

CARIBBEAN CEMENT COMPANY 1996

Notes to the Financial Statements

31 December 1996

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.

Leasehold improvements	50 years
Freehold buildings and structures	20 - 40 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 capitalized. Other exchange gains or losses are reflected in the profit and loss account.

(f) Deferred taxation

Deferred taxation is not recognized 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 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.

(iii) Costs incurred to dredge loading jetty are written off over the expected period to benefit.

3. Related Party Transactions

(a) During the year, \$39,183,000 (1995 - \$30,325,000) in technical fees were paid to Scancem

ANS. and Cemex, a 10% shareholder, in accordance with a Technical Assistance Agreement. The fees relate to the provision of cement engineering staff by Scancem ANS. and Cemex. In April 1996, Cemex acquired the 10% shareholding of Scancem ANS and became the sole provider of the services.

- (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 \$16,200,000. 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

	1996	1995
	\$'000	\$'000
Redundancy costs	<u>20,349</u>	<u>43,320</u>

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 1996 for set-off against future taxable profits amount to approximately \$383,432,000 (The Company \$311,828,000), subject to agreement by the Commissioner of Income Tax. These losses can be carried forward indefinitely.

(b) Deferred

At 31 December 1996, the company has claimed additional capital allowances for taxation purposes, in excess of book depreciation, of approximately \$1,217,000,000 (1995 \$965,000,000). These additional capital allowances at the current rate of income tax, give rise to a potential deferred tax liability of approximately \$405,800,000 at 31 December 1996 and \$322,000,000 at 31 December 1995. 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 expenditures 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:

	1996 \$'000	1995 \$'000
Holding company	291,197	206,301
Subsidiaries	<u>(9,574)</u>	<u>(26,950)</u>
	<u>281,623</u>	<u>179,351</u>

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

	1996 \$'000	1995 \$'000
Holding compa	958,789	667,592
Subsidiaries	<u>(27,256)</u>	<u>(17,682)</u>
	<u>931,533</u>	<u>649,910</u>

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					Total \$'000
	Leasehold Improvements \$'000	Freehold Land \$'000	Buildings \$'000	Machinery, Equipment, Vehicles \$'000	Capital Work in Progress \$'000	
Cost/Valuation -						
1 January 1996	33,977	342	701,102	2,911,629	446,609	4,093,659
Additions	5,406	-	1,118	29,145	480,725	516,394

Transfers from CWIP	-	-	61,476	29,150	(90,626)	-
Disposals	-	-	-	(1,593)	-	(1,593)
31 December 1996	<u>39,383</u>	<u>342</u>	<u>763,696</u>	<u>2,968,331</u>	<u>836,708</u>	<u>4,608,460</u>
Depreciation -						
1 January 1996	3,633	-	144,379	503,890	-	651,902
Charge for the year	1,487	-	20,289	119,185	-	140,961
Disposals	-	-	-	(1,112)	-	(1,112)
31 December 1996	<u>5,120</u>	<u>-</u>	<u>164,668</u>	<u>621,963</u>	<u>-</u>	<u>791,751</u>
Net Book Value -						
31 December 1996	<u>34,263</u>	<u>342</u>	<u>599,028</u>	<u>2,346,368</u>	<u>836,708</u>	<u>3,816,709</u>
31 December 1995	<u>30,344</u>	<u>342</u>	<u>556,723</u>	<u>2,407,739</u>	<u>446,609</u>	<u>3,441,757</u>

	THE COMPANY				
	Freehold		Machinery,	Capital	Total
	Land	Buildings	Equipment,	Work in	
\$'000	\$'000	Vehicles	Progress	\$'000	
Cost/Valuation -					
1 January 1996	302	695,566	2,875,165	446,609	4,017,642
Additions	-	551	19,893	480,725	501,169
Transfers from CWIP	-	61,476	29,150	(90,626)	-
Disposals	-	-	(900)	-	(900)
31 December 1996	<u>302</u>	<u>757,593</u>	<u>2,923,308</u>	<u>836,708</u>	<u>4,517,911</u>
Depreciation -					
1 January 1996	-	-	-	-	-
Charge for the year	-	143,783	493,379	-	637,162
Disposals	-	20,154	113,645	-	133,799
31 December 1996	<u>-</u>	<u>-</u>	<u>(554)</u>	<u>-</u>	<u>(554)</u>
Net Book Value -					
31 December 1996	<u>302</u>	<u>593,656</u>	<u>2,316,838</u>	<u>836,708</u>	<u>3,747,504</u>
31 December 1995	<u>302</u>	<u>551,783</u>	<u>2,381,786</u>	<u>446,609</u>	<u>3,380,480</u>

