

Lascelles, de Mercado 1997

Notes to the Group Financial Statements

September 30, 1997

1. The company

The company is incorporated under the laws of Jamaica, and these financial statements are presented in Jamaican dollars.

The principal activities of the company are the provision of management services to its subsidiaries (as listed in note 19) and the holding of investments.

2. Significant accounting policies

(a) Accounting convention:

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

(b) Basis of consolidation:

The consolidated financial statements comprise the financial results of the company and its subsidiaries prepared to September 30, 1997. The subsidiary companies are listed in note 19, and are referred to as "subsidiaries" or "subsidiary" in the text of these financial statements.

The company and its subsidiaries are collectively referred to as "the group".

Associated companies, as listed in note 6, are reported on the equity basis, based on the results of their latest available financial statements.

All significant inter-company transactions are eliminated.

Goodwill arising on the acquisition of subsidiaries is written off to capital reserves at the time of acquisition.

(c) Depreciation:

Depreciation is computed on a straight line basis at annual rates estimated to write off the fixed assets over their expected useful lives.

No depreciation is charged on freehold land or construction in progress.

The annual depreciation rate applied to freehold buildings is 2 1/2%. The rates for machinery, equipment and vehicles vary between 5% and 33 1/3%. Computers and related software are depreciated 100% in the year of acquisition.

(d) Inventories:

Rum and other liquors, estate supplies, raw and packaging materials, and motor vehicles and spare parts are valued at the lower of cost, determined principally on a first-in first-out basis, and net realisable value.

Future crop expenditure represents cultivation expenses which will be written off against the proceeds of the crop to which they relate.

Finished goods and work in progress include the cost of materials and labour with appropriate additions for overhead expenses.

(e) Foreign currencies:

- (i) Foreign currency balances at the balance sheet date have been translated at rates of exchange ruling on that date. Transactions in foreign currencies have been 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.
- (ii) The reporting currencies of the foreign subsidiaries (see note 19) are also their functional currencies, i.e. currencies in which economic decisions are formulated. For the purpose of these financial statements, revenues, expenses, gains and losses have been translated at the average exchange rates prevailing during the year under review; assets and liabilities have been converted at exchange rates ruling at the balance sheet date and shareholders' equity has been converted at historical exchange rates.

Unrealised gains and losses arising on translation of net stockholders' equity in the foreign subsidiaries have been taken to capital reserve.

(f) Underwriting results:

These are accounted for, in compliance with the recommendations and practices of the insurance industry, under the Insurance Act 1971.

3. Inventories

	The Group	
	1997 \$000s	1996 \$000s
Rum and other liquors:		
In-bond	994,646	843,417
Duty-paid	329,988	401,433
Future crop expenditure	113,956	103,840
Estate supplies	114,219	150,887
Raw and packaging materials	39,792	40,555
Finished goods held for sale	89,760	113,518
Work in progress	4,210	7,543
Motor vehicles and spare parts	221,499	229,842
	<u>1,908,070</u>	<u>1,891,035</u>

4. Unsecured loans

These include loans from related parties aggregating \$48,332,000 (1996: \$40,808,000) for the company and \$233,241,000 (1996: 144,297,000) for the group contracted strictly at arms length in the ordinary course of business.

5. Investments

	The Company		The Group	
Quoted, at cost	8,734	8,760	233,868	215,641*
Unquoted, at cost less amounts written off	127	119	183,095	160,654
Life assurance policy, at cash surrender value	57	56	57	56
Government of Jamaica securities	-	-	177,423	155,288*
	8,918	8,935	594,443	531,639*
Market value of quoted investments	<u>1,186,946</u>	<u>1,249,558</u>	<u>1,696,943</u>	<u>1,727,711</u>

*Reclassified to conform with 1997 presentation.

6. Interest in associated companies

	The Group	
	1997	1996
	\$000s	\$000s
Shares, at cost	63,417	43,219
Group's share of reserves	65,454	49,496
Loan accounts	1,555	1,555
	<u>130,426</u>	<u>94,270</u>

Certain subsidiaries held equity capital in the following enterprises:

Company	Holding	Main activity	Latest available results
Jamaica Joint Venture Investment Company Limited	33.3%	Investment	December 31, 1996

West Indies Glass Company Limited (see note 21)	49.7%	Manufacture of glass bottles	December 31, 1996
West Indies Metal Products Limited	33.3%	Manufacture of metal caps and seals	September 30, 1996
Royal and Sun Alliance Insurance (Jamaica) Limited	21.2%	General insurance underwriters	December 31, 1996
Fish Importers Limited*	41.4%	Import of fish products	December 31, 1995

* During the year, the group's investment in Fish Importers Limited was written down to zero consequent on losses discovered by the directors of that company.

