

Carreras Group Ltd. 2001

Notes to the Financial Statements

March 31, 2001

1 The company

The company is incorporated under the laws of Jamaica and is a 50.4% subsidiary of Rothmans Holdings (Caricom) Limited which is incorporated in St. Lucia. The ultimate parent company is British American Tobacco plc, incorporated in the United Kingdom. The principal activity of the company is the provision of management and other services to its operating subsidiary companies (note 24).

The financial statements are presented in thousands of Jamaican dollars (\$'000)

2 Basis of preparation, consolidation and significant accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets and certain investments at valuation, and in accordance with the provisions of the Companies Act. The accounting policies conform, in all material respects, to GAAP, which are substantially codified in statements of standard accounting practice issued by the Institute of Chartered Accountants of Jamaica.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiaries, made up to March 31, 2001.

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.

The significant accounting policies used in the preparation of the financial statements are summarized below.

(a) 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.

(i) 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	2.5%
Machinery and equipment	3.3%	to	20.0%
Motor vehicles	10.0%		
Leasehold improvements	2.0%	to	10.0%

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.

(b) Investment properties:

Investment properties are revalued annually to reflect current market value by professional valuers and chartered surveyors.

(c) 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.

(d) 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.

(e) 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.

(f)Accounts payable:

Accounts payable, including provisions, is stated at cost. A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

(g)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.

(h) Accounts receivable:

Trade and other receivables are stated at cost, less any provisions for doubtful debts.

(i)Revenue recognition:

Revenue from the sale of goods is recognised in the profit and loss account when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or material associated costs on the possible return of goods.

(j)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. For the purpose of the statement of cash flows, all foreign currency gains and losses recognised in the profit and loss account are treated as cash items and included in cash flows from operating, investing or financing activities along with movements in the principal balances.

The reporting currencies of the foreign subsidiary (see note 24) is also its functional currency, i.e. the currency in which economic decisions are formulated. For the purpose of these financial statements, revenues, expenses, gains and losses have been translated at the average exchange rates prevailing during the year under review; assets and liabilities have been translated at exchange rates ruling at the balance sheet date and shareholders' equity has been translated at historical exchange rates.

Unrealised gains and losses arising on translation of net stockholders' equity in the foreign subsidiary is taken to capital reserve on the group balance sheet and added or deducted to reflect the underlying group cash flows on the group statement of cash flows.

(k) 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.

(l) 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.

(n) Pension scheme costs:

The Group participates in a pension scheme (note 22), 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 \$1,300,722,000 (2000: \$1,276,204,000) and excludes intra-group trading.

4 Other operating income

	2001 \$'000	2000 \$'000
Investment	1,537,758	1,646,933
Interest	146,226	147,083
Exchange gains	355,564	235,458
Gain on disposal of fixed assets	614	591
Gain on disposal of investments	1,377	-
Miscellaneous income	<u>11,399</u>	<u>28,657</u>
	<u>2,052,938</u>	<u>2,058,722</u>
	=====	=====

5 Exceptional items

	2001 \$'000	2000 \$'000
Redundancy and reorganization cost	30,431	40,967
Withdrawal from overseas market	-	8,946
Loans written-off	<u>7,952</u>	<u>-</u>
	<u>38,383</u>	<u>49,913</u>
	=====	=====

6 Profit before taxation and extraordinary item

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

	2001 \$'000	2000 \$'000
Depreciation	15,435	22,388
Transfer to reserve for replacement of furnished hotel property	32,196	26,885
Overdraft interest and short-term borrowings -		56
Auditors' remuneration	4,511	4,202
Directors' emoluments:		
Fees	16	19
Management services	43,581	33,458
Appreciation in value of investments	(2,953)	(9,378)
	=====	=====

7 Taxation

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

	2001 \$'000	2000 \$'000
Income tax @ 33 1/3 %	1,084,514	1,162,894
Adjustment in respect of prior years	(142,106)	(143,864)
Deferred taxation	<u>(30,484)</u>	<u>(130,534)</u>
	911,924	888,496
	=====	=====

(a) Profits for the year arising from prescribed hotel operations and relieved from taxation amount to \$54,616,000 (2000: \$30,328,000).

