Carreras Group Ltd.

Notes to the Financial Statements

31 March, 2003

---

1. Identification and principal activity

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 p1c, 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 Act"). The accounting policies, set out in note 3, conform, in all material respects, to GAAP and the Act.

The preparation of the financial statements in conformity with GAAP and the Act requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, contingent assets and contingent 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 to conform to the 2003 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, 2003 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 including the hotel buildings, are stated at open market value, while other buildings are valued on the depreciated replacement cost basis. All valuations are carried out by independent, qualified valuators; annually for hotel buildings and every three years for all other land and buildings. 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%
Leasehold improvements	10.00%
Machinery and equipment	3.3% to 33.3%
Motor vehicles	20% to 33.3%

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. This is common practice in the industry.

(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 insurance 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 or 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 depending on the classification of the movements in the related 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 statement of group 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, computed at expected applicable rates, of all significant timing differences are accounted for as deferred income tax, except where it is thought reasonably probable that such income tax effects 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. Operating revenue

Operating revenue represents the invoiced value of products and services sold by the Group, inclusive of special consumption taxes amounting to approximately $1,468,134,000 (2002: $1,301,668,000), and excludes intra-group trading.

5. Other operating income

	2003 $'000	2002 $'000
Interest and dividends from investments	1,190,720	1,228,049
Other interest	158,433	120,018
Exchange gains	1,052,054	259,196
Gain on disposal of fixed assets	3,500	6,813
Gain on disposal of investments		7,688
Miscellaneous income	45,081	7,521
	2,449,788	1,629,285

6. Exceptional items

This represents redundancy and other reorganization costs.

7. Profit before income tax

Profit before income tax is stated after charging/(crediting):

	2003 $'000	2002 $'000
Depreciation	29,876	18,809
Transfer to reserve for replacement of furnished hotel property	27,235	26,466

Auditors' remuneration	4,233	4,408
Directors' emoluments:		
Fees	16	16
Management services	48,580	51,784
Appreciation in value of investments	(1,943)	(304)
	=========	=========

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:

	2003 **$'000**	**2002** **$'000**
Current:		
Provision for charge on current year's profit	972,144	900,467
Less tax credit arising on issue of bonus shares	(122,708)	(122,708)
	849,436	777,759
Adjustment in respect of prior year's provision	5,469	724
	843,967	778,483
Deferred	(6,453)	(30,246)
	837,514	748,237
	=========	=========

(a) Profits for the year arising from prescribed hotel operations and relieved from taxation amount to $Nil (2002: $9,727,936).

(b) At March 31, 2003, taxation losses in subsidiaries, subject to agreement by the Commissioner, Taxpayer Audit and Assessment, available for set off against future taxable profits, amounted to approximately $63,635,000 (2002: $52,061,000).

(9) Net profit for the year attributable to stockholders

	2003 **$'000**	**2002** **$'000**
Net profit for the year attributable		

to stockholders, dealt with in the financial statements of the company	1,549,060	979,557

(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	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Cash at bank	4,133,925	2,693,420	3,953,860	2,679,496
Short-term deposits	673,039	2,082,490	369,976	1,802,255
	4,806,964	4,775,910	4,323,836	4,481,751

(12) Investments

(a) Short-term:

	The Group		The Company	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Fixed rate:				
Government of Jamaica securities	918,351	534,317	762,947	385,661
Corporate securities	265,000	265,000	265,000	265,000
	1,183,351	799,317	1,027,947	650,661
Variable rate:				
Government of Jamaica securities	234,044	527,800	234,044	527,800
Total interest-bearing securities	1,417,395	1,327,117	1,261,991	1,178,461

(b) Long-term:

The Group

	2003			2002
	1-5 years $'000	**Over 5 years $'000**	**Total $'000**	**Total $'000**
Fixed rate:				
Government of Jamaica securities	1,622,502	83,983	1,706,485	2,121,555
Variable rate:				
Government of Jamaica securities	36,982	-	36,982	283,156
Total interest-bearing securities	1,659,484	83,983	1,743,467	2,404,711
Equities	=========	=========	32,177	30,233
			1,775,644	2,434,944
			=========	=========

