

# CARRERAS GROUP LIMITED 1997

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## NOTES TO THE FINANCIAL STATEMENTS

March 31, 1997

### 1. **The company**

The company is incorporated under the laws of Jamaica and these financial statements are presented in Jamaican dollars. Its principal activity is the provision of management and other services to its operating subsidiary companies details of which are set out in note 21.

### 2. **Significant accounting policies**

(a) Accounting convention:

The financial statements are prepared under the historical cost convention, modified for the inclusion of investment properties and certain fixed assets at valuation.

(b) Basis of consolidation:

The consolidated financial statements include the financial statements of the company and all its subsidiaries, made up to March 31, 1997. The company and its subsidiary companies are collectively referred to in the Financial Statements as "The Group".

All significant intra-group transactions have been eliminated.

(c) Fixed assets and depreciation:

Freehold land is restated at current market value, and buildings, are revalued on the gross replacement cost basis by independent, qualified valuers, every three years. At the end of each of the two intervening years between such valuations, the gross replacement cost of buildings is adjusted by indices provided by these valuers.

Further, certain major items of plant and machinery are revalued by the directors on current replacement cost, using externally provided bases, as follows:-

- (i) where the existing assets cannot be replaced by equivalent second-hand assets, gross replacement cost is used.
- ii) where the existing assets can be replaced by equivalent second-hand assets, current market replacement cost is used.

With the exception of freehold land on which no depreciation is provided, fixed assets are depreciated on a straight line basis, over the estimated useful lives of such assets, at the following annual rates:

Buildings	1.4%	to	6.7%
Machinery and equipment	2.4%	to	20%
Motor vehicles	10%	to	33.3%
Leasehold improvements	2%	to	10%

For furnished hotel property, a percentage of gross hotel revenue is transferred to a reserve for replacement. The Directors estimate that this charge is sufficiently representative of the consumption of assets for the year.

The annual charge for depreciation is based on cost or valuation where appropriate. Any adjustments to depreciation attributable to prior years in respect of the annual revaluation of assets is charged to capital reserve.

(d) Investment properties:

Investment properties are revalued at regular intervals to reflect current market

value by professional valuers and chartered surveyors.

(e) Replacement reserve:

A percentage of gross hotel revenue is credited to a reserve for replacement of furnished hotel property. Replacements are charged against the reserve as incurred.

(f) Reinsurance premiums ceded and unearned premium reserve:

Reinsurance premiums ceded are recorded on a pro rata time basis over the terms of the respective policies and the prepaid portion at the balance sheet date is transferred to prepaid reinsurance premium.

(g) Insurance claim reserve:

A percentage of net insurance income is transferred to a reserve to be held for future claims under its hurricane and earthquake catastrophe policies.

(h) Inventories:

Inventories are valued at the lower of cost, determined principally on a weighted average basis, and estimated realisable value. The valuation of work-in-progress and finished products includes a relevant portion of production labour and overheads.

(i) Foreign currencies:

Foreign currency balances outstanding 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 have been included in the profit and loss account.

(j) Deferred taxation:

All timing differences resulting from the reporting of income and expense

items differently for tax and financial statements purposes are accounted for as deferred taxation at expected applicable rates, except where it is thought reasonably probable that the tax effects of such deferrals will continue for the foreseeable future.

(k) Investments:

Quoted equity investments are shown at the lower of cost and market value. Other investments are shown at cost.

### 3. Turnover

Turnover represents the invoiced value of products and services sold by the Group and is stated inclusive of special consumption taxes amounting to \$968,369,000 (1996: \$898,002,052) and excludes intra-group trading.

### 4. Exceptional Items

	1997 \$000's	1996 \$000's
Redundancy and reorganisation costs	10,589	46,396
Fixed assets written off	31,267	9,396
Stock write-off	7,794	1,232
Tobacco crop losses	383	706
	<b><u>50,033</u></b>	<b><u>57,730</u></b>

### 5. Profit before taxation

Profit before taxation is stated after taking account of the following items:

	1997 \$'000	1996 \$'000
Depreciation	40,570	48,203
Transfer to reserve for replacement of furnished hotel property	18,455	19,550
Interest:		
Overdrafts and short-term borrowings	49	83
Fixed loans	1,793	4,637

Auditors' remuneration	5,928	5,129
Remuneration of directors:		
As directors	16	16
Management services	10,256	7,771
Loss on disposal of fixed assets	27,375	5,884
Exchange losses/(gains)	144,272	186,434
Interest income on cash and short-term deposits	144,387	(156,793) *
Investment income - dividends and interest	<u>987,929</u>	<u>(461,805) *</u>