(b) At March 31, 2001, taxation losses in subsidiaries amounting to \$5,721,000 (2000: \$4,797,000) are available for set off against future taxable profits, subject to agreement by the Commissioner of Taxpayer Audit and Assessment.

8 Extraordinary item

In the prior year, this represented the profit on disposal of a subsidiary, Jamaica Biscuit Company Limited.

9 Net profit for the year attributable to stockholders

	2001	2000
	\$'000	\$'000
Net profit for the year attributable to stockholders, dealt with in the financial statements of the company	1,319,413	2,735,313
	=====	=====

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.

11 Cash and short-term deposits

The Group

	2001	2000
	\$'000	\$'000
Cash at bank	672,586	2,038,613
Short-term deposits	<u>1,898,617</u>	<u>743,313</u>
	<u>2,571,203</u>	<u>2,781,926</u>
	=====	=====

The company

2001	2000
\$'000	\$'000

Cash at bank	463,951	1,853,084
Short-term deposits	<u>1,798,617</u>	<u>547,115</u>
	<u>2,262,568</u>	<u>2,400,199</u>
	=====	=====

12 Investments

Short-term:

Within one year

2001	2000
\$'000	\$'000

The Group

Fixed interest-rate bearing:

Government of Jamaica securities	3,685,531	3,630,515
Other securities	<u>239,084</u>	<u>60,000</u>
	<u>3,924,615</u>	<u>3,690,515</u>
	=====	=====

Variable interest-rate bearing:

Government of Jamaica securities	1,601,647	646,025
Other securities	<u>227,842</u>	<u>205,000</u>
	<u>1,829,489</u>	<u>851,025</u>
	=====	=====

Total interest bearing securities	<u>5,754,104</u>	<u>4,541,540</u>
	=====	=====

The Company

Fixed interest-rate bearing:

Government of Jamaica securities	2,597,998	3,332,841
Other securities	<u>63,920</u>	<u>60,000</u>
	<u>2,661,918</u>	<u>3,392,841</u>
	=====	=====

Variable interest-rate bearing:

Government of Jamaica securities	2,140,301	646,025
Other securities	<u>205,000</u>	<u>205,000</u>
	=====	=====

	<u>2,345,301</u>	<u>851,025</u>
Total interest bearing securities	<u>5,007,219</u>	<u>4,243,866</u>
	=====	=====

Long term:

2001

	1-5 years \$'000	Over 5 years \$'000	Total \$'000	2000 \$'000
The Group				
Fixed interest-rate bearing:				
Government of Jamaica securities	<u>1,237,347</u>	<u>274,108</u>	<u>1,511,455</u>	<u>739,762</u>
Variable interest-rate bearing:				
Government of Jamaica securities	1,187,096	51,268	1,238,364	2,749,226
Other securities	<u>53,096</u>	<u>-</u>	<u>53,096</u>	<u>116,302</u>
	<u>1,240,192</u>	<u>51,268</u>	<u>1,291,460</u>	<u>2,865,528</u>
	=====	=====	=====	=====
Total interest bearing securities	<u>2,477,539</u>	<u>325,376</u>	<u>2,802,915</u>	<u>3,605,290</u>
	=====	=====		
Equities			<u>29,929</u>	<u>26,977</u>
			<u>2,832,844</u>	<u>3,632,267</u>
			=====	=====

The company

Fixed interest-rate bearing:				
Government of Jamaica securities	<u>830,635</u>	<u>274,108</u>	<u>1,104,743</u>	<u>413,830</u>
Variable interest-rate bearing:				
Government of Jamaica securities	1,146,781	51,268	1,198,049	2,698,339
Other securities	<u>53,096</u>	<u>-</u>	<u>53,096</u>	<u>116,302</u>

	1,199,877	51,268	1,251,145	2,814,641
	=====	=====	=====	=====
Total interest bearing securities	2,030,512	325,376	2,355,888	3,228,471
	=====	=====		
Equities			29,929	26,977
			<u>2,385,817</u>	<u>3,255,448</u>
			=====	=====

13 Accounts receivable

	<u>The Group</u>		<u>The company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Trade accounts receivable	81,692	66,810	-	-
Interest and investment income receivable	235,738	305,060	205,543	289,689
Prepayments	98,332	4,070	12,867	437
Other receivables and advances	<u>40,723</u>	<u>38,140</u>	<u>9,110</u>	<u>10,201</u>
	456,485	414,080	227,520	300,327
Less: Provision for doubtful debts	<u>(382)</u>	<u>(1,491)</u>	<u>-</u>	<u>-</u>
	456,103	412,589	227,520	300,327
	=====	=====	=====	=====

Other receivables include an amount of \$1,272,000 (2000: \$Nil) due from related companies.

