

# CARRERAS GROUP LIMITED 1998

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## Notes to the Financial Statements

### 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, 1998.

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 with the exception of hotel buildings, which are valued on the current depreciated 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 or credited 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.

(l) Pension scheme costs:

The Group participates in a pension scheme (note 19), the assets of which are held separately from those of the Group. Contributions to the scheme, made on the basis provided for in the rules, are charged to the profit and loss account when due.

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 \$1,111,497,000 (1997: \$968,369,000) and excludes intra-group trading.

4. Exceptional items

1998	1997
\$'000	\$'000

Redundancy and reorganization costs	16,860	10,589
Fixed assets written-off	11,716	31,267
Stock write-off	826	7,794
Tobacco crop losses	187	383
Product launch in overseas market	38,911	-
Receivables write-off	6,750	-
	<u>75,250</u>	<u>50,033</u>

5. Profit before taxation

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

	1998 \$'000	1997 \$'000
Depreciation	41,107	40,570
Transfer to reserve for replacement of furnished hotel property	19,829	18,455
Interest:		
Overdrafts and short-term borrowings	16	49
Fixed loans	1,097	1,793
Auditors' remuneration	6,637	5,928
Remuneration of directors:		
As directors	21	16
Management services	22,860	10,256
Loss on disposal of fixed assets	8,887	27,375
Exchange (gains)/losses	( 48,208)	144,272
Interest income on cash and short-term deposits	(121,225)	(144,387)
Investment income - dividends and interest	<u>(1,011,669)</u>	<u>(987,929)</u>

6. Taxation

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

	1998 \$'000	1997 \$'000
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Income tax @ 33 1/3%	874,555	635,032
Adjustment in respect of prior years	( 83,425)	(88,105)
Deferred taxation	( 30,660)	33,950
	<u>760,470</u>	<u>580,877</u>

- (a) Profits for the year arising from prescribed agricultural activities and relieved from taxation amount to \$32,160,000 (1997: \$52,915,000).
- (b) Profits for the year arising from prescribed hotel operations and relieved from taxation amount to \$23,231,000 (1997: \$24,098,000).
- (c) At March 31, 1998, tax losses in subsidiaries amounting to \$351,000 (1997: \$313,000) are available for set off against future taxable profits, subject to agreement by the Commissioner of Income Tax.

7. Net profit attributable to stockholders

	1998	1997
	\$'000	\$'000
Net profit attributable to stockholders, dealt with in the financial statements of the company	<u>756,285</u>	<u>671,930</u>

8. Dividends

	1998	1997
	\$'000	\$'000
Interim dividend of 25¢ (1997: 25¢) paid	60,680	60,680
Interim dividend of 60¢ (1997: 60¢) proposed	<u>145,632</u>	<u>145,632</u>
	206,312	206,312
Final dividend of 65¢ (1997: 65¢) proposed	<u>157,768</u>	<u>157,768</u>
	<u>364,080</u>	<u>364,080</u>

The company is exempt from deducting income tax on dividends paid to residents in Jamaica as follows:

- (a) Under the provisions of the Income Tax (Approved Farmer) Order 1983, and the Income Tax (Approved Farmer) (No. 3) Order 1993, out of tax-relieved profits derived from prescribed agricultural activities.
- (b) Under the provisions of the Approved Extension (Sans Souci Hotel) Order 1985, and the Approved Extension (Sans Souci Hotel Amendment) Order, 1991, out of tax-relieved profits derived from prescribed hotel operations.

