Carreras Group Ltd.

Notes to the Financial Statements

31 March, 2002

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1 **The company**

Carreras Group Limited (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 subsidiaries (note 24).

2 **Basis of preparation and consolidation**

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 Jamaican generally accepted accounting principles ("GAAP"), which are substantially codified in Statements of Standard Accounting Practice issued by the Institute of Chartered Accountants of Jamaica, and the provisions of the Companies Act. The accounting policies, set out in note 3, conform, in all material respects, to GAAP.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and contingent 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.

Where necessary, prior year comparatives have been reclassified and conform to the 2002 presentation.

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

Basis of consolidation:

The consolidated financial statements combine the financial position of the company and its subsidiaries as at March 31, 2002 and their results of operations and cash flows for the year then ended, after eliminating all significant intra-group amounts. The company and its subsidiaries are collectively referred to in the financial statements as "The Group".

3 Significant accounting policies

(a) Fixed assets and depreciation:

Freehold land and certain buildings are stated at current market value, while other buildings are revalued on the depreciated replacement cost basis, with the exception of hotel buildings, which are valued on the current depreciated replacement cost basis, by independent, qualified valuators, every three years. At the end of each of the two years between such valuations, the gross replacement cost of buildings is adjusted by indices provided by these valuators.

Further, certain major items of plant and machinery are revalued by the directors on the current replacement cost basis, using externally provided bases, as follows;

(i) where the existing assets cannot be replaced by equivalent second-hand assets, depreciated 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	2.5%
Machinery and equipment	3.3%	to	33.3%
Motor vehicles	20%	to	33.3%

Leasehold improvements	10%

The annual charge for depreciation is based on cost or valuation, as appropriate. Any adjustments to accumulated depreciation attributable to prior years, arising from the annual revaluation of assets, is charged or credited to capital reserve.

A percentage of gross hotel revenue is transferred to a reserve for replacement of hotel furniture, fixtures and equipment [note 3(c)]. The directors estimate that this charge is sufficiently representative of the consumption of such assets for the year; accordingly, there is no depreciation charge in the profit and loss account of the subsidiary which owns them.

(b) Investment properties:
Investment properties are revalued annually to reflect current market value by professional valuators and chartered surveyors.

(c) Replacement reserve:
A percentage of gross hotel revenue is credited to a reserve for replacement of furnished hotel property [note 3(a)]. 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 the 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, material associated costs or 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 currency 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 of that subsidiary 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 income tax:
Differences which result from the reporting of income and expense items differently for income tax purposes from the way they are reported for financial statements purposes are timing differences if they reverse; otherwise they are permanent differences. The income tax effects of all significant timing differences are accounted for as deferred income tax at expected applicable rates, except where it is thought reasonably probable that the income tax effects of such timing differences will continue to be deferred 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 quoted market prices are not available, 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.

(m) Pension scheme costs:
Pension scheme costs comprise contributions to the pension scheme in which the company participates (note 22). The contributions are made on the basis provided for in the rules and are charged to the profit and loss account when due.

(n) Securities purchased under resale agreements:
Securities purchased under resale agreements are accounted for as collateralised financing.

4 Gross operating revenue

Gross operating revenue represents the invoiced value of products and services sold by the Group, inclusive of special consumption taxes amounting to approximately $1,301,668,000 (2001: $1,300,722,000), and excludes intra-group trading.