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 \$135,000,000 (1995 - \$136,100,000) relating to capital work in progress was capitalised.

10. Deferred Expenditure

This comprises:

	Group		Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
(a) Stripping costs	51,772	51,800	-	-
(b) Dredging costs	3,719	-	-	-
(c) Research and Development	1,621	1,621	-	-
(d) Rockfort Mineral Bath Complex Limited	- 561	- 401	-	-
	<u>57,673</u>	<u>53,822</u>	<u>-</u>	<u>-</u>

- (a) Deferred stripping costs are in respect of work carried out at the gypsum mines. During 1995, 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) Costs incurred to dredge loading jetty are written off over seven years.
- (c) 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(9).

(d) 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	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
At cost -				
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 (Note 24(b))	5,000	5,000	5,000	5,000
	5,000	5,000	9,010	9,010

12. Long Term Receivable

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

13. Due From Subsidiaries

	1996	1995
	\$'000	\$'000

Jamaica Gypsum and Quarries Limited	326,809	208,321
Rockfort Mineral Bath Complex Limited	48,006	35,583
	<u>374,815</u>	<u>243,904</u>

14. Inventories

	Group		Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Cement and in-process stocks	534,143	328,277	256,928	121,915
Stores and spare parts	557,048	524,874	549,499	521,250
Goods in transit	35,394	55,871	35,394	54,900
	<u>1,126,585</u>	<u>909,022</u>	<u>841,821</u>	<u>698,065</u>

15. Cash and Deposits

	Group		Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Deposits and other bank balances	229,173	263,443	229,173	263,443
Cash in hand	72,733	24,665	71,687	21,565
	<u>301,906</u>	<u>288,108</u>	<u>300,860</u>	<u>285,008</u>

16. Payables

	Group		Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Trade creditors	485,979	352,616	480,502	345,686
Interest	65,760	100,456	65,760	99,843
Statutory obligations	29,314	16,463	29,314	14,561
Advances from customers	568	9,311	568	9,311
Other	12,361	67,604	12,361	66,536
	<u>593,982</u>	<u>546,450</u>	<u>588,505</u>	<u>535,937</u>

17. Short Term Loans

These represent commercial paper transactions with varying interest rates of 12% - 16% and 31 % - 34.25% per annum for US\$ and J\$ transactions respectively. The repayment periods vary between 30 - 90 days. Amounts repayable in foreign currency are US\$6,337,000.

18. Share Capital

	1996 \$'000	1995 \$'000
Authorised -		
Ordinary shares of 50c each	400,000	225,000
1 special share of \$ 1.00	-	-
	<u>400,000</u>	<u>225,000</u>
Issued and fully paid -		
Ordinary stock units of 50c each	211,021	211,021
1 special rights preference share of \$1.00	-	-
	<u>211,021</u>	<u>211,021</u>

(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 1996, the former 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

	Group		Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'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)	-	-
	<u>1,039,287</u>	<u>1,039,287</u>	<u>1,057,039</u>	<u>1,057,039</u>

Notes to the Financial Statements 31 December 1996

20. Long and Medium Term Loans

%	Repayable	Group		Company	
		1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000