7. Fixed assets

(a) With the exception of certain freehold land and buildings, all assets of the company and the group are stated at cost. The last major valuation, of certain freehold land and buildings, was performed in 1984. The surplus arising on revaluations is included in capital reserves.

(b) The Company:

	Freehold land \$000s	Freehold buildings \$000s	Machinery equipment and vehicles \$000s	Total \$000s
At cost or valuation				
September 30, 1996 and 1997	4,213	1,690	5,648	11,551
Depreciation:				
September 30, 1996	-	978	2,686	3,664
Charge for the year	-	63	1,013	1,076
September 30, 1997	-	1,041	3,699	4,740

Net book values:

September 30, 1997	4,213	649	1,949	6,811
September 30, 1996	4,213	712	2,962	7,887

A portion of the freehold buildings is stated at valuation of \$1,654,000. All other assets are stated at cost.

(c) The Group:

	Freehold land	Freehold buildings	Machinery equipment and vehicles	Construc, tion in progress	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
At cost or valuation:					
September 30, 1996	49,005	297,944	803,947	108,995	1,259,891
Additions	5,965	25,304	76,115	142,140	249,524
Transfers and reclassifications	70,030	9,695	55,588	(135,313)	-
Disposals	(24)	(66)	(9,094)	-	(9,184)
September 30, 1997	<u>124,976</u>	<u>332,877</u>	<u>926,556</u>	<u>115,822</u>	<u>1,500,231</u>
At cost	93,039	216,773	926,556	115,822	1,352,190
At valuation	<u>31,937</u>	<u>116,104</u>	<u>-</u>	<u>-</u>	<u>148,041</u>
	<u>124,976</u>	<u>332,877</u>	<u>926,556</u>	<u>115,822</u>	<u>1,500,231</u>
Depreciation:					
September 30, 1996					
Charge for the year	-	47,179	295,718	-	342,897
Eliminated on disposals	-	8,101	83,565	-	91,666
September 30, 1997	<u>-</u>	<u>(47)</u>	<u>(4,059)</u>	<u>-</u>	<u>(4,106)</u>
	<u>-</u>	<u>55,233</u>	<u>375,224</u>	<u>-</u>	<u>430,457</u>
Net book values:					
September 30, 1997	<u>124,976</u>	<u>277,644</u>	<u>551,332</u>	<u>115,822</u>	<u>1,069,774</u>
September 30, 1996	<u>49,005</u>	<u>250,765</u>	<u>508,229</u>	<u>108,995</u>	<u>916,994</u>

8. Share capital

	The Company	
	1997	1996
	\$000s	\$000s
Authorized in shares, issued and fully paid in stock units:		
96,000,000 Ordinary units of 20¢ each	19,200	19,200
10,000 6% Cumulative preference units of \$20 each	200	200
50,000 15% Cumulative preference units of \$20 each	<u>1,000</u>	<u>1,000</u>
	20,400	20,400

Stockholders are entitled to one vote for every 1,600 ordinary units, and one vote for each preference unit. The ordinary and preference units are listed on the Jamaica Stock Exchange.

9. Reserves

	The Company		The Group	
	1997	1996	1997	1996
	\$000s	\$000s	\$000s	\$000s
Capital:				
At beginning of year	<u>80,252</u>	<u>55,347</u>	<u>687,037</u>	<u>559,168</u>
Group's share of preacquisition reserves of associated company	<u>-</u>	<u>-</u>	<u>29,396</u>	<u>-</u>
Transfer from/(to) profit and loss account				
Capital profits and incentive dividends received	22,973	26,825	41,750	13,558
Capitalised on issues of bonus shares in subsidiaries	-	-	74,000	38,240
Disposal of subsidiary	-	-	(3,126)	-

Writedown of investment in associate	-	-	(2,020)	-
Dividends and distributions paid	(1,920)	(1,920)	(1,920)	(1,920)
	<u>21,053</u>	<u>24,905</u>	<u>108,684</u>	<u>49,878</u>
Translation adjustment arising on consolidation of foreign subsidiaries	-	-	22,809	77,991
At end of year	<u>101,305</u>	<u>80,252</u>	<u>847,926</u>	<u>687,037</u>
Revenue:				
Retained profits	<u>146,357</u>	<u>112,327</u>	<u>2,288,773</u>	<u>2,142,882</u>
	<u>247,662</u>	<u>192,579</u>	<u>3,136,699</u>	<u>2,829,919</u>

10. Insurance funds

	The Group	
	1997	1996
	\$'000s	\$'000s
Outstanding claims	118,675	110,894
Unearned premiums	50,201	51,376
Technical reserves	<u>56,242</u>	<u>46,634</u>
	<u>225,118</u>	<u>208,904</u>

- (a) Outstanding claims relate to incidents occurring prior to the balance sheet date, but not settled at that date.
- (b) Unearned premiums are accounted for in periods for which risks have been underwritten.
- (c) Technical reserves represent unexpired risks and claims equalization provisions.

