WEST INDIES PULP & PAPER LIMITED

Notes to the Financial Statements

November 30, 2001

1 **The company**

The company is incorporated in Jamaica and the ordinary stock units (see note 10) are listed on the Jamaica Stock Exchange. The company is a subsidiary of Investment & Management Services Limited ("the parent society"), an Industrial and Provident Society, incorporated in Jamaica.

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

The number of staff at November 30, 2001 was 51 (2000: 67) for the company and 181 (2000: 184) for the group.

2 **Basis of preparation, consolidation and significant accounting policies**

Basis of preparation:

The financial statements are prepared in accordance with the provisions of the Companies Act and generally accepted accounting principles (GAAP) in Jamaica. GAAP is materially represented by Statements of Standard Accounting Practice issued by the Institute of Chartered Accountants of Jamaica.

The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the balance sheet date and the income and expenses for the year then ended. Actual amounts could differ from these estimates.

The preparation of the financial statements in accordance with GAAP assumes that the company and the group will continue in operational existence for the foreseeable future. This means, in part, that the profit and loss account and the balance sheets assume no intention or necessity to liquidate or curtail the scale of operations. This is commonly referred to as the going concern basis. On November 30, 1996, when the subsidiary, West Indies Containers Limited, ceased operations, the net book values of its assets were adjusted to reflect estimated net realisable values. Furthermore, the group sustained another year of loss and, as at balance sheet date, continued to have a working capital deficit and to experience liquidity problems. The goup's continuation as a going concern is, therefore, dependent on obtaining continued financing and, ultimately, on future profitable operations.

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets at valuation, and are presented in thousands of Jamaica dollars ('000). Where necessary, prior year comparatives have been reclassified to conform to the 2000 presentation.

Basis of consolidation:

The group financial statements include the financial position and results of operations of the wholly-owned subsidiaries, made up to November 30, 2001.

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

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

Significant accounting policies:

(a) Depreciation:

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

Freehold land improvements and buildings:	
Land improvements	5%-10%

Buildings	2 1/2% - 6 2/3%
Plant and machinery	3 1/3% - 20%
Furniture and equipment	5%-20%
Vehicles	25%

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

(c) 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.

(d) Pension costs:
The company and group operate two pension schemes (see note 20) the assets of which are held separately from those of the company and group. Contributions to the schemes, made on the basis provided for in the rules, are charged to the profit and loss account when due.

3 Accounts receivable

	Company		Group	
	2001 ('000)	**2000** ('000)	**2001** ('000)	**2000** ('000)
Trade receivables	19,856	23,966	93,778	105,845
Less bad debt provision	(12,407)	(11,747)	(21,325)	(21,558)
	7,449	12,219	72,453	84,287
Other receivables	66,886*	6,164	66,886	6,166
	$74,335	18,383	139,339	90,453

* This includes receivables amounting to $4.5m from the sale of the Freetown property.

4 **Inventories**

	Company		Group	
	2001	**2000**	**2001**	**2000**
	('000)	**('000)**	**('000)**	**('000)**
Raw materials and supplies	2,807	1,476	127,391	17,133
Goods in transit	8,582	-	19,149	6,498
Work-in-progress	-	-	5,338	7,444
Finished products	3,914	2,606	10,423	10,067
Plant and machinery spare parts	11,138	14,259	38,684	40,165
Purchased finished products	-	27	-	27
	$26,441	18,368	85,985	81,334
	=======	======	=======	======

5 **Bank loans and overdrafts**

	Company		Group	
	2001	**2000**	**2001**	**2000**
	('000)	**('000)**	**('000)**	**('000)**
Bank overdrafts [note (i)] 22% (2000: 38%)	8,096	8,077	23,485	18,042
Demand loans [note (ii)] 13% (2000: 13%)	-	-	17,912	25,063
	$8,096	8,077	41,397	43,105
	======	=====	======	======

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

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

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

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

The amount due to the parent society (note 7) is subordinated in favour of the overdraft.

The overdrafts and bank loans [see note 11 (c)] of the subsidiaries are secured by:

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

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

(f) Bill of sale over machinery, equipment and finished goods.

