

DEHRING BUNTING & GOLDING STATEMENTS 1996

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1996

1. The Company

The company is incorporated in Jamaica and these financial statements are presented in Jamaican dollars. The principal activity of the company is the provision of corporate finance and investment and advisory services, in accordance with a licence by the Securities Commission including management of funds on a non-recourse basis.

By agreement dated September 13, 1996, the company agreed to acquire the total operations of Billy Craig Finance and Merchant Bank Limited and Billy Craig Investments Limited, subject to certain conditions. At balance sheet date, these conditions had not yet been met.

The principal activities of its wholly-owned subsidiaries are detailed in note 26.

2. Significant accounting policies

(a) Accounting convention:

The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation: The consolidated financial statements include the financial statements of the wholly owned subsidiaries for the year ended December 31 1996. The associated company is accounted for on the cost basis for the company and on the equity basis for the group (note 7).

All significant inter-company transactions are eliminated.

The company and its subsidiaries are collectively referred to as the "group".

(c) Depreciation:

Fixed assets 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:

Leasehold improvements	2 1/2 %
Motor vehicles	20 %
Furniture and equipment	10 %
Computers	20 %

(d) Investments:

Investments (excluding bonds) which are held on a short-term basis, are stated at the lower of cost and market value.

Bonds, which were purchased at discounts, are stated at cost, plus amortised discount. Other investments are shown at cost.

(e) Finance lease income:

Income arising from finance leases is recognized over the period of the lease to produce a constant periodic rate of return on the net investment in such leases.

(f) Bond discounts:

Bond discount income is amortised on the straight line basis over the period of the bond.

(g) 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 are included in the profit and loss account.

3. Loans and other receivables

	Company		Group	
	1996	1995	1996	1995
Loans receivable [note (i)]	318,970,611	138,697,393	318,941,267	239,085,944
Less provision for doubtful debts	<u>(11,692,195)</u>	<u>(5,994,564)</u>	<u>(11,692,195)</u>	<u>(5,994,564)</u>
	<u>307,278,416</u>	<u>132,702,829</u>	<u>307,249,072</u>	<u>233,091,380</u>
Investment in finance leases:				
Gross investment [note (ii)]	-	1,328,872	-	1,328,872
Unearned finance income	-	<u>(223,057)</u>	-	<u>(223,057)</u>
Net investment		<u>1,105,815</u>		<u>1,105,815</u>
Other receivables:				
Directors' current accounts	48,012	59,951	48,012	59,951
Interest	34,177,867	36,248,107	34,177,867	43,768,655
Sundry	<u>4,102,200</u>	<u>19,980,439</u>	<u>4,402,200</u>	<u>19,927,327</u>
	<u>38,328,079</u>	<u>56,288,497</u>	<u>38,628,079</u>	<u>63,755,933</u>
	<u>\$345,606,495</u>	<u>190,097,141</u>	<u>345,877,151</u>	<u>297,953,128</u>

- (I) Loans receivable include:
- (a) Amounts due from directors and companies controlled by directors amounting to \$1,326,400 (1995: \$500,000) for the company and \$660,070 (1995: \$388,551) for the group.
 - (b) In the previous year, certain loans pledged as security under repurchase certificates [note 10(ii)].
- (ii) The lease rentals for the company and the group were fully settled during the year.

4. Securities purchased under resale agreements, and securities sold under repurchase agreements

The company acquires funds from and makes funds available to institutions by entering into very short-term agreements with these institutions. For securities purchased under resale agreements, the company on delivering the funds, receives the securities and agrees to resell them on a specified date and at a specified price. For securities sold under agreements to repurchase, the company, on receipt of the funds, delivers the securities and agrees to repurchase them on a specified date and at a specified price.

The interest income and expense accruing on these transactions up to December 31, 1996 are included in these financial statements.

5. Investments

	Company		Group	
	1996	1995	1996	1995
Local registered stocks				
-maturing 1997 and 2003				
(1995:1997 and 1996)	46,835,000	121,618,586	46,835,000	121,618,586
Treasury bills	-	23,506,326	-	23,506,326
Managed funds	251,895	250,000	251,895	250,000

Quoted, at cost	391,583	408,636	391,583	408,636
Certificates of deposit - maturing 1997 (1995: 1996 and 1997)	<u>3,504,391</u>	<u>3,182,098</u>	<u>3,504,391</u>	<u>3,182,098</u>
	<u>50,982,869</u>	<u>148,965,646</u>	<u>50,982,869</u>	<u>148,965,646</u>
Bonds, face value				
- maturing 1997 to 2000 (1995: 1996 to 2000)	68,812,593	103,556,345	69,031,601	103,556,345
Less: Unamortised discount	<u>(885,453)</u>	<u>(3,905,587)</u>	<u>(885,453)</u>	<u>(3,905,587)</u>
Carrying value	<u>67,927,140</u>	<u>99,650,758</u>	<u>68,146,148</u>	<u>99,650,758</u>
	<u>\$118,910,009</u>	<u>248,616,404</u>	<u>119,129,017</u>	<u>248,616,404</u>

The market value of quoted investments amounted to \$295,978 (1995: \$287,282).

