

CARIBBEAN CEMENT COMPANY 1997

Notes to the Financial Statements

Year ended 31 December 1997

1. Principal Activities

The company and its subsidiaries are incorporated under the Laws of Jamaica.

The company produces cement for sale on the local and overseas markets. The subsidiaries are involved in the mining and sale of gypsum (see note 27), and the operation of a mineral spa.

These financial statements are expressed in Jamaican dollars unless otherwise stated.

2. Significant Accounting Policies

(a) Accounting Convention

These financial statements have been prepared under the historical cost convention, modified for the inclusion of certain fixed assets and investments at valuation.

(b) 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.

(c) 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.

(d) 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.

(e) 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

(f) Foreign currency translation

Foreign currency balances are translated into Jamaican dollars at the exchange rate at balance sheet date. Until completion (see note 2 (d)), 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.

(g) Deferred taxation

Deferred taxation is not recognised in these financial statements because timing differences are not considered likely to reverse in the foreseeable future.

(h) 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 is written off to 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 is written off to future production costs as mining progresses.
- (iii) Costs incurred to dredge loading jetty are written off over the expected period of benefit.

3. Related Party Transactions

- (a) During the year, \$58,126,000 (1996 - \$39,183,000) in technical fees were paid to Cemex, a 10% shareholder, in accordance with a Technical Assistance Agreement. The fees relate to the provision of cement engineering staff by Cemex.
- (b) The company provided guarantees for certain loan repayments to The Bank of Nova Scotia Jamaica Limited and Eagle Commercial Bank Limited for its subsidiary Jamaica Gypsum and Quarries Limited (JGQ). At 31 December 1997, the balances on the loans were \$372,000,000 (1996 - Nil) and \$36,515,000 (1996 - \$55,440,000) respectively. (See note 21).
- (c) Purchases from JGQ during the year are as follows:

	1997 \$'000	1996 \$'000
Gypsum: 32,910 tonnes (1996: 33,587 tonnes)	20,363	16,318
Shale: 106,105 tonnes (1996: 124,000 tonnes)	<u>15,916</u>	<u>11,210</u>
	<u>36,279</u>	<u>27,528</u>

- (d) During the year 1996, the company incurred certain legal fees for a proposed rights issue. The Chairman of the company is a partner in the firm that provided the services. These costs and other professional costs for the rights issue are included in deferred expenditure.
- (e) At 31 December 1997, the company and Caldon Finance Group Limited held the following balances:

	1997	1996
	\$'000	\$'000
(i) Deposits placed by the company	177,968	174,000
(ii) Loans received by the company (Caldon acting as broker for Jamaica Money Market Brokers Limited)	<u>130,272</u>	<u>140,012</u>

The Chairman of Caldor Finance Group Limited was a director of the company at that time. (See note 27(a)).

4. Turnover

Turnover consists of sales to all customers, less intra-group sales and excludes general consumption tax.

5. Exceptional Items

	The Group		The Company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
(a) Redundancy costs	31,733	20,349	31,733	20,349
(b) Provision for possible losses on cash on deposit	<u>180,656</u>	<u>-</u>	<u>180,656</u>	<u>-</u>
	<u>212,389</u>	<u>20,349</u>	<u>212,389</u>	<u>20,349</u>

(a) During the year, the company made certain employees redundant as a result of the ongoing restructuring exercise being undertaken to reduce cost and increase efficiency.

(b) This represents a provision for possible losses in respect of cash deposits placed in a financial institution which was placed in liquidation after year end. (See notes 3(e) and 27(a)).

6. Taxation

(a) Current
There is no tax charge for the current and prior year due to losses sustained

and claims for capital allowances over depreciation charge. Tax losses available to the group at 31 December 1997 for set-off against future taxable profits amount to approximately \$1,243,819,000 (The Company \$1,068,440,000). Subject to agreement by the Commissioner of Income Tax, these losses can be carried forward indefinitely.

