

Seprod Limited 1997

NOTES TO THE FINANCIAL STATEMENTS

31 December 1997

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 work force. Certain of the companies also sold trademarks, a significant portion of their inventories, and plant and machinery to Colgate Palmolive Company during 1996.

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) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

(b) Consolidation

The group financial statements incorporate the financial statements of the company, its subsidiaries and associated company made up to 31 December 1997 (note 3 (a)).

(c) Associated Company

The equity method of accounting is used to account for the associated company. Under this method, the group's share of profit 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.

(d) 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

(e) Inventories

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

(f) 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.

(g) 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.

(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 capitalized.

(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

(b) Group turnover represents the value of goods sold to third parties, and excludes revenue generated within the group totalling approximately \$456,192,000

(1996 - \$458,000,000).

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

(i) Two subsidiaries in the group paid a cess of approximately \$3,069,000, (1996 - \$2,708,000) based on the sales of copra-based and substitute products, to Coconut Industry Board.

(ii) Sales of \$142,248,000 (1996 - \$127,499,000) to and purchases of \$15,487,000 (1996 - \$16,633,000) from Musson Jamaica Limited.

(iii) Sales of approximately \$231,331,000 (1996 - \$159,393,000) to and purchases of \$7,336,000 (1996 - \$6,100,000) from Grace, Kennedy & Company Limited.

(d) Advances to Directors totalled \$3,376,000 at 31 December 1997. These amounts represent:

(i) Advances on expected profit share which is based on the audited financial statements at 31 December 1997.

(ii) Gratuity advanced to the Chief Executive Officer in accordance with his contract.

(e) Advances to Officers totalled \$3,062,000 at 31, December 1997. These amounts represent advances on expected profit share which is based on the audited financial statements at 31 December 1997.

4 PROFIT AND LOSS ACCOUNT

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

	1997 \$'000
Depreciation	51,616
Interest	2,849

Interest income	
Investment	(55,561)
Other	(26,934)
Auditors' remuneration	
Current year	3,642
Prior year	237
Directors' emolument	
Fees	1,534
Other	9,512

5 EXCEPTIONAL ITEMS

	1997
	\$'000
Redundancy payments	(3,945)
Write back of provision in respect of Claim settled	-
Retroactive payments to employees	(5,799)
Pension refund	<u>140,550</u>
	<u>130,806</u>

6 Taxation

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

	1997
	\$'000
Income tax at 33 1/3%	117,808
Underprovision of prior year tax	1,844
Tax credit on bonus issue of shares	<u>(10,153)</u>
	<u>109,499</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 reported results for the previous year mainly as a result of the utilization of tax losses in certain subsidiaries and tax credit on bonus issue of shares.
- (c) Subject to agreement with the Commissioner of Income Tax, losses available for offset against future profits of certain subsidiaries amount to approximately \$3,338,000 (1996 - \$34,200,000).

7 EXTRAORDINARY ITEMS

	1997 \$'000	1996 \$'000
(a) Gain on sale of brands	-	224,000
(b) Redundancy payments		(2,619)
(c) Write-down of fixed assets and loss on sale	<u>-</u>	<u>(62,155)</u>
	<u>-</u>	<u>159,226</u>

- (a) This comprised the gain on the sale of certain trademarks to Colgate Palmolive Company
- (b) These comprised payments made to the employees of three subsidiary companies in connection with the closure of their manufacturing operations.
- (c) These comprised loss on sale and adjustments made to reflect the realisable values of certain subsidiaries' fixed assets in connection with the closure of their manufacturing operations.

8 EARNINGS PER STOCK UNIT/SHARE

The earnings per stock unit/share is based on 45,902,000 (1996 - 45,902,000) ordinary stock units/shares in issue at the end of the year and is calculated on both the profit before extraordinary items and the net profit.

