

Seprod Limited 1996

NOTES TO THE FINANCIAL STATEMENTS

31 December 1996

1. PRINCIPAL ACTIVITIES AND OPERATIONS

All group companies are incorporated in Jamaica and their principal activities are the manufacture and distribution of consumer products.

During 1995, three of the company's subsidiaries ceased operations and terminated the employment of their workforce. Certain of the companies also sold trademarks, a significant portion of their inventories, and plant and machinery to Colgate Palmolive Company during the year.

In connection with the above, these companies also signed a Non-Competition Agreement for a period of five years from 17 January 1996, which prohibits the companies and their affiliates from engaging in the manufacture of products which would compete with those manufactured by the buyer or its affiliates.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The group financial statements incorporate the financial statements of the company, its subsidiaries and associated company made up to 31 December 1996

(note 3 (a)).

A subsidiary, Coper Limited, due to the relatively insignificant amount involved, was included in investments in the group financial statements for 1995 (note 10).

(b) Associated Company

The equity method of accounting is used to account for the associated company. Under this method, the group's share of profit or losses of the associated company is included in the group profit and loss account and any tax attributable to the share of profits is included in the group's tax charge. In the group balance sheet, the investment is shown at cost or written down value plus the group's share of reserves arising since the acquisition of the investments.

(c) Fixed assets and depreciation

Fixed assets are stated at cost or valuation. The cost or valuation of fixed assets, with the exception of land, is written off on the straight line basis over the expected useful lives of the assets. The expected average useful lives are as follows:

Buildings	- 40 - 50 years
Plant, equipment and furniture	- 5 - 40 years
Motor vehicles	- 3 years

(d) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of finished goods includes cost of raw materials used, direct labour and an appropriate proportion of overhead expenses.

(e) Rates of exchange

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at balance sheet date. Gains or losses are credited or charged to the profit and loss account.

(f) Deferred taxation

Deferred taxation is provided for only to the extent that there is reasonable probability that the liabilities will arise in the foreseeable future.

(g) Intangible Assets

Goodwill, trademarks and restrictive covenants are carried at a cost and amortised over their economic life, which is estimated at 5 years.

(h) Leases

The present value of the minimum lease payments under finance leases is capitalized as fixed assets and a corresponding obligation to the lessor recorded.

Lease payments are treated as consisting of principal and finance charges. The finance charges are recorded so as to give a constant periodic rate of return on the outstanding obligations.

(i) Borrowing costs

Borrowing costs incurred in relation to expenditure on assets not yet in use are capitalised.

(j) Capital Reserve on Consolidation

Capital reserve arising on consolidation is amortised over its economic life, estimated by the Directors to be ten years.

3. RELATED PARTIES

(a) The wholly owned subsidiaries and associated company of Seprod Limited are:

Subsidiaries	% Ownership by Seprod
Caribbean Products Company Limited	100
Industrial Sales Limited	100

Jamaica Detergents Limited	100
Jamaica Feeds Limited	100
Jamaica Grain and Cereals Limited	100
Coper Limited	100
Jamaica Household Products Limited	100
Seprod Wharf and Storage Limited	100

Associated Company

North Coast Milling Limited	50
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(b) Group turnover represents the value of goods sold to third parties, and excludes revenue generated within the group totalling approximately \$458,000,000 (1995 - \$536,413,000).

(c) The group has entered into the following transactions with major shareholders:

(i) Two subsidiaries in the group paid a cess of approximately S2,708,000, (1995 - \$2,828,000) based on the sales of copra-based and substitute products, to Coconut Industry Board.

(ii) Sales of \$127,499,000 (1995 - S188,180,000) to and purchases of S16,633,000 (1995 - \$13,195,000) from Musson Jamaica Limited.

(iii) Sales of approximately \$159,393,000 (1995 - \$139,230,000) to and purchases of \$6,100,000 (1995 - S4,440,000) from Grace, Kennedy & Company Limited.

(iv) During the year, the Group acquired the minority interests in Jamaica Feeds Limited and Jamaica Grain and Cereals Limited.

