

Seprod Limited and Its Subsidiaries

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 plant and machinery to Colgate Palmolive Company during 1996.

In connection 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) Use of estimates

The preparation of financial statements in conformity with Jamaican generally accepted

accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Actual results could differ from those estimates.

(c) Consolidation

The group financial statements incorporate the financial statements of the company, its subsidiaries and associated companies made up to 31 December 2000 (note 3 (a)).

(d) Associated companies

The equity method of accounting is used to account for the associated companies. Under this method, the group's share of profit or losses of the associated companies is included in the group profit and loss account and any tax attributable to the share of profits is included in the groups tax charge. In the group balance sheet, the investment is shown at cost plus the group's share of reserves arising since the acquisition of the investments.

(e) 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

(f) Inventories

Inventories are stated at the lower 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.

(g) 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.

(h) Fair value of financial instruments

The amounts included in the financial statements for cash and bank, receivables, payables and accrued liabilities reflect their approximate fair values because of the short-term nature of these instruments.

The fair values of the group's other financial instruments are discussed in Note 25.

(i) 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.

(j) Leases

The present value of the minimum lease payments under finance leases is capitalised 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,

(k) Goodwill

Goodwill arising on consolidation is amortised over its economic life, estimated by the Directors to be ten years.

(l) Investments

Investments are stated 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 (d)).

3. Related Parties

(a) The wholly owned subsidiaries and associated companies 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
Jamaica Edible Oils & Fats Company Limited	100

Associated Companies

North Coast Milling Limited	50
Facey Commodity Company Limited	48.80

In March 2000, the company sold its entire shareholding in Seprod Wharf and Storage Limited (note 27). In May 2000, the company and Musson Jamaica Limited each acquired 48.80% of the ordinary share capital of Facey Commodity Company Limited for \$229,018,000. Additionally, the company acquired all the ordinary share capital of Jamaica Edible Oils & Fats Company Limited in June 2000 (note 28) for \$162,843,000.

- (b) Group turnover represents the value of goods sold to third parties, and excludes revenue generated within the group totalling \$404,738,000 (1999 - \$421,430,000).
- (c) The group has entered into the following transactions with related parties:
- (i) Two subsidiaries in the group paid cess of \$3,910,000, (1999 - \$3,150,000) based on the sales of copra based and substitute products, to Coconut Industry Board,.
 - (ii) Sales of \$103,859,000 (1999- \$152,486,000) to and purchases of \$23,637,000 (1999 - \$17,032,000) from Musson Jamaica Limited.
 - (iii) Sales of \$74,186,000 (1999 - \$111,168,000) from Grace, Kennedy & Company Limited.
 - (iv) Seprod Limited is the guarantor of a \$50,000,000 overdraft facility that is being operated by Facey Commodity Company Limited.
- (d) Advances to an Executive Director totalled \$6,173,000 (1999 - \$924,000) at 31 December 2000. These amounts represent:

- (i) Advances on expected profit share, which is based on the audited financial statements at 31 December 2000.
 - (ii) Loan advanced to the Executive Director.
- (e) Advances to Officers totalled \$6,330,000 (1999 -\$4,562,000) at 31 December 2000. These amounts represent advances on expected profit based on the audited financial statement of 31 December 2000. The profit sharing scheme allows 10% of the audited operating profit before taxation to be paid to the Executive Management

4. Operating Profit

Group profit before taxation and exception61 items has been arrived at after charging/(crediting) the following:

	2000	1999
	\$'000	\$'000
Goodwill on consolidation	13,127	-
Capital reserve on consolidation	(5,766)	(5,766)
Depreciation	71,365	55,216
Auditors' remuneration -		
Current year	3,980	3,655
Directors' emoluments		
Fees	1,717	1,489
Other		
	10,428	15,935
Staff costs (Note 5)	<u>331,861</u>	<u>288,376</u>

5. Staff costs

	2000	1999
	\$'000	\$'000
Wages and salaries	213,609	209,814
Statutory contributions	19,712	25,134
Pension contributions	7,331	7,284
Others	<u>56,507</u>	<u>29,383</u>
	297,159	272,115
Termination costs (Note 7)	<u>34,702</u>	<u>16,261</u>
	<u>331,861</u>	<u>288,376</u>

Average number of persons employed by the group during the year:

	2000	1999
	No.	No.
Full time	186	238
Part time	101	55
	<u>287</u>	<u>293</u>

6. Finance Income

	2000	1999
	\$'000	\$'000
Interest income -		
Investment	93,353	85,808
Other	44,870	62,766
Foreign exchange gain	27,891	19,004
Dividend income	-	8
Gain on sale of units in Money Market Unit Trusts	46,118	85,519
Gain on sale of investment	-	91
Interest expenses		
Bank -		
Overdraft	(2,826)	(932)
Loans	(18,829)	(2,078)
Finance lease	(2,281)	(1,221)
Other	(2,066)	(71)
	<u>186,230</u>	<u>248,894</u>