9 FIXED ASSETS

The Group

	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 1997	57,193	756,358	716,515	28,393	4,698	1,563,157
Additions	-	-	9,910	3,423	24,798	38,131
Disposals	-	-	(3,903)	(4,156)	-	(8,059)
Transfers to/(from)	-	1,446	12,305	3,717	(17,468)	-
At 31 December 1997	<u>57,193</u>	<u>757,804</u>	<u>734,827</u>	<u>31,377</u>	<u>12,028</u>	<u>1,593,229</u>
Accumulated Depreciation -						
At 1 January 1997	-	468,084	436,347	16,348	-	920,779
Charge for the Year	-	11,855	33,131	6,630	-	51,616
On disposals	-	-	(1,960)	(3,125)	-	(5,085)
At 31 December 1997	<u>-</u>	<u>479,939</u>	<u>467,518</u>	<u>19,853</u>	<u>-</u>	<u>967,731</u>
Net Book Value -						
At 31 December 1997	57,193	277,865	267,309	11,524	12,028	625,919
At 31 December 1996	57,193	288,274	280,168	12,045	4,698	642,378

The Company

Total	Freehold Land & Site Improvements \$'000	Buildings \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicles \$'000	Work in Progress \$'000	\$'000
At Cost or Valuation -						
At 1 January 1997	5,453	284,135	81,069	9,994	1,804	382,455
Additions	-	-	53	1,931	4,841	6,825

Disposals	-	-	(1,313)	(1,452)	-	(2,765)
Transfers to/(from)	-	-	2,640	3,265	(5,905)	-
At 31 December 1997	<u>5,453</u>	<u>284,135</u>	<u>82,449</u>	<u>13,738</u>	<u>740</u>	<u>386,515</u>
Accumulated Depreciation -						
At 1 January 1997	-	159,173	57,438	4,586	-	221,197
Charge for the Year	-	5,738	4,400	3,544	-	13,682
On disposals	-	-	-	(1,034)	-	(1,034)
At 31 December 1997	<u>-</u>	<u>164,911</u>	<u>61,838</u>	<u>7,096</u>	<u>-</u>	<u>233,845</u>
Net Book Value -						
At 31 December 1997	<u>5,453</u>	<u>119,224</u>	<u>20,611</u>	<u>6,642</u>	<u>740</u>	<u>152,670</u>
At 31 December 1996	<u>5,453</u>	<u>124,962</u>	<u>23,631</u>	<u>5,408</u>	<u>1,804</u>	<u>161,258</u>

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 14).

Certain buildings are situated on land that has been leased. The unexpired portion of the lease is 63 years.

As at 31 December 1997, motor vehicles with net book value of approximately \$9,799,000 (1996 - \$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 1995. Under the circumstances, related assets of these entities were 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 14) and operations where available reserves have been exceeded.

10 INVESTMENTS

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Quoted (market value - \$336,328 1996 - \$667,796)	47	47	40	40
Long Term Government Securities	112,165	-	112,165	-
Unquoted	11	11	10	10
Units in Money Market Unit Trusts (market value - \$180,843,000 1996 - \$138,248,868)	129,601	119,600	129,601	119,600
Associated company - North Coast Milling Limited Group's share of profit	25,000 23,832 <u>48,832</u>	47,700 291 <u>47,991</u>	25,000 - <u>25,000</u>	47,700 - <u>47,700</u>
	<u>290,656</u>	<u>167,649</u>	<u>266,816</u>	<u>167,350</u>

11 INVENTORIES

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Raw materials	98,847	66,062	-	-
Work in progress	4,422	3,417	-	-
Finished goods	35,054	44,374	-	-
	<u>138,323</u>	<u>113,853</u>	<u>-</u>	<u>-</u>

12. RECEIVABLES

	The Group		The Company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
Trade receivables	201,032	174,922	-	-
Advance payments	16,690	8,068	-	-
Interest receivable	18,200	11,831	18,200	11,831
Other	18,378	19,257	9,692	11,628
	<u>254,300</u>	<u>214,078</u>	<u>27,892</u>	<u>23,459</u>

13 SHARE CAPITAL

	1997	1996
	\$'000	\$'000
Authorized - Ordinary shares of \$1 each	50,000	50,000
Issued and fully paid At beginning of year: Ordinary stock units/shares of \$1 each	45,902	45,559
Movement during the year: Additional issue of ordinary shares of \$1 each	<u>-</u>	<u>343</u>
At the end of the year: Ordinary stock units/shares of \$1 each	<u>45,902</u>	<u>45,902</u>

During the previous 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. No shares were issued to the company's Executive Management this year as the Share Option Scheme expired in 1996.

