Seprod Limited and Its Subsidiaries

Notes to the Financial Statements

31 December 2001

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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 2001 (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 group's 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 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.

(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, deposits, receivables, payables, due to/from associated companies and affiliates 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) Deterred 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)).

(m) Borrowings

Borrowings are carried at amortised cost. Borrowing costs are expensed when incurred.

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

(b) Group turnover represents the value of goods sold to third parties, and excludes revenue generated within the group totalling $473,745,000 (2000 - $404,738,000).

(c) The group has entered into the following transactions with related parties:

(i) Two subsidiaries in the group paid cess of $3,375,000, (2000 - $3,910,000) based on the sales of copra-based and substitute products, to Coconut Industry Board.

(ii) Sales of $151,752,000 (2000- $103,859,000) to and purchases of $14,631,000 (2000 - $23,637,000) from Musson Jamaica Limited, T. Geddes Grant (Distributors) Limited and Facey Commodity Company Limited. The Company's Chairman is a major shareholder and Chairman of these entities.

(iii) Seprod Limited has the following guarantees on behalf of Facey Commodity Company Limited:
- In favour of Kraft Foods Jamaica Limited for 50% of all debts owed;
- In favour of Bank of Nova Scotia Jamaica Limited for debts and liabilities to a limit of US$1,750,000;
- In favour of Bank of Nova Scotia Jamaica Limited in the amount of $50,000,000, representing 50% of an overdraft facility being operated by Facey Commodity Company Limited; and
- In favour of Citibank N.A. to the extent of 50% of a US$5m loan facility.

(d) Advances to an Executive Director totalled $987,000 (2000 - $1,173,000) at 31 December 2001. These amounts represent advances on expected profit share, which is based on the audited financial statements at 31 December 2001

In 2000, the company also had a loan receivable from an Executive Director of $5m. The amount was repaid during the year.

(e) Advances to Officers totalled $4,200,000 (2000 - $6,330,000) at 31 December 2001. These amounts represent advances on expected profit share which is based on the audited financial statements at 31 December 2001. The profit sharing scheme allows 10% of the audited operating profit before taxation to be paid to the Executive Management of the company.

4 Operating Profit

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

	2001 $'000	2000 $'000
Goodwill on consolidation (Note 14)	24,134	13,127
Capital reserve on consolidation (Note 14)	(5,766)	(5,766)
Depreciation	71,836	71,365
Auditors' remuneration -		
Current year	4,279	3,980
Prior year	(100)	-
Directors' emoluments -		
Fees	2,349	1,717
Other	11,774	10,428
Loss/ (profit) on disposal of fixed assets	96	(1,797)
Staff costs (Note 5)	286,175	297,159

5 Staff Costs

	2001 $'000	2000 $'000
Wages and salaries	202,571	213,609
Statutory contributions	18,480	19,712
Pension contributions	8,147	7,331
Others	56,977	56,507
	286,175	297,159
Redundancy payments (Note 7)	135,169	34,702
	421,344	331,861

The number of persons employed by the group at the end of the year were:

	2001 No.	2000 No.
Staff	75	186
Other	224	101
	229	287

6 Finance Income

	2001 $'000	**2000 $'000**
Interest income -		
Investment	92,927	93,353
Other	9,309	44,870
Foreign exchange gain	17,964	27,891
Gain on sale of units in Money Market Unit Trusts	892	46,118
Interest expenses -		
Bank -		
Overdraft	(86)	(2,826)
Loans	(16,116)	(18,829)
Finance lease	(190)	(2,281)
Other	(461)	(2,066)
	104,239	186,230

7 Exceptional Items

	2001 $'000	**2000 $'000**
Redundancy payments	(135,169)	(34,702)
Duty refund	30,191	-
Pension refund	106,260	-
Retroactive payments to former employees	-	(21)
	1,282	(34,723)

8 Taxation

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

	2001 $'000	2000 $'000
Income tax at 33 1/3%	49,813	55,956
Underprovision of prior year tax	5,160	1,982
Tax credit on bonus issue of shares	(19,897)	(26,816)
	35,076	31,122

(a) The tax charge is disproportionate to the reported results in both years mainly as a result of the utilisation of statutory losses brought forward by an associated company and income of $61,071,000 (2000 -

$55,002,000) from 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 $244,580,000 (2000 -$219,626,000).

9 Extraordinary Item

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

10 Net Profit Attributable to Shareholders

Dealt with as follows in the financial statements

	2001 $'000	2000 $'000
Holding company	171,054	293,715
Subsidiaries	(76,600)	33,127
Associated companies	99,742	32,564
	194,196	359,406

11 Earnings per Share

The calculation of earnings per share/stock unit is based on the net profit before and after extraordinary item of $194,196,000 (2000 - $261,824,000 before extraordinary item and $359,406,000 after extraordinary item) and 344,265,000 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

	2001 $'000	2000 $'000
Capital distribution ($0.30 per stock unit/share;	82,624	73,443

The capital distribution is based on 275,412,000 (2000 - 183,608,000) shares/stock units in issue at the time of the distribution.