7. Exceptional Items

	2000	1999
	\$'000	\$'000
Redundancy payments	(34,702)	(16,261)
Provision for claims	-	2,488
Pension refund	-	111,600
Retroactive payments to former employees	<u>(21)</u>	<u>-</u>

(34,722) 97,827

8. Taxation

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

	2000	1999
	\$'000	\$'000
Income tax at 33 1/3%	55,956	101,204
Under/overprovision of prior year tax	1,982	(2,694)
Tax credit on bonus issue of shares	<u>(26,816)</u>	<u>(30,589)</u>
	<u>31,122</u>	<u>67,921</u>

(a) The tax charge is disproportionate to the reported results in both years mainly as a result of investments in tax-free Government instruments.

(b) Subject to agreement with the Commissioner of Income Tax, losses available for offset against future profits of certain subsidiaries amount to approximately \$219,626,000 (1999 - \$2,718,000).

9. Extraordinary item

This represents the gain on disposal of Seprod Wharf & Storage Limited.

10. Net Profit Attributable to Stockholders

Dealt with as follows in the financial statements

	2000	1999
	\$'000	\$'000
Holding company	293,715	270,574
Subsidiaries	33,127	90,766
Associated companies	<u>32,564</u>	<u>(16)</u>
	<u>359,406</u>	<u>361,324</u>

11. Earnings per Share

The calculation of earnings per share/stock is based on the net profit and 275,412,000 ordinary shares in issue after the bonus issue during the year (Note 20). The earnings per share for the previous year have been adjusted accordingly.

12. Capital Distribution

	2000	1999
	\$'000	\$'000
Capital distribution (\$0.40 per stock unit; 1999 - \$0.65)	<u>73,443</u>	<u>59,673</u>

13. Fixed Assets

	The Group					Total
	Freehold	Buildings	Plant,	Motor	Work in	
	Land & Site		Equipment	Vehicles	Progress	
	Improvement	& Furniture	& Furniture	& Furniture	& Furniture	& Furniture
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost or Valuation -						
At 1 January 2000	71,958	629,647	820,215	33,515	9,013	1,564,348
Additions	-	-	4,831	527	17,595	22,953
Disposals	-	-	(2,641)	(11,387)	-	(14,028)
Transfer to/(from)	-	-	9,111	-	(9,111)	-
Adjustment for acquisition of Jamaica Edible Oils & Fats Co. Ltd.	-	-	163,352	857	-	164,209
Adjustment for disposal of Seprod Wharf & Storage Ltd.	(37,000)	(21,102)	(2,799)	(269)	-	(61,170)
At 31 December 2000	<u>34,958</u>	<u>608,545</u>	<u>992,069</u>	<u>23,243</u>	<u>17,497</u>	<u>1,676,312</u>
Accumulated Depreciation -						
At 1 January 2000	-	408,743	525,099	24,319	-	958,161
Charge for the year	-	11,460	55,932	3,973	-	71,365
On disposals	-	-	(1,586)	(9,158)	-	(10,744)
Adjustment for acquisition of Jamaica Edible Oils & Fats Co. Ltd.	-	-	32,200	161	-	32,361
Adjustment for disposal of Seprod Wharf & Storage Ltd.	-	(3,297)	(1,678)	(269)	-	(5,244)
At 31 December 2000	<u>-</u>	<u>416,906</u>	<u>609,967</u>	<u>19,026</u>	<u>-</u>	<u>1,045,899</u>

Net Book Value						
At 31 December 2000	34,958	191,639	382,102	4,217	17,497	630,413
At 31 December 1999	71,958	220,904	295,116	9,196	9,013	606,187

The Company

	Freehold Land & Site Improvement \$'000	Buildings \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicle \$'000	Work in Progress \$'000	Total \$'000
At Cost or Valuation -						
At 1 January 2000	20,218	286,796	103,828	18,808	9	429,659
Additions	-	-	756	25	551	1,332
Disposals			(4)	(3,077)	-	(3,081)
Transfer to/(from)			62	-	(62)	-
At 31 December 2000	20,218	286,796	104,642	15,756	498	427,910
Accumulated Depreciation						
At 1 January 2000	-	172,666	74,171	12,521	-	259,358
Charge for the year	-	5,752	9,742	2,742	-	18,236
Relieved on disposal	-	-	-	2,967	-	(2,967)
At 31 December 2000	-	178,418	83,913	12,296	-	274,627
Net Book Value						
At 31 December 2000	20,218	108,378	20,729	3,460	498	153,283
At 31 December 1999	20,218	114,130	29,657	6,287	9	170,301

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 Valuers 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 21).

