# WEST INDIES PULP & PAPER LIMITED 1998

## Notes to the Financial Statements

November 30, 1998

1. The company

   The company is incorporated in Jamaica and the ordinary stock units (see note 11) are listed on the Jamaica Stock Exchange. The financial statements are presented in Jamaican dollars ('000).

   The principal activities of the company and one of its wholly-owned subsidiaries, West Indies Paper Products Limited, are the manufacture and sale of paper and cardboard products. The other wholly-owned subsidiary, West Indies Containers Limited, did not operate during the year (see note 2).

   The company is a subsidiary of Investment & Management Services Limited ("the parent society"), an Industrial and Provident Society, incorporated in Jamaica.

2. Accounting basis

   On November 30, 1996, when West Indies Containers Limited ceased operations, the net book value of its assets were adjusted to reflect estimated net realisable values.

   These financial statements have been prepared on the going concern basis, although the appropriateness of this basis is dependent on the ability of the group to obtain continued financing and, ultimately, on future profitable operations.

   Significant accounting policies

(a) Accounting convention:

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

(b) Basis of consolidation:

The group financial statements include the financial statements of the wholly-owned subsidiaries, made up to November 30, 1998.

All significant inter-company transactions are eliminated. Goodwill arising on the acquisition of the subsidiaries has been written off.

The company and its wholly-owned subsidiaries are collectively referred to in the financial statements as the "group".

(c) Depreciation:

Fixed assets, with the exception of freehold land on which no depreciation is provided, are depreciated on the straight-line basis at annual rates estimated to write off the assets over their expected useful lives. The depreciation rates are as follows:

| | |
|---|---|
| Freehold land improvements and buildings: | |
| Land improvements | 5% - 10% |
| Buildings | 2 1/2% - 6 2/3% |
| Plant and machinery | 3 1/3% - 20% |
| Furniture and equipment | 5% - 20% |
| Vehicles | 25% |

(d) Inventories:

Inventories are valued at the lower of cost, determined on the weighted average basis, and net realisable value. Work-in-progress and finished products include costs of materials and labour with appropriate additions for production overhead expenses.

(e) Foreign currencies:

Foreign currency balances 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 are included in the profit and loss account.

(f) Pension costs:

The company operates two pension schemes (see note 21) and the assets of the schemes are held separately from those of the company. Contributions to the schemes, made on the basis provided for in the rules, are charged to the profit and loss account when due.

4. Accounts receivable

| | Company | | Group | |
|---|---|---|---|---|
| | 1998 ('000) | 1997 ('000) | 1998 ('000) | 1997 ('000) |
| Trade receivables | 27,142 | 23,875 | 82,798 | 84,975 |
| Less bad debt provision | (8,624) | (9,974) | (18,222) | (19,718) |
| | 18,518 | 13,901 | 64,576 | 65,257 |
| Other receivables | 6,069 | 13,532 | 23,116 | 13,532 |
| | **$24,587** | **27,433** | **87,692** | **78,789** |

5. Inventories

| | Company | | Group | |
|---|---|---|---|---|
| | 1998 ('000) | 1997 ('000) | 1998 ('000) | 1997 ('000) |
| Raw materials and supplies | 9,217 | 4,026 | 14,315 | 13,501 |
| Goods in transit | 14,747 | 5,206 | 16,498 | 5,415 |
| Work-in-progress | - | - | 9,470 | 4,714 |
| Finished products | 11,812 | 14,574 | 17,743 | 19,418 |

| | | | | |
|---|---|---|---|---|
| Plant and machinery spare parts | 11,526 | 12,352 | 62,861 | 61,537 |
| Purchased finished products | 27 | 29 | 27 | 29 |
| | **$47,329** | **36,187** | **120,914** | **104,614** |

6. Bank loans and overdrafts

| | Company | | Group | |
|---|---|---|---|---|
| | 1998 ('000) | 1997 ('000) | 1998 ('000) | 1997 ('000) |
| Bank overdrafts [note (i)] 41% (1997: 59% - 61%) | 6,056 | 9,182 | 14,683 | 15,814 |
| Demand loans [note (ii)] | | | | |
| (a) 45% | - | - | - | 14,445 |
| (b) 40% | - | - | - | 28,817 |
| (c) 13% | - | - | 40,012 | - |
| | **$6,056** | **9,182** | **54,695** | **59,076** |

(i) The bank overdraft of the company is secured by:

(a) a debenture over fixed and floating assets of the company stamped to cover $13 million;

(b) a legal mortgage over one of the company's properties;

(c) unlimited guarantees of the subsidiaries, the parent and two common directors;

(d) assignment of peril insurance.

