Trinidad Cement Limited 1997

Notes to the Financial Statements

31 December 1997

1 Incorporation and Activities

The parent company is incorporated in the Republic of Trinidad and Tobago. The group is involved in the manufacture and sale of cement, premixed concrete, packaging materials and the winning and sale of sand and gravel.

2 Significant Accounting Policies

Basis of preparation

These financial statements are expressed in Trinidad and Tobago dollars and have been prepared under the historical cost convention, modified to take account of the revaluation of certain land, buildings, plant and machinery, and with reference to International Accounting Standards approved in Trinidad and Tobago. They therefore include all required material disclosures.

Basis of consolidation

Subsidiary undertakings, being those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, have been fully consolidated. Separate disclosure is made of minority interests.

All assets of subsidiaries at the date of acquisition are stated at fair values. The excess of the identifiable fair values of the assets and liabilities acquired over the cost of acquisition of the subsidiary is treated as deferred income. This amount is recognised as income over the remaining useful lives of the assets acquired not exceeding twenty years.

Goodwill arising on the acquisition of a subsidiary is carried in the consolidated balance sheet and amortised over its estimated useful life through the statement of earnings and retained earnings.

Fixed assets and depreciation

It is the group's policy to account for fixed assets at cost. In 1975, certain property, plant and equipment were professionally revalued and the respective asset values were adjusted accordingly. The property and plant of Readymix (West Indies) Limited were professionally revalued in 1991 and the respective asset values adjusted accordingly. Subsequent thereto, all fixed assets have been recorded at cost.

Depreciation is provided on the straight line basis at rates estimated to write-off the fixed assets over their expected useful lives. The estimated useful lives of assets are reviewed periodically, taking account of commercial and technological obsolescence as well as normal wear and tear, and the depreciation rates are adjusted if appropriate.

Current rates of depreciation are:

Buildings	-	2%	-	4%
Plant machinery and equipment	-	3%	-	25%
Motor vehicles	-	10%	-	20%
Office furniture and equipment	-	25%		

Leasehold land and improvements are amortised over the remaining term of the lease.

It is the group's policy to capitalise interest on loans specific to capital projects during the period of construction. Repairs and renewals are charged against income when the expenditure is incurred.

Investments

Equity investments in subsidiaries and other companies are stated at cost.

Asset backed securities are stated at fair values.

Inventories

Plant spares and raw materials are valued at the lower of weighted average cost and net realisable value. Work in progress and finished goods are valued at the lower of cost including attributabie production overheads, and net realisable value.

Foreign Currencies

Transactions originating in foreign currencies are recorded in Trinidad and Tobago dollars at the rates of exchange ruling at the dates of the transactions.
Assets and liabilities in foreign currencies are translated at rates ruling at the balance sheet date. Differences arising therefrom are reflected in the current year's results.

Exchange differences arising from the translation of the financial statements of foreign subsidiaries are taken directly to revenue reserves.

Taxation

The group follows the liability method of accounting for deferred taxation. Under this method, the future tax liability on timing differences, which result mainly from the excess of depreciation allowed for tax purposes over book depreciation, is provided for at the current corporation tax rate.

Pension Plans

Group companies, except Readymix (West Indies) Limited, operate defined benefit plans. Contributions are based on amounts required to provide the benefits under the plans, as determined on the basis of triennial actuarial valuations. Contributions to the plans are accounted for on the accruals basis.

Provision is made in the accounts of Readymix (West Indies) Limited for benefits in accordance with the employees' terms of employment.

Revenue

Revenue represents the amounts receivable for goods sold and services provided after deducting volume discounts, and after eliminating sales within the Group.

Earnings per Stock Unit

Earnings per stock unit are computed by relating profit attributable to ordinary stockholders to the weighted average number of ordinary stock units in issue during the year.

Thousands of dollars	Group		Parent	
	1997	1996	1997	1996
3 Deferred Income				
Balance at 1 January	43,338	46,949	-	-
Transferred to earnings	3,611	3,611	-	-
Balance at 31 December	39,727	43,338	-	-

Deferred income represents the excess of separately identifiable net assets over the acquisition cost of Arawak Cement Company Limited and is being amortised over fifteen years.

Thousands of dollars	Group		Parent	
	1997	1996	1997	1996
4 Goodwill				
Balance at 1 January	7,328	7,851	-	-
Amount written off	528	523	-	-
Balance at 31 December	6,800	7,328	-	-

Goodwill arose on the acquisition of a majority shareholding in Readymix (West Indies) Limited and is being amortised over fifteen years, from the date of acquisition, a period over which it is estimated that the future economic benefits inherent in this goodwill will be realised.