13 Fixed Assets

	The Group					
	Freehold Land & Site Improvement $'000	Buildings $'000	Plant, Equipment & Furniture $'000	Motor Vehicles $'000	Work in Progress $'000	Total $'000
At Cost or Valuation -						
At 1 January 2001	34,958	608,545	992,069	23,243	17,497	1,676,312
Additions	-	-	4,277	2,158	71,362	77,797
Disposals	-	-	(22,361)	(6,881)	-	(29,242)
Adjustment based on Directors' valuation	-	(16,000)	-	-	-	(16,000)
Transfers to/(from)	-	1,309	12,567	-	(13,876)	-
At 31 December 2001	34,958	593,854	986,552	18,520	74,983	1,708,867
Accumulated Depreciation -						
At 1 January 2001	-	416,906	609,967	19,026	-	1,045,899
Charge for the year	-	10,796	58,605	2,525	-	71,836
On disposals	-	-	(18,531)	(5,785)	-	(24,316)
At 31 December 2001	-	427,612	650,041	15,766	-	1,093,419
Net Book Value -						
At 31 December 2001	34,958	166,242	336,511	2,754	74,983	615,448
At 31 December 2000	34,958	191,639	382,102	4,217	17,497	630,413

	The Company					
	Freehold Land & Site Improvement	Buildings	Plant, Equipment & Furniture	Motor Vehicles	Work in Progress	Total

	$'000	$'000	$'000	$'000	$'000	$'000
At Cost or Valuation -						
At 1 January 2001	20,218	286,796	104,642	15,756	498	427,910
Additions	-	-	885	1,582	-	2,467
Disposals	-	-	(4,640)	(3,279)	-	(7,919)
Transfers to/(from)	-	-	498	-	(498)	-
At 31 December 2001	20,218	286,796	101,385	14,059	-	422,458
Accumulated Depreciation -						
At 1 January 2001	-	178,418	83,913	12,296	-	274,627
Charge for the year	-	5,742	5,224	2,155	-	13,121
Relieved on disposals	-	-	(2,258)	(2,888)	-	(5,146)
At 31 December 2001	-	184,160	86,879	11,563	-	282,602
Net Book Value -						
At 31 December 2001	20,218	102,636	14,506	2,496	-	139,856
At 31 December 2000	20,218	108,378	20,729	3,460	498	153,283

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 21).

Certain buildings are situated on land that has been leased. The unexpired portion of the lease is 52 years.

As at 31 December 2001, motor vehicles with net book value of approximately $90,000 (2000 - $3,661,000), 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, were estimated by the Directors to be $26,418,000, at 31 December 1995, being the estimated value at which they would be utilised as warehouses.

There was a further review of the estimated value of one of these buildings during the year and an adjustment of $16,000,000 made to reflect the Directors' valuation at 31 December 2001. 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

	2001 $'000	2000 $'000
Unamortised goodwill on acquisition of Jamaica Edible Oils & Fats Company Ltd. (JEOFCO)	204,076	228,210
Capital reserve on consolidation, net	(21,693)	(27,459)
	182,383	200,751

The amounts amortised during the year were $24,134,000 (2000 - 13,127,000) for goodwill on acquisition of JEOFCO and ($5,766,000) (2000 - ($5,766,000)) in respect of capital reserve on consolidation.

The prior year's balance for goodwill has been adjusted by $21,211,000 to reflect adjustments to liabilities assumed in connection with the acquisition of JEOFCO. The balance for payables (Note 19) has been similarly adjusted.

15 Investments

	The Group		The Company	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000
Quoted (market value - $924,000 2000 - $355,000)	40	40	40	40
Long Term Government Securities	702,250	611,080	696,260	595,080
Unquoted	11	1,061	10	10
	702,301	612,181	696,300	595,130
Associated companies - North Coast Milling Limited	25,000	25,000	25,000	25,000

Facey Commodity Company Limited	229,018	229,018	229,018	229,018
Group's share of profit	156,000	56,258	-	-
	410,018	310,276	254,018	254,018
	1,112,319	922,457	950,318	849,148

Long Term Government Securities include US$ investments of US$11,725,000 (2000 - US$ 9,977,000).