6. Deferred expenses

Deferred expenses for the group represent incorporation expenses of a subsidiary which are being amortized over a period of three years which commenced November 1995.

7. Interest in associated company

	Company		Group	
	1996	1995	1996	1995
Shares, at cost	38,336,969	38,336,969	38,336,969	38,336,969
Post-acquisition reserves at beginning of year	-	-	(725,682)	(365,905)
Share of losses for year	-	-	-	<u>(359,777)</u>
	-	-	<u>(725,682)</u>	<u>(725,682)</u>
Carrying value at end of year	38,336,969	38,336,969	37,611,287	37,611,287
Loans- US\$ 18.75% (1995: 18%)	2,662,493	785,936	2,662,493	785,936
- J\$ 45% (1995: 45%)	17,445,023	14,607,961	17,445,023	14,607,961
Interest receivable	<u>8,997,666</u>	<u>9,516,185</u>	<u>8,997,664</u>	<u>9,516,185</u>

\$67,442,151 63,247,051 66,716,467 62,521,369

The company holds 49% of the equity capital of Runaway Bay Developments Limited which is incorporated in Jamaica.

The loans are secured by a mortgage on real estate and interest and principal are repayable on demand.

8. Interest in subsidiaries

	1996	1995
Shares, at cost (note 26)	100,001,000	100,001,000
Current accounts	408,716	501,517
	<u>\$100,409,716</u>	<u>100,502,517</u>

9. Fixed assets

	Company and Group			
	Leasehold improvements	Motor vehicles	Furniture, equipment and computers	Total
At cost:				
December 31, 1995	754,825	7,673,746	18,101,316	26,529,887
Additions	901,032	195,000	6,915,866	8,011,898
Disposals	-	(1,174,785)	-	(1,174,765)
December 31, 1996	<u>1,655,857</u>	<u>6,693,961</u>	<u>25,017,182</u>	<u>33,367,020</u>
Depreciation:				
December 31, 1995	10,716	1,090,221	5,696,521	6,797,458
Charge for the year	33,878	1,510,848	4,242,597	5,787,321
Eliminated on disposals	-	(293,692)	-	(293,692)
December 31, 1996	<u>44,594</u>	<u>2,307,377</u>	<u>9,939,118</u>	<u>12,291,087</u>

Net book values:

December 31, 1996	<u>\$1,611,263</u>	<u>4,386,606</u>	<u>15,078,064</u>	<u>21,075,933</u>
December 31,1995	<u>\$744,109</u>	<u>6,583,525</u>	<u>12,404,795</u>	<u>19,732,429</u>

Motor vehicles at cost include assets held under finance lease amounting to \$4,168,871 (1995: \$4,168,871).

10. Loans and promissory notes

	Company and Group	
	1996	1995
8% - 17% (1995: 8% - 13.75%) United States dollar promissory notes [note (i)]	231,476,797	162,697,497
27% - 31% (1995: 39% - 42%) Jamaican dollar promissory notes [note (i)]	290,263,526	169,571,542
Repurchase certificates [note (ii)]	-	<u>100,000,000</u>
	<u>521,740,323</u>	<u>432,269,039</u>
Obligation under finance lease [note (iii)]	1,985,715	2,421,773
Less finance charge allocated to future periods	(314,389)	(492,795)
	<u>1,671,326</u>	<u>1,928,978</u>
	<u>\$523,411,649</u>	<u>434,198,017</u>

(i) Promissory notes are repayable in 1997 and include \$54,014,566 (1995: \$243,989,142) payable to other financial institutions.

ii) The repurchase certificates bearing interest at the rate of 45% per annum and repayable in March 1997 were repaid during the year. These liabilities were secured as described in note 3(i) (b).

(iii) The obligation under finance lease bears interest at the rate of 17% (1995: 17%) and is repayable in equal quarterly instalments of \$166,696 (1995: \$68,773), the final instalment being due in May 1998.

11. Due to subsidiary

This comprises an interest-free advance for which repayment terms have not yet been determined.

12. Share capital

	1996	1995
Authorised:		
162,500,000 ordinary shares of \$0.10 each	<u>\$16,250,000</u>	<u>16,250,000</u>
Issued and fully paid:		
112,500,000 (1995: 75,000,000) stock units	<u>\$11,250,000</u>	<u>7,500,000</u>

By resolution dated September 14, 1995, the authorised share capital had been increased to \$16,250,000 by the creation of 75,000,000 ordinary shares of \$0.10 each to rank pari passe with the existing ordinary shares. The comparative figure has been restated accordingly.

Under a one for two rights issue, stockholders of record at October 20, 1996 were granted renounceable rights to acquire additional stock units in the company. This resulted in the issue of 4,124,382 stock units at a premium of \$ 1.30 each.

The remaining 33,375,618 stock units not subscribed for by the stockholders to whom they were offered, were issued under underwriting arrangements at a premium of \$1.25 each.