(g) assignment of peril insurance.

(ii) The demand loan is repayable in monthly instalments of $650,000, along with periodic lump sum payments. Full principal repayment is due January 2004. The loan was taken over by Finsac Limited and interest outstanding amounting to $7,738,956 (2000: $7,738,956) was waived on the condition that monthly payments continue for four years [note 22(b)].

6 Accounts Payable

	Company		Group	
	2001 ('000)	2000 ('000)	2001 ('000)	2000 ('000)
Trade payables [US$594,000 (2000: USS594,000)]	28,056	26,984	158,410	121,729
Other trade payables and accruals	52,884	25,128	136,374	107,515
	$80,940	52,112	294,784	229,244

7 Due from/(to) parent society

This is comprised of the following:

	Company		Group	
	2001 ('000)	200 ('000)	v2001 ('000)	2000 ('000)
Loan	(10,000)	(10,000)	(10,000)	(10,000)
Current accounts	15,247	15,793	(13,379)	(8,098)
	5,247	5,793	(23,379)	(18,098)
Less provision for amounts receivable	(5,247)	-	-	-
	-	5,793	23,379	18,098
	========	========	========	========

The loan is interest-free with other repayment terms yet to be determined. Repayment of the balance due to the parent society has been subordinated in favour of the company's bank overdraft [see note 5(1)].

8 Interest in subsidiaries

	2001 ('000)	2000 ('000)
This represents shares, at cost.	1,847	1,847
Less provision for diminition in value	(1,847)	-
	-	1,847
	=======	======

9 Fixed assets

Company:

	Freehold land, improvements and buildings ('000)	Plant and machinery ('000)	Furniture, equipment & vehicles ('000)	Total ('000)
At cost or valuation:				
November 30, 2000	70,000	107,320	11,908	189,228
Additions	-	-	105	105
Disposals	(60,000)	(27,288)	-	(87,288)
November 30, 2001	10,000	80,032	12,013	102,045
Broken down as follows:				

At cost	-	77,182	12,013	89,195
At valuation	10,000	1,850	-	12,850
	10,000	80,032	12,013	102,045
Depreciation:				
November 30, 2000	-	39,952	8,673	48,625
Charge for the year	2,070	7,130	692	9,892
Eliminated on disposals	(1,670)	(16,926)	(-)	(18,596)
November 30, 2001	400	30,156	9,365	39,921
Net book values:				
November 30, 2001	$9,600	49,876	2,648	62,124
November 30, 2000	$70,000	67,368	3,235	140,603

Group:

	Freehold land, improvements and buildings ('000)	Plant and machinery ('000)	Furniture, equipment and vehicles ('000)	Total ('000)
At cost or valuation:				
November 30, 2000	180,000	221,406	17,517	418,923
Additions	-	46	143	189
Disposals and write-offs	(60,000)	(27,288)	(663)	(87,951)
November 30, 2001	120,000	194,164	16,997	331,161
Broken down as follows:				
At cost	-	152,205	16,997	169,202
At valuation	120,000	41,959	-	161,959
	120,000	194,164	16,997	331,161
Depreciation:				
November 30, 2000	-	95,345	12,390	107,735
Charge for the year	6,661	14,485	1,261	22,407
Eliminated on disposals and write-offs	(1,670)	(16,926)	(425)	(19,021)
November 30, 2001	4,991	92,904	13,226	111,121
Net book values:				
November 30, 2001	$115,009	101,260	3,771	220,040
November 30, 2000	$180,000	126,061	5,127	311,188

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Freehold land, improvements and buildings include land at a valuation of $5,200,000 (2000:$13,370,000) for the company and $47,121,000 (2000: $55,291,000) for the group.