(b) Deferred

At 31 December 1997, the company has claimed additional capital allowances for taxation purposes in excess of book depreciation, of approximately \$777,289,000 (1996: \$1,205,948,000). These additional capital allowances at the current rate of income tax, give rise to a potential deferred tax liability of approximately \$259,096,000 at 31 December 1997. The company has not recorded this potential deferred tax liability in its financial statements, as it is of the 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 foreseeable future.

7. Extraordinary Item

	The Group		The Company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
Redundancy payments	<u>17,777</u>	<u>-</u>	<u>-</u>	<u>-</u>

These represent provision for payments made to employees on the suspension of the subsidiary's quarry operations 27 January 1998. (See note 27(b)).

8. Net (Loss)/Profit and Retained Earnings

(i) The net (loss)/profit is dealt with in the financial statements as follows:

	1997	1996
	\$'000	\$'000
Holding company	(381,627)	291,197
Subsidiaries	<u>(109,886)</u>	<u>(9,574)</u>
	<u>(491,513)</u>	<u>281,623</u>

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

	1997	1996
	\$'000	\$'000
Holding company	534,958	958,789
Subsidiaries	(137,142)	(27,256)
	<u>397,816</u>	<u>931,533</u>

9. (Loss)/Earnings Per Stock Unit

The calculations of (loss)/earnings per stock unit are based on the net (loss)/profit for each year before and after the extraordinary item, and 422,042,136 ordinary stocks in issue at the end of both years.

10. Fixed Assets

	The Group						Total
	Leasehold Land	Leasehold Improvements	Freehold Land	Buildings	Machinery, Equipment, Vehicles	Capital Work- in Progress	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Cost/Valuation -							
1 January 1997	-	39,383	342	763,696	2,968,331	836,708	4,608,460
Additions	45,000	1,571	-	1,444	39,858	671,906	759,779
Transfers from CWIP	-	-	-	11,642	642,929	(654,571)	-
Disposals	-	-	-	-	(1,360)	-	(1,360)
31 December 1997	<u>45,000</u>	<u>40,954</u>	<u>342</u>	<u>776,782</u>	<u>3,649,758</u>	<u>854,043</u>	<u>5,366,879</u>
Depreciation -							
1 January 1997	-	5,120	-	164,668	621,963	-	791,751
Charge for the year	-	1,661	-	22,218	189,200	-	213,079
Disposals	-	-	-	-	1,172	-	1,172
31 December 1997	<u>-</u>	<u>6,781</u>	<u>-</u>	<u>186,886</u>	<u>809,991</u>	<u>-</u>	<u>1,003,658</u>
Net Book Value -							

31 December 1997	45,000	34,173	342	589,896	2,839,767	854,043	4,363,221
31 December 1996	-	34,263	342	599,028	2,346,368	836,708	3,816,709

The Company

	Freehold Land \$'000	Buildings \$'000	Machinery, Equipment, Vehicles \$'000	Capital Work-in Progress \$'000	Total \$'000
Cost/Valuation -					
1 January 1997	302	757,593	2,923,308	836,708	4,517,911
Additions	-	961	19,087	671,906	691,954
Transfers from CWIP	-	11,642	642,929	654,571	-
Disposals	-	-	(1,360)	-	(1,360)
31 December 1997	<u>302</u>	<u>770,196</u>	<u>3,583,964</u>	<u>854,043</u>	<u>5,208,505</u>
Depreciation -					
1 January 1997	-	163,937	606,470	-	770,407
Charge for the year	-	22,070	183,858	-	205,928
Disposals	-	-	(1,172)	-	(1,172)
31 December 1997	-	<u>186,007</u>	<u>789,156</u>	-	<u>975,163</u>
Net Book Value -					
31 December 1997	<u>302</u>	<u>584,189</u>	<u>2,794,808</u>	<u>854,043</u>	<u>4,233,342</u>
31 December 1996	<u>302</u>	<u>593,656</u>	<u>2,316,838</u>	<u>836,708</u>	<u>3,747,504</u>

In 1991, Production Line #4 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 20).

