WEST INDIES PULP & PAPER LIMITED 1996

Notes to the Financial Statements

November 30, 1996

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 purchased supplies for a subsidiary and earned a commission in the previous year.

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

2. Accounting basis

On November 30, 1996, a subsidiary, West Indies Containers Limited, ceased operations and its assets were adjusted to reflect estimated net realisable values.

These 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, 1996.

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 are included in the profit and loss account.

4. Accounts receivable

Accounts receivable is comprised as follows:

	Company		Group	
	1996	1995	1996	1995
Trade receivables	33,278,168	27,566,594	92,069,676	98,089,718
Less bad debt provision	(9,442,200)	(8,907,258)	(13,937,014)	(11,553,945)
	23,835,968	18,659,336	78,132,662	86,535,773
Other receivables	6,462,373	4,165,833	6,462,373	18,238,941
	$30,298,341	**22,825,169**	**84,595,035**	**104,774,714**

5. Inventories

	Company		Group	
	1996	1995	1996	1995
Raw materials and supplies	8,020,504	9,735,708	29,649,355	70,833,365
Goods in transit	11,248,856	3,172,909	12,379,535	9,002,066

Work-in-progress	-	-	9,269,975	12,152,735
Finished products	7,049,378	19,584,719	13,399,405	28,699,893
Plant and machinery spare parts	5,171,140	1,589,519	51,799,045	49,789,264
Purchased finished products	1,037,920	-	10,037,920	-
	$**32,527,798**	**34,082,855**	**117,535,235**	**170,477,323**

6. Bank loans and overdrafts

	Company		Group	
	1996	1995	1996	1995
Bank overdrafts [note (i)]	14,082,977	13,320,909	24,742,304	19,888,942
59% - 61%				
(1995: 43% - 44%)				
Promissory notes	-	8,000,000	-	8,000,000
Nil% (1995: 60%) {note (ii)]				
Demand loan [note (iii)]				
(a) 64%		15,000,000	15,000,000	15,000,000
(a) 18%	-	-	22,685,879	-
Bank loan [note (iv)]	-	-	1,735,781	-
	$**14,082,977**	**36,320,909**	**64,163,964**	**42,888,942**

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

(a) a debenture over fixed and floating assets of the company stamped to cover $23 million;

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

(c) letter of undertaking from the Ministry of Finance to cover $2.6 million;

(d) unlimited guarantees of the subsidiaries, the parent and two common directors;

(e) assignment of peril insurance.

The overdrafts and bank loans [see note 14(e)] of the subsidiaries are secured by:

(f) a legal mortgage over a subsidiary's property and debenture over the fixed and floating assets of that subsidiary, stamped to cover $57 million (1995: $32 million);

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

(ii) These promissory notes were converted to a long-term bank loan [see note 14(d)].

(iii) (a) The demand loan borrowed by the parent company was onlent to a subsidiary during the year with the same terms and conditions and is secured by a bill of sale over certain equipment of the company and the assignment of peril insurance.

(b) This represents letters of credit previously negotiated by the parent company which were converted to a demand loan during the year and onlent to a subsidiary with the same terms and conditions, and is secured by the assignment of peril insurance [see note 7(ii)].

(iv) The bank loan is unsecured and bears interest at the rate of 17% (1995: 17%) per annum.

7. Accounts payable

Accounts payable is comprised as follows:

	Company		Group	
	1996	1995	1996	1995
Trade debt [note (i)]	52,076,867	147,508,150	52,076,867	147,508,150
Less amount falling due after one year	-	(44,002,150)	-	(44,002,150)
	52,076,867	103,506,000	52,076,867	103,506,000
Letters of credit (US$751,324) [note (ii)]	-	29,910,094	-	29,910,094
Due to companies controlled by directors	1,930,062	1,794,084	3,834,548	1,794,084
Due to directors	-	-	-	731,941
Other trade payables and accruals	26,205,651	32,589,589	97,752,975	97,233,022
	$**80,212,580**	**167,799,767**	**153,664,390**	**233,175,141**

(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(i)(a), and bank guarantee amounting to $39.1 million(1995: $21.6 million).

Based on credit terms agreed with the supplier, the outstanding amount of US$1,483,671 (J$52,076,867) [1995: US$3,705,304 (J$147,508,150)] as at November 30, 1996 will be settled by weekly instalments of US$50,000 (J$1,755,415) each. The amount of US $Nil (1995: US$1,105,304) 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) and were taken over by a subsidiary during the year under the same terms and conditions [see note 6(iii)(b)].