5 Profit Before Taxation

This is shown after deducting/(crediting):

Interest expense	32,784	30,093	25,104	22,953
Depreciation (Note 9)	29,058	23,074	19,206	14,933
Pension expenses	2,009	1,756	1,602	1,502
Foreign exchange losses/ (gains)	859	(896)	960	(646)
Audit fees	297	297	90	90
Directors' fees	273	210	145	134
Accretion in value of asset backed securities	6,733	5,750	6,733	5,750
Interest income	(991)	1,856	(701)	(450)
Profit on sale of land	-	(5,147)	-	-

6 A. Provision For Taxation

Corporation Tax	2,827	2,789	985	1,012
Deferred Taxation	9,543	(447)	9,400	-
	12,370	2,342	10,385	1,012

The parent company has accumulated tax losses of approximately $28.3m(1996 - $67.9m) available for set off against future taxable profits.

Arawak Cement Company Limited has accumulated tax losses of approximately Bd$181.6m (1996 -Bd$190.3m) available for set off against its future taxable profits up to the year 1999 and is exempt from the payment of corporation tax of up to Bd$23.04m during the period 2000 to 2007

Readymix (West Indies) Limited has accumulated tax losses of approximately $1.0m (1996-$4.2m) available for set off against its future taxable profits.

	Group		Parent	
Thousands of dollars	1997	1996	1997	1996
B. Deferred taxation				
Balance at 1 January	1,000	1,447	-	-
Provision/(write-back) for the year	9,543	(447)	9,400	-
Balance at 31 December	10,543	1,000	9,400	-

The revised International Accounting Standard 12 (IAS 12), Income Taxes, comes into effect for financial statements covering accounting periods commencing from January 1, 1998 and requires the recognition of all deferred taxation assets and liabilities arising from temporary differences as well as from available tax losses and credits, regardless of the timing of their reversals and utilization. The Group will adopt this new standard for all financial statements for periods commencing January 1, 1998.

In anticipation of the net deferred tax liability that will be recognised in 1998, the Group considers it prudent to initiate in 1997 a deferred tax provision of $9.5m. If the revised IAS 12 had been adopted in 1997, the Group's resultant net deferred tax liability would be $60.2m.

Upon adoption of the revised IAS 12 in 1998, the balance of the provision ($50.7m) will be charged against retained earnings in accordance with International Accounting Standard 8 - Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

7 Dividends

Preference - payable	-	690	-	690
Ordinary - proposed - 8% (6%)	16,000	12,000	16,000	12,000
	16,000	12,690	16,000	12,690
Ordinary - Interim paid - 7% (6%)	14,000	12,000	14,000	12,000
	30,000	24,690	30,000	24,690

8 Reserves

Retained earnings	A	139,262	86,614	68,730	39,740
Capital redemption reserve fund	B	41,427	27,618	41,427	27,618
Capital reserve		4,889	4,889	4,889	4,889
Preference share redemption reserve	C	-	7,832	-	7,832
		185,578	126,953	115,046	80,079

A Retained Earnings

Balance at 1 January	83,101	40,565	39,740	7,078
Profit retained for the year	57,102	48,336	34,968	38,462

Transfer to Preference Share Redemption Reserve	(5,977)	(5,800)	(5,977)	(5,800)
	134,226	83,101	68,730	39,740
Currency translation differences	5,036	3,513	-	-
	139,262	86,614	68,730	39,740
Balance at 31 December	139,262	86,614	68,730	39,740
B Capital Redemption Reserve Fund				
Balance at 1 January	27,618	13,809	27,618	13,809
Transfer from Preference Share Redemption Reserve	13,809	13,809	13,809	13,809
Balance at 31 December	41,427	27,618	41,427	27,618
C Preference Share Redemption Reserve				
Balance at 1 January	7,832	15,841	7,832	15,841
Transfer from retained earnings	5,977	5,800	5,977	5,800
Transfer to Capital Redemption Reserve Fund	(13,809)	(13,809)	(13,809)	(13,809)
Balance at 31 December	-	7,832	-	7,832

9 Fixed Assets - Group	Land and Buildings	Plant, Machinery and Equipment and Motor Vehicles	Office Furniture and Equipment	Capital Work in Progress	Total
At 31 December 1997					
Cost	154,668	664,139	17,164	10,511	846,482
Accumulated depreciation	(21,339)	(190,053)	(9,971)	-	(221,363)
Net book value	133,329	474,086	7,193	10,511	625,119
Net Book Value					
1 January 1997	124,651	397,316	4,460	40,059	566,486
Additions	10,399	64,335	3,956	10,496	89,186

