

# Seprod Limited 1998

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## Notes to the Financial Statements

### 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 workforces. Certain of the companies also sold trademarks, a significant portion of their inventories, and plants and machinery to Colgate Palmolive Company during 1996.

In conjunction 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 1998 (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 or 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.

(k) Investments

Investments stated are as follows:

(i) Quoted equities at the lower of cost and market value.

(ii) Government of Jamaica and units in Money Market Unit Trusts at lower of cost or market value.

(iii) Investments in associated companies are accounted for using the equity method of accounting (note 2(c)).

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
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- (b) Group turnover represents the value of goods sold to third parties, and excludes revenue generated within the group totalling approximately \$415,443,000 (1997 - \$456,192,000).
- (c) The group has entered into the following transactions with major shareholders:
- (i) Two subsidiaries in the group paid a cess of approximately \$2,948,000, (1997 - \$3,069,000) based on the sales of copra based and substitute products, to Coconut Industry Board.
  - (ii) Sales of \$130,813,000 (1997 - \$142,248,000) to and purchases of \$13,844,000 (1997- \$15,487,000) from Musson Jamaica Limited.
  - (iii) Sales of approximately \$160,968,000 (1997 - \$231,331,000) to and purchases of \$7,486,000 (1997 - \$7,336,000) from Grace, Kennedy & Company Limited.
- (d) Advances to Directors totalled \$3,321,000 (1997 - \$3,376,000) at 31 December 1998. These amounts represent:
- (i) Advances on expected profit share which is based on the audited financial statements at 31 December 1998.
  - (ii) Gratuity advanced to the Chief Executive Officer in accordance with his contract.
- (e) Advances to Officers totalled \$3,662,000 (1997 - \$4,900,000) at 31, December 1998. These amounts represent advances on expected profit share which is based on the audited financial statements at 31 December 1998. The profit sharing scheme allows 5% of the audited profit before taxation (excluding investment income) to be paid to the Executive Management of the company.

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

	1998 \$'000	1997 \$'000
Depreciation	52,499	51,616
Interest	2,439	2,849
Interest income		
Investment	(60,774)	(55,561)
Other	(55,170)	(26,934)
Auditors' remuneration		
Current year	3,655	3,642
Prior year	-	237
Directors' emoluments		
Fees	1,487	1,534
Other	<u>12,401</u>	<u>9,512</u>

5 EXCEPTIONAL ITEMS

	1998 \$'000	1997 \$'000
Redundancy payments	(51,185)	(3,945)
Provision for claims	(14,000)	-
Retroactive payments to employees	-	(5,799)
Pension refund	<u>121,419</u>	<u>140,550</u>
	<b><u>56,234</u></b>	<b><u>130,806</u></b>

6 TAXATION

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

	1998 \$'000	1997 \$'000
Income tax at 33 1/3%	82,460	117,808
(Over) / Underprovision of prior year tax	(1,706)	(1,844)
Tax credit on bonus issue of shares	<u>(20,816)</u>	<u>(10,153)</u>
	<b><u>59,938</u></b>	<b><u>109,499</u></b>

- (a) 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.
- (b) Subject to agreement with the Commissioner of Income Tax, losses available for offset against future profits of certain subsidiaries amount to approximately %5,820,000 (1997-\$3,338,000).

7 EARNINGS PER STOCK UNIT/SHARE

The calculation of earnings per share is based on the net profit attributable to shareholders and 91,804,000 ordinary shares in issue after the bonus issue during the year (note 12). The earnings per share for the previous year have been adjusted accordingly.

8 . Fixed Assets

	<b>The Group</b>					
	Freehold Land & Site Improvements	Buildings	Plant, Equipment & Furniture	Motor Vehicles	Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost or Valuation -						
At 1 January 1998	57,193	757,804	734,827	31,377	12,028	1,593,229
Additions -		718	11,257	1,759	45,009	58,743
Disposals	-	-	(2,353)	(2,626)	-	(4,979)
Transfers to/(from) -		345	42,610	-	42,955	-
At 31 December 1998	<u>57,193</u>	<u>758,867</u>	<u>786,341</u>	<u>30,510</u>	<u>14,082</u>	<u>1,646,993</u>
	<b>The Company</b>					
Accumulated Depreciation -						
At 1 January 1998 -	-	479,939	467,518	19,853	-	967,310
Charge for the Year -	-	8,190	38,468	5,841	-	52,499
On disposals -	-	-	(1,943)	1,602	-	(3,545)
At 31 December 1998 -	<u>-</u>	<u>488,129</u>	<u>504,043</u>	<u>24,092</u>	<u>-</u>	<u>1,016,264</u>