#### 6. Taxation

Taxation, based on the profit for the year adjusted for taxation purposes, is made up as follows:

	1997	1996
	\$'000	\$'000
Income tax @ 33 1/3%	635,032	496,808
Adjustment in respect of prior years	( 88,105)	(73,757)
Deferred taxation	<u>33,950</u>	<u>58,312</u>
	<b><u>580,877</u></b>	<b><u>481,363</u></b>

(a) Profits for the year arising from prescribed agricultural activities and relieved from taxation amount to \$52,915,000 (1996: 68,173,000).

(b) At March 31, 1997, tax losses in subsidiaries amounting to \$312,936 (1996: \$352,965) are available for set off against future taxable profits, subject to agreement by the Commissioner of Income Tax.

\* Reclassified to conform with current year presentation.

#### 7. Net profit attributable to stockholders

	1997	1996
	\$'000	\$'000
Net profit attributable to stockholders, dealt with in the financial statements		

of the company

**671,930**      **496,758**

**8. Dividends**

	1997 \$'000	1996 \$'000
Interim dividend of 25¢ (1996: 25¢) paid	60,680	60,680
Interim dividend of 60¢ (1996: 45¢) proposed	<u>145,632</u>	<u>109,224</u>
	206,312	169,904
Final dividend of 65¢ (1996: 65¢) proposed	<u>157,768</u>	<u>157,768</u>
	<b><u>364,080</u></b>	<b><u>327,672</u></b>

Under the provisions of the Income Tax (Approved Farmer) Order 1983, and the Income Tax (Approved Farmer) (No. 3) Order 1993, the company is exempt from deducting income tax on dividends paid to residents in Jamaica, out of tax-relieved profits derived from prescribed agricultural activities.

**9. Reserves**

	Capital reserves		Revenue reserves			
	Realised \$'000	Unrealised \$'000	Replace- ment reserve \$'000	Unappro printed profits \$'000	Insurance claims \$'000	total \$'000
The Group						
Balance at						
March 31, 1996	44,051	1,720,351	10,235	2,690,643	101,948	4,567,228
Provision for the year	-	-	18,455	-	-	18,455
Retained profit for year	-	-	-	1,123,005	-	1,123,005
Transfer from/(to) profit						

and loss account	6,273	(34,163)	-	-	83,741	55,851
Utilisation for the year	-	-	(20,070)	-	-	(20,070)
Loss on translation of foreign subsidiary	-	(4,955)	-	-	(14,306)	(19,261)
Revaluation adjustment	-	11,602	-	-	-	11,602
Balance at March 31, 1997	<b><u>50,324</u></b>	<b><u>1,692,835</u></b>	<b><u>8,620</u></b>	<b><u>3,813,648</u></b>	<b><u>171,383</u></b>	<b><u>5,736,810</u></b>

The company

Balance at March 31, 1996	8,536	222,842	-	401,596	-	632,974
Retained profit for year	-	-	-	305,990	-	305,990
Transfer from profit and loss account	1,860	-	-	-	-	1,860
Revaluation adjustments	-	(25,234)	-	-	-	(25,234)
Balance at March 31, 1997	<b><u>10,396</u></b>	<b><u>197,608</u></b>	<b><u>-</u></b>	<b><u>707,586</u></b>	<b><u>-</u></b>	<b><u>915,590</u></b>

Unappropriated profits include profits distributable tax free to resident stockholders as follows:

- . Profits from operations of a subsidiary, relieved from taxation under the provisions of the Industrial Incentives Act, at the expiration of incentive status in June 1975, aggregating \$581,227 (1996: \$581,227).
- . Profits arising from prescribed agricultural activities and relieved from taxation amounting to \$24,256,000 for the group and \$Nil for the company at March 31, 1997 (1996:\$11,382,000 for the group and \$Nil for the company).
- . Franked income of \$7,659,000 (1996: \$6,616,000) for the group and the company.

**10. Earnings per ordinary stock unit**

The calculation of earnings per stock unit is based on the profit attributable to stockholders and on the 242,720,000 stock units in issue.