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 20).

During the year, interest cost of \$80,384,000 (1996 - \$135,000,000) relating to capital work

in progress was capitalized.

11. Deferred Expenditure

This comprises:

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
(a) Stripping costs	48,519	51,772	-	-
(b) Dredging costs	-	-	-	-
(c) Research and Development	-	3,719	-	-
(d) Rockfort Mineral Bath Complex	-	1,621	-	-
Limited	-	561	-	-
(e) Rights issue	51,248	45,840	51,248	45,840
	<u>99,767</u>	<u>103,513</u>	<u>51,248</u>	<u>45,840</u>

- (a) Deferred stripping costs were incurred in respect of work carried out at the gypsum mines. These mines represent the majority of the proven reserves.
- (b) Costs incurred to dredge loading jetty are now written off.
- (c) The research and development expenditure was incurred in respect of shale mining. This product is used in the manufacture of cement.
- (d) Certain expenses incurred by Rockfort Mineral Bath Complex Limited in recommencing the operations of the mineral spa were deferred. These amounts were amortised over a three year period.
- (e) This represents professional fees for a proposed rights issue (Notes 3(d) and 26).

12. Investments

	The Group		The Company	
	1997	1996	1997	1996
At cost -				
Subsidiaries -				
Jamaica Gypsum and Quarries Limited (JGQ)				
375,000,000 Ordinary shares of \$0.01 each	-	-	79,000	4,000
Rockfort Mineral Bath Complex Limited				
21,000,000 Ordinary shares of \$0.01 each	-	-	20,010	10
Other -				
Jamaica Production Fund Limited				
5,000,000 shares of \$ 1.00 each	5,000	5,000	5,000	5,000
Caribbean Gypsum Limited	600	-	600	-
Port Royal Development Company Limited				
5,000 ordinary shares of US\$10.00 each	<u>1,775</u>	<u>-</u>	<u>1,775</u>	<u>-</u>
	<u>7,375</u>	<u>5,000</u>	<u>106,385</u>	<u>9,010</u>

During the year, the company's subsidiaries sub-divided their existing ordinary shares of \$1.00 each into ordinary shares of \$0.01 each. In addition, the companies increased their authorised share capitals and issued the shares at a premium of \$0.99 each to the company.

13. Long Term Receivable

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

14. Due From Subsidiaries

	1997	1996
	\$'000	\$'000

Jamaica Gypsum and Quarries Limited	73,423	326,809
Rockfort Mineral Bath Complex Limited	<u>28,000</u>	<u>48,006</u>
	101,423	374,815

During the year, additional shares were issued by both subsidiaries to the company and a proportion of the inter-company debt was utilised as consideration for the shares issued (Note 12).

In addition, a long term loan was secured by JGQ to pay out a substantial portion of the debt owing to the company. Repayment of the loan is guaranteed by the company (Note 3(b)).

15. Inventories

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Cement and in-process stock	538,640	534,143	235,229	256,928
Stores and spare parts	585,714	557,048	578,560	549,499
Goods in transit	<u>32,606</u>	<u>35,394</u>	<u>32,606</u>	<u>35,394</u>
	<u>1,156,960</u>	<u>1,126,585</u>	<u>846,395</u>	<u>841,821</u>

16. Cash and Deposits

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Deposits (See note 27(a))	23,240	229,173	23,240	229,173
Cash in hand	<u>23,027</u>	<u>72,733</u>	<u>18,002</u>	<u>71,687</u>
	<u>46,267</u>	<u>301,906</u>	<u>41,242</u>	<u>300,860</u>

17. Payables

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000

Trade creditors	344,905	485,979	334,160	480,502
Interest	35,038	65,760	35,038	65,760
Statutory obligations	30,319	29,314	28,319	29,314
Advances from customers	19,633	568	19,633	568
Other	54,682	12,361	36,905	12,361
	<u>484,577</u>	<u>593,982</u>	<u>454,055</u>	<u>588,505</u>

18. Short Term Loans

These represent commercial paper transactions with varying interest rates of 12% - 15% and 18% -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\$14,851,000 (1996 - US\$6,337,000).