The Company

	2003			2002
	1-5 years $'000	**Over 5 years $'000**	**Total $'000**	**Total $'000**
Fixed rate:				
Government of Jamaica securities	1,017,121	-	1,017,121	1,404,699
Variable rate:				
Government of Jamaica securities	18,453	-	18,453	258,593
Total interest-bearing securities	1,035,574	-	1,035,574	1,663,292
Equities	=========	=========	32,177	30,233
			1,067,751	1,693,525
			=========	=========

13. Accounts receivable

	The Group		The Company	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Trade accounts receivable	95,793	120,171	-	-
Interest and investment income receivable	103,410	151,288	86,368	116,794
Prepayments	112,993	102,150	1,988	8,854
Other receivables and advances	87,772	79,180	7,390	8,240
	399,968	452,789	95,746	133,888
Less: Provision for doubtful debts	(2,618)	(3,268)	-	-
	397,350	449,521	95,746	133,888
	=========	=========	=========	=========

Other receivables include an amount of $44,715,743 (2002: $39,914,248) due from related companies.

14. Inventories

	The Group		The Company	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Finished leaf	21,994	10,099	-	-
Material and supplies	56,357	70,379	416	91
Work-in-progress	873	921	-	-
Finished products	72,767	41,864	-	-
	151,991	123,263	416	91
	=========	=========	=========	=========

15. Accounts payable

	The Group	The Company

	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Trade accounts payable	113,150	98,479	-	-
Special consumption tax payable	179,153	85,503	-	-
Other payables and provisions	488,309	313,891	280,854	118,580
	780,612	497,873	280,854	118,580
	=========	=========	=========	=========

Other payables include amounts of $5,460,217 (2002: $9,962,987) and $26,843,324 (2002: $14,225,471) due to parent company and other related companies, respectively.

16. Fixed assets

The Group

	Freehold land $'000	Buildings and leasehold improvement $'000	Machinery, equipment and vehicles $'000	Total $'000
At cost or valuation:				
March 31, 2002	150,022	2,268,023	227,661	2,645,706
Additions	-	14,316	24,655	38,971
Revaluation adjustments	-	(524,326)	-	(524,326)
Disposals and write offs	-	(1,957)	(18,897)	(20,944)
March 31, 2003	150,022	1,756,056	233,329	2,139,407
Broken down as follows:				
At cost	1,922	32,911	125,077	159,910
At valuation	148,100	1,723,145	108,252	1,979,497
	150,022	1,756,056	233,329	2,139,407
Depreciation:				
March 31, 2002	-	316,642	146,105	462,747
Charge for the year	-	9,512	20,364	29,876

	Freehold land	Buildings	Machinery, equipment and vehicles	Total
Revaluation adjustments	-	20,940		20,940
Eliminated on disposals	-			
and write offs	-	(1)	(17,993)	(17,994)
March 31, 2003	-	347,093	148,476	495,569
Net book values:				
March 31, 2003	150,022	1,408,963	84,853	1,643,838
March 31, 2002	150,022	1,951,381	81,556	2,182,959

The Company

	Freehold land $'000	Buildings $'000	Machinery, equipment and vehicles $'000	Total $'000
At cost or valuation:				
March 31, 2002	10,542	393,145	5,999	409,686
Additions	-	-	549	549
Revaluation adjustments	-	38,940	-	38,940
Disposals	-	-	(435)	(435)
March 31, 2003	10,542	432,085	6,113	448,740
Broken down as follows:				
At cost	42	135	6,113	6,290
At valuation	10,500	431,950	-	442,450
	10,542	432,085	61,113	448,740
Depreciation:				
March 31, 2002	-	211,733	4,083	215,816
Charge for the year	-	6,665	870	7,535
Revaluation adjustments	-	20,940	-	20,940
Eliminated on disposals	-	-	(420)	(420)
March 31, 2003	-	239,338	4,533	243,871

Net book values:

March 31, 2003	10,542	192,747	1,580	204,869
March 31, 2002	10,542	181,412	1,916	193,870

The company's buildings were revalued at $431,950,000 on the depreciated replacement cost basis as at March 31, 2003 by D.C. Tavares Finson Company Limited, professional valuators of Kingston, Jamaica.

A subsidiary company's freehold land and buildings were revalued at $137,000,000 on the open market basis as at January 31, 2003 by D.C. Tavares and Finson Company Limited, professional valuators of Kingston Jamaica.