Net Book Value -						
At 31 December 1998	<b>57,193</b>	<b>270,738</b>	<b>282,298</b>	<b>6,418</b>	<b>14,082</b>	<b>630,729</b>
At 31 December 1997	<b>57,193</b>	<b>277,865</b>	<b>267,309</b>	<b>11,524</b>	<b>12,028</b>	<b>625,919</b>
	The Company					
At Cost or Valuation -						
At 1 January 1998	5,453	284,135	82,449	13,738	740	386,515
Additions	-	718	10,760	554	1,734	13,766
Disposals	-	-	-	(916)	-	(916)
Transfers to/(from)	-	-	740	-	(740)	-
At 31 December 1998	<b>5,453</b>	<b>284,853</b>	<b>93,949</b>	<b>13,376</b>	<b>1,734</b>	<b>399,365</b>
Accumulated Depreciation -						
At 1 January 1998	-	164,911	61,838	7,096	-	233,845
Charge for the Year	-	2,059	7,648	3,290	-	12,997
On disposals	-	-	-	(671)	-	(671)
At 31 December 1998	<b>-</b>	<b>166,970</b>	<b>69,486</b>	<b>9,715</b>	<b>-</b>	<b>246,171</b>
Net Book Value -						
At 31 December 1998	<b>5,453</b>	<b>117,883</b>	<b>24,463</b>	<b>3,661</b>	<b>1,734</b>	<b>153,194</b>
At 31 December 1997	<b>5,453</b>	<b>119,224</b>	<b>20,611</b>	<b>6,642</b>	<b>740</b>	<b>152,670</b>

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 13).

Certain buildings are situated on land that has been leased. The unexpired portion of the lease is 62 years.

As at 31 December 1998, motor vehicles with net book value of approximately \$4,610,000 (1997 - \$9,799,000), 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 13) and to operations where reserves have been exceeded.

#### 9. INVESTMENTS

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Quoted (market value - \$326,000 1997 - \$336,328)	45	47	40	40
Long Term Government Securities	328,136	112,165	312,135	112,165
Unquoted	11	11	10	10
Units in Money Market Unit Trusts (market value - \$266,637,000 1997 - \$180,843,000)	<u>198,100</u>	<u>129,601</u>	<u>198,100</u>	<u>129,601</u>
	<u>526,292</u>	<u>241,824</u>	<u>510,285</u>	<u>241,816</u>
Associated company -				
North Coast Milling Limited	25,000	25,000	25,000	25,000
Group's share of profit	<u>23,710</u>	<u>23,832</u>	<u>-</u>	<u>-</u>
	<u>48,710</u>	<u>48,832</u>	<u>25,000</u>	<u>25,000</u>
	<b><u>575,002</u></b>	<b><u>290,656</u></b>	<b><u>535,285</u></b>	<b><u>266,816</u></b>

#### 10 INVENTORIES

	The Group		The company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000



Raw materials	68,264	98,847	-	-
Work in progress	9,731	4,422	-	-
Finished goods	60,812	35,054	-	-
	<b><u>138,807</u></b>	<b><u>138,323</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

11 RECEIVABLES

	The Group		The company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Trade receivables	194,221	200,436*	-	-
Advance payments	15,194	16,877*	2,117	-
Interest receivable	32,415	18,200	32,415	18,200
Other	17,620	18,787*	8,546	9,692
	<b><u>259,450</u></b>	<b><u>254,300</u></b>	<b><u>43,078</u></b>	<b><u>27,892</u></b>

\* Reclassified for comparative purpose

12 SHARE CAPITAL

	1998	1997
	\$'000	\$'000
Authorised -		
Ordinary shares of \$1 each	<b><u>100,000</u></b>	<b><u>50,000</u></b>
Issued and fully paid		
At beginning of year:		
Ordinary stock units/shares of \$1 each	45,902	45,902
Movement during the year:		
Bonus issue of ordinary shares of \$1 each	45,902	-
At the end of the year:		
Ordinary stock units/shares of \$1 each	<b><u>91,804</u></b>	<b><u>45,902</u></b>

In October 1998, the authorised ordinary share capital of the company was increased to \$100,000,000 by the creation

of an additional 50,000,000 ordinary shares of \$1 each. Shares totalling 45,902,037 units were then issued as fully paid up bonus shares by the capitalization of profits of \$45,902,037 on the basis of one ordinary share for every one ordinary share held.

