

Carreras Group Ltd. 2000

Notes to the Financial Statements

March 31, 2000

1. The company

The company is incorporated under the laws of Jamaica and the financial statements are presented in thousands of Jamaican dollars (S'000). Its principal activity is the provision of management and other services to its operating subsidiary companies (note 23).

2. Significant accounting policies

(a) Basis of presentation:

The financial statements are prepared in accordance with and are in compliance with Jamaican accounting standards and 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 its subsidiaries, made up to March 31, 2000.

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 valutors, 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 valutors.

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 the 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 net 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:

Investments which are readily realisable and intended to be held for not more than one year, are classified as short-term assets. Other investments are classified as long-term assets. Short-term investments are carried in the balance sheet at the lower of cost and market value. Where quoted market prices are readily available they are used.

If not, market values are estimated using a generally accepted alternative method. Long-term investments are carried in the balance sheet at cost except for quoted equity investments, which are accounted for at the lower of cost and market value.

(l) Impairment:

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. All impairment losses are recognised in the profit and loss account. The recoverable amount of the company's assets is their fair value.

Reversal of impairment:

An impairment loss in respect of investment or receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment is only reversed to the extent that the reversal does not exceed the impairment loss previously recognised.

(m) Pension costs:

The Group participates in a pension scheme (note 21), 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. Gross operating revenue

Gross operating revenue represents the invoiced value of products and services sold by the Group and is stated inclusive

of special consumption taxes amounting to approximately \$1,276,204,000 (1999: \$1,205,514,600) and excludes intra-group trading.

4. Other operating income

	2000	1999
	\$'000	\$'000
Investment	1,646,933	1,442,173
Interest	147,083	120,329
Exchange gains	235,458	68,559
Gain on disposal of fixed assets	591	2,249
Gain on disposal of investments	-	100
Miscellaneous income	28,657	89,260
	<u>2,058,722</u>	<u>1,722,670</u>

5. Exceptional items

	2000	1999
	\$'000	\$'000
Redundancy and reorganization costs	40,967	9,706
Withdrawal from overseas market	8,946	-
	<u>49,913</u>	<u>9,706</u>

6. Profit before taxation and extraordinary item

Profit before taxation and extraordinary item is stated after taking account of the following:

	2000	1999
	\$'000	\$'000
Depreciation	22,388	44,772
Transfer to reserve for replacement of furnished hotel property	26,885	23,788
Interest:		
Overdrafts and short-term borrowings	56	175
Fixed loans	-	316
Auditors' remuneration	4,202	5,079
Directors' emoluments:		
Fees	19	19
Management services	33,458	36,976
(Appreciation)/diminution in value of investments	<u>(9,378)</u>	<u>14,578</u>

7. Taxation

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

	2000	1999
	\$'000	\$'000
Income tax @ 33 1/3 %	1,162,894	1,000,662
Adjustment in respect of prior years	(143,864)	(116,805)
Deferred taxation	<u>(130,534)</u>	<u>68,607</u>

888,496 952,464

- (a) Profits for the year arising from prescribed hotel operations and relieved from taxation amount to \$3,328,000 ('1999: \$29,663,000).
- (b) At March 31, 2000, taxation losses in subsidiaries amounting to \$4,797,000 (1999: \$78,000) are available for set off against future taxable profits, subject to agreement by the Commissioner of Taxpayer Audit and Assessment.

8. Extraordinary item

This represents the gain on disposal of a subsidiary, Jamaica Biscuit Company Limited.

9. Net profit for the year attributable to stockholders

	2000	1999
	\$'000	\$'000
Net profit for the year attributable to stockholders, dealt with in the financial statements of the company	2,735,313	1,005,222

10. Earnings per ordinary stock unit

The calculation of earnings per stock unit is based on the profit attributable to stockholders and on the 485,440,000 stock units in issue. The 1999 figure has been restated to give effect to the bonus issue made in September 1999.