Plant and machinery of the company and a subsidiary were revalued by Baird and Henderson Valuators Limited of Kingston, Jamaica, at June 27, 1990 on a depreciated replacement cost basis. At April 11, 1997, certain plant and machinery of a subsidiary which ceased operations as at November 30 1996 were revalued by Haire Inc. of the United States of America on a net realisable value basis (see note 2). Freehold land, improvements and buildings, and plant and machinery of the company and subsidiaries were revalued by C. D. Alexander Company (Realty) Limited, Valuators, Appraisers and Auctioneers of Kingston. Jamaica on November 30, 1992 and November 30, 1998. Subsequently, certain freehold land, improvements and buildings of a subsidiary were revalued as at November 30, 1995 and November 30, 2000 on an open market basis, also by C. D. Alexander Company (Realty) Limited. Freehold land, improvements and buildings of the company were subsequently valued at November 30, 2000 based on post-balance sheet offers received by the company. The surplus/(deficit) arising on revaluations, inclusive of depreciation no longer required, are included in revaluation reserve. Also, at year-end, any material difference between net book values and estimated net realisable values of assets of a subsidiary (see note 2) is adjusted against revaluation reserve.

10 Share capital

			2001 ('000)	2000 ('000)
Authorised:				
9,500,000	7 1/2%	Non-cumulative convertible redeemable preference shares of $1 each	9,500	9,500
1,457,105	"A"	Ordinary shares of 50c each	728	728
23,649,800		Ordinary shares of 50c each	11,825	11,825
			$22,053	22,053
			=======	======

Issued and fully paid:
9,500,000 7 1/2%Non-cumulative convertible
redeemable preference shares

		[see note (a) below]	9,500	9,500
800,000	"A"	Ordinary stock units		
		[see note (b) below]	400	400
23,416,862		Ordinary stock units (see note 1)	11,708	11,708
			$21,608	21,608
			=======	======

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

These shares are convertible to ordinary stock units after the redemption of any preference capital held by the Government of Jamaica and the repayment of the 7 1/2% unsecured Government of Jamaica loans [note 11 (a)].

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

11 Long-term liabilities

	Company		Group	
	2001 ('000)	**2000 ('000)**	**2001 ('000)**	**2000 ('000)**
(a) 7 1/2% unsecured loans - Government of Jamaica	635	635	635	635
(b) Unsecured trade credit	81,926	78,798	81,926	78,798
(c) 29.6% (2000: 29.6%) Bank loan	13,156	3,686	13,156	3,686
(d) Nil% (2000: 13%) Bank loan	-	-	-	1,096
(e) Nil% (2000: 13%) Bank loan	-	-	-	320
(f) Nil% (2000: 28%) Bank loan	-	-	-	833
(g) 29% Bank loan	-	-	46,600	46,600
	95,717	83,119	142,317	131,968
Less past-due and current maturities	(3,625)	(3,395)	(26,692)	(17,177)
	$92,092	79,724	115,625	114,791
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(a) These loans are repayable in sixteen equal half-yearly instalments of $832,000 each, the final instalment was due on May 30, 1999.

(b) This liability of US$1,734,000 (2000: US$1,734,000), was payable by 48 monthly promissory notes of US$36,000 each commencing April 30, 1996. The repayment was, however, suspended during the year ended November 30, 1996 with the consent of the creditor. No interest was, therefore, applicable; however, in the event of default, the creditor has the option to declare the outstanding balance due and payable in full bearing interest at the rate of 18% per annum, (calculated on the US$ balance).

(c) This total loan is repayable in equal monthly instalments of $230,000 each, plus variable rate interest, the final instalment being due in June 2002. The loan is secured as described in notes 5(1) (d) and (e).

(d),(e) These loans are repayable in equal quarterly instalments of $365,000 and $107,000 each, respectively. These loans were repaid during the year.

(f) This loan is repayable in 48 equal monthly instalments of $83,000, the final instalment being due in August 2001. This loan was repaid during the year.

(g) This loan is repayable in 36 monthly instalments of $961,111 each, plus interest by November 2003.

12 Gross operating revenue

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

13 Loss before exceptional item

The following are among the items charged in arriving at the loss before exceptional item:

	2001 ($'000)	2000 ($'000)
Depreciation	22,407	20,851
Interest:		
Bankloan	11,835	5,259
Long-term loan	1,581	7,104
Overdraft	1,321	1,266
Directors' emoluments - Fees	Nil	Nil
- Management remuneration	Nil	Nil
Management fees to parent society	10,000	11,500
Auditors' remuneration - current year	1,911	1,830
- prior year	50	-
Staff costs:		
Salaries, related costs and benefits	122,845	127,711
Redundancy	3,968	5,903
	=======	=======

14 Exceptional item

In the current year, this represents the provision for amounts due from the parent society.