4. PROFIT AND LOSS ACCOUNT

Group profit before taxation and exceptional items has been arrived at after charging/ (crediting) the following:

1996	1995
\$'000	\$'000

Depreciation	52,685	72,742
Interest	11,933	30,859
Interest income		
Investment	(87,322)	-
Other	(12,049)	-
Auditors' remuneration		
Current year	2,984	3,686
Prior year	-	(392)
Directors' emoluments		
Fees	1,428	818
Other	<u>8,148</u>	<u>6,563</u>

5. EXCEPTIONAL ITEMS

	1996	1995
	\$'000	\$'000
Redundancy payments	(2,908)	(14,186)
Write back of provision in respect of Claim settled	3,095	13,503
Pension refund	187,400	-
	<u>187,587</u>	<u>(683)</u>

6. TAXATION

Taxation is based on the profit for the year adjusted for taxation purposes and comprises:

	1996	1995
	\$'000	\$'000
Income tax at 33 1/3%	108,705	21,514
Underprovision of prior year tax	168	2,432
Tax credit on bonus issue of shares	(16,566)	(2,154)
	<u>92,307</u>	<u>21,792</u>

(a) The tax charge for the current year is disproportionate to the reported results

due mainly to the utilization of tax losses in certain subsidiaries and tax credit on bonus issue of shares.

- (b) The tax charge is disproportionate to the profit before taxation and extraordinary items for the previous year mainly as a result of depreciation charge exceeding capital allowances granted and losses incurred by certain subsidiaries.
- (c) Subject to agreement with the Commissioner of Income Tax, losses available for offset against future profits of certain subsidiaries amount to approximately \$34,200,000 (1995 - \$69,000,000).

7. EXTRAORDINARY ITEMS

	1996 \$'000	1995 \$'000
(a) Gain on sale of brands	224,000	-
(b) Redundancy payments	(2,619)	(61,213)
(c) Write-down of fixed assets and loss on sale	(62,155)	(213)
(d) Write-off and loss on sale of stock	-	(5,967)
(e) Proceeds from the sale of assets of a liquidated subsidiary		<u>11,647</u>
	159,226	(55,746)
Less tax credit	-	<u>6,393</u>
	<u>159,226</u>	<u>(49,353)</u>

- (a) This represents the gain on the sale of certain trademarks to Colgate Palmolive Company.
- (b) These represents payments made to the members of three subsidiary companies in connection with the closure of their manufacturing operations.
- (c) These represent loss on sale and adjustments to reflect the realisable values of certain subsidiaries' fixed assets in connection with the closure of their manufacturing operations.
- (d) This represents stock written off and loss on sale as a result of a subsidiary

ceasing its manufacturing operations.

(e) The winding up of subsidiary company which was in liquidation was completed during 1995. This sum represents the final receipt from the liquidator in addition to the write-back of provisions made in previous years.

8 EARNINGS/(LOSS) PER STOCK UNIT/SHARE

The earnings/(loss) per stock unit/share is based on 45,902,000 (1995 - 45,559,000) ordinary stock units/shares in issue at the end of the year and is calculated on both the profit/(loss) before extraordinary items and the net profit/(loss) attributable to shareholders.

9 FIXED ASSETS

	The Group					Total
	Freehold Land & Site Improvements	Buildings	Plant, Equipment & Furniture	Motor Vehicles	Work in Progress	
At Cost or Valuation -						
At 1 January 1996	57,193	756,358	869,561	24,850	11,191	1,719,153
Additions	-	-	6,477	6,041	8,727	21,245
Disposals	-	-	(173,790)	(3,451)	-	(177,241)
Transfers to/(from)	-	-	14,267	953	(15,220)	-
At 31 December 1996	<u>57,193</u>	<u>756,358</u>	<u>716,515</u>	<u>28,393</u>	<u>4,698</u>	<u>1,563,157</u>
Accumulated Depreciation -						
At 1 January 1996		456,418	489,654	11,219	-	957,291
Charge for the Year		11,666	34,942	6,077	-	52,685
On disposals		-	(88,249)	(948)	-	(89,197)
At 31 December 1996		<u>-</u>	<u>468,084</u>	<u>16,348</u>	<u>-</u>	<u>920,779</u>
Net Book Value -						
At 31 December 1996	<u>57,193</u>	<u>288,274</u>	<u>280,168</u>	<u>12,045</u>	<u>4,698</u>	<u>642,378</u>

At 31 December 1995	57,193	299,940	379,907	13,631	11,191	761,862
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The Company