11. Cash and short-term deposits

	The Group	
	2000	1999
	\$'000	\$'000
Cash at bank	2,038,613	376,252
Short-term deposits	<u>743,313</u>	<u>598,198</u>
	<u>2,781,926</u>	<u>974,450</u>

The company

	2000 \$'000	1999 \$'000
Cash at bank	1,853,084	251,858
Short-term deposits	547,115	568,808
	<u>2,400,199</u>	<u>820,666</u>

12. Investments
Short-term:
The Group

	Within one year	
	2000 \$'000	1999 \$'000
Fixed interest-rate bearing:		
Government of Jamaica Securities	3,630,515	2,935,187
Other securities	60,000	325,843
	<u>3,690,515</u>	<u>3,261,030</u>
Variable interest-rate bearing:		
Government of Jamaica securities	646,025	110,000
Other securities	205,000	440,000
	<u>851,025</u>	<u>550,000</u>
Total interest bearing securities	<u>4,541,540</u>	<u>3,811,030</u>
The company		
Fixed interest-rate bearing:		
Government of Jamaica securities	3,332,841	2,547,672
Other securities	60,000	299,049
	<u>3,392,841</u>	<u>2,846,721</u>
Variable interest-rate bearing:		
Government of Jamaica securities	646,025	110,000
Other securities	205,000	440,000
	<u>851,025</u>	<u>550,000</u>
Total interest bearing securities	<u>4,243,866</u>	<u>3,396,721</u>

Long Term:

	1-5 years \$'000	2000 Over 5 years \$'000	Total \$'000	1999 \$'000
The Group				
Fixed interest-rate bearing:				
Government of Jamaica securities	<u>697,625</u>	<u>42,137</u>	<u>739,762</u>	<u>285,865</u>
Variable interest-rate bearing:				
Government of Jamaica securities	2,697,957	51,269	2,749,226	2,786,791
Other securities	<u>116,302</u>	<u>-</u>	<u>116,302</u>	<u>185,697</u>
	<u>2,814,259</u>	<u>51,269</u>	<u>2,865,528</u>	<u>2,972,488</u>
Total interest bearing - securities	<u>3,511,884</u>	<u>93,406</u>	<u>3,605,290</u>	<u>3,258,353</u>
Equities			<u>26,977</u>	<u>17,599</u>
			<u>3,632,267</u>	<u>3,275,952</u>

	1-5 years \$'000	2000 Over 5 years \$'000	Total \$'000	1999 \$'000
The company				
Fixed interest-rate bearing:				
Government of Jamaica securities	<u>371,693</u>	<u>42,137</u>	<u>413,830</u>	<u>70,098</u>
Variable interest-rate bearing:				
Government of Jamaica securities	2,647,071	51,268	2,698,339	2,737,497
Other securities	<u>116,302</u>	<u>-</u>	<u>116,302</u>	<u>185,697</u>
	<u>2,763,373</u>	<u>51,268</u>	<u>2,814,641</u>	<u>2,923,194</u>
Total interest bearing securities	<u>3,135,066</u>	<u>93,405</u>	<u>3,228,471</u>	<u>2,993,292</u>
Equities			<u>26,977</u>	<u>17,599</u>
			<u>3,255,448</u>	<u>3,010,891</u>

13. Inventories

	The Group		The company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Finished leaf	118,161	65,909	-	-
Material and supplies	89,986	150,464	429	510
Work-in-progress	6,045	6,974	-	-
Finished products	<u>73,694</u>	<u>81,614</u>	<u>-</u>	<u>-</u>
	<u>287,886</u>	<u>304,961</u>	<u>429</u>	<u>510</u>

14. Accounts payable

Accounts payable include

	The Group		The company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Special consumption tax payable	106,966	104,301	-	-
Payable to associated companies	<u>156</u>	<u>12,946</u>	<u>-</u>	<u>-</u>

15. Fixed assets

The Group

Freehold land \$'000	Buildings and leasehold improvements \$'000	Machinery, equipment and vehicles \$'000	Total \$'000
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At cost or valuation:

March 31, 1999	158,872	2,156,621	600,157	2,915,650
Additions	-	8,770	21,131	29,901
Revaluation adjustment	-	114,429	(2,731)	111,698
Disposals	(16,850)	(242,071)	(411,487)	(670,408)
March 31, 2000	<u>142,022</u>	<u>2,037,749</u>	<u>207,070</u>	<u>2,386,841</u>
Broken down as follows:				
At cost	1,922	2,809	72,039	76,770
At valuation	<u>140,100</u>	<u>2,034,940</u>	<u>135,031</u>	<u>2,310,071</u>
	<u>142,022</u>	<u>2,037,749</u>	<u>207,070</u>	<u>2,386,841</u>
Depreciation:				
March 31, 1999	-	393,171	341,284	734,455
Charge for the year	-	8,987	13,401	22,388
Revaluation adjustments	-	21,112	(2,750)	18,362
Eliminated on disposals	-	(145,865)	(203,510)	(349,375)
March 31, 2000	<u>-</u>	<u>277,405</u>	<u>148,425</u>	<u>425,830</u>
Net book values:				
March 31, 2000	<u>142,022</u>	<u>1,760,344</u>	<u>58,645</u>	<u>1,961,011</u>
March 31, 1999	<u>158,872</u>	<u>1,763,450</u>	<u>258,873</u>	<u>2,181,195</u>
The company				
At cost or valuation:				
March 31, 1999	10,542	425,909	4,973	441,424
Additions	-	-	1,126	1,126
Revaluation adjustments	-	36,557	-	36,557
Disposals	-	-	(308)	(308)
March 31, 2000	<u>10,542</u>	<u>462,466</u>	<u>5,791</u>	<u>478,799</u>
Broken down as follows:				
At cost	42	135	5,791	5,968
At valuation	<u>10,500</u>	<u>-</u>	<u>-</u>	<u>472,831</u>
	<u>10,542</u>	<u>462,466</u>	<u>5,791</u>	<u>478,799</u>
Depreciation:				
March 31, 1999	-	205,052	2,529	207,581
Charge for the year	-	6,982	718	7,700
Revaluation adjustments	-	17,431	-	17,431
Eliminated on disposals	-	-	(253)	(253)
March 31, 2000	<u>-</u>	<u>229,465</u>	<u>2,994</u>	<u>232,459</u>
Net book values:				

March 31. 2000	<u>10,542</u>	<u>233,001</u>	<u>2,797</u>	<u>246,340</u>
March 31. 1999	<u>10,542</u>	<u>220,857</u>	<u>2,444</u>	<u>233,843</u>

The Group's buildings include furnished hotel buildings at a valuation of \$1,397,092,000 (1999: \$1,294,590,000). All revaluation adjustments attributable to the group in the financial statements have been reflected in capital reserve., net of depreciation.

16. Share capital

	2000	1999
	\$'000	\$'000
Authorised:		
485,440,000 (1999:242,720,000) ordinary shares of 25c each	<u>121,360</u>	<u>60,680</u>
Issued and fully paid:		
485,440,000 (1999:242.720,000) ordinary stock units of 25c each	<u>121,360</u>	<u>60,680</u>

At the Annual General Meeting held on September 13, 1999. it was resolved that:

- (a) The authorised share capital be increased to \$121,360,000 by the creation of an additional 242,720,000 ordinary shares at a par value of 25c each.
- (b) A one for one bonus share issue be made by the capitalisation of \$60,680,000 of unappropriated profits.

17. Dividends

	2000	1999
	\$'000	\$'000
Interim dividend of 25c (1999: 25c) paid	121,360	60,680
Interim dividend of 60c (1999: 60c) proposed	<u>291,264</u>	<u>145,632</u>
	412,624	206,312
Final dividend of \$2.00 (1999: \$1.00) proposed	970,880	485,440
Capital distribution:		
Special distribution of \$3.00 (1999: \$Nil) proposed	<u>1,456,320</u>	<u>-</u>
	<u>2,839,824</u>	<u>691,752</u>

The company is exempt from deducting income tax on dividends paid to residents in Jamaica 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.

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 (1999: \$581,000).
- . Profits arising from prescribed hotel operations and relieved from taxation amounting to \$192,292,000 for the Group and S.Nil for the company at March 31, 2000 (1999: \$161,964,000 for the Group and \$,Nil for the company).
- . Franked income of \$15,518,000 (1999: \$11,413,000) for the Group and the company

18. Staff costs

	2000	1999
	\$'000	\$'000
Salaries and profit related pay	338,195	388,118
Statutory contributions	19,331	20,791
Pension contributions	10,498	13,406
Other	<u>116,846</u>	<u>138,623</u>
	<u>484,870</u>	<u>560,938</u>

The number of employees at the end of the year were as follows:

	2000	1999
Permanent	491	514
Contract	25	171
Temporary	<u>109</u>	<u>118</u>
	<u>625</u>	<u>803</u>

19. Related party transactions

Related parties are those which control or exercise significant influence over or are

controlled or significantly influenced by. the company in making financial and operating decisions or, along with the company. are subject to common control or significant influence.