5 Other operating income

	2,002	**2,001**
	$'000	**$'000**
Investment	1,228,049	1,537,758
Interest	120,018	146,226
Exchange gains	259,196	355,564
Gain on disposal of fixed assets	6,813	614
Gain on disposal of investments	7,688	1,377
Miscellaneous income	7,521	11,399
	1,629,285	2,052,938
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6 Exceptional items

	2002 $'000	2001 $'000
Redundancy and reorganization costs	44,028	30,431
Write-off of machinery and provision for spare parts on the closing of the primary department in the cigarette manufacturing subsidiary	11,950	-
Loans written-off	-	7,952
	55,978	38,383
	======	======

7 Profit before income tax

Profit before income tax is stated after taking account of the following:

	2002 $'000	2001 $'000
Depreciation	18,809	15,435
Transfer to reserve for replacement of furnished hotel property	26,466	32,196
Auditors' remuneration	4,408	4,511
Directors' emoluments:		
Fees	16	16
Management services	51,784	43,581
Appreciation in value of investments	(304)	(2,953)
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8 Income tax

Income tax is computed at 33 1/3% of the profit for the year, as adjusted for taxation purposes, and is made up as follows:

	2002 $'000	200 $'000
Current:		
Provision for charge on current year's profit	900,467	1,084,514
Adjustment in respect of prior year's provision	(121,984)	(142,106)
	778,483	942,408
Deferred	(30,246)	(30,484)
	748,237	911,924
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(a) Profits for the year arising from prescribed hotel operations and relieved from taxation amount to $9,727,936 (2001: $54,615,963).

(b) At March 31, 2002, taxation losses in subsidiaries, subject to agreement by the Commissioner of Taxpayer Audit and Assessment, available for set off against future taxable profits, amounted to approximately $52,061,000 (2001: $5,721,000).

9 Net profit for the year attributable to stockholders

	2002 $'000	2001 $'000
Net profit for the year attributable to stockholders, dealt with in the financial statements of the company	979,557	1,319,413

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		The Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Cash at bank	2,693,420	672,586	2,679,496	463,951
Short-term deposits	2,082,490	1,898,617	1,802,255	1,798,617
	4,775,910	2,571,203	4,481,751	2,262,568

12 Investments

(a) Short-term:

	The Group		The Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Fixed interest rate:				
Government of Jamaica securities	534,317	257,982	385,661	114,212
Corporate securities	265,000	239,084	265,000	239,084
	799,317	497,066	650,661	353,296
Variable interest rate:				
Government of Jamaica securities	527,800	1,601,647	527,800	1,491,936
Corporate securities	-	227,842	-	227,842

	527,800	1,829,489	527,800	1,719,778
Total interest-bearing securities	1,327,117	2,326,555	1,178,461	2,073,074
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(b) Long-term:

	2002		2001	
	1-5 years $'000	**Over 5 years $'000**	**Total $'000**	**Total $'000**
The Group				
Fixed interest rate:				
Government of Jamaica securities	1,883,504	238,051	2,121,555	1,511,455
Variable interest rate:				
Government of Jamaica securities	283,156	-	283,156	1,238,364
Corporate securities	-	-	-	53,096
	283,156	-	283,156	11,291,460
Total interest-bearing securities	2,166,660	238,051	2,404,711	2,802,915
	=========	=======		
Equities			30,233	29,929
			2,434,944	2,832,844
			=========	=========

	2002		2001	
	1-5 years $'000	**Over 5 years $'000**	**Total $'000**	**Total $'000**
The company				
Fixed interest rate:				
Government of Jamaica securities	1,166,648	238,051	1,404,699	1,104,743
Variable interest rate:				
Government of Jamaica securities	258,593	-	258,593	1,198,049
Corporate securities	-	-	-	53,096
	258,593	-	258,593	1,251,145
Total interest-bearing securities	1,425,241	238,051	1,663,292	2,355,888
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Equities			30,233	29,929
			1,693,525	2,385,817

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13 Accounts receivable

	The Group		The company	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Trade accounts receivable	120,171	81,692	-	-
Interest and investment income receivable	151,288	235,738	116,794	205,543
Prepayments	102,150	98,332	8,854	12,867
Other receivables and advances	79,180	40,723	8,240	9,110
	452,789	456,485	133,888	227,520
Less: Provision for doubtful debts	(3,268)	(382)	-	-
	449,521	456,103	133,888	227,520
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Other receivables include an amount of $39,914,248 (2001: $1,272,000) due from related companies.