#### 9. Reserves

	Capital reserves		Revenue reserves			Total
	Realised	Unrealised	Replace- ment reserve	Unappro- priated profits	Insurance claims	
	\$'000	\$'000	\$'000	\$'000	\$'000	
The Group Balance at March 31, 1997	50,324	1,692,835	8,620	3,813,648	171,383	
5,736,810						
Provision for the year	-	-	19,829	-	-	
19,829						
Retained profit for year	-	-	-	1,367,606	-	
1,367,606						
Transfer from/(to) profit and loss account	1,457	-19,374	-	-	90,763	
72,846						
Utilisation for the year	-	-	-9,833	-	-	
9,833						
Loss on translation of foreign subsidiary	-	1,400	-	267	8,418	
10,085						

Revaluation adjustments	<u>-</u>	<u>153,627</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>153,627</u>					
Balance at					
March 31, 1998	51,781	1,828,488	18,616	5,181,521	270,564
7,350,970					
The company					
Balance at					
March 31, 1997	10,396	197,608	-	707,586	-
915,590					
Retained profit for year	-	-	-	392,081	-
392,081					
Transfer from profit and					
loss account	124	-	-	-	-
124					
Revaluation adjustments	<u>-</u>	<u>28,141</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>28,141</u>					
Balance at					
March 31, 1998	<u>10,520</u>	<u>225,749</u>		<u>1,099,667</u>	
<u>1,335,936</u>					

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 \$581,000 (1997: \$581,000).
- . Profits arising from prescribed agricultural activities and relieved from taxation amounting to \$49,816,000 for the Group and the company at March 31, 1998 (1997: \$24,619,000 for the Group and the company).
- . Profits arising from prescribed hotel operations and relieved from taxation amounting to \$129,061,000 for the Group and \$Nil for the company at March 31, 1998 (1997: \$105,830,000 for the Group and \$Nil for the company).
- . Franked income of \$8,742,000 (1997: \$7,876,000) 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

	1998 \$'000	1997 \$'000
Authorized:		
242,720,000 ordinary shares of 25¢ each	<u>60,680</u>	<u>60,680</u>
Issued and fully paid:		
242,720,000 ordinary stock units of 25¢ each	<u>60,680</u>	<u>60,680</u>

12. Long-term loan

	The Group	
	1998 \$'000	1997 \$'000
16% bank loan	4,211	8,418
Less: current maturities	<u>4,211</u>	<u>4,207</u>
	<u>-</u>	<u>4,211</u>

This loan is repayable in quarterly instalments, the last instalment being due by March 31, 1999.

13. Short-term investments

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Quoted, at cost				

Local registered stocks	118,310	212,352	118,310	212,352
Unquoted, at cost	<u>2,597,041</u>	<u>1,889,824</u>	<u>2,484,808</u>	<u>1,854,750</u>
	<u>2,715,351</u>	<u>2,102,176</u>	<u>2,603,118</u>	<u>2,067,102</u>
Market value of quoted investments	117,719	211,821	117,719	211,821

14. Inventories

	The Group		The Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Finished leaf	42,944	58,879	-	-
Tobacco leaf crop in progress	-	36,391	-	-
Material and supplies	134,685	113,958	412	449
Work-in -progress	8,652	5,053	-	-
Finished products	<u>68,382</u>	<u>84,973</u>	<u>-</u>	<u>-</u>
	<u>254,663</u>	<u>299,254</u>	<u>412</u>	<u>449</u>

15. Accounts payable

Accounts payable for the Group include:

	1998	1997
	\$'000	\$'000
Special consumption tax payable	<u>88,572</u>	<u>62,104</u>
Payable to associated companies	<u>12,400</u>	<u>15,718</u>

16. Long-term investments

	The Group		The Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Quoted Equities	32,177	32,177	32,177	32,177

Local registered stocks	<u>1,241,229</u>	<u>1,120,061</u>	<u>1,241,229</u>	<u>1,067,061</u>
	<u>1,273,406</u>	<u>1,152,238</u>	<u>1,273,406</u>	<u>1,099,238</u>
Unquoted, at cost	<u>1,007,097</u>	<u>672,935</u>	<u>772,700</u>	<u>546,670</u>
Market value of quoted investments	<u>2,280,503</u>	<u>1,825,173</u>	<u>2,046,106</u>	<u>1,645,908</u>
	<u>1,271,606</u>	<u>1,155,622</u>	<u>1,271,606</u>	<u>1,102,754</u>