16 Inventories

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	$'000	**$'000**	**$'000**	**$'000**
Raw materials	112,732	175,317	-	-
Work in progress	11,907	13,245	-	-
Finished goods	133,214	104,760	-	-
	257,853	293,322	-	-

17 Receivables

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	$'000	**$'000**	**$'000**	**$'000**
Trade receivables	257,814	253,338	-	-
Advance payments	1,865	4,080	-	-
Interest receivable	14,866	21,423	14,866	16,164
Other	22,920	29,638	16,181	22,291
	297,465	308,479	31,047	38,455

18 Cash and Cash Equivalents

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	$'000	**$'000**	**$'000**	**$'000**
Cash	61,218	18,309	59,822	15,944
Short term deposits	65,000	-	65,000	-
	126,218	18,309	124,822	15,944

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19 Payables

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	$'000	**$'000**	**$'000**	**$'000**
Trade payables	47,539	88,995	-	-
Accruals	122,178	73,089	26,235	21,400
Other	21,185	3,255	6,622	1,102
	190,902	165,339	32,857	22,502

20 Share Capital

	2001	**2000**
	$'000	**$'000**
Authorised -		
Ordinary shares of $1 each	350,000	300,000
Issued and fully paid -		
At beginning of year:		
Ordinary stock units/shares of $1 each	276,412	183,608
Movement during the year:		
Bonus issue of ordinary shares of $1each	68,853	91,804
At end of year:		
Ordinary stock units/shares of $1 each	344,265	275,412

In November 2001, the authorised ordinary share capital of the company was increased to $350,000,000 by the creation of an additional 50,000,000 ordinary shares of $1 each. Shares totaling 68,853,117 units were then issued as fully paid up bonus shares by the capitalisation of profits of $68,853,117 on the basis of one ordinary share for every four ordinary shares held.

21 Capital Reserve

This is comprised of the following:

The Group		The Company	
2001	**2000**	**2001**	**2000**
$'000	**$'000**	**$'000**	**$'000**

Unrealised surplus on revaluation	455,572	471,572	158,867	158,867
Profits capitalised	261,292	244,285	-	-
Gain on sale of shares in Seprod Wharf & Storage Ltd.	10,829	93,453	10,829	93,453
Gain on sale of brands	18,250	18,250	-	-
Gain on sale of units in Unit Trusts	8,235	7,343	8,235	7,343
Realised surplus	3,938	3,938	20,289	2,225
	758,116	838,841	198,220	261,888

22 Long Term Debt

	The Group		The Company	
	2001	2000	2001	2000
	$'000	$'000	$'000	$'000
(a) 18% West Indies Trust Company 1989/2005	4,709	5,625	4,709	5,625
(b) Five year Deferred Loan	-	5,868	-	5,868
(c) 13% Development Bank of Jamaica Limited	4,029	7,482	-	-
(d) 12% Development Bank of Jamaica Limited	84,765	86,266	-	-
(e) 7% Development Bank of Jamaica Limited	50,000	-	-	-
	143,503	105,241	4,709	11,493
Less current portion	30,290	1,275	1,095	6,784
	113,213	92,488	3,614	4,709

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

(b) The deferred loan was repayable in 2001 and was 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.

(e) The loan is repayable by quarterly instalments ending in 2006. The collateral for the loan is a Deed of Charge over US$1,100,000 GOJ 11.75% Promissory Notes.

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	
	2001	2000	2001	2000
	$'000	$'000	$'000	$'000
2001	-	1,360	-	927
2002	597	685	502	502
Total minimum lease payments	597	2,045	502	1,429
Less: Future finance charges	34	282	29	210
Present value of minimum lease payments	563	1,763	473	1,219
Less current portion	563	1,118	473	746
	-	645	-	473

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 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 2001 includes aggregate net foreign currency assets of approximately US$9,805,000 (2000 - US$7,667,000).

(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:

	2001		2000	
	Carrying Amount $'000	**Fair Value $'000**	**Carrying Amount $'000**	**Fair Value $'000**
Investments	702,301	721,721	612,181	620,712

The estimated fair values of investments 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.

Long term liability and lease obligations are carried at amortised cost reflecting their contractual obligations and approximate fair values, as the interest rates are reflective of current market rates for similar instruments.

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 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 based 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.

27 Contingencies and Commitments

(a) Minimum annual lease payments required in relation to factory rental by a subsidiary under operating lease arrangements are as follows:

$'000

2002	5,753
2003	5,577
2004	5,577
2005	5,577
2006	5,577
Thereafter, 2007 - 2011	22,578
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(b) A subsidiary suffered losses during the year as a result of damages to a boiler. The claim against the insurer for property damages was settled during the year. An additional claim for approximately $25,000,000 relating to losses due to business interruption has been submitted to the insurers. No credit has been recorded in the financial statements for the claim in respect of the losses due to business interruption.

(c) At 31 December 2001, management had approved approximately $101,600,000 for capital expenditure.