The amount due to the parent society (note 8) is subordinated in favour of the overdraft.

The overdrafts and bank loans [see notes 13(d), (e), (f) and (g)] of the subsidiaries are secured by:

(e) a legal mortgage over a subsidiary's property and debenture over the fixed and floating assets of that subsidiary, stamped to cover $57 million (1997: $57 million);

(f) unlimited guarantees of the company, the parent and fellow subsidiary companies and two common directors.

(ii) (a) This loan which was received by the company and on-lent to a subsidiary under the same terms and conditions, was repaid during the year. It was secured by a bill of sale over certain equipment of the company and the assignment of peril insurance.

(b) This loan, which was repaid during the year, represented letters of credit payable in US$ and bore interest at the rate of 3% to 6% per annum (calculated on US$ balance). The letters of credit previously negotiated by the company, had been converted to a demand loan and on-lent to a subsidiary under the same terms and conditions. The loan was secured by a bill of sale over certain equipment of the company.

(c) This loan was received in the year to settle loans (ii) (a) and (b) above, and is repayable in monthly instalments of $650,000, the final instalment being due January 2004.

7. Accounts payable

| | Company | | Group | |
|---|---|---|---|---|
| | 1998 ('000) | 1997 ('000) | 1998 ('000) | 1997 ('000) |
| Trade debt [US$594,000 (1997: US$594,000)] | 22,175 | 21,501 | 22,175 | 21,501 |
| Due to companies controlled by directors | - | 1,299 | - | 2,545 |
| Other trade payables and accruals | 41,990 | 28,199 | 180,061 | 120,331 |
| | **$64,165** | **50,999** | **202,236** | **144,377** |

The trade debt is denominated in United States Dollars (US$) and is secured by a floating charge, stamped to cover the J$ equivalent of US$1.5 million with power to upstamp, over certain inventories ranking after the charge described in note 6(i)(a), and bank guarantee amounting to J$39.9 million (1997: J$39.9 million).

Based on credit terms agreed with the supplier, the outstanding amount as at November 30, 1998 will be settled by monthly instalments of US$70,000 (J$2,614,000) each.

8. Due to parent society

This is comprised as follows:

| | Company | | Group | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| Loan | 10,000 | 10,000 | 10,000 | 10,000 |
| Current accounts | (6,472) | 38 | 14,284 | 18,484 |
| | **$3,528** | **10,038** | **28,484** | **28,484** |

The loan is interest-free with other repayment terms yet to be determined. Repayment of the balance due to the parent society has been subordinated in favour of the company's bank overdraft [see note 6(i)].

9. Interest in subsidiaries

This represents shares, at cost.

10. Fixed assets

(a) Company:

| | Freehold land, improvements and buildings ('000) | Plant and machinery ('000) | Furniture, equipment & vehicles ('000) | Total ('000) |
|---|---|---|---|---|
| At cost or valuation: | | | | |
| November 30, 1997 | 50,286 | 111,855 | 10,964 | 173,105 |
| Additions | - | - | 276 | 276 |
| Disposals | - | - | (60) | (60) |

| | | | | |
|---|---|---|---|---|
| November 30, 1998 | 50,286 | 111,855 | 11,180 | 173,321 |
| Broken down as follows: | | | | |
| At cost | 29,335 | 83,029 | 11,180 | 123,544 |
| At valuation | 20,951 | 28,826 | - | 49,777 |
| | 50,286 | 111,855 | 11,180 | 173,321 |
| Depreciation: | | | | |
| November 30, 1997 | 4,956 | 20,425 | 6,105 | 31,486 |
| Charge for the year | 1,362 | 7,421 | 1,067 | 9,850 |
| Eliminated on disposals | - | - | (20) | (20) |
| November 30,1998 | 6,318 | 27,846 | 7,152 | 41,316 |
| Net book values: | | | | |
| November 30, 1998 | **$43,968** | **84,009** | **4,028** | **132,005** |
| November 30, 1997 | **$45,330** | **91,430** | **4,859** | **141,619** |