13. Reserves

	Company		Group	
	1996	1996	1996	1995
Capital:				
At beginning of year	29,115,248	24,319,716	29,115,248	24,319,716
Transfer from				
profit and loss account:				
Gain on disposal				
of fixed assets	<u>-</u>	<u>4,795,532</u>	<u>-</u>	<u>4,795,532</u>

At end of year	29,115,248	29,115,248	29,115,248	29,115,248
Revenue:				
Retained profits	<u>19,505,264</u>	<u>18,602,891</u>	<u>33,135,263</u>	<u>25,185,133</u>
	<u>\$48,620,512</u>	<u>47,718,139</u>	<u>62,250,511</u>	<u>54,300,381</u>

Capital reserves for the company and the group comprise realized gain on disposal of interest in associated company amounting to \$20,884,690 (1995: \$20,884,690) and of fixed assets amounting to \$8,230,558 (1995: \$8,230,558).

14. Gross operating income

Gross operating income consists of interest earned, income from investment and foreign exchange cambio trading, commitment, consultancy and other fees, and is stated exclusive of general consumption tax.

15. Disclosure of expenses/(income)

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

		1996	1995
		\$	\$
Depreciation	- leased assets	764,292	461,673
	- other	5,023,029	3,401,254
Interest	- loans and promissory notes	177,219,964	77,823,940
	- overdraft	1,912,024	1,105,701
	- finance lease	288,711	377,152
Directors' emoluments	- fees	94,000	55,000
	- management remuneration	4,273,252	6,107,580
Auditors' remuneration	- current year	824,000	692,000
	- previous	65,000	-
Deferred expenses		23,196	388,993
Bad debts		6,000,000	5,794,234
Interest income		<u>(214,941,563)</u>	<u>(120,256,210)</u>

16. Taxation

- (i) The charge is for income tax and is calculated at 33 1/3% of the profit for the year adjusted for tax purposes and is made up as follows:

	1996	1995
Current year	865,016	6,407,968
Adjustment in respect of previous years	<u>(129,882)</u>	<u>(334,128)</u>
	<u>\$735,134</u>	<u>6,073,840</u>

- (ii) At December 31, 1996, taxation losses, subject to agreement by the Commissioner of Income Tax, available for relief against future taxable profits, amounted to \$Nil (1995: \$Nil) for the company and \$Nil (1995: \$81,630) for the group.

17. Extraordinary Item

In the previous year, this represented gain on the sale and lease back of the company's land and buildings.

18. Net profit attributable to members

Dealt with in the financial statements of the company, \$902,373 (1995: \$17,608,786).

19. Retained profits

Retained in the financial statements of:

	1996	1995
The company	19,505,264	18,602,891
Subsidiaries	14,355,681	7,307,924
Associated company	<u>(725,682)</u>	<u>(725,682)</u>
	<u>\$33,135,263</u>	<u>25,185,133</u>

20. Earnings per stock unit

The calculation of earnings per stock unit is based on the profit of \$7,950,130 (1995)

\$19,150,134) before extraordinary item and profit of \$7,950,130 (1995: \$24,614,866) after extraordinary item and the weighted average number of stock units of 79,726,027 (1995: 75,000,000) in issue after giving effect to the rights issue and the issue under underwriting arrangements (see note 12) on November 15, 1996.

21. Managed funds

The company and a subsidiary earn a margin from funds managed, on a non-recourse basis, on behalf of investors. There is no legal or equitable right or interest in these funds and, accordingly, they have been excluded from these financial statements.

At December 31,1996, these funds amounted to \$1,240,370,943 (1995: \$901,874,352) for the company and \$1,241,289,189 (1995: \$903,767,761) for the group.

22. Related party transactions

The group profit and loss account includes the following income earned from transactions with associated and related companies in the normal course of business.

	1996	1995
	\$	\$
Interest income on loans:		
- Associated company	-	4,354,617
- Related companies	172,055	81,863

Companies in which directors are common and have a significant Interest are described as related companies.

23. Pension scheme

The company operates a contributory pension scheme for employees who have satisfied certain minimum service requirements.

The scheme, which is a defined contribution plan, is managed by a life insurance company. The contributions for the year amounted to \$667,746 (1995: \$325,706) for the company and the group.

24. Lease commitments

Commitments for the company and the group under a non-cancellable operating lease expiring in 1998 amounted to \$5,271,379 at December 31, 1996 (1995: \$4,284,543). The lease rentals payable within twelve months of the balance sheet date amount to \$4,169,536 (1995: \$2,513,568) for the company and the group.

25. Contingent liabilities

At December 31, 1996, outstanding guarantees in favour of customers amounted to \$30,594,569 (1995: \$22,362,668) for the company and the group.

26. Subsidiaries

The subsidiaries are as follows:

	Country of incorporation	% of equity capital held	Principal activities
Asset Management Company Limited	Jamaica	100%	Management of funds on non-recourse basis
Interlink Investments Limited (from October 13, 1995)	Grand Cayman	100	Holding of investments

The shares in Interlink Investments Limited may be redeemed by that company at any time at its option, en bloc or individually, by repayment of the capital sum subscribed in respect of such shares, in the currency in which such subscription was paid.
