5,827,472	7,492,463	5,827,472	7,492,463
(b) Unsecured trade credit	69,020,946	47,708,831	69,020,946	47,708,831

(c)	Instalment loan	553,591	-	553,591	-
(d)	22% Bank loans	-	-	8,395,042	9,855,177
(e)	22% (1994:42% Bank loan	-	-	2,453,334	2,880,000
		75,402,009	55,201,294	86,250,385	67,936,471
	Less current maturities	(13,168,482	49,373,822	15,055,153	51,260,493
		62,233,527	5,827,472	71,195,232	16,675,978
	Trade debt (see note 7 (i)]	44,002,150	-	44,002,150	-
		$106,235,677	5,827,472	115,197,382	16,675,978

(a) These loans are repayable in sixteen equal half-yearly instalments of $832,495 each, the final instalment being due on May 30, 1999.

(b) This liability of US$1,733,759 (1994: US$1,424,144), which was payable in 48 equal monthly instalments, inclusive of interest, with the final instalments, being due December 1994, has been rescheduled. Interest payable amounting to J$12,325,765 (US$309,615) has been capitalised and added to the principal of J$56,695,181 (US$1,424,144). The full amount of interest and principal of US$1,733,759 is now payable by 48 monthly promissory notes of US$36,120 each commencing April 30, 1996. No interest will be charged for the period prior to the due date of each promissory note; however, in the event of default, the creditor has the option to declare the oustanding balance due and payable in full bearing interest at the rate of 18% per annum (calculated on the US$ balance).

(c) This loan is repayable in 48 equal monthly instalments of $26,860 each, inclusive of interest, the final instalment being due in June 1999. The loan is secured by a bill of sale over a motor vehicle.

(d) (e) These loans are repayable in equal quarterly instalments of $365,002 and $106,667 each respectively, the final instalments being due in June 30, 2003. These loans are secured as described in note 6(i)

15. Gross operating revenue

Gross operating revenue excludes General Consumption Tax and represents the invoiced value of sales by the group adjusted for returns, and includes income from consequential loss insurance (note 16) as a result of the fire (note 1).

16. Disclosure of expenses (income)

Group operating loss is stated after charging/(crediting):

	1995	1994
	$	$
Depreciation	16,580,570	10,035,453
Loan interest	21,260,787	13,486,388
Overdraft interest	5,462,100	5,362,156
Directors' emoluments		
Fees	Nil	Nil
Management remuneration	620,000	Nil
Management fees to parent	16,198,573	9,918,210
Auditors' remuneration - current year	1,627,000	1,232,000
- prior year	125,000	55,850
Consequential loss insurance proceeds	(2,000,000)	(27,206,464)

17. Extraordinary items

Extraordinary items are comprised as follows:

	1995	1994
Redundancy payments on restructuring of subsidiaries' operations	(6,793,531)	-
Gains/(losses)resulting from fire during 1994 (note 1):		
Gain on disposal of fixed assets	-	21,146,873
Redundancy payments on shut-down of paper mill	-	(8,164,727)
Uninsured portion of spare parts and raw material destroyed by fire	-	(7,037,494)
Deferred expenditure written-off	-	(11,929,210)

Resulting from fire on June 15, 1993		
Additional claim received	-	5,799,728
	$(6,793,531)	(184,830)

18. Net(loss)/profit attributable to members

This includes $4,195,637 (1994: $24,729,200) profit relating to the company only.

19. Prior year adjustment

The basis of calculating interest due on a long-term debt has been revised. Interest has, therefore, been recomputed and the comparative figures for the company and group have been restated accordingly.

20. (Earnings)/loss per stock unit

This is computed by dividing the net (loss)/profit attributable to members, before and after extraordinary items, by 800,000 (1994: 800,000) "A" ordinary stock units and 23,416,862 (1994: 23,416,862) ordinary stock units in issue. Account has been taken of the rights attached to the "A" ordinary stock units [see note 12(b)].

21. Taxation

At November 30, 1995 taxation losses, subject to agreement by the Commissioner of Income Tax, available for relief against future taxable profits, amounted to approximately $53,509,079 (1994: $28,696,557) for the company and $93,513,595 (1994:$70,862,580) for the group.

22. National Housing Trust contributions

Contributions made by the company and the group, amounting to $80,003 and $228,369, respectively, which were expensed during the period to

July 31, 1979, are recoverable in the years 2001/2004.

23. Pension scheme

The group operates separate contributory pension schemes for salaried and hourly paid employees. Both schemes are administered by Jamaica Mutual Life Assurance Society.

The benefits of the salaried scheme are computed by reference to the final salary. This scheme is subject to triennial actuarial valuations and the most recent report, dated July 27, 1992, was carried out by the Society as of December 31, 1991. This valuation indicated a past service deficiency of $1,323,000 which was subsequently made good by the group. Based on the recommendation of the actuaries the group's contributions are at the rate of 10% of pensionable salaries which is considered adequate to cover future benefits. The next valuation due as at December 31, 1994 has not yet been completed.

The rules of the "hourly paid" scheme provide for payment, by way of annuities, to pensioners based on accumulated employer and employee contributions, together with interest thereon.

The contributions for the year amounted to $2,342,612(1994:$820,260) for the company and $4,253,340 (1994:$1,224,608)for the group.

24. Commitments

(a) Lease

Commitments at November 30, 1995 under operating leases expiring March 1998 amounted to $8,135,000 (1994:$Nil) for the company and the group. The amounts payable within twelve months of the balance sheet date total $3,176,667(1994:$Nil) for the company and the group.

(b) Capital

At November 30,1995,$Nil (1994:$11,701,409) for the company and $Nil (1994:$29,781,622 for the group had been committed in respect of the purchase of fixed assets for which no provision has been made in these financial statements.