(b) Group:

| | Freehold land, improvements and buildings ('000) | Plant and machinery ('000) | Furniture, equipment & vehicles ('000) | Capital work in - progress ('000) | Total ('000) |
|---|---|---|---|---|---|
| At cost or valuation: | | | | | |
| November 30, 1997 | | | | | |
| Additions | 140,285 | 224,094 | 15,383 | 3,254 | 383,016 |
| Disposals | - | 98 | 719 | - | 817 |
| Transfers | - | (878) | (60) | - | (938) |
| November 30, 1998 | - | 3,254 | - | (3,254) | - |
| | 140,285 | 226,568 | 16,042 | - | 382,895 |
| Broken down as follows: | | | | | |
| At cost | 29,334 | 193,467 | 16,042 | - | 238,843 |
| At valuation | 110,951 | 33 | - | - | 144,052 |
| | 140,285 | 226,568 | 16,042 | - | 382,895 |
| Depreciation: | | | | | |
| November 30, 1997 | 12,386 | 55,187 | 8,179 | - | 75,752 |
| Charge for the year | 5,077 | 14,709 | 1,576 | - | 21,362 |
| Eliminated on disposals | - | 676 | (21) | - | (697) |

| | | | | | |
|---|---|---|---|---|---|
| November 30, 1998 | 17,463 | 69,220 | 9,734 | - | 96,417 |
| Net book values: | | | | | |
| November 30, 1998 | **$122,822** | **157,348** | **6,308** | - | **286,478** |
| November 30, 1997 | **$127,899** | **168,907** | **7,204** | **3,254** | **307,264** |

Freehold land, improvements and buildings include land at cost of $714,000 (1997: $714,000) for the company and $3,870,000 (1997: $3,870,000) for the group, and at valuation of $4,000,000 (1997: $4,000,000) for the company and $38,300,000 (1997: $38,300,000) for the group.

Plant and machinery of the company and a subsidiary were revalued by Baird and Henderson Valuators Limited of Kingston, Jamaica, at June 27, 1990 on a depreciated replacement cost basis. At April 11, 1997, certain plant and machinery of a subsidiary which ceased operations as at November 30, 1996 were revalued by Haire Inc. of the United States of America on a net realisable value basis (see note 2). Freehold land, improvements and buildings of the company and subsidiaries were revalued by C. D. Alexander Company (Realty) Limited, Valuators, Appraisers and Auctioneers of Kingston, Jamaica on November 30, 1992. Subsequently, certain freehold land, improvements and buildings of a subsidiary were revalued as at November 30, 1995 on an open market basis also by C. D. Alexander Company (Realty) Limited. The surplus/(deficit) arising on revaluations, inclusive of depreciation no longer required, are included in capital reserve (note 12). Also, at year-end, any material difference between net book values and estimated net realisable values of assets of a subsidiary (see note 2) are made against capital reserve.

Buildings include capitalised interest amounting to $1,214,000 (1997: $1,214,000) for the company and the group.

Plant and machinery includes capitalised interest amounting to $10,162,000 (1997: $10,162,000) for the company and $19,715,000 (1997: $19,715,000) for the group.

11. Share capital

| | | | 1998 ('000) | 1997 ('000) |
|---|---|---|---|---|
| Authorised: | | | | |
| 9,500,000 | 7 1/2% | Non-cumulative convertible redeemable preference shares of $1 each | 9,500 | 9,500 |

| | | | | |
|---|---|---|---|---|
| 1,457,105 | "A" | Ordinary shares of 50¢ each | 728 | 728 |
| 23,649,800 | | Ordinary shares of 50¢ each | 11,825 | 11,825 |
| | | | **$22,053** | **22,053** |

Issued and fully paid:

| | | | | |
|---|---|---|---|---|
| 9,500,000 | 7 1/2% | Non-cumulative convertible redeemable preference shares [see note (a) below] | 9,500 | 9,500 |
| 800,000 | "A" | Ordinary stock units [see note (b) below] | 400 | 400 |
| 23,416,862 | | Ordinary stock units (see note 1) | 11,708 | 11,708 |
| | | | **$21,608** | **21,608** |

(a) On December 1, 1989, 9,500,000 7 1/2% non-cumulative convertible redeemable preference shares of $1 each were issued in accordance with the terms and conditions of the agreement for the divestment of the Government of Jamaica's holding in the company.