Disposals and adjustments	1,978	35,302	1,269	(40,044)	(1,495)
Depreciation charge	(3,699)	(22,867)	(2,492)	-	(29,058)
31 December, 1997	133,329	474,086	7,193	10,511	625,119
31 December, 1996					
Cost	142,031	552,255	9,171	40,059	743,516
Accumulated depreciation	(17,380)	(154,939)	(4,711)	-	(177,030)
Net book value	124,651	397,316	4,460	40,059	566,486
Net Book Value					
1 January 1996	115,342	208,048	2,908	178,959	505,257
Acquisitions	10,035	5,887	218	406	16,546
Additions	2,337	20,262	2,895	37,324	62,818
Disposals and adjustments	2,835	178,746	(12)	(176,630)	4,939
Depreciation charge	(5,898)	(15,627)	(1,549)	-	(23,074)
31 December 1996	124,651	397,316	4,460	40,059	566,486

Fixed Assets - Parent Company

Cost	33,878	491,275	11,018	4,155	540,326
Accumulated depreciation	(8,488)	(143,626)	(5,998)	-	(158,112)
Net book value	25,390	347,649	5,020	4,155	382,214
Net Book Value					
1 January 1997	21,416	337,975	4,110	13,115	376,616
Additions	2,521	15,410	2,904	4,155	24,990
Disposals and adjustments	2,299	10,816	-	(13,115)	-
Depreciation charge	(846)	(16,552)	(1,994)	-	(19,206)
31 December 1997	25,390	347,649	5,020	4,155	382,214
At 31 December 1996					
Cost	31,357	463,313	8,114	13,115	515,899
Accumulated depreciation	(9,941)	(125,338)	(4,004)	-	(139,283)
Net book value	21,416	337,975	4,110	13,115	376,616

Net Book Value

1 January 1996	23,584	154,529	2,923	176,750	357,786
Additions	833	17,438	2,377	13,115	33,763
Disposals and adjustments	-	176,750	-	(176,750)	-
Depreciation charge	(3,001)	(10,742)	(1,190)	-	(14,933)
31 December 1996	21,416	337,975	4,110	13,115	376,616

Thousands of dollars	Group		Parent	
	1997	1996	1997	1996
10 Investments In Subsidiaries				
Arawak Cement Company Limited -100%	-	-	51,369	41,897
Readymix (West Indies) Ltd. - 68%	-	-	11,217	11,217
TCL Packaging Limited - 80%	-	-	4,800	4,800
TCL Ponsa Manufacturing Limited- 65%	-	-	650	650
	-	-	68,036	58,564

Arawak Cement Company Limited is incorporated in Barbados. TCL Packaging Limited, TCL Ponsa Manufacturing Limited and Readymix (West Indies) Limited are incorporated in Trinidad and Tobago.

The Parent company's investment in Arawak Cement Company Limited was increased by $9.5m to facilitate the purchase of the assets of Silicate Caribbean Limited by Arawak Cement Company Limited.

11 Investments

Zero Coupon asset backed securities	46,147	39,414	46,147	39,414
Caribbean Cement Company Limited Jamaica - 10%	25,775	25,578	25,775	25,578
Small Business Development Company Limited	50	50	50	50

	71,972	65,042	71,972	65,042

The parent company has invested in zero coupon asset backed securities with a face value of $69.9m, the proceeds of which will be utilised to liquidate a loan of $69.9m (See note 16).

The market value of the shares in Caribbean Cement Company Limited at 31 December, 1997 was $26.2m (1996 - $34.4m).

12 Inventories

Plant spares	48,790	40,628	25,859	21,930
Raw materials and work in progress	25,859	25,579	10,892	13,852
Consumables	14,820	16,480	11,861	12,356
Finished goods	10,761	12,101	4,431	3,185
Goods in transit	5,208	2,945	2,512	1,071
	105,438	97,733	55,555	52,394

Thousands of dollars	Group		Parent	
	1997	1996	1997	1996
13 Receivables and prepayments				
Trade receivables	30,840	25,298	13,036	12,464
Deferred expenditure	8,533	2,576	4,686	2,208
Sundry receivables	6,087	9,678	2,381	2,944
Due from subsidiaries	-	-	15,955	12,774
	45,460	37,552	36,058	30,390
14 Bank Advances				
Bankers' acceptances	15,200	10,606	-	-
Overdraft	7,294	782	1,621	-
	22,494	11,388	1,621	-

These advances are secured by charges over the fixed and floating assets of the group.