14 Inventories

	<u>The Group</u>		<u>The company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Finished leaf	52,855	121,007	-	-
Material and supplies	107,414	89,986	285	429
Work-in-progress	3,971	3,199	-	-
Finished products	<u>56,074</u>	<u>73,694</u>	<u>-</u>	<u>-</u>
	<u>220,314</u>	<u>287,886</u>	<u>285</u>	<u>429</u>
	=====	=====	===	===

15 Accounts payable

	<u>The Group</u>		<u>The company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Trade accounts payable	105,585	62,906	-	-
Special consumption tax payable	115,971	106,966	-	-
Other payables and provisions	<u>309,235</u>	<u>159,449</u>	<u>121,664</u>	<u>60,715</u>
	<u>530,791</u>	<u>329,321</u>	<u>121,664</u>	<u>60,715</u>
	=====	=====	=====	=====

Other payables include amounts of \$3,567,000 (2000: \$Nil) and \$331,000 (2000: \$336,000) due to parent company and associated companies respectively.

16 Fixed assets

The Group

	Buildings and Freehold land	leasehold improvements	Machinery, equipment and vehicles	Total
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	\$'000	\$'000	\$'000	\$'000
At cost or valuation:				
March 31, 2000	142,022	2,037,749	207,070	2,386,841
Additions	-	30,315	24,825	55,140
Revaluation adjustments		50,058	-	50,058
Disposals	-	-	(8,567)	(8,567)
March 31, 2001	<u>142,022</u>	<u>2,118,122</u>	<u>223,328</u>	<u>2,483,472</u>
Broken down as follows:				
At cost	1,922	2,809	67,058	71,789
At valuation	<u>140,100</u>	<u>2,115,313</u>	<u>156,270</u>	<u>2,411,683</u>
	<u>142,022</u>	<u>2,118,122</u>	<u>223,328</u>	<u>2,483,472</u>
Depreciation:				
March 31, 2000	-	277,405	148,425	425,830
Charge for the year	-	5,464	9,971	15,435
Revaluation adjustments	-	3,100	-	3,100
Eliminated on disposals	-	-	(7,447)	(7,447)
March 31, 2001	<u>-</u>	<u>285,969</u>	<u>150,949</u>	<u>436,918</u>
Net book values:				
March 31, 2001	142,022	1,832,153	72,379	2,046,554
	=====	=====	=====	=====
March 31, 2000	142,022	1,760,344	58,645	1,961,011
	=====	=====	=====	=====

The company

At cost or valuation:					
March 31, 2000	10,542	462,455	5,802	478,799	
Additions		-	-	942	942
Revaluation adjustments	-	2,511	-	2,511	
Disposals	-	-	(230)	(230)	
March 31, 2001	<u>10,542</u>	<u>464,966</u>	<u>6,514</u>	<u>482,022</u>	
Broken down as follows:					
At cost	42	135	6,514	6,691	
At valuation	<u>10,500</u>	<u>464,831</u>	-	<u>475,331</u>	
	<u>10,542</u>	<u>464,966</u>	<u>6,514</u>	<u>482,022</u>	
Depreciation:					
March 31, 2000	-	229,469	2,990	232,459	
Charge for the year	-	5,355	725	6,080	

Revaluation adjustments	-	9,468	-	9,468
Eliminated on disposals	-	-	(43)	(43)
March 31, 2001	<u>-</u>	<u>244,292</u>	<u>3,672</u>	<u>247,964</u>
Net book values:				
March 31, 2001	10,542	220,674	2,842	234,058
	=====	=====	=====	=====
March 31, 2000	10,542	232,986	2,812	246,340
	=====	=====	=====	=====

The Group's buildings include furnished hotel buildings at a valuation of \$1,553,988,000 (2000: \$1,475,683,000). All revaluation adjustments attributable to the group in the financial statements have been reflected in the capital reserve, net of depreciation.