**11. Share capital**

1997                      1996

	\$'000	\$'000
Authorized:		
242,720,000 ordinary shares of 25¢ each	<b><u>60,680</u></b>	<b><u>60,680</u></b>
Issued and fully paid:		
242,720,000 ordinary stock units of 25¢ each	<b><u>60,680</u></b>	<b><u>60,680</u></b>

## 12. Long-term loans

	The Group		The Company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
( i) 16% bank loan	8,418	12,625	-	-
(ii) 17-20% bank loans	<u>-</u>	<u>357</u>	<u>-</u>	<u>-</u>
	8,418	12,982	-	-
Less: current maturities	<u>4,207</u>	<u>4,564</u>	<u>-</u>	<u>-</u>
	<u>4,211</u>	<u>8,418</u>	<u>-</u>	<u>-</u>

(i) This loan is repayable in quarterly instalments, the last instalment being due in the year 1999.

(ii) These loans were fully repaid during September 1996.

## 13. Short-term investments

	The Group		The Company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
Quoted, at cost				
Local registered stocks	212,352	-	212,352	-
Unquoted, at cost	<u>1,889,824</u>	<u>1,767,291*</u>	<u>1,854,750</u>	<u>1,667,249*</u>
	<b><u>2,102,176</u></b>	<b><u>1,767,291*</u></b>	<b><u>2,067,102</u></b>	<b><u>1,667,249*</u></b>
Market value of quoted investments	<u>211,821</u>	<u>-</u>	<u>211,821</u>	<u>-</u>

\* Reclassified to conform with current year presentation.



**14. Inventories**

	The Group		The company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Finished leaf	58,879	63,680	-	-
Tobacco leaf crop in progress	36,391	77,252	-	-
Material and supplies	113,958	123,704	449	570
Work-in-progress	5,053	5,497	-	-
Finished products	84,973	60,879	-	-
	<u>299,254</u>	<u>331,012</u>	<u>449</u>	<u>570</u>

**15. Accounts payable**

Accounts payable for the group include:

	1997 \$'000	1996 \$'000
Special consumption tax payable	62,104	63,206
Payable to associated companies	<u>15,718</u>	<u>10,977</u>

**16. Long-term investments**

	The Group		The company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Quoted, at cost or market value				
Equities	32,177	32,177	32,177	32,177
Less provision for diminution in value	-	(2,200)	-	(2,200)
Carrying value	32,177	29,977	32,177	29,977
Local registered stocks	<u>1,120,061</u>	<u>376,811</u>	<u>1,067,061</u>	<u>376,811</u>

Unquoted, at cost	1,152,238	406,788	1,099,238	406,788
	672,935	144,204*	546,670	144,204
	<u>1,825,173</u>	<u>550,992*</u>	<u>1,645,908</u>	<u>550,992</u>
Market value of quoted investments	<u>1,155,622</u>	<u>405,846</u>	<u>1,102,754</u>	<u>405,846</u>

\* Reclassified to conform with current year presentation.

#### 17. Fixed assets

	Freehold land \$'000	Buildings \$'000	Machinery, equipment & vehicles \$'000	Total \$'000
The Group				
At cost or valuation:				
March 31, 1996	122,532	1,799,412	580,785	2,502,729
Additions	-	29,666	4,358	34,024
Revaluation adjustments	36,340	(94,387)	(31,053)	(89,100)
Disposals	-	(45,660)	(43,252)	(88,912)
March 31, 1997	<u>158,872</u>	<u>1,689,031</u>	<u>510,838</u>	<u>2,358,741</u>
Broken down as follows:				
At cost	1,922	2,809	63,418	68,149
At valuation	<u>156,950</u>	1,686,222	447,420	2,290,592
	<u>158,872</u>	1,689,031	510,838	2,358,741
Depreciation:				
March 31, 1996	-	404,739	281,486	686,225
Charge for the year	-	10,778	29,792	40,570
Revaluation adjustments	-	(59,192)	(18,743)	(77,935)
Eliminated on				

disposals	-	(20,620)	(31,308)	(51,928)
March 31, 1997	<u>-</u>	<u>335,705</u>	<u>261,227</u>	<u>596,932</u>
Net book values:				
March 31, 1997	<b><u>158,872</u></b>	<b><u>1,353,326</u></b>	<b><u>249,611</u></b>	<b><u>1,761,809</u></b>
March 31, 1996	<b><u>122,532</u></b>	<b><u>1,394,673</u></b>	<b><u>299,299</u></b>	<b><u>1,816,504</u></b>