	Freehold Land & Site Improvements \$'000	Buildings \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicles \$'000	Work in Progress \$'000	Total \$'000
At Cost or Valuation -						
At 1 January 1996	5,453	284,135	79,542	6,002	-	375,132
Additions	-	-	1,527	6,025	1,804	9,356
Disposals	-	-	-	2,033	-	2,033
At 31 December 1996	<u>5,453</u>	<u>284,135</u>	<u>81,069</u>	<u>9,994</u>	<u>1,804</u>	<u>382,455</u>
Accumulated Depreciation -						
At 1 January 1996	-	153,449	52,210	2,722	-	208,381
Charge for the Year	-	5,724	5,228	2,250	-	13,202
On disposals	-	-	-	(386)	-	(386)
At 31 December 1996	<u>-</u>	<u>159,173</u>	<u>57,438</u>	<u>4,586</u>	<u>-</u>	<u>221,197</u>
Net Book Value -						
At 31 December 1996	5,453	124,962	23,631	5,408	1,804	161,258
At 31 December 1995	5,453	130,686	27,332	3,280	-	166,751

As at 31 December 1993, fixed assets excluding furniture and fixtures and motor vehicles were revalued by D.C. Tavares and Finson Company Limited (Appraisers/Valuators) and Baird and Henderson Valuators Limited as follows:

(a) Land at fair market value (b) Buildings, plant and machinery at replacement cost.

The resultant increments arising from the revaluations of fixed assets have been credited to capital reserve (Note 15).

Certain buildings are situated on land that has been leased. The unexpired portion of the lease is 64 years.

As at 31 December 1996, motor vehicles with net book value of approximately \$10,965,000, acquired under finance leases, have been included in the balance noted above.

As indicated in note 1, three subsidiaries ceased manufacturing operations during the prior year. Under the circumstances, related assets of these entities have been adjusted to realisable values. Such values in the case of buildings, have been estimated by the Directors to be \$66,418,000, at 31 December 1995, being the estimated value at which they will be utilised as warehouses. One of these buildings, with a carrying value of \$45,997,000, is not currently used in the group's operations; accordingly, no depreciation has been charged in respect of this item.

The net reductions arising from the restatement of fixed assets have been charged to capital reserve (note 15) and operations where available reserves have been exceeded.

10. INVESTMENTS

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Quoted (market value - \$667,796 1995 - \$871,987)	47	47	40	40
Unquoted	11	11	10	10
Units in Money Market Unit Trusts (market value - \$138,248,868)	119,600	-	119,600	-
Associated company -				
North Coast Milling Limited	47,700	47,700	47,700	47,700
Group's share of profit/loss)	291	(3,668)	-	-
Subsidiary -	47,991	44,032	47,700	47,700
Coper Limited	-	508	-	508
	<u>167,649</u>	<u>44,598</u>	<u>167,350</u>	<u>48,258</u>

11. INTANGIBLE ASSETS

	1996 \$'000	1995 \$'000
At cost -		
Goodwill	-	1,227
Trademark	-	1,227
Restrictive covenant	-	<u>1,052</u>
	-	3,506
Less amounts written off	<u>-</u>	<u>3,506</u>
	<u>-</u>	<u>-</u>

12 INVENTORIES

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Raw materials	66,062	78,657	-	-
Work in progress	3,417	2,403	-	-
Finished goods	44,374	64,075	-	-
Machine spares	-	6,018	-	6,018
Stationery	-	1,114	-	767
	<u>113,853</u>	<u>152,267</u>	<u>-</u>	<u>6,785</u>

13. RECEIVABLES

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Trade receivables	174,922	204,498	-	-
Advance payments	4,726	6,970	-	-
Other	<u>34,430</u>	<u>17,751</u>	<u>37,626</u>	<u>20,458</u>

	<u>214,078</u>	<u>229,219</u>	<u>37,626</u>	<u>20,458</u>
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14. SHARE CAPITAL

	1996 \$'000	1995 \$'000
Authorised - Ordinary shares of \$1 each	50,000	50,000
Issued and fully paid At beginning of year: Ordinary stock units/shares of \$1 each	45,559	45,518
Movement during the year: Additional issue of ordinary shares of \$1 each	343	41
At the end of the year: Ordinary stock units/shares of \$1 each	45,902	45,559

During the year, shares were issued under the company's Executive Management share option scheme. This was approved in September 1992 and allows for a total of one half of one percent (.5%) of the issued ordinary shares of the company, adjusted for the issue of bonus shares or other changes in the capital structure of the company, to be made available annually for a period of five years for issue to the Executive Management of the company upon such terms and conditions as the Board of Directors shall direct.