8. Due to parent

This is comprised as follows:

	Company		Group	
	1996	1995	1996	1995
Loan	10,000,000	10,000,000	10,000,000	10,000,000
Current accounts	1,611,107	2,006,552	16,744,460	15,989,865
	$11,611,107	**12,006,552**	**26,744,460**	**25,989,865**

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 1996	Company 1995	Group 1996	Group 1995
(a) Advertising and product launching expenses	-	1,514,246	-	1,514,246
(b) Refurbishment of plant and machinery	-	-	-	1,316,536
	$ -	**1,514,246**	**-**	**2,830,782**

(a) This represented advertisement production costs, packaging design and product launching expenses.

(b) This represented costs of major refurbishment and repairs to plant and machinery of a subsidiary which were written-off during the year.

11. Fixed assets

(a) Company:

	Freehold land, improvements and buildings	Plant and machinery	Furniture, equipment & vehicles	Total
At cost or valuation:				
November 30, 1995	50,285,749	99,063,202	9,503,834	158,852,785
Additions	-	-	915,142	915,142
Transfer to subsidiary	-	-	(166,371)	(166,371)
November 30, 1996	50,285,749	99,063,202	10,252,605	159,601,556
Broken down as follows:				
At cost	29,335,167	70,237,372	10,252,605	109,825,144
At valuation	20,950,582	28,825,830	-	49,776,412
	50,285,749	99,063,202	10,252,605	159,601,556
Depreciation:				
November 30, 1995	2,232,080	11,178,710	3,651,074	17,061,864

Charge for the year	1,362,057	6,577,077	1,284,911	9,224,045
Eliminated on transfer	-	-	(83,186)	(83,186)
November 30, 1996	3,594,137	17,755,787	4,852,799	26,202,723
Net book values:				
November 30, 1996	$**46,691,612**	**81,307,415**	**5,399,806**	**133,398,833**
November 30, 1995	$**48,053,669**	**87,884,492**	**5,852,760**	**141,790,921**

(b) Group:

	Freehold land, improvements and buildings	Plant and machinery	Furniture, equipment & vehicles	Total
At cost or valuation:				
November 30, 1995	140,285,750	226,305,638	12,249,288	378,840,676
Additions		2,581,244	1,482,112	4,063,356
Disposals				
Transfers				
Revaluation adjustment		(16,794,926)		(16,794,926)
November 30, 1996	140,285,750	212,091,956	13,731,400	366,109,106
Broken down as follows:				
At cost	29,335,168	177,322,420	13,731,400	220,388,988
At valuation	110,950,582	34,769,536	-	145,720,118
	140,285,750	212,091,956	13,731,400	366,109,106
Depreciation:				
November 30, 1995	2,232,080	33,237,853	4,713,793	40,183,726
Charge for the year	5,077,247	14,851,939	1,745,952	21,675,138
Revaluation adjustment		(2,653,294)		(2,653,294)
November 30, 1996	7,309,327	45,436,498	6,459,745	59,205,570
Net book values:				
November 30, 1996	$**132,976,423**	**166,655,458**	**7,271,655**	**306,903,536**
November 30, 1995	$**138,053,670**	**193,067,785**	**7,535,495**	**338,656,950**

Freehold land, improvements and buildings include land at cost of $713,606 (1995: $713,606 for the company and $3,870,380 (1995: $3,870,380) for the group, and at valuation of $4,000,000 for the company and $38,300,000 (1995: $38,300,000 for the group.

Plant and machinery of the company and a subsidiary were revalued by Baird and Henderson Valuators Limited of Kingston, Jamaica, at June 27, 1990 on a depreciated replacement cost basis.

At April 11, 1997, certain plant and machinery of a subsidiary which ceased operations as at November 30, 1996, were revalued by Haire Inc. of the United States of America on a net realisable basis (see note 2). 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, 1996 on an open market basis also by C. D. Alexander Company (Realty) Limited. Surplus/(deficit) 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 (1995: $1,213,916) for the company and the group.

Plant and machinery includes capitalised interest amounting to $14,629,312 (1995: $14,629,312) for the company and $24,182,421 (1995: $24,182,421) for the group.