The Company

	Freehold land \$'000	Buildings \$'000	Machinery, equipment & vehicles \$'000	Total \$'000
At cost or valuation				
March 31, 1996	6,542	393,958	4,386	404,886
Additions		-	430	430
Revaluation adjustments	4,000	(50,837)	-	(46,837)
Disposals	-	-	(745)	(745)
March 31, 1997	<u>10,542</u>	<u>343,121</u>	<u>4,071</u>	<u>357,734</u>
Broken down as follows:				
At cost	42	135	4,071	4,248
At valuation	<u>10,500</u>	<u>342,986</u>	<u>-</u>	<u>353,486</u>
	<u>10,542</u>	<u>343,121</u>	<u>4,071</u>	<u>357,734</u>
Depreciation:				
March 31, 1996	-	171,242	1,692	172,934
Charge for the year	-	5,191	558	5,749
Revaluation adjustments	-	(21,603)	-	(21,603)
Released on disposals	-	-	(410)	(410)
March 31, 1997	<u>-</u>	<u>154,830</u>	<u>1,840</u>	<u>156,670</u>
Net book values:				
March 31, 1997	<b><u>10,542</u></b>	<b><u>188,291</u></b>	<b><u>2,231</u></b>	<b><u>201,064</u></b>
March 31, 1996	<b><u>6,542</u></b>	<b><u>222,716</u></b>	<b><u>2,694</u></b>	<b><u>231,952</u></b>

The Group's buildings include furnished hotel buildings at a valuation of

\$1,009,541,501 (1996: \$967,419,000).

All revaluation adjustments in these financial statements have been reflected in capital reserve, net of depreciation (note 9).

#### 18 Related party transactions

	1997	1996
	\$'000	\$'000
(a) Purchases from associated companies		
- raw materials	27,344	32,447
- fixed assets	-	1,099
- other charges	5,279	6,257
(b) Technical fees paid to associated company	3,874	3,861

#### 19 Pension plan

The Group participates in the Carreras Group Limited Superannuation Scheme. The scheme provides pension benefits calculated by the reference to earnings in the three years prior to retirement, and is funded by contributions from employees at a fixed rate with the participating employers being responsible for meeting the balance of the costs of the scheme.

The scheme is subject to periodic actuarial valuations carried out by an independent firm of consulting actuaries. The most recent actuarial valuation carried out as at December 31, 1995, disclosed that the accumulated assets of the scheme were, on the basis of valuation adopted, sufficient to meet the liabilities arising in respect of service up to December 31, 1995.

The contributions during the year aggregated \$8,759,000 (1996: \$9,636,000) for the Group and \$751,000 (1996: \$717,000) for the company.

#### 20 National Housing Trust contributions

Contributions to the National Housing Trust which were expensed for the period to July 31, 1979 and are refundable between 2001/2005, are as follows:-

	\$'000
The Group	622
The company	13

## 21 **Subsidiary companies**

The operating subsidiary companies, all of which are incorporated in Jamaica, except as noted below, are as follows:

<b>Name of Company</b>	<b>Principal activity</b>	<b>Percentage of ordinary shares held by the company</b>
Cigarette Company of Jamaica Limited	Manufacturing and marketing of cigarettes.	91
Agricultural Products of Jamaica Limited	Farming and sale of tobacco	100
Jamaica Biscuit Company Limited	Manufacturing and marketing of biscuits.	100
Graphic Arts Limited	Producing packaging materials.	100
Jamaica Flexographic Limited	Printing packaging materials.	100
Sans Souci Development Limited and its subsidiary, Sans Souci Limited	Owners and Operators of hotel property and developers of real estate.	100

Twickenham Insurance Company  
(Incorporated in the Cayman Islands)

General insurance underwriters

100

## 22 Contractual commitments

Commitments at March 31, are payable as follows:

	The Group		The company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
Within one year	19,590	19,538	4,371	6,933
Subsequent years	<u>12,093</u>	<u>17,516</u>	<u>1,056</u>	<u>3,141</u>
	<u>31,683</u>	<u>37,054</u>	<u>5,427</u>	<u>10,074</u>

Payments made during the year ended March 31, aggregated:

	1997	1996
	\$'000	\$'000
The Group	20,033	20,063
The Company	7,711	4,615

## 23 Capital Commitments

At March 31, 1997 approximately \$28,143,000 (1996: \$Nil) had been committed by the group and \$Nil (1996: \$Nil) by the company in respect of capital expenditure for which no provision has been made in these financial statements.

## 24 Contingent liability

The company has given, in the ordinary course of business, guarantees in respect of the facilities provided by its bankers to its subsidiary companies.