13 CAPITAL RESERVE

	The Group		The Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Balance at the beginning of year -				
Unrealised surplus on revaluation				
of fixed assets	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>
Movement during the year -				
Transfers to accumulated surplus				
Reduction of unrealised surplus due				
to sale of assets previously revalued	(303)	(376)	-	-
Reduction of realised surplus due to				
capital distribution	(57,378)	(57,378)	(31,678)	(11,678)
	(57,681)	(57,754)	(31,678)	(11,678)
Transfers from accumulated surplus -				
Profits capitalized	54,279	41,525	-	-
Gain on sale of units	<u>40,500</u>	<u>-</u>	<u>40,500</u>	<u>-</u>
	<u>94,779</u>	<u>41,525</u>	<u>40,500</u>	<u>-</u>
At end of year	<b><u>765,012</u></b>	<b><u>727,914</u></b>	<b><u>169,914</u></b>	<b><u>161,092</u></b>
Comprised of -				
Unrealised surplus on revaluation	550,658	550,961	158,867	158,867
Profits capitalized	183,547	129,268	-	-
Gain on sale of brands	18,250	37,250	-	-

Gain on sale of units	8,822	-	8,822	-
Realised surplus	<u>3,735</u>	<u>10,435</u>	<u>2,225</u>	<u>2,225</u>
	<b><u>765,012</u></b>	<b><u>727,914</u></b>	<b><u>169,914</u></b>	<b><u>161,092</u></b>

14 LONG TERM DEBT

	The Group		The Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
(a) 33% West Indies Trust Company 1989/2005	7,032	7,348	7,032	7,348
(b) Five year Deferred Loan	5,868	5,868	5,868	5,868
(c) Jamaica Commodity Trading Company Limited- 1995/99	1,000	2,000	-	-
(d) National Development Bank (NDB)	<u>14,389</u>	<u>-</u>	<u>-</u>	<u>-</u>
	28,289	15,216	12,900	13,216
Less current portion	<u>10,962</u>	<u>7,404</u>	<u>6,509</u>	<u>6,404</u>
	<b><u>17,327</u></b>	<b><u>7,812</u></b>	<b><u>6,391</u></b>	<b><u>6,812</u></b>

(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 1999 and is interest free.

(c) This is an unsecured, interest-free loan which is repayable in yearly instalments of \$1,000,000.

(d) This loan is secured against an investment in Local Registered Stock and is repayable by 2003.

15 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	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
1998	-	6,358	-	4,035
1999	4,556	4,538	3,170	3,170

2000				
Total minimum lease payments	<u>1,227</u>	<u>1,227</u>	<u>701</u>	<u>701</u>
Less: Future finance charges	5,783	12,123	3,871	7,906
Present value of minimum lease payments	<u>700</u>	<u>2,507</u>	<u>455</u>	<u>1,639</u>
Less current portion	5,083	9,616	3,416	6,267
	<u>3,918</u>	<u>4,546</u>	<u>2,749</u>	<u>2,851</u>
	<u><b>1,165</b></u>	<u><b>5,070</b></u>	<u><b>667</b></u>	<u><b>3,416</b></u>

16 LOAN FROM AFFILIATE

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

17 PENSION SCHEME

The Seprod Group of Companies operates a pension scheme which provides 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 \$6,880,000 (1997 - \$7,262,614).

18 CONTINGENCY

The company is involved in certain legal proceedings incidental to the normal conduct of business. Management believes that adequate provision has been made for these legal proceedings and that they will not individually or in the aggregate have a material effect on the group.

19 CAPITAL COMMITMENT

- (a) At 31 December 1998, management had approved approximately \$20,352,095 for capital expenditure.
- (b) Seprod Limited in equal partnership with Pan Jam Group have made an offer of approximately \$121,000,000 to Finsac Limited ("Finsac") for the purchase of Eagle Unit Trusts Management Company Limited.

The negotiations for the conclusion of the sale agreement are in progress with Finsac.