These shares are convertible to ordinary stock units after the redemption of any preference capital held by the Government of Jamaica and the repayment of the 7-1/2% unsecured Government of Jamaica loans [note 13(a)].

(b) Each "A" ordinary stock unit carries three and one-half times the voting, dividend and distribution rights attached to each of the other ordinary stock units. These stock units are not included in those listed on the Jamaica Stock Exchange (see note 1).

## 12. Net reserves

| | Company | | Group | |
|---|---|---|---|---|
| | 1998 ('000) | 1997 ('000) | 1998 ('000) | 1997 ('000) |
| Capital: | | | | |
| Share premium | 100 | 100 | 100 | 100 |
| Capital redemption reserve fund | 52 | 52 | 52 | 52 |

| | | | | |
|---|---|---|---|---|
| Revaluation reserve: | | | | |
| Unrealised: | | | | |
| At beginning of the year | 51,059 | 51,059 | 186,863 | 184,656 |
| Elimination of revaluation (surplus) /deficit relating to disposals | - | - | (2,401) | 2,207 |
| At end of the year | 51,059 | 51,059 | 184,462 | 186,863 |
| Realised: | | | | |
| At beginning of the year | 25,068 | 21,147 | 29,040 | 25,119 |
| Transfer from profit and loss account | - | 3,921 | - | 3,921 |
| At end of the year | 25,068 | 25,068 | 29,040 | 29,040 |
| | 76,279 | 76,279 | 213,654 | 216,055 |
| Revenue: | | | | |
| (Deficit)/retained profits | (590) | 6,543 | (95,602) | (62,876) |
| | **$75,689** | **82,822** | **118,052** | **153,179** |

13. Long-term liabilities

| | Company | | Group | |
|---|---|---|---|---|
| | 1998 ('000) | 1997 ('000) | 1998 ('000) | 1997 ('000) |
| (a) 7 1/2% unsecured loans - Government of Jamaica | 1,340 | 2,879 | 1,340 | 2,879 |
| (b) Unsecured trade credit | 64,753 | 62,784 | 64,753 | 62,784 |
| (c) Instalment loan | 79 | 237 | 79 | 237 |
| (d) 34% (1997: 36%) Bank loan | 9,210 | 11,740 | 9,210 | 11,740 |
| (e) 13% (1997: 22%) Bank loan | - | - | 4,015 | 5,475 |
| (f) 13% (1997: 22%) Bank loan | - | - | 1,174 | 1,600 |
| (g) 34% (1997: 36%) Bank loan | - | - | 2,750 | 3,750 |
| | 75,382 | 77,640 | 83,321 | 88,465 |
| Less past-due and current maturities | (3,798) | (4,552) | (6,685) | (7,439) |
| | **$71,584** | **73,088** | **76,636** | **81,026** |

(a) These loans are repayable in sixteen equal half-yearly instalments of $832,000 each, the final instalment being due on May 30, 1999.

(b) This liability of US$1,734,000 (1997: US$1,734,000), was payable by 48 monthly promissory notes of US$36,000 each commencing April 30, 1996. The repayment was, however, suspended during the year ended November 30, 1996 with the consent of the creditor. No interest was, therefore, applicable; however, in the event of default, the creditor has the option to declare the outstanding balance due and payable in full bearing interest at the rate of 18% per annum (calculated on the US$ balance).

(c) This loan is repayable in 48 equal monthly instalments of $27,000 each, inclusive of interest, the final instalment being due in June 1999. The loan is secured by a bill of sale over a motor vehicle.