The Share Option Scheme was replaced with a profit sharing scheme. This scheme allows 5% of the audited profit before taxation (excluding investment income) to be paid to the Executive Management of the Company.

14 CAPITAL RESERVE

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Balance at the beginning of year				
Unrealised surplus on revaluation of fixed assets	551,337	551,814	158,867	158,867
Profits capitalized	87,743	15,000	-	-
Gain on sale of brands	60,425	-	-	-
Realised surplus	<u>44,638</u>	<u>45,788</u>	<u>13,903</u>	<u>15,487</u>
	744,143	612,602	172,770	174,354
Movement during the year -				
Unrealised surplus	-	(447)	-	-
Realised surplus	-	447	-	-
	-	-	-	-
Transfers to accumulated surplus-				
Reduction of unrealised surplus due to sale of Assets previously revalued	(376)	-	-	-
Reduction of realised surplus due to capital distribution	<u>(57,378)</u>	<u>(1,627)</u>	<u>(11,678)</u>	<u>(1,627)</u>
	(57,754)	(1,627)	(11,678)	(1,627)
Transfers from accumulated surplus -				
Profits capitalized	41,525	72,743	-	-
Capital distribution received	-	-	-	43
Undistributed gain on sale of brands	-	60,425	-	-
	<u>41,525</u>	<u>133,168</u>	<u>-</u>	<u>43</u>
At end of year	<u>727,914</u>	<u>744,143</u>	<u>161,092</u>	<u>172,770</u>

Comprised of				
Unrealised surplus on revaluation	550,961	551,337	158,867	158,867
Profits capitalized	129,268	87,743	-	-
Gain on sale of brands	37,250	60,425	-	-
Realised surplus	<u>10,435</u>	<u>44,638</u>	<u>2,225</u>	<u>13,903</u>
	<u>727,914</u>	<u>744,143</u>	<u>161,092</u>	<u>172,770</u>

15 LONG TERM DEBT

	The Group		The Company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
(a) 33% West Indies Trust Company 1989/2005	7,348	7,829	7,348	7,829
(b) Five year Deferred Loan	5,868	5,868	5,868	5,868
(c) Jamaica Commodity Trading Company Limited- 1995/99	<u>2,000</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
	15,216	16,697	13,216	13,697
Less current portion	<u>7,404</u>	<u>7,276</u>	<u>6,404</u>	<u>6,276</u>
	<u>7,812</u>	<u>9,421</u>	<u>6,812</u>	<u>7,421</u>

- (a) The West Indies Trust Company loan is secured by a first charge over the John Harrison building.
- (b) The deferred loan is repayable in 1998 and is interest free.
- (c) This is an unsecured, interest-free loan which is repayable in yearly instalments of \$1,000,000.

16 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	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
1997	-	7,155	-	3,375
1998	6,358	3,913	4,035	1,478
1999	4,538	1,831	3,170	2,639
2000	<u>1,227</u>	<u>-</u>	<u>701</u>	<u>-</u>
Total minimum lease payments	12,123	12,899	7,906	7,492
Less: Future finance charges	<u>2,507</u>	<u>3,784</u>	<u>1,639</u>	<u>2,801</u>
Present value of minimum lease payments	9,616	9,115	6,267	4,691
Less current portion	<u>4,546</u>	<u>4,840</u>	<u>2,851</u>	<u>2,004</u>
	<u>5,070</u>	<u>4,275</u>	<u>3,416</u>	<u>2,687</u>

17 LOAN FROM AFFILIATE

This represents a loan from an affiliate. The loan is interest free and has no fixed repayment period.

18 PENSION SCHEME

The Seprod Group of Companies operates a pension scheme which benefits to members based on average earnings for the final 2 years service (formerly 3 years), with the group and employees each contributing 5%, of pensionable salaries. An actuarial study completed in August 1996 indicated that the scheme was significantly overfunded. The group's contributions for the year amounted to approximately \$7,262,614 (196-\$5,424,453).