15. CAPITAL RESERVE

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Balance at the beginning of year - Unrealised surplus on revaluation of fixed assets	551,814	631,197	158,867	158,867
Profits capitalized	15,000	-	-	-

Realised surplus	<u>45,788</u>	<u>45,788</u>	<u>15,487</u>	<u>15,487</u>
	612,602	676,985	174,354	174,354
Movements during the year -				
Directors' revaluation adjustments	-	(76,621)	-	-
Unrealised surplus	(447)	-	-	-
Realised surplus	447	-	-	-
	<u>-</u>	<u>(76,621)</u>	<u>-</u>	<u>-</u>
Transfers to accumulated surplus -				
Reduction of unrealised surplus due to sale of assets previously revalued	-	(2,762)	-	-
Reduction of realised surplus due to capital distribution	(1,627)	-	(1,627)	-
	<u>(1,627)</u>	<u>(2,762)</u>	<u>(1,627)</u>	<u>-</u>
Transfers from accumulated surplus -				
Profits capitalized	72,743	15000	-	-
Capital distribution received	-	-	43	-
Undistributed gain on sale of brands	60,425	-	-	-
	<u>133,168</u>	<u>15,000</u>	<u>43</u>	<u>-</u>
At end of year	<u>744,143</u>	<u>612,602</u>	<u>172,770</u>	<u>174,354</u>
Comprised of -				
Unrealised surplus on revaluation	551,337	551,814	158,867	158,867
Profits capitalized	87,743	15,000	-	-
Gain on sale of brands	60,425	-	-	-
Realised surplus	44,638	45,788	13,903	15,487
	<u>744,143</u>	<u>612,602</u>	<u>172,770</u>	<u>174,354</u>

16 LONG TERM DEBT

	The Group		The Company
	1996	1995	1996
			1995

	\$'000	\$'000	\$'000	\$'000
(a) 16% National Commercial Bank Limited - 1991/96	-	628	-	-
(b) 33% West Indies Trust Company 1989/2005	7,829	8,261	7,829	8,261
(c) Five year Deferred Loan	5,868	5,868	5,868	5,868
(d) NDB/Citizens Bank Limited 1994/2003	-	24,750	-	-
(e) Interest free loans 1994/96	-	2,246	-	2,246
(f) Jamaica Commodity Trading Company Limited- 1995/99	<u>3,000</u>	<u>4,000</u>	<u>-</u>	<u>-</u>
	16,697	45,753	13,697	16,375
Less current portion	<u>7,276</u>	<u>13,453</u>	<u>6,276</u>	<u>8,488</u>
	<u>9,421</u>	<u>32,300</u>	<u>7,421</u>	<u>7,887</u>

- (a) The National Commercial Bank Limited loan is secured by a charge over machinery for a margarine plant.
- (b) The West Indies Trust Company loan is secured by a first charge over the John Harrison building.
- (c) The deferred loan is repayable in 1997 and is interest free.
- (d) The National Development Bank (NDB)/Citizens Bank Limited loan was secured by a charge over specific assets of a subsidiary and by guarantee of the holding company.
- (e) This represented unsecured shareholders' loans.
- (f) This is an unsecured, interest-free loan which is repayable in yearly instalments of \$1,000,000.

17. LEASE OBLIGATIONS

The group has entered into finance lease arrangements for the purchase of motor vehicles. Future payments under these lease commitments are as follows:

The Group

The Company

	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
1996	-	10,493	-	1,794
1997	7,155	4,866	3,375	806
1998	3,913	672	1,478	86
1999	<u>1,831</u>	<u>-</u>	<u>2,639</u>	<u>-</u>
Total minimum lease payments	12,899	16,031	7,492	2,686
Less: Future finance charges	<u>3,784</u>	<u>3,368</u>	<u>2,801</u>	<u>587</u>
Present value of minimum lease payments	<u>9,115</u>	<u>12,663</u>	<u>4,691</u>	<u>2,099</u>
Less current portion	<u>4,840</u>	<u>8,332</u>	<u>2,004</u>	<u>1,122</u>
	<u>4,275</u>	<u>4,331</u>	<u>2,687</u>	<u>977</u>

18 PENSION SCHEME

The Seprod Group of Companies operates a pension scheme which provides benefits to members based on average earnings for the final 3 years service (formerly 5 years), with the group and employees each contributing 5%, of pensionable salaries. An actuarial study completed in August 1996 indicated that the pension scheme was significantly overfunded. The group's contributions for the year amounted to approximately \$5,424,000 (1995-\$2,236,000).