Certain buildings are situated on land that has been leased. The unexpired portion of the lease is 60 years.

As at 31 December 2000, motor vehicles with net book value of approximately \$3,661,000 (1999 -\$4,867,000), 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 \$26,418,000, at 31 December 1995, being the estimated value at which they will be utilised as warehouses. One of these buildings, with a net carrying value of \$5,997,000, 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 21) and to operations where available reserves have been exceeded.

14. Goodwill on Consolidation

	2000 \$'000	1999 \$'000
Goodwill on acquisition of Jamaica Edible Oils & Fats Co. Ltd.	249,421	-
Capital reserve on consolidation, net	<u>(27,459)</u>	<u>(33,225)</u>
	<u>221,962</u>	<u>(33,225)</u>

15. Investments

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Quoted (market value - \$355,000) 1999 - \$117,000)	40	40	40	40
Long Term Government Securities	611,080	756,156	595,080	740,156
Unquoted	1,061	11	10	10
Units in Money Market Unit Trusts (market value - \$ Nil 1999 - \$199,788,000)	-	<u>170,000</u>	-	<u>170,000</u>
	<u>612,181</u>	<u>926,207</u>	<u>595,130</u>	<u>910,206</u>
Associated companies -				
North Coast Milling Limited	25,000	25,000	25,000	25,000
Facey Commodity Company Limited	229,018	-	229,018	-

Group's share of profit	<u>56,258</u>	<u>23,694</u>	<u>-</u>	<u>-</u>
	<u>310,276</u>	<u>48,694</u>	<u>254,018</u>	<u>25,000</u>
	<u>922,457</u>	<u>974,901</u>	<u>849,148</u>	<u>935,206</u>

16. Inventories	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Raw materials	175,317	97,506	-	-
Work-in-progress	13,245	10,397	-	-
Finished goods	<u>104,760</u>	<u>85,422</u>	<u>-</u>	<u>-</u>
	<u>293,322</u>	<u>193,325</u>	<u>-</u>	<u>-</u>

17. Receivables	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Trade receivables	253,338	187,946	-	-
Advance payments	4,080	14,353	-	-
Interest receivable	21,423	26,792	16,164	26,792
Other	<u>29,638</u>	<u>11,140</u>	<u>22,291</u>	<u>9,321</u>
	<u>308,479</u>	<u>240,231</u>	<u>38,455</u>	<u>36,113</u>

18. Cash and Cash Equivalents	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Cash	18,309	11,318	15,944	6,035
Short Term deposits	<u>-</u>	<u>41,420</u>	<u>-</u>	<u>41,420</u>
	<u>18,309</u>	<u>52,738</u>	<u>15,944</u>	<u>47,455</u>

19. Payables

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Trade payables	88,995	44,514	-	-
Accruals	73,089	73,671	21,400	19,875
Deposits	-	41,350		41,350
Other	<u>24,466</u>	<u>6,058</u>	<u>1,102</u>	<u>2,287</u>
	<u>186,550</u>	<u>165,593</u>	<u>22,502</u>	<u>63,512</u>

20. Share Capital

	2000 \$'000	1999 \$'000
Authorised - Ordinary shares of \$1 each	300,000	200,000
Issued and fully paid - At beginning of year: Ordinary stock units/shares of \$1 each	183,608	91,804
Movement during the year: Bonus issue of ordinary stock units/shares of \$1 each		
At end of year: Ordinary stock units/shares of \$1 each	<u>91,804</u> <u>275,412</u>	<u>91,804</u> <u>183,608</u>

In November 2,000, the authorised ordinary share capital of the company was increased to \$ 300,000,000 by the creation of an additional 100,000,000 ordinary shares of \$1 each. Shares totalling 91,804,074 units were then issued as fully paid up bonus shares by the capitalisation of profits of \$91,804,074 on the basis of one ordinary share for every two ordinary shares held.