A subsidiary's hotel buildings were revalued at $900,000,000 on the open market value basis as at March 31, 2003 by D.C. Tavares and Finson Company Limited, professional valuators of Kingston, Jamaica

All revaluation adjustments attributable to the group in the financial statements have been reflected in capital reserve.

17. Share capital

	2003 $'000	2002 $'000
Authorised in shares, issued and fully paid in stock units:		
485,440,000 ordinary stock units of 25 cents each	121,360	121,360

18. Dividends

	2003 $'000	2002 $'000
Paid:		
First interim dividend of $1.00	485,440	-

2002 Final dividend of $1.00	485,440	-
	970,880	-
Proposed:		
First interim dividend of $ 1.00	-	485,440
Second interim dividend of $2.00 (2002: $2.00)	970,880	970,880
	970,880	1,456,320
	1,941,760	1,456,320

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, 1998, out of tax-relieved profits derived from prescribed hotel operations.

Unappropriated profits include profits distributable tax-free to stockholders resident in Jamaica, 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 (2002: $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, 2003 (2002: $256,636,000 for the Group and $Nil for the company).

Franked income of $28,660,000 (2002: $19,434,000) for the Group and the company.

19. Staff costs

	The Group	
	2003	**2002**
	$'000	**$'000**
Salaries and profit related pay	447,471	510,956
Statutory contributions	31,303	33,124
Pension contributions	9,154	10,414
Other	72,840	96,508

	560,768	651,002

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

	2003 **$'000**	**2002** **$'000**
Permanent	346	362
Contract	34	102
Temporary	50	4
	430	468

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.

	2003 **$'000**	**2002** **$'000**
(a) Purchases from associated companies		
- raw materials	165,064	160,115
- other charges	6,581	6,474
(b) Technical fees paid to parent company	20,433	15,788
(c) Technical fees paid to associated company	109,590	2,841

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, 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 are assumed to approximate carrying value as no discount on settlement is anticipated.

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

	2003			
	The Group		The company	
	Fair value $'000	Carrying value $'000	Fair value $'000	Carrying value $'000

Short-term investments	1,429,833	1,417,395	1,270,703	1,261,991
Long-term investments	1,937,851	1,775,644	1,081,340	1,067,751

	2002			
	The Group		**The company**	
	Fair value $'000	**Carrying 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

(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, market and cash flow 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 ongoing 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 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 manages 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.

(vi) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

The Group and the company manage this risk by ensuring as far as possible, that fluctuation in cash flows relating to monetary financial assets and liabilities are matched to mitigate any significant adverse cash flows.

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 $9,154,000 (2002: $10,414,000) for the Group and $1,467,000 (2002: $1,771,000) 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:

Name of company	**Principal activity**	**Percentage of ordinary shares held by the company**	
		2003	**2002**
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	Lease of building.	100	100
Sans Souci Development Limited and its subsidiary, Sans Souci Limited	Owners and operators of hotel property and developers of real estate (see note 26).	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**	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
Within one year	24,413	24,719	8,908	11,938

Subsequent years	16,681	25,333	8,545	10,582
	41,094	50,052	175,431	22,520
	=========	=========	=========	=========

Payments made during the year ended March 3 1, aggregated:

	2003 **$'000**	**2002** **$'000**
The Group	31,005	29,255
The company	10,366	12,890
	========	========

26. Contingencies

(a) A subsidiary, Cigarette Company of Jamaica Limited, has received income tax assessments in respect of the years 1997 to 2002 from the Commissioner, Taxpayer Audit & Assessment totalling $5,716 million, being income tax of $2,172 million and penalties of $3,544 million.

An objection to the assessments has been filed. Counsel for the company has advised that although the results of litigation are not predictable, it is his opinion that there is no proper basis in law or fact for the assessments which should therefore be discharged. The Directors are unanimously of the same view. No provision for this amount has been made in the financial statements.

(b) A hotel which is owned by a subsidiary was managed by VRL Services Limited under a management agreement which was terminated by the company effective March 4, 2003. However, VRL Services Limited under a separate arrangement managed the property until April 30, 2003. On May 1, 2003, the subsidiary became owner-managed, continuing operations as "Sans Souci Resort and Spa".

A dispute exists with respect to the termination of the management agreement and this is the subject of arbitration proceedings. As advised by the subsidiary's Attorney-at-Law this termination was lawful and, consequently, no provision has been made for any liability arising therefrom.