15 Payables and Accruals

Trade payables	23,863	25,832	7,323	9,203
Sundry payables and accruals	53,442	38,739	37,011	28,857
Due to subsidiaries	-	-	1,642	3,429
	77,305	64,571	45,976	41,489

16 Medium And Long Term Financing

Amounts repayable within:

One year	31,136	26,335	20,160	15,500
Two years	51,254	49,025	40,793	27,584
Three years	42,622	34,025	20,160	27,584
Four years	30,610	26,375	20,160	19,934
Five years and over	144,217	164,905	125,896	145,213
	299,839	300,665	227,169	235,815
Current portion	(31,136)	(26,335)	(20,160)	(15,500)
	268,703	274,330	207,009	220,315

In August 1995 the parent company issued a bond in the amount of $69.9m. The funds required to redeem the bonds will be provided out of the proceeds of the asset backed securities as stated in Note 11 and as such will not require utilisation of the company's funds.

Caribbean Development Corporation has the option to convert a portion of its outstanding loan balance to shares up to a maximum of 5.66% of the notionally adjusted share capital of Trinidad Cement Limited at $6.29 per share with appropriate adjustments in price to cater for changes in the issued share capital.

Loans amounting to approximately $200m are secured by fixed and floating charges on the assets of the group or by guarantees of the Export-lmport Bank of the United States. Interest is payable on loans at rates between 6.82% and 16.5% per annum.

Subsequent to the year end, the Group has arranged with a financial institution for the refinancing of loans amounting to US $19.0m from the Private Export Funding Corporation and the Commonwealth Development Corporation. The refinancing is intended to eliminate foreign currency exposures associated with these loans and reconfigure the Group's cash outflows as the structure of the new debt will require no debt servicing payments in the first two years.

The Commonwealth Development Corporation has indicated that it intends to exercise its option to convert a portion of the loan, referred to above into 7,584,350 ordinary shares. Consequently, Cemex, the Group's 20% equity shareholder will be offered additional ordinary shares in order to maintain its 20% stake, in accordance with the strategic agreement between the Group and Cemex.

Thousands of dollars	Group		Parent	
	1997	1996	1997	1996
17 Share Capital				
Authorised				
500,000,000 ordinary shares of $1 each	500,000	500,000	500,000	500,000
70,000,000 5% non-cumulative redeemable preference shares of $1 each	70,000	70,000	70,000	70,000
	570,000	570,000	570,000	570,000
Issued and fully paid				
200,000,000 ordinary stock of $1 each	200,000	200,000	200,000	200,000
5% non-cumulative redeemable preference shares of $1 each (1996- 13,809,170)	-	13,809	-	13,809
	200,000	213,809	200,000	213,809

The preference shares were redeemed at par in five annual amounts of $13,809,000. The final payment was made in December 1997.

18 Related Party Transactions

This represents sales of goods and services among the group companies conducted in the normal course of business at arm's length. For 1997 sales amounted to $45.9m (1996 - $45.1m) and management fees to $1.6m (1996 - $1.4m).

19 Contingent Liabilities

There are pending certain legal actions and other claims against the various group companies. It is the opinion of the directors, that the liability, if any, arising out of these claims is not likely to be material. Accordingly, no provision has been made in these financial statements.

20 Capital Commitments

The group has capital commitments to purchase additional items of plant and equipment amounting to $44.4m (1996 -$18.5m).

21 Pension Plan

The parent company's employees and certain employees of TCL Packaging Limited and TCL Ponsa Manufacturing Limited are members of the Trinidad Cement Limited Employees' Pension Fund Plan. This is a defined benefit Pension Plan which provides pensions related to employees" length of service and basic earnings at retirement. The Plan's assets are invested via a separate trust fund administered by an independent Trustee.

The Plan's financial position is assessed by means of triennial actuarial valuations carried out by an independent actuary. The last such valuation was carried out as at 31 December 1994 and revealed that the plan was adequately funded. The valuation as at 31 December 1997 is in progress.

Provision for retirement benefits for the employees of Readymix (West Indies) Limited is made in accordance with their terms of employment. In addition, negotiations are in progress for the establishment of a separate plan to fund the retirement of the employees.

Employees of Arawak Cement Company Limited are members of a defined benefit Pension Plan, which became effective in September 1994. The plan is established under an irrevocable trust and its assets are invested through an independently administered segregated fund policy. The triennial actuarial valuation was carried out at September 1997 and established an unfunded liability in respect of past service cost of Bds $704,000. The actuary has advised that the company and employees fund this liability and future service benefits at 6.03% of members' earnings.

22 Limestone Reserves - Parent Company

The major raw material used in the cement manufacturing process is limestone. The parent company owns the land in which the limestone reserves are located. Exploitable reserves are expected to have a life of fifty-eight years based on the current extraction rate. Deep reserves have a further exploitable life of approximately one hundred and five years. Except for valuing the land in the financial statements at cost/revaluation. These limestone reserves are not otherwise accounted for in these financial statements.

23 Statement Pursuant To Section 124 Of The Companies Ordinance

The results of the subsidiaries have been dealt with in the financial statements of the parent company only to the extent of dividends received and receivable.