17 Share capital

	2001	2000
	\$'000	\$'000
Authorised in shares, issued and fully paid in stock units:		
485,440,000 ordinary stock units of 25C each	121,360	121,360
	=====	=====

18 Dividends

	2001	2000
	\$'000	\$'000
Interim dividend of \$Nil (2000: 25c) paid	-	121,360
Interim dividend of \$1 (2000: 60c) proposed	<u>485,440</u>	<u>291,264</u>
	485,440	412,624
Final dividend of \$1.85 (2000: \$2.00) proposed	898,064	970,880

Capital distribution:

Special distribution of \$Nil (2000: \$3.00)		
proposed	-	1,456,320
	<u>1,383,504</u>	<u>2,839,824</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 (2000: \$581,000).
- * Profits arising from prescribed hotel operations and relieved from taxation amounting to \$246,908,000 for the Group and \$Nil for the company at March 31, 2001 (2000: \$192,292,000 for the Group and \$Nil for the company).
- * Franked income of \$19,418,000 (2000: \$14,888,000) for the Group and the company.

19 Staff costs

<u>The Group</u>	
2001	2000
\$'000	\$'000

Salaries and profit related pay	456,827	338,195
Statutory contributions	22,470	19,331
Pension contributions	9,858	10,498
Other	<u>107,857</u>	<u>116,846</u>
	597,012	484,870
	=====	=====

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

	2001	2000
Permanent	444	491
Contract	63	25
Temporary	<u>115</u>	<u>109</u>
	622	625
	=====	=====

20 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.

	2001	2000
	\$'000	\$'000
(a) Purchases from associated companies - raw materials	18,293	16,056
- other charges	32,020	30,002
	=====	=====
(b) Technical fees paid to parent company	16,041	-
	=====	=====
(c) Technical fees paid to		

associated company	7,346	4,319
	=====	=====

21. 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 none exists, the fair value is determined using other appropriate valuation methodologies. Fair values shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

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

	2001			
	<u>The Group</u>		<u>The company</u>	
	Fair value	Carrying value	Fair value	Carrying value
	\$'000	\$'000	\$'000	\$'000
Assets				
Cash and short-term deposits	2,582,914	2,571,203	2,277,179	2,262,568
Short-term investments	5,898,444	5,754,104	5,127,905	5,007,219
Accounts receivable	456,103	456,103	227,520	227,520
Dividend receivable	-	-	3,869	3,869
Due from subsidiary Companies	-	-	231,792	231,792
Long-term investments	2,982,526	2,832,844	2,519,004	2,385,817
Liabilities				
Accounts payable	530,791	530,791	121,664	121,664
Dividends proposed	1,383,504	1,383,504	1,383,504	1,383,504

Due to subsidiary companies	-	-	7,402,844	7,402,844
	=====	=====	=====	=====

	2000			
	<u>The Group</u>		<u>The company</u>	
	Fair value	Carrying value	Fair value	Carrying value
	\$'000	\$'000	\$'000	\$'000
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	-	-	6,156,282	6,156,282
	=====	=====	=====	=====

Determination of fair value:

With the exception of 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 values of short-term deposits and investments are determined by using price information obtained from security brokers.

(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 are net foreign currency assets at the balance sheet date.

22. Pension scheme

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 \$9,858,000 (2000: \$10,498,000) for the Group and \$1,643,000 (2000: \$1,496,000) for the company.

23 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

24 Subsidiary companies

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

<u>Name of company</u>	<u>Principal activity</u>	Percentage of ordinary shares held by the	
		<u>company</u>	
		2001	2000
Cigarette Company of Jamaica Limited	Manufacturing and marketing of cigarettes.	99.70	99.70

Agricultural Products of Jamaica Limited	Lease of land to farmers.	100	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	100
		===	===

25 Contractual commitments

Commitments at March 31, are payable as follows:

	<u>The Group</u>		<u>The Company</u>	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Within one year	20,644	16,002	7,280	6,617
Subsequent years	<u>25,852</u>	<u>20,397</u>	<u>6,812</u>	<u>6,862</u>
	46,496	36,399	14,092	13,479
	=====	=====	=====	=====

Payments made during the year ended March 31, aggregated:

	2001 \$'000	2000 \$'000
Group	22,927	21,122
Company	<u>7,077</u>	<u>9,675</u>
	=====	=====