12. Share capital

			1996	1995
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 50¢ each	728,552	728,552
23,649,800		Ordinary shares of 50¢ each	11,824,900	11,824,900
			$22,053,452	22,053,452
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	
	1996	1995	1996	1995
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	51,059,655	198,798,215	147,931,083
Revaluation (deficit)/surplus	-	-	(14,141,632)	50,867,132
At end of the year	51,059,655	51,059,655	184,656,583	198,798,215
Realised:				
At beginning of the year	21,146,873	-	25,118,986	
-				
Gain on disposal transferred from profit and loss account	-	21,146,873	-	25,118,906
	21,146,873	21,146,873	25,118,906	25,118,906
	72,358,528	72,358,528	209,927,489	224,069,121
Revenue:				

Deficit	(21,991,318)	(22,720,746)	(50,271,746)	(57,107,141)
	50,367,210	49,637,782	159,655,743	166,961,980

14. Long-term liabilities

	Company		Group	
	1996	1995	1996	1995
(a) 7 1/2% unsecured loans				
- Government of Jamaica	4,416,540	5,827,472	4,416,540	5,827,472
	60,854,941	69,020,946	60,854,941	69,020,946
(b) Unsecured trade credit	395,000	553,591	395,000	553,591
(c) Instalment loan	11,460,000	-	11,460,000	-
(d) 34% Bank loan	-	-	6,935,038	8,395,042
(e) 22% Bank loans	-	-	2,026,667	2,453,334
(f) 22% (1995:42%) Bank loan	77,126,481	75,402,009	86,088,186	86,250,385
Less current maturities	(4,813,110)	(13,168,482)	(6,699,781)	(15,055,153)
	72,313,371	62,233,527	79,388,405	71,195,232
Trade debt [see note 7(i)]	-	44,002,150	-	44,002,150
	$72,313,371	106,235,677	79,388,405	115,197,382

(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 (1995: US$1,733,759), was payable by 48 monthly promissory notes of US$36,120 each commencing April 30, 1996. The repayment was, however, suspended during the year ended November 30, 1996 with the consent of the creditor. No interest was, therefore, applicable; however, in the event of default, the creditor has the option to declare the outstanding balance due and payable in full bearing interest at the rate of 18% per annum (calculated on the US$ 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) This liability which was repayable by December 1995 has been rescheduled. Overdraft balance payable amounting to $5,000,000 has been capitalised and added to the principal of $8,000,000. The loan is now repayable in equal monthly instalments of $220,000 each, plus variable rate interest, the final instalment being due in April 2002. This loan is secured as described in note 6(i).

(e), (f) 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. In the previous year, gross operating revenue also included income from consequential loss insurance (note 16) as a result of a fire (note 1).

16. Disclosure of expenses (income)

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

	1996	1995
	$	$
Depreciation	21,675,138	16,580,570
Fixed loan interest	3,198,121	3,509,193
Loan interest	20,435,136	17,751,594
Overdraft interest	10,043,599	5,462,100
Directors' emoluments - Fees	Nil	Nil
- Management Remuneration	Nil	620,000
Management fees to parent	14,792,762	16,198,573
Auditors' remuneration - current year	1,915,000	1,627,000
- prior year	30,000	125,000
Consequential loss insurance proceeds	**Nil**	**(2,000,000)**

17. Net profit attributable to members

This includes $15,439,828 (1995: $4,195,637) profit relating to the company only.

18. Prior year adjustments

In the previous year, this represented an adjustment in respect of the revision of the basis of calculating interest due on long-term debt which was taken out by the company and utilised by a subsidiary.

19. (Earnings)/Loss per stock unit

This is computed by dividing the net profit/(loss) attributable to members, of $6,835,395 [1995: ($4,051,396) loss] by 800,000 (1995: 800,000) "A" ordinary stock units and 22,416,862 (1995: 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)].

20. Taxation

At November 30, 1996, taxation losses, subject to agreement by the Commissioner of Income Tax, available for relief against future taxable profits, amounted to $51,619,808 (1995: $53,509,079) for the company and $135,056,056 (1995: $93,513,595) for the group.

21. 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.

22. 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 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 which was 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 $2,024,970 (1995: $1,567,377) for the company and $5,446,933 (1995: $3,478,605) for the group.

23. Commitments

Lease:

Commitments at November 30, 1996 under operating leases expiring March 1998 amounted to $4,958,333 (1995: $8,135,000) for the company and the group. The amounts payable within twelve months of the balance sheet date total $3,675,000 (1995: $3,176,667) for the company and the group.