In the previous year the amount represented the write-off of slow-moving, obsolete and damaged spare parts inventory.

15 Net loss attributable to members

This includes $51,067,000 (2000: loss of $24,643,000) relating to the company only.

16 Loss per stock unit

This is computed by dividing the net loss of $114,537,000 (2000: $129,821,000) by 800,000 'A' ordinary stock units and 23,416,862 ordinary stock units in issue. Account has been taken of the rights attached to the 'A' ordinary stock units [see note 10(b)].

17 Taxation

At November 30, 2001, taxation losses, subject to agreement by the Commissioner of Taxpayer Audit and Assessment, available for relief against future taxable profits, amounted to approximately $79,097,935 (2000: $63,322,622) for the company and

$232,490,159 (2000 : $247,702,954) for the group.

18 <u>Financial instruments</u>

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For purposes of the financial statements, financial instruments have been determined to be cash resources, accounts receivables, due from subsidiary - current account, due from/to parent society, bank loans and overdrafts, accounts payable and long-term liabilities.

(a) Fair value of financial instruments:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

The fair value of cash, accounts receivable, due from/(to) group companies, bank loans and overdrafts and accounts payable approximate carrying values due to their short-term nature. The fair value of long-term liabilities is assumed to approximate carrying value as no discounts on settlement are anticipated.

(b) Financial instruments risks:

Exposure to credit, interest rate and currency risks arises in the ordinary course of the company's and the goup's business. Derivative financial instruments are not presently used to reduce exposure to fluctuations in interest and foreign exchange rates.

(i) Credit risk:

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The company and the group generally do not require collateral in respect of financial assets, predominantly, trade receivables. Management has a credit policy in place to minimize exposure to credit risk. Credit evaluations are performed on all customers requiring credit and rigorous collection procedures are in place to manage this risk.

At balance sheet date, there were no significant concentrations of credit risk and the maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company and the group materially contracts financial liabilities at fixed interest rates for the duration of the term. Bank overdrafts are subject to fixed interest rates which may be varied by appropriate notice by the lender. Financial liabilities subject to fixed interest rates are shown at note 11.

(iii) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The main foreign currency giving rise to this risk is the US$.

At balance sheet date, the company and the group had foreign currency exposure, the US$ equivalent of which is as follows:

	Company		Group	
	2001 ('000)	**2000 ('000)**	**2001 ('000)**	**2000 ('000)**
Assets	14	17	521	723
Liabilities	(2,896)	(2,596)	(5,587)	(5,225)
	US$(2,882)	(2,579)	(5,066)	(4,502)
	=======	=======	=======	=======

(iv) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the Authority will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity problems may result from an inability to sell a financial asset quickly at or close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed facilities. The Authority manages its liquidity risk by maintaining a substantial portion of its financial assets in liquid or near-liquid form.

(v) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Authority is not subject to this risk as it holds no financial assets which are convertible to cash only by trading in the market.

19 National Housing Trust contributions

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

20 Pension schemes

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

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

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

The contributions to the schemes for the year amounted to $4,436,000 (2000: $3,065,800 restated) for the company and $7,300,000 (2000: $7,929,000 restated) for the group.

20 Working capital support

The group has a revolving line of credit with a major supplier of paper which allows the group to draw down supplies on a need basis. There is also a bank guarantee of $16,330,000 (2000:$16,330,000) under a revolving letter of credit for the purpose of acquiring raw materials.

22 Contingent liabilities

(a) There are unlimited cross-guarantees between the company, its subsidiaries and the ultimate parent company for which no provision is made in the financial statements.

(b) A subsidiary's debt is now being administered by Finsac Limited for which a contingent liability exists in respect of outstanding interest [see note 5(ii)].

23 Subsequent event

On March 7, 2002 a formal application was submitted to the Jamaica Stock Exchange for the delisting of the company and the group.