11. Long term liabilities

	The Group	
	1997	1996
	\$000s	\$000s
Bank loans, 1990/1999	5,979	12,334
US\$ denominated loans, 2001/2002	<u>48,663</u>	<u>56,443</u>
	<u>54,642</u>	<u>68,777</u>
Less: Current maturities	(19,955)	(21,824)
	<u>34,687</u>	<u>46,953</u>

- (a) The loans form part of facilities offered by banks to subsidiaries and are repayable in monthly, quarterly or semi-annual instalments.
- (b) The long term liabilities bore interest at rates which, during the year, ranged from 12.5% to 38% (1996: 12.5% to 38%).

12. Turnover

This represents the price of goods and services sold to external customers, after deducting returns and discounts, and is inclusive of consumption taxes aggregating \$574,367,000 (1996:426,955,000).

13. Disclosure of (income)/expenses

Operating profit for the year is stated after (crediting)/charging:

	The Group	
	1997	1996
	\$000s	\$000s
Investment income	(125,524	250,685
Gains on disposals of fixed assets	(4,759)	(8,653) *
Gains on realisation of investments	(13,504)	(3,829)
Depreciation	91,666	84,806
Directors' emoluments:		
Fees	1	1 *
Management remuneration	4,669	4,312
Auditors' remuneration:		
Holding company and Jamaican subsidiaries	14,727	12,696
Foreign subsidiaries	3,556	1,949
Interest:		
Long term liabilities	8,358	12,431
Related parties	42,854	48,543
Other	280,802	331,744
Redundancy payments	<u>59,855</u>	<u>19,031</u>

*Restated to conform with 1997 presentation

14. Taxation

(a) Taxation is based on the profit for the year adjusted for tax purposes and is computed as follows:

	The Group	
	1997	1996
	\$000s	\$000s
Income tax @ 33 1/3%	103,422	129,268
Adjustment related to prior year	(843)	-
Associated companies, net	-	954
Tax credit on bonus issues of subsidiaries	(18,500)	(8,981)
	<u>84,079</u>	<u>121,241</u>

(b) The farming operations of certain subsidiaries were approved under Sections 5(6) and 36(d) of the Income Tax Act, with consequent relief from taxation. At September 30, 1997, profits relieved and available for distribution free of tax amount to \$87,851,000 (1996: \$87,851,000).

(c) At September 30, 1997, taxation losses of subsidiaries, subject to agreement by the Commissioner of Income Tax, available for set off against future profits, amounted to approximately \$304,212,000 (1996: \$79,778,000).

15. Profit attributable to members

This is dealt with in the financial statements of:

	The Group	
	1997	1996
	\$000s	\$000s
The company	57,165	49,453
Subsidiary companies	212,930	416,540
Associated companies	(13,438)	(18,495)
	<u>256,657</u>	<u>447,498</u>

16. Dividends and distributions

(a) Dividends and distributions, gross, are as follows:

	The Company	
	1997 \$000s	1996 \$000s
Ordinary stock units of 2¢ per stock unit	1,920	1,920
6% cumulative preference stock units	12	12
15% cumulative preference stock units	150	150
	<u>2,082</u>	<u>2,082</u>

(b) The distribution to ordinary stockholders was declared payable out of agricultural profits, relieved of taxation, to stockholders who on the record date, as per the company's register of members, had Jamaican addresses, and, by way of capital distribution out of realised capital gains, less transfer tax, to stockholders who on the record date, as per the company's register of members, had non-Jamaican addresses.

(c) The preference dividends are treated as a charge before taxation in accordance with the Income Tax Act.

17. Earnings per ordinary stock unit

The calculation of earnings per ordinary stock unit is based on the profit attributable to members, less fixed preference dividends, and the 96,000,000 fully paid ordinary stock units of 20 cents each in issue.

18. Pension schemes

The group operates trustee contributory pension schemes; benefit-based for salaried supervisory and clerical employees and cost-based for non-clerical employees.

The schemes are open to employees who have satisfied certain minimum service requirements. In addition to normal retirement benefits, the schemes provide for disability and death benefits. The most recent actuarial valuations, performed at September 30, 1994 and 1996, in respect of the benefit-based schemes, indicated that these schemes are adequately funded.