14 Inventories

	The Group		The company	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Finished leaf	10,099	52,855	-	-
Material and supplies	70,379	107,414	91	285
Work-in-progress	921	3,971	-	-
Finished products	41,864	56,074	-	-
	123,263	220,314	91	285
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15 Accounts payable

	The Group		The company	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Trade accounts payable	98,479	105,585	-	-
Special consumption tax payable	85,503	115,971	-	-
Other payables and provisions	313,891	309,235	118,580	121,664
	497,873	530,791	118,580	121,664
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Other payables include amounts of $9,962,987 (2001: $3,567,000) and $14,225,471 (2001: $331,000) due to parent company and associated companies, respectively.

16 Fixed assets

The Group

	Freehold land $'000	Buildings and leasehold improvements $'000	Machinery, equipment and vehicles $'000	Total $'000
At cost or valuation:				
March 31, 2001	142,022	2,118,122	223,328	2,483,472
Additions	-	67,527	27,002	94,529
Revaluation adjustments	8,000	82,374	-	90,374
Disposals and write offs	-	-	(22,669)	(22,669)
March 31, 2002	150,022	2,268,023	227,661	2,645,706
Broken down as follows:				
At cost	1,922	43,512	99,992	145,426
At valuation	148,100	2,224,511	127,669	2,500,280
	150,022	2,268,023	227,661	2,645,706
Depreciation:				
March 31, 2001	-	285,969	150,949	436,918
Charge for the year	-	5,489	13,319	18,808
Revaluation adjustments	-	25,184	-	25,184
Eliminated on disposals and write offs	-	-	(18,163)	(18,163)
March 31, 2002	-	316,642	146,105	462,747
Net book values:				
March 31, 2002	150,022	1,951,381	81,556	2,182,959
March 31, 2001	142,022	1,832,153	72,379	2,046,554

The company

	Freehold land $'000	Buildings and leasehold improvements $'000	Machinery, equipment and vehicles $'000	Total $'000

At cost or valuation:				
March 31, 2001	10,542	464,966	6,514	482,022
Additions	-	-	901	901
Revaluation adjustments	-	46,074	-	46,074
Disposals	-	(117,895)	(1,416)	(119,311)
March 31, 2002	10,542	393,145	5,999	409,686
Broken down as follows:				
At cost	42	135	5,999	6,176
At valuation	10,500	393,010	-	403,510
	10,542	393,145	5,999	409,686
Depreciation:				
March 31, 2001	-	244,292	3,672	247,964
Charge for the year	-	5,353	1,157	6,510
Revaluation adjustments	-	25,184	-	25,184
Eliminated on disposals	-	(63,096)	(746)	(63,842)
March 31, 2002	-	211,733	4,083	215,816
Net book values:				
March 31, 2002	10,542	181,412	1,916	193,870
March 31, 2001	10,542	220,674	2,842	234,058

The Group's buildings include furnished hotel buildings at a valuation of $1,676,469,000 (2001:$1,553,988,000). All revaluation adjustments attributable to the group in the financial statements have been reflected in capital reserve, net of depreciation.

17 Share capital

	2002 $'000	2001 $'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

	2002 $'000	2001 $'000
Interim - $1.00 (2001: $1.00) per stock unit - proposed	485,440	485,440
Second interim - $2.00 (2001: $1.85) per stock unit - proposed	970,880	898,064
	1,456,320	1,383,504

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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) (Amendment) Order, 1991, and The Approved Extension (Grand Lido Sans Souci) Order, 1998, 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 (2001: $581,000).

- Profits arising from prescribed hotel operations and relieved from taxation amounting to $256,636,000 for the Group and $Nil for the company at March 31, 2002 (2001: $246,908,000 for the Group and $Nil for the company).
- Franked income of $19,434,000 (2001: $19,418,000) for the Group and the company.