The profit and loss account includes the following transactions with related parties in the ordinary course of business.

	2000	1999
	\$'000	\$'000
(a) Purchases from associated companies - raw materials	16,056	21,366
- fixed assets	-	8,434
- other charges	<u>30,002</u>	<u>19,885</u>
(b) Technical fees paid to associated company	<u>4,319</u>	<u>4,196</u>

20. Financial instruments

(a) Fair value.

Fair value amounts represent estimates of the consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Some of the group's and the company's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

The fair value and cost of the Group's and the company's financial instruments are as follows:

	2000			
	The Group	Cost	The company	Cost
	Fair value	Cost	Fair value	Cost
Assets				
Cash and short-term deposits	2,785,209	2,781,926	2,403,483	2,400,199
Short-term investments	4,719,518	4,541,540	4,414,467	4,243,866

Accounts receivable	412,589	412,589	300,327	300,327
Dividend receivable	-	-	2,955	2,955
Due from subsidiary companies	-	-	240,160	240,160
Long-term investments	3,840,961	3,632,267	3,473,738	3,255,448
Liabilities				
Accounts payable	329,321	329,321	60,715	60,715
Dividends proposed	2,718,464	2,718,464	2,718,464	2,718,464
Due to subsidiary companies	<u>-</u>	<u>-</u>	<u>6,156,282</u>	<u>6,156,282</u>

Determination of fair value:

With the exception of certain short-term deposits and short-term investments, the fair value of financial instruments included in current assets and current liabilities, are assumed to approximate their carrying values, due to their short-term nature.

The fair value of certain short-term deposits and investments are determined by discounting the contractual cash flows using market interest rates being offered at the balance sheet date for deposits with similar terms and risks.

(b) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market rates. The Group and the company manage this risk by investing in a balanced portfolio. At balance sheet date there were no borrowings.

(c) Credit risk:

Management has an investment policy in place and the exposure to credit risk is monitored on an ongoing basis. Cash and investments are held with financial institutions. A significant level of investment is held in various forms of government instruments. At balance sheet date there were no significant concentration of risk attaching to accounts receivable.

(d) Foreign currency risk:

The Group and the company are exposed to foreign currency risk on transactions that are undertaken in foreign currencies. The Group and the company ensure that the net foreign currency exposure is kept to an acceptable level and there is a net foreign currency asset at the balance sheet date.

21. 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, 1998, 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, 1998.

The contributions during the year aggregated \$10,498,000 (1999: \$13,406,000) for the Group and \$1,496,000 (1999: \$1,264,000) for the company.

22. 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	622
The company	13

23. Subsidiary companies

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

Percentage of
ordinary shares
held by the

	Name of company	Principal activity	company
1999			2000
99.7	Cigarette Company of Jamaica Limited	Manufacturing and marketing of cigarettes.	99.7
100	Agricultural Products of Jamaica Limited	Purchasing, and sale of tobacco	100
100	Jamaica Biscuit Company Limited (disposed of during the year)	Manufacturing and marketing of biscuits.	-
100	Graphic Arts Limited	Producing packaging materials.	100
100	Sans Souci Development Limited and its subsidiary Sans Souci Limited	Owners and operators of hotel property and developers of real estate.	100
100	Twickenham Insurance Company (incorporated in the Cayman Islands)	General insurance underwriters.	100

24. Contractual commitments

Commitments at March 31, are payable as follows:

The Group		The company	
2000	1999	2000	1999

	\$'000	\$'000	\$'000	\$'000
Within one year	16,002	22,814	6,617	8,735
Subsequent years	<u>20,397</u>	<u>23,181</u>	<u>6,862</u>	<u>5,485</u>
	<u>36,399</u>	<u>45,995</u>	<u>13,479</u>	<u>14,220</u>

Payments made during the year ended March 31, aggregated:

	2000	1999
	\$'000	\$'000
Group	23,182	24,202
Company	<u>9,675</u>	<u>8,422</u>

25. Capital commitment

At March 31, 2000, approximately \$Nil (1999: \$1,118,500) had been committed by the Group and \$Nil (1999: \$Nil) by the company in respect of capital expenditure for which no provision has been made in the financial statements.

26. 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.

27. Uncertainty due to the Year 2000 issue

The year 2000 issue arises because many computerised 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. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers suppliers, or other third parties have been fully resolved.
