

KINGSTON WHARVES LIMITED 1996

Notes to the Financial Statements

31 December 1997

1. Identification and Principal Activities

The principal activities of the company and its subsidiaries comprise the operation of public wharves and the provision of cold storage facilities.

The wharfage rates and penal charges billed to customers by the company are subject to regulation by the Port Authority of Jamaica.

All amounts in these financial statements are stated in Jamaican dollars.

2. Summary of Significant Accounting Policies

(a) Consolidation

- (i) The group financial statements present the results of operations and financial position of the company and its subsidiaries, and associated company to the extent explained in Note 2(ii).

The subsidiaries consolidated are as follows:

Wholly owned and incorporated in Jamaica

Harbour Cold Stores Limited

Western Terminals Limited

Kingston Terminal Operators Limited

Security Administrators Limited

Caripic Jamaica Limited

Western Storage Limited and its subsidiary,
Jamaica Cooling Stores Limited

(ii) **Associated Company**

The equity method of accounting is adopted for the associated company, Caribbean Freight Forwarders and Customs Brokers Limited in which the interest of Kingston Wharves Limited is 25%. Under this method the group's share of the results of the associated company 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.

(b) Depreciation

Fixed assets are depreciated on the straight line basis at rates which will amortize the carrying value of the various assets over their expected useful lives. The rates in use are:

Buildings, wall, piers, and dredging	1.3% - 10%
Machinery and equipment	10% - 20%
Furniture and fixtures	5% - 10%
Vehicles	10% - 20%

(c) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis.

(d) Foreign currencies

Transactions during the year are converted at the 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) Bonus shares received

The par value of shares received is credited to capital reserve. The carrying value of the investments is increased accordingly.

(f) Revenue

Wharfage and other revenue items are accounted for on an accrual basis except penal charges which are accounted for on a cash basis.

(g) Claims

Claims received are charged against the profit and loss account when they are accepted by the company, except to the extent that claims are recoverable from insurance.

(h) Pension costs

The group accrues and funds pension costs annually. Such costs are actuarially determined and include amounts to fund past and future service benefits and expenses.

3. Turnover

Turnover consists of charges made for wharfage, storage and warehousing of goods after deduction of discounts and other reductions applicable to such charges.

4. Related Party Transactions

During the year the company and its subsidiaries had normal business transactions with Grace, Kennedy & Company Limited, a major shareholder, and its subsidiaries.

During the year related party transactions were as follows:

	1996	1995
	\$'000	\$'000
(a) Income earned	88,244	59,760 *
(b) Fees and other expenditure	<u>54,268</u>	<u>46,553 *</u>

5. Trading Profit

Trading profit for the year is arrived at after charging/(crediting) the following:

	1996	1995
	\$'000	\$'000
Depreciation	45,426	24,221
Auditors' remuneration -		
Current year	2,240	2,100*
Prior year	195	(52)
Directors' emoluments -		
Fees	768	323
Management remuneration	2,980	2,880

Interest expense	2,922	1,534
Provision for doubtful debts	1,324	1,479
Legal and consultancy fees	<u>7,593</u>	<u>22,509</u>

* Restated for comparative purposes

6. Taxation

(a) Taxation is based on the group profit for the year adjusted for taxation purposes and comprises:

	1996	1995
	\$'000	\$'000
Income tax at 33~8%	60,598	52,772
Prior year under/(over) provision	177	(517)
Tax credit arising on bonus shares issued	(3,077)	(9,465)
Associated company	<u>664</u>	<u>282</u>
	<u>58,362</u>	<u>43,072</u>

(b) Subject to agreement with the Commissioner of Income Tax, losses of certain subsidiaries available for offset against future taxable profits amount to approximately \$ 14,070,000 (1995 - \$9,875,000) and may be carried forward indefinitely.

(c) Withholding tax represents amounts deducted and remitted to the Commissioner of Inland Revenue in respect of dividends paid to the company by group companies.

7. Dividends

	1996	1995
	\$'000	\$'000
Dividends -		
Preference - gross	-	3
Ordinary - interim, paid out of franked income net	9,379	15,632
- interim, paid out unfranked income, gross	<u>9,379</u>	<u>-</u>
	<u>18,758</u>	<u>15,635</u>

At 31 December 1996, the company has franked income of \$12,188,000 (1995 - \$11,567,000) available for distribution to stockholders without deduction of tax. This amount equates to a gross dividend of \$18,282,000 when the underlying tax credit to which recipients are entitled is taken into account.

8. Earning Per Stock Unit

The calculation of earnings per ordinary stock unit is based on the group net profit and the stock units in issue at the end of the year (1995 - 247,588,815 being the weighted average number of stock units in issue during the year).