17. Fixed assets

The Group

	Freehold land \$'000	Buildings \$'000	Machinery, equipment & vehicles \$'000	Total \$'000
At cost or valuation:				
March 31, 1997	158,872	1,689,031	510,838	2,358,741
Additions	-	175,985	26,052	202,037
Revaluation adjustments	-	175,787	36,085	211,872
Disposals	-	(42,737)	(30,019)	(72,756)
March 31, 1998	<u>158,872</u>	<u>1,998,066</u>	<u>542,956</u>	<u>2,699,894</u>
Broken down as follows:				
At cost	1,922	3,753	56,535	62,210
At valuation	<u>156,950</u>	<u>1,994,313</u>	<u>486,421</u>	<u>2,637,684</u>
	<u>158,872</u>	<u>1,998,066</u>	<u>542,956</u>	<u>2,699,894</u>
Depreciation				
March 31, 1997	-	335,705	261,227	596,932
Charge for the year	-	10,898	30,209	41,107
Revaluation adjustments	-	39,164	18,935	58,099
Eliminated on disposals	-	(32,473)	(24,397)	(56,870)
March 31, 1998	-	<u>353,294</u>	<u>285,974</u>	<u>639,268</u>
Net book values:				
March 31, 1998	<u>158,872</u>	<u>1,644,772</u>	<u>256,982</u>	<u>2,060,626</u>
March 31, 1997	<u>158,872</u>	<u>1,353,326</u>	<u>249,611</u>	<u>1,761,809</u>

The Company

	Freehold land	Buildings	Machinery, equipment & vehicles	Total
At cost or valuation:				
March 31, 1997	10,542	343,121	4,071	357,734
Additions	-	-	339	339
Revaluation adjustments	-	51,250	-	51,250
Disposals	-	-	( 240)	( 240)
March 31, 1998	<u>10,542</u>	<u>394,371</u>	<u>4,170</u>	<u>409,083</u>
Broken down as follows:				
At cost	42	135	4,170	4,347
At valuation	<u>10,500</u>	<u>394,236</u>	<u>-</u>	<u>404,736</u>
	<u>10,542</u>	<u>394,371</u>	<u>4,170</u>	<u>409,083</u>
Depreciation:				
March 31, 1997	-	154,830	1,840	156,670
Charge for the year	-	5,966	595	6,561
Revaluation adjustments	-	23,109	-	23,109
Eliminated on disposals	-	-	( 121)	( 121)
March 31, 1998	<u>-</u>	<u>183,905</u>	<u>2,314</u>	<u>186,219</u>
Net book values:				
March 31, 1998	<u>10,542</u>	<u>210,466</u>	<u>1,856</u>	<u>222,864</u>
March 31, 1997	<u>10,542</u>	<u>188,291</u>	<u>2,231</u>	<u>201,064</u>

The Group's buildings include furnished hotel buildings at a valuation of \$1,294,590,000 (1997: \$1,009,542,000).

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

18. Related party transactions

	1998	1997
	\$'000	\$'000
(a) Purchases from associated companies		
- raw materials	33,800	27,344
- fixed assets	296	-
- other charges	<u>9,492</u>	<u>5,279</u>
(b) Technical fees paid to associated company	<u>4,085</u>	<u>3,874</u>

#### 19. Pension plan

The Group participates in the Carreras Group Limited Superannuation Scheme. The scheme provides pension benefits calculated by 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 \$10,818,000 (1997: \$8,759,000) for the Group and \$918,000 (1997: \$751,000) 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  
The company

622  
13

## 21. Subsidiary companies

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

Name of company	Principal activity	Percentage of ordinary shares held by the company
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	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Within one year	17,474	19,590	7,782	4,371
Subsequent years	16,762	12,093	6,232	1,056
	<u>34,236</u>	<u>31,683</u>	<u>14,014</u>	<u>5,427</u>

Payments made during the year ended March 31, aggregated:

	1998	1997
	\$'000	\$'000
The Group	25,405	20,033
The Company	<u>9,834</u>	<u>7,711</u>

#### 23. Capital commitment

At March 31, 1998 approximately \$23,890,000 (1997: \$28,143,000) had been committed by the Group and \$Nil (1997: \$ 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.

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