21. Capital Reserve

This is comprised of the following:

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Unrealised surplus on revaluation	471,572	471,572	158,867	158,867
Profits capitalized	244,285	215,631	-	-
Gain on sale of shares in Seprod Wharf & Storage Ltd.	93,453	-	93,453	-
Gain on sale of brands	14,250	18,250	-	-
Gain on sale of units	7,343	34,668	7,343	34,668
Realised surplus	<u>3,938</u>	<u>3,735</u>	<u>2,225</u>	<u>2,225</u>
	<u>834,841</u>	<u>743,856</u>	<u>261,888</u>	<u>195,760</u>

22. Long Term Debt

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
(a) 18% West Indies Trust Company 1989/2005	5,625	6,391	5,625	6,391
(b) Five year Deferred Loan	5,868	5,868	5,868	5,868
(c) 13% Development Bank of Jamaica Limited	7,482	10,936	-	-
(d) Development Bank of Jamaica Limited,	<u>86,266</u>	<u>-</u>	<u>-</u>	<u>-</u>
	105,241	23,195	11,493	12,259
Less current portion	<u>12,753</u>	<u>10,087</u>	<u>6,784</u>	<u>6,634</u>
	<u>92,488</u>	<u>13,108</u>	<u>4,709</u>	<u>5,625</u>

(a) The West Indies Trust Company loan is secured by a first charge over the Seprod Administrative building.

(b) The deferred loan is repayable in 2001 and is interest free.

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

(d) This is a US \$1,896,000 development loan secured by fixed and floating debentures over the assets of Jamaica Edible Oils & Fats Co. Ltd. together with a specific bill of sale over machinery and equipment comprising the refinery plant. The loan is repayable over five years commencing 31 October 2001.

23. 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	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
2000		3,084		1,362
2001	1,360	2,235	927	927
2002	685	1,171	502	503
Total minimum lease payments	2,045	6,490	1,429	2,792
Less: Future finance charges	282	1,389	210	595
Present value of minimum lease payments	1,763	5,101	1,219	2,197
Less current portion	1,118	2,562	746	1,244
	<u>645</u>	<u>2,539</u>	<u>473</u>	<u>953</u>

24. Loan from Associated Company

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

25. Financial Instruments

(a) Interest rate risk

The group is exposed to interest rate risk either through market value fluctuations of balance sheet items (e.g. Local Registered Stocks) or changes through interest expenses or revenues due to changes in the interest rates on the underlying instruments. The holding company is responsible for monitoring short term and long-term interest rate exposures for all group companies. Due to the current balance sheet structure, emphasis is placed on monitoring the interest rate risk of investments. The group manages this interest rate risk by constantly monitoring the market value of the investments and forecasting likely movements in interest

rates.

(b) Currency risk

The consolidated balance at 31 December 2000 includes aggregate net foreign currency assets of, approximately US\$7,667,000 (1999 - US\$7,801,000).

(c) Credit risk

Cash and short term investments are held with substantial financial institutions: A significant level of investments is held in various forms of government instruments.

(d) Fair values

The estimated fair values of other financial instruments are as follows:

	2000		1999	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	\$'000	\$'000	\$'000	\$'000
Investments	612,181	620,712	926,207	967,234
Long term debt (including current portion)	105,241	104,202	23,195	22,687
Lease obligations (including current portion)	<u>1,763</u>	<u>1,716</u>	<u>5,101</u>	<u>5,032</u>

The estimated fair values of these financial instruments have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is required in interpreting market data to develop estimates of fair value.

Accordingly, the estimates presented above are not necessarily indicative of the amounts that the group would realise in a current market exchange.

As there is no active market for the shares held in the company's associated companies, the fair value of these investments have been estimated to be the company's share of the net assets (Note 15).

26. Pension Scheme

The seprod Group of Companies operates a defined benefit based plan for all employees. The plan provides benefits to members on average earnings for the final 2 years service (formerly 3 years), with the group and employees each contributing 5% of pensionable salaries.

The valuation of the plan is based on the projected unit method. An actuarial valuation completed in February 1999 indicated that the plan was significantly overfunded. The group's contributions for the year amounted to approximately \$7,331,000 (1999 - \$7,284,000).

27. Capital Commitments

At 31 December 2000, management had approved approximately \$14,898,000 for capital expenditure.

28. Acquisition and Disposal of Subsidiaries

- (a) The acquisition of Jamaica Edible Oils & Fats Company Limited (note 3(a)), resulted in net liabilities of \$99,705,000 being acquired. The fair values of the net liabilities approximated to their book values. Consideration for the purchase amounted to \$162,843,000.
- (b) The net assets sold in Seprod Wharf and Storage Limited (note 3 (a)) amounted to \$55,926,000.
- (c) Analyses of the net outflow/inflow of cash and cash equivalents in respect of the subsidiaries bought and sold are set out below.

Jamaica Edible Oils and Fats Company limited	
	2000 \$'000
Cash consideration paid	(162,843)
Cash acquired	<u>-</u>
	(162,843)
Seprod Wharf & Storage Limited	
	2000 \$'000
Cash consideration received	153,508
Cash surrendered	<u>-</u>
	153,508