9. Wharfage Levy

The Port Authority has placed a levy of 6.5% on the revenue of the company in respect of wharfage collected on general cargo. The total accrual for the year amounts to \$3,545,000 (1995 - \$3,366,000).

10. Pension Scheme

The company and its subsidiary (Security Administrators Limited) participate in a joint contributory pension scheme which is open to all permanent employees and administered by trustees.

Under the scheme retirement benefits are based on average salary during the five years preceding retirement; this applies to full time employees.

Included in these financial statements are contributions of \$8,829,000 (1995-\$6,109,000).

The subsidiaries (Harbour Cold Stores and Kingston Terminal Operators Limited) participate in a separate joint contributory pension plan and made contributions during the year of \$14,210,000 (1995 - \$10,081,000).

11. Fixed Assets

THE GROUP

	Freehold Land and Roadways \$'000	Leasehold Properties \$'000	Freehold Buildings, Security Walls, Piers, Dredging & Barge \$'000	Machinery. Equipment & Vehicles \$'000	Furniture & Fixtures \$'000	Capital Work in Progress \$'000	Total \$'000
Cost or Valuation -							
At 1 January 1996	1,163,462	25,258	901,252	188,246	24,792	6,174	2,309,184
Additions	35,230	1,761	19,448	5,065	13,918	1,441	76,863
Disposals	-	-	-	(989)	621	-	(1,610)
Transfer	-	-	4,000	-	3,615	(7,615)	-
Revaluation	-	-	210	-	-	-	210
At 31 December 1996	<u>1,198,692</u>	<u>27,019</u>	<u>924,910</u>	<u>192,322</u>	<u>41,704</u>	<u>-</u>	<u>2,384,647</u>

Accumulated Depreciation -							
At 1 January 1996	2,752	3,662	223,802	83,166	6,799	-	320,181
Charge for the year	1,645	2,145	15,834	21,197	4,605	-	45,426
On disposals	-	-	-	(655)	(307)	-	962
At 31 December 1996	4,397	5,807	239,636	103,708	11,097	-	364,645
Net Book Value -							
At 31 December 1996	1,194,295	21,212	685,274	8,614	30,607	-	2,020,002
At 31 December 1995	1,160,710	21,596	677,450	105,080	17,993	6,174	1,989,003

THE COMPANY

	Freehold Land and Roadways \$'000	Leasehold Properties \$'000	Freehold Buildings, Security Walls, Piers, Dredging & Barge \$'000	Machinery, Equipment & Vehicles \$'000	Furniture & Fixtures \$'000	Capital Work in Progress \$'000	Total \$'000
Cost or Valuation -							
At 1 January 1996	705,577	21,518	486,385	14,621	21,210	6,174	1,255,485
Additions	35,230	1,761	20,106	4,669	13,607	1,441	76,814
Transfers	-	-	4,000	-	3,615	(7,615)	-
Disposals	-	-	-	(434)	(112)	-	(546)
Revaluation	-	-	210	-	-	-	210
At 31 December 1996	740,807	23,279	510,701	18,856	38,320	-	1,331,963
Accumulated Depreciation -							
At 1 January 1996	416	3,658	166,887	7,779	5,853	-	184,593
Charge for the year	1,645	2,143	7,563	2,633	3,872	-	17,856
On disposals	-	-	-	(306)	(25)	-	(331)
At 31 December 1996	2,061	5,801	174,450	10,106	9,700	-	202,118
Net Book Value -							
At 31 December 1996	738,746	17,478	336,251	8,750	28,620	-	1,129,845
At 31 December 1995	705,161	17,860	319,498	6,842	15,357	6,174	1,070,892

(a) The freehold land and buildings of the group were revalued as at May 1993 on the basis of market value and depreciated replacement cost, respectively, by Stoppi, Cairney & Bloomfield, whilst machinery and equipment were revalued as at the same date on the basis of depreciated replacement cost by Delano Reid and Associates.

The revaluation surplus has been credited to capital reserve (Note 18).

(b) Machinery and equipment for the group include an amount of \$6,921,000 representing assets acquired under finance leases by a subsidiary (Note 20b).

12. Investments

Investments comprise:

	<u>Group</u>		<u>Company</u>	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
Subsidiaries	-	-	111,804	99,222
Associated company	<u>2,019</u>	<u>677</u>	<u>10</u>	10
	<u>2,019</u>	<u>677</u>	<u>111,814</u>	99,232
(b) Associated company				
At cost or written down value	10	10	10	10
Group's share of reserve	<u>2,009</u>	<u>667</u>	<u>-</u>	
	<u>2,019</u>	<u>677</u>	<u>10</u>	<u>10</u>

13. National Housing Trust

This amount is refundable in the years 2001 to 2004.