19. Share Capital

	1997 \$'000	1996 \$'000
Authorised -		
Ordinary shares of 50c	400,000	400,000
1 special share of \$1.00	-	-
	<u>400,000</u>	<u>400,000</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 1997, 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.

20. Capital Reserves

	The Group		The Company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
Share premium	213,628	213,628	213,628	213,628
Revaluation surplus (note 10)	843,325	843,325	843,325	843,325
Realised capital gains	91	91	86	86
Consolidation loss	(17,757)	(17,757)	-	-
	<u>1,039,287</u>	<u>1,039,287</u>	<u>1,057,039</u>	<u>1,057,039</u>

21. Long and Medium Term Loans

%	Repayable	The Group		The Company	
		1997	1996	1997	1996
		\$'000	\$'000	\$'000	\$'000

- (a) Government of Jamaica

(1) Loan	9 1/4	1992/98	99,000	148,500	99,000	148,500
(2) Loan	4	1992/98	4,899	7,867	4,899	7,867
(3) Capitalised interest payable	9 1/4	1992/98	27,850	41,258	27,850	41,258
(b) CIBC New York (US\$0.93 million)	7	1998/2002	34,014	-	34,014	-
(c) Eagle Commercial Bank Limited (US \$ 1 million Demand loan)	16	1999	36,515	55,440	-	-
(d) International Finance Corporation Limited (US\$5 million)	8 1/2	1995/2002	182,940	209,998	182,940	209,998
(e) Mayberry Investments Limited						
(i) Loan	33	1998	-	284,755	-	284,755
(ii) US\$ loans	13 1/4	1998	-	155,976	-	155,976
(f) Citizens Trust and Merchant Bank Limited (US\$0.23 million)	16	1995/2000	8,450	15,098	8,450	15,098
(g) Citibank NA	40	1997	-	191	-	191
(h) The Bank of Nova Scotia Jamaica Limited						
(i) Loan	46	1998	11,000	22,000	11,000	22,000
(ii) US\$0.13 million	12	1998	4,830	16,380	4,830	16,380
(iii) US\$0.66 million	13	1998	24,002	53,480	24,002	53,480
(iv) Loan	31 1/2	1997/99	89,000	-	89,000	-
(v) Loan	46	2001	27,200	600,000	27,200	600,000
(vi) Loan	31 1/2	2001	372,000	-	-	-
			<u>921,700</u>	<u>1,610,943</u>	<u>513,185</u>	<u>1,555,503</u>

(i)	National Investment Bank of Jamaica Limited	Nil		9,105	9,105	-	-
(j)	US\$ Bearer Bonds	12	1995/97	-	60,480	-	60,480
(l)	BNS Trust & Merchant Bank Limited US \$8 million Bearer Bonds	12	1998	292,704	-	292,704	-
(m)	Jamaica Money Market Brokers Limited US\$8 million Bearer Bonds	12 1/4	2000	292,704	-	292,704	-
(k)	Buck Securities Limited	14 1/4	1998	-	17,561	-	17,561
(o)	Sigma Investments Limited						
	(i) Loan	32	1998	-	356,390	-	356,390
	(ii) US\$0.49 million	13.5	1998	-	17,021	-	17,021
(p)	Caldon Finance Merchant Bank Limited	33	1998	-	140,012	-	140,012
(q)	Manufacturers Merchant Bank Limited (US \$3.31 million)	12	1999	121,105	-	121,105	-
(r)	National Commercial Bank Limited -(US\$0.51 million)	17	1998	18,717	41,813	18,717	41,813
Total Loans				1,656,035	2,253,325	1,238,415	2,188,780
Less: Current portion				377,554	373,506	261,708	349,604
				1,278,481	1,879,819	976,707	1,839,176