(d) This total loan is repayable in equal monthly instalments of $230,000 each, plus variable rate interest, the final instalment being due in June 2002. The loan is secured as described in notes 6(i) (e) and (f).

(e),(f) These loans are repayable in equal quarterly instalments of $365,000 and $107,000 each, respectively, the final instalments being due in June 30, 2003. These loans are secured as described in notes 6(i) (e) and (f).

(g) This loan is repayable in 48 equal monthly instalments of $83,000, the final instalment being due in August 2001. The loan is secured as described in notes 6(i) (e) and (f).

14. Gross operating revenue

Gross operating revenue excludes General Consumption Tax and represents the invoiced value of sales by the group, adjusted for returns.

15. Disclosure of expenses

Group operating loss is stated after charging:

| | 1998 ($'000) | 1997 ($'000) |
|---|---|---|
| Depreciation | 21,362 | 20,468 |
| Interest: | | |
| Bank loan | 881 | 2,473 |

| | | |
|---|---|---|
| Long-term loan | 18,435 | 22,484 |
| Overdraft | 2,385 | 6,120 |
| Directors' emoluments - Fees | Nil | Nil |
| - Management remuneration | Nil | Nil |
| Management fees to parent society | 10,526 | 14,177 |
| Auditors' remuneration - current year | 1,955 | 1,730 |
| - prior year | 55 | 48 |

16. Extraordinary item

In the previous year, this represented an out of court settlement of damages by a supplier in respect of faulty equipment which has been replaced.

17. Net loss attributable to members
This includes loss of $7,133,000 (1997: profit of $17,744,000) relating to the company only.

18. Loss per stock unit

This is computed by dividing the net loss of $32,726,000 (1997: $21,170,000) before extraordinary item, and the net loss of $31,691,000 (1997: $8,684,000) after extraordinary item, by 800,000 (1997: 800,000) 'A' ordinary stock units and 23,416,862 (1997: 23,416,862) ordinary stock units in issue. Account has been taken of the rights attached to the 'A' ordinary stock units [see note 11 (b)].

19. Taxation

At November 30, 1998, taxation losses, subject to agreement by the Commissioner of Income Tax, available for relief against future taxable profits, amounted to approximately $45,987,000 (1997: $21,348,000) for the company and $ 158,242,000 (1997: $122,188,000) for the group.

20. National Housing Trust contributions

Contributions made by the company and the group, amounting to $80,000 and $228,000, respectively, which were expensed during the period to July 31, 1979, are recoverable in the years 2001/2004.

21. Pension schemes

The company operates separate contributory pension schemes for salaried and hourly paid employees of its parent and subsidiaries. Both schemes are administered by Jamaica Mutual Life Assurance Society.

The benefits of the salaried scheme are computed by reference to final salary. This scheme is subject to triennial actuarial valuations and the most recent report, dated July 27, 1992, was carried out by the Society as of December 31, 1991. This valuation indicated a past service deficiency of $1,323,000 which was subsequently made good by the group. Based on the recommendation of the actuaries the group's contributions are at the rate of 10% of pensionable salaries which is considered adequate to cover future benefits. The next valuations which are due as at December 31, 1994 and 1997 have not yet been completed.

The rules of the "hourly paid" scheme provide for payment, by way of annuities, to pensioners based on accumulated employer and employee contributions, together with interest thereon.

The contributions to the schemes for the year amounted to $4,629,000 (1997: $4,431,000) for the company and $6,932,000 (1997: $7,356,000) for the group.

## 22. Lease commitments

Commitments at November 30, 1997 under operating leases expiring March 1998 amounted to $Nil (1997: $1,283,000) for the company and the group. The amounts payable within twelve months of the balance sheet date total $Nil (1997: $1,283,000) for the company and the group.

## 23. Working capital support

The group has a revolving line of credit with a major supplier of paper which allows the group to draw down supplies on a need basis. There is also a bank guarantee of $7,470,000 (1997: $7,263,000) under a revolving letter of credit for the purpose of acquiring raw materials.

## 24. Year 2000 issue

The Year 2000 Issue arises because many computerized systems used two digits rather than four to identify a year. Date-sensitive systems may recognise the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issues affecting an entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.