14. Long Term Receivables

The Port Authority of Jamaica requires the company to allocate 16% of wharfage collected to a special reserve. The reserve, which was created in 1976, can only be utilised for retroactive labour costs and special expenditure in accordance with directions from the Port Authority of Jamaica and must be represented by cash, deposits or easily realisable securities. The interest arising on the investments representing the reserve may be used by the company.

The long term receivables represent the amount spent in excess of the balance of the special reserve and is recoverable from future collection of wharfage allocated to the reserve (Note 21).

15. Bank Overdraft

The group's bank overdraft facilities are secured by a mortgage over the company's properties at Berths 1 through 9 and debentures over other fixed assets within the group. The bank also has the option to upstamp the debentures and mortgage whenever deemed necessary.

16. Share Capital

1996 &
1995

\$'000

Authorised -

Ordinary shares of 325,000,000 of 20c each

65,000

Issued and fully paid -

Ordinary stock units of 312,638,860 of 20c each

62,528

17. Share Premium

	<u>Group & Company</u>	
	1996	1995
	\$'000	\$'000
Balance at 1 January	74,401	72,988
Premium on issue of shares	<u>-</u>	<u>1,413</u>
Balance at 31 December	<u>74,401</u>	<u>74,401</u>

18. Capital Reserve

	<u>Group</u>		<u>Company</u>	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
Balance at 1 January	1,884,714	17,264	1,047,884	14,617
Movements during the year				
Transfer (to)/ from profit and loss account:				
Capitalisation of profits in subsidiary	12,582	10,667	-	-
Loss on sale of fixed assets	<u>-</u>	<u>(240)</u>	<u>-</u>	<u>-</u>

	12,582	10,427	-	-
Bonus shares received	-	-	12,582	10,667
Arising on consolidation	-	1,635	-	-
Revaluation of fixed assets	<u>210</u>	<u>1,855,388</u>	<u>-</u>	<u>1,022,600</u>
Balance at 31 December	<u>1,897,506</u>	<u>1,884,714</u>	<u>1,060,676</u>	<u>1,047,884</u>
Comprising of:				
Realised gain on sale of assets	538	538	5	5
Capital distribution received	3,612	3,612	3,612	3,612
Unrealised gain on the				
revaluation of fixed assets	1,855,598	1,855,388	1,022,810	1,022,600
Capitalisation of profits	34,249	21,667	-	-
Bonus shares received	-	-	34,249	21,667
Arising on consolidation	<u>3,509</u>	<u>3,509</u>	<u>-</u>	<u>-</u>
	<u>1,897,506</u>	<u>1,884,714</u>	<u>1,060,676</u>	<u>1,047,884</u>

19. Long Term Loans

	<u>Group</u>		<u>Company</u>	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
(a) Port Authority of Jamaica	2,933	2,933	1,480	1,480

(b) Trafalgar Development Bank	2,980	4,709	-	-
(c) Shipping Association of Jamaica	-	300	-	-
	<u>5,913</u>	<u>7,942</u>	<u>1,480</u>	<u>1,480</u>
Less: Current portion	<u>1,730</u>	<u>2,365</u>	-	-
	<u>4,183</u>	<u>5,577</u>	<u>1,480</u>	<u>1,480</u>

- (a) This loan, which is interest free, was obtained to build the security wall and is repayable only if the wharf is sold.
- (b) This loan bears interest at 29%; repayment, consisting of 48 equal installments, commenced in January 1994 (Note 20 (b)).
- (c) This loan was non-interest bearing and was repaid during the year.

20. Commitments and Contingencies

- (a) Arising from oil spillage, claims amounting to approximately \$100,000,000 were filed against the company. The company is disclaiming liability on the basis that it has an indemnity from a third party. Consequently, no provision has been made in these financial statements.
- (b) One of the company's subsidiaries, in the ordinary course of business, has entered into finance lease arrangements for forklift equipment. Future payments under lease commitments are as follows:

	\$'000
In the year ending 31 December 1997	3,587
1998	1,200
1999	<u>1,200</u>
Total minimum lease payments	5,987
Less: Future finance charges	<u>3,007</u>
Present value of minimum lease payment	2,980
Less: Current portion	<u>1,730</u>

1,250

21. Subsequent Event

The company has submitted an application to The Port Authority of Jamaica for an increase in wharfage rates; the hearing has been scheduled for April 1997.