Certain subsidiaries also operate contributory cost-based pension schemes for various categories of employees not covered by group schemes. These schemes are, in the main, administered by trust organizations.

Contributions for the year amounted to \$30,000 (1996: \$277,000) for the company and \$22,668,000 (1996: \$21,729,000) for the group.

19. Subsidiaries

(a) The principal operating subsidiaries, in which the company holds equity capital, are:

Company	Holding	Main activities
John Crook Limited and its wholly-owned subsidiaries: John Crook (Montego Bay) Limited Cars & Commercials Limited Sun Tours Car Hire Limited	100%	Distribution of motor vehicles and spares; servicing, repair and rental of motor vehicles.
Lascelles Merchandise Limited	100%	Distribution of food, liquor and other consumer supplies.
Ajas Limited	100%	Handling of passenger and cargo operations for international airlines.

Transportation Agencies Limited	100%	General sales agents of international airlines.
C. P. Stephenson Limited	100%	Holding of investments.
Tradewell Limited	100%	Holding of investments.
Globe Insurance Company of the West Indies Limited	100%	General insurance underwriters; holding of investments.
Turks Islands Importers Limited and its wholly-owned subsidiary: Timco Limited	100%	Wholesale and retail merchandising of provisions and household goods; holding of investments.
Federated Pharmaceutical Company Limited and its wholly-owned subsidiary: Lascelles Laboratories Limited	84.3%	Manufacture and distribution of pharmaceutical preparations and other personal care products, and agricultural chemicals.
Wray & Nephew Group Limited and its wholly-owned subsidiaries	100%	See note 19 (b)

- (b) The main activities of the Wray & Nephew Group are cultivation of sugar cane and fruit crops; manufacture of sugar; distillation, blending, bottling, distribution and export of alcohol, rum, wines and other liquor based products; tours in the hospitality industry, distribution of motor vehicles and spares; servicing and repair of motor vehicles; and operation of an insurance agency.

The principal wholly-owned operating subsidiaries of Wray & Nephew Group Limited are:

Company	Company
J. Wray & Nephew Limited	The Rum Company (Jamaica) Limited
Daniel Finzi & Co. (Suc) Limited	CICO Limited
New Yarmouth Limited	J. Wray & Nephew (International) Limited
Newton Cane Farms Limited	The Rum Company (International) Limited
Jamaica Estate Tours Limited	Wray & Nephew (Canada) Limited
Henriques Brothers Limited	J. Wray & Nephew (U.K.) Limited
GWI Insurance Services Limited	Rum Company (New Zealand) Limited
Estate Industries Limited	
Edwin Charley (Jamaica) Limited	

(c) All subsidiaries (except as noted hereunder) are incorporated in Jamaica.

<u>Company</u>	<u>Country of Incorporation</u>
Turks Islands Importers Limited	Turks and Caicos Islands
Timco Limited	Turks and Caicos Islands
CICO Limited	The Bahamas
J. Wray & Nephew (U.K.) Limited	England
Rum Company (New Zealand) Limited	New Zealand
J. Wray & Nephew (International) Limited	Cayman Islands
The Rum Company (International) Limited	Cayman Islands
Wray & Nephew (Canada) Limited	Canada

- (d) The group's interests in Carriage House Imports, Limited, a subsidiary incorporated in the United States of America, were disposed of during the year.

20. Commitments

(a) Lease commitments:

There are unexpired lease commitments by the group in respect of:

- (i) Motor vehicles, under operating leases, terminating between 1997 and 2000 with amounts payable totalling \$121,135,795 (1996: \$105,636,000) of which \$68,199,608 (1996: \$52,827,000) is payable within one year. Of these lease commitments, amounts aggregating \$94,793,000 (1996: \$78,367,000) are in respect of leases extended by a related party.
- (ii) An office building, over a fifteen-year period, terminating in 2000, at an annual sum of \$1,244,000 payable to a related party.
- (iii) A tourist attraction complex, over a fifteen year period, terminating in 2003, at an annual sum of \$1,037,000 payable to a related party.

(b) Capital commitments:

At September 30, 1997, the group had committed \$159,090,000 (1996: \$51,400,000) for capital expenditure, for which no provision has been made in these financial statements.

21. Subsequent event

The group has entered into an arrangement to acquire, for nominal consideration, the material remaining issued stock units, representing approximately 49.4%, of the issued share capital, in its associated company, West Indies Glass Company Limited. It is the intention of the group to recapitalize and restructure that company's operations with a view to achieving their long-term viability.