19 Staff costs

	The Group	
	2002	**2001**
	$'000	**$'000**
Salaries and profit related pay	510,956	456,827
Statutory contributions	33,124	22,470
Pension contributions	10,414	9,858
Other	96,508	97,254
	651,002	586,409
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The number of employees at the end of the year were as follows:

	2002	2001
Permanent	362	444
Contract	102	63
Temporary	4	115
	468	622
	======	======

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.

		2002 $'000	2001 $'000
(a) Purchases from associated companies	- raw materials	160,115	18,293
	- other charges	6,474	32,020
(b) Technical fees paid to parent company		15,788	16,041
(c) Technical fees paid to associated company		2,841	7,346

21 Financial instruments

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. Financial assets comprise cash and short-term deposits, investments, securities purchased under resale agreements, accounts receivable and due from subsidiary company. Financial liabilities comprise accounts payable and due to subsidiary companies. Information on fair values and financial instruments risks is presented below:

(a) Fair value

Fair value amounts represent estimates of the arm's length 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 no quoted market price 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.

Determination of fair value:

With the exception of 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 investments are determined by using price information obtained from security brokers. The fair values of amounts due from and due to subsidiary companies have not been computed but are considered to be below the carrying amount, because the amounts are unsecured, long-term in nature, have no fixed repayment term and are interest-free.

The fair values of the Group's and the company's financial instruments where they differ from their carrying values are as follows:

	2002			
	The Group		**The company**	
	Fair value $'000	**Currying value $'000**	**Fair value $'000**	**Carrying value $'000**
Short-term investments	1,340,049	1,327,117	1,190,651	1,178,461
Long-term investments	2,589,979	2,434,944	1,806,770	1,693,525

	2001			
	The Group		**The company**	
	Fair value $'000	**Carrying value $'000**	**Fair value $'000**	**Carrying value $'000**
Short-term investments	2,426,301	2,326,555	2,193,760	2,073,074
Long-term investments	2,982,526	2,832,844	2,519,004	2,385,817

(b) Financial instruments risks:
The Group and the company do not use derivatives as a risk management strategy. Accordingly, exposure to credit, interest rate, foreign currencies, liquidity and market risks arises in the ordinary course of the Group's and the company's operations.

(i) 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.

(ii) Credit risk:

Credit risk is the risk of loss arising from a counterparty to a financial contract failing to discharge its obligations.

Management has an investment policy in place and the exposure to credit risk is monitored on an on-going basis. Cash and investments are held with financial institutions which management considers to be sound and financially strong. With regard to securities purchased under resale agreements management has a policy of obtaining collateral in the form of Government of Jamaica instruments. At balance sheet date, there were no significant concentrations of risk attaching to accounts receivable; however, there is a concentration of investments in Government of Jamaica securities.

(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 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.

(iv) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the Group and the company 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 Group and the company manage their liquidity risk by maintaining a substantial portion of their financial assets in 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 directors do not believe this risk is significant because the substantial majority of its financial assets comprises debt securities which the company has the ability and intention to hold to maturity. Investments which are convertible to cash only by trading in the market are not significant.

22 Pension scheme

To provide post-retirement benefits for employees, the Group and the company participate in the Carreras Group Limited Superannuation Scheme. This is a trustee-administered, contributory scheme, the assets of which are held separately from those of the Group, and the company (and other participating employers). 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, 2001, 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, 2001.

The contributions during the year aggregated $10,414,000 (2001: $9,858,000) for the Group and $1,771,000 (2001: $1,643,000) 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:

Percentage of ordinary shares held by the

Name of company	Principal activity	company	
		2002	2001
Cigarette Company of Jamaica Limited	Manufacturing and marketing of cigarettes.	99.8	99.8
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:

	The Group		The company	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Within one year	24,719	20,644	11,938	7,280
Subsequent years	25,333	25,852	10,582	6,812
	50,052	46,496	22,520	14,092
	======	======	======	======

Payments made during the year ended March 31, aggregated:

	2002	**2001**
	$'000	**$'000**
Group	29,255	22,927
Company	12,890	7,077
	======	======