(a) By agreement dated 21 May 1987, the Government of Jamaica assumed the exchange risk for loan 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 terms of a 1996 agreement with The Bank of Nova Scotia Jamaica Limited, the company and the group are required to maintain certain financial ratios as follows:
 - (i) Minimum Tangible Networth by the company of at least \$2,000,000,000 by 31 December 1997.
 - (ii) Minimum working capital ratio of 0.90:1

At 31 December 1997, the company was not in compliance with requirements and informed the Bank of its inability to comply. The Bank has requested the company to raise additional equity and/or long term loans to comply with the ratio.

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 \$33,176,000 (1996 - \$23,685,330).

23. Operating Lease Commitments

Lease commitments at 31 December 1997 amounted to approximately \$4,736,000 and are scheduled for payment as follows:

In the year ending 31 December	The Group and Company \$'000
1998	1,184
1999	1,184
2000	1,184
2001	1,184

24. 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.

25. Capital Commitments

- (a) One of the company's subsidiaries, Jamaica Gypsum and Quarries (JGQ), entered into an agreement with Windsor International (Windsor) to pay \$75,000,000 for the exclusive lease rights to premises at Rockfort that were leased to both Windsor and JGQ by the Commissioner of Lands.

A total of \$45,000,000 was disbursed to Windsor International during 1997. An additional \$10,000,000 was paid under the terms of the contract on 2 February 1998.

- (b) At 31 December 1997, contracts for capital expenditures not provided for in these financial statements were \$173,100,000 (1996 - \$595,000,000).

26. Continuity of Operations

The group and the company sustained net losses of \$491,513,000 and \$381,627,000 respectively during the year ended 31 December 1997. At that date the group's and the company's current liabilities exceeded their current assets by \$1,544,228,000 and \$1,713,143,000 respectively. Included in the current liabilities are significant short term debts which will require refinancing.

During 1996 and 1997, the company attempted to raise equity capital through a Rights Issue with the objective of significantly reducing this short term debt. These plans were postponed as the company and its professional advisors did not consider the market conditions to be favourable. Included in deferred expenses at 31 December 1996 and 1997 are amounts to \$45,840,000 and \$51,248,000 in respect of costs incurred in connection with the proposed issue. The directors are of the opinion that the proposed issue will be successful; accordingly the costs will be written off against the proceeds from this issue in 1998. The company hopes to raise approximately \$800 million from the Rights Issue and additional funds

from a Bond Issue. If the Rights Issue is not successful, the cost incurred will be written off against income in 1998. The company's ability to successfully finance its operations during 1998 is largely dependent on the success of these issues.

27. Subsequent Events

- (a) At 31 December 1997, the company had approximately \$180,656,000 (1996 - \$174,000,000 deposited with Caldon Finance Group limited. This group of companies has been placed into liquidation and the amount that will ultimately be recovered is uncertain. A provision of \$180,656,000 for possible losses in respect of this deposit has been made in these financial statements. (See note 5(b)).

- (b) In January 1998, one of the company's subsidiaries, Jamaica Gypsum and Quarries Limited (JGQ), suspended mining activities but continued to sell gypsum.

A provision of \$17,777,000 has been made in the financial statements for redundancy costs, which were paid on 30 January 1998.

The company has conducted an independent study of the mining process with a view to reducing future production costs and to attain profitability.

- (c) Additional funds were provided by the Bank of Nova Scotia Jamaica Limited and in accordance with the recent changes in the Banking Act, the company agreed to provide security for the Bank's loans by way of a Demand Debenture instituting a first charge over fixed and floating assets. The Debenture is to rank pari passu with a Debenture of US\$5 million in favour of International Finance Corporation.