(a) Government of Jamaica							
(i)	(1) Loan	9 1/4	1992/97	148,500	198,000	148,500	198,000
	(2) Loan	4	1992/97	7,867	10,836	7,867	10,836
	(3) Capitalised Interest payable	9 1/4	1992/97	41,258	54,666	41,258	54,666
(ii)	Import duties payable (interest free)		1988/97	-	16,325	-	16,325
(b) Eagle Merchant Bank Limited							
		43	1997	-	75,000	-	75,000
(c) Crown Eagle Life Insurance Company Limited							
		43	1997	-	160,000	-	160,000
(d) Eagle Commercial Bank Limited (US\$1.58 million Demand loan)							
		16	1999	55,440	79,594	-	-
(e) International Finance Corporation Limited							
		8 1/2	1995/2002	209,998	278,578	209,998	278,578
(f) Citizens Bank Limited							
(ii)	US\$ Demand	12	1992/96	-	93,918	-	93,918
(g) Mayberry Investments Limited							
(i)	Loan	49	1997	-	50,000	-	50,000
(ii)	Loan	49	1997	-	50,000	-	50,000
(iii)	Loan	46 1/2	1996	-	151,089	-	151,089
(iv)	Loan	33	1998	284,755	-	284,755	-
(v)	US\$4.45 mi	13 1/4	1998	155,976	-	155,976	-
(h) Citizens Trust and							

Merchant Bank Limited US\$0.43 million	16	1995/2000	15,098	23,570	15,098	23,570
(i) Citibank NA	40	1997	191	2,482	191	2,482
(j) Bank of Nova Scotia Jamaica Limited						
(i) Loan	46	2001	600,000	100,000	600,000	100,000
(ii) Loan	46	1998	22,000	33,000	22,000	33,000
(iii) US\$0.47 million	12	1998	16,380	31,997	16,380	31,997
(iv) US\$1.53 million	13	1998	53,480	79,594	53,480	79,594
			<u>1,610,943</u>	<u>1,488,649</u>	<u>1,555,503</u>	<u>1,409,055</u>
(k) National Investment Bank of Jamaica Limited (interest free)		-	9,105	9,105	-	-
(l) Syndicated loan	60	1997	-	5,417	-	5,417
(m) US\$1.73 million Bearer Bonds	12	1995/97	60,480	137,054	60,480	137,054
(n) Buck Securities Limited	14 1/4	1998	17,561	19,949	17,561	19,949
(o) Sigma Investments Limited						
(i) Loan	46	1997	-	48,911	-	48,911
(ii) Loan	32	1998	356,390	-	356,390	-
(iii) US\$0.49 Million	13.5	1998	17,021	-	17,021	-
(p) Caldon Finance Merchant Bank Limited						
(i) Loan	46-47	1997	-	82,128	-	82,128
(ii) Loan	33	1998	140,012	-	140,012	-
(o) National Commercial						

Bank Limited - US\$1.19 million	17	1998	41,813	-	41,813	-
Total loans			<u>2,253,325</u>	<u>1,821,956</u>	<u>2,188,780</u>	<u>1,733,257</u>
Less: Current portion			<u>373,506</u>	<u>131,184</u>	<u>349,604</u>	<u>104,348</u>
			<u>1,879,819</u>	<u>1,690,772</u>	<u>1,839,176</u>	<u>1,628,909</u>

- (a) By agreement dated 21 May 1987, the Government of Jamaica assumed the exchange risk for loans a(i).
- (b) Under the terms of certain loan agreements, the company has agreed to certain negative pledges and not to encumber assets without prior consent.
- (c) Under the term of a 1993 loan agreement with the International Finance Corporation and a loan agreement in 1996 with The Bank of Nova Scotia Jamaica Limited, the company and the group are required to maintain certain financial ratios.

21. Deferred Income

This represented profit arising from the sale of certain fixed assets under sale and leaseback agreements. The gains were 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 \$23,685,330 (1995 - \$15,568,096).

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 1996, contracts for capital expenditures not provided for in these financial statements were \$595,000,000 (1995- \$33,029,000).
- (b) In prior year, the company had a commitment to invest a further \$15,000,000 in Jamaica Production Fund Limited (Note 11). This commitment was cancelled during the year.

25. Operating Lease Commitments

Lease commitments at 31 December 1996 amounted to approximately \$7,032,000 and are scheduled for payment as follows:

	The Group and Company \$'000
In the year ending 31 December	
1997	1,758
1998	1,758
1999	1,758
2000	<u>1,758</u>
