Salada Foods Jamaica Ltd.

Notes to the Financial Statements 30 September 2004

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1. Company Identification and Principal Activity

Salada Foods Jamaica Limited is incorporated and resident in Jamaica. Its principal activity is the manufacture and sale of instant coffee and roasted and ground coffee beans.

The registered office of the company is located at 20 Bell Road, Kingston 11.

The company is listed on the Jamaica Stock Exchange.

These financial statements are presented in Jamaican dollars unless otherwise indicated.

2. Significant Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, and have been prepared under the historical cost convention.

Jamaica adopted International Financial Reporting Standards (IFRS) as its national accounting standards, effective for accounting periods beginning on or after 1 July 2002. The financial statements for the year ended 30 September 2003 were therefore prepared in accordance with IFRS and comparative information was restated to conform with the provisions of IFRS.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Consolidation

The Group's financial statements present the results of operations and financial position of the company and its two wholly owned, dormant subsidiaries, Coffee Company of Jamaica Limited and Shirriff's (Jamaica) Limited (the Group). The subsidiaries are incorporated and resident in Jamaica.

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus cost directly attributable to the acquisition. The excess of the cost is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered.

(c) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rate prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated using the closing exchange rate. Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealised foreign exchange difference on unsettled foreign currency monetary assets and liabilities are recognised in the profit and loss account.

(d) Revenue recognition

Revenue comprises the invoiced value of goods sold net of General Consumption Tax, rebates, discounts. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of goods are transferred to the buyer.

(e) Borrowings

Borrowings are recognised initially at the proceeds received, net of transactions costs incurred.

Borrowings are subsequently stated at amortised cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings.

(f) Fixed assets

Fixed assets are recorded at historical or deemed cost, less depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives of other fixed assets are as follows:

Buildings	40 - 60 years
Machinery and equipment	5 - 40 years
Motor vehicles	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Repairs and maintenance expenses are charged to the profit and loss account during the financial period in which they are incurred.

(g) Income taxes

Taxation expense in the profit and loss account comprises current and deferred tax charges.

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates applicable at the balance sheet date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited in the profit and loss account, except where it relates to items charged or credited to equity, in which case deferred tax is also dealt with in equity.

(h) Employee benefits

The Group operates a defined benefit plan, the assets of which are generally held in a separate trustee-administered fund. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability in respect of the defined benefit plan is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the plan assets, together with adjustments for actuarial gains and losses and past service cost. The defined benefit obligation is determined annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the remaining service lives of the employees.

(i) Impairment of non-current assets

Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the average cost basis. The cost of finished goods and work in progress comprises raw and packaging materials, direct labour and other direct costs, and a proportion of related production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(k) Trade receivables

Trade receivables are carried at original invoice amounts less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of sale. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and deposits held at call with banks, net of bank overdraft and short term loans payable within three months of the balance sheet date. Bank overdraft and short term loans are included within borrowings in current liabilities on the balance sheet.

(m) Trade payables

Trade payables are stated at cost.

(n) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(o) Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

(p) Segment reporting

Business segments provide products that are subject to risk and returns that are different from those of other business segments. Geographical segments provide products within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

More than 90% of the Group's turnover represents coffee products, almost all of which are sold

locally. As such, the Group has no separable segments for reporting.

(q) Financial instruments

Financial instruments carried on the balance sheet include cash and short term deposits, trade receivables and payables, and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The fair values of the company's financial instruments are discussed in Note 21.

(r) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in the presentation in the current year.

3. Results from Operations

The following items have been charged/(credited) in arriving at results from operations:

	2004 $'000	2003 $'000
Depreciation	8,300	7,413
Loss on disposal of fixed assets	-	937
Repairs and maintenance expense	5,128	5,421
Operating lease rentals	606	606
Cost of inventories recognised as expense	87,218	58,538
Directors' emoluments -		
Fees	210	135
Management remuneration	-	-
Auditor's remuneration -		
Current year	1,277	1,211
Prior year	-	20
Trade receivables - (credit)/charge for bad and doubtful debt	(24)	837
Staff costs (Note 4)	66,662	63,168

4. Staff Costs

	2004	2003

	$'000	$'000
Salaries and wages	49,965	47,268
Statutory contributions	4,933	4,569
Pension costs (Note 14)	(1,369)	1,854
Other	13,133	9,477
	66,662	63,168

The number of persons employed full time and part time by the Group at the end of the year was 57 and 30, respectively (2003 - 61 and 27).

5. Finance Income

	2004 $'000	2003 $'000
Interest income	8,218	6,912
Interest expense	(232)	(1,296)
Net foreign exchange (losses)/gains	(984)	1,838
	7,002	7,454

6. Taxation

Taxation is based on profit for the year adjusted for taxation purposes and represents income tax charged at 33 1/3 %:

	2004 $'000	2003 $'000
Current tax	8,519	11,657
Deferred tax (Note 13)	3,541	(1,462)
	12,060	10,195

The tax on the Group's profit differs from the theoretical amount that would arise using the applicable tax rate of 33 1/3 %, as follows:

	2004 $'000	2003 $'000
Profit before tax	36,161	26,849
Tax calculated at 33 1/3%	12,054	8,950
Effect of charges not allowed for tax purposes	6	1,245
	12,060	10,195

7. Earnings per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of stock units in issue during the year.

	2004	2003
Net profit attributable to stockholders ($'000)	24,101	16,654
Weighted average number of stock units in issue ('000)	10,388	10,153
Basic earnings per stock unit ($)	2.32	1.64

The company has no dilutive potential ordinary shares.

8. Share Capital

	2004 $'000	2003 $'000
Authorised -		
10,400,000 ordinary shares of 50c each	5,200	5,200
Issued and fully paid -		
10,388,330 ordinary stock units of 50c each	5,194	5,194

9. Capital Reserve

	Group		Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Surplus on assets carried at deemed cost	14,528	14,528	4,838	4,838
Realised gains	1,747	1,747	1,705	1,705
	16,275	16,275	6,543	6,543

10. Borrowings

	Group and Company	
	2004	2003
	$'000	$'000
Current -		
Bank overdraft	-	661
Short term loans	-	1,051
Long term loans	5,303	9,843
	5,303	11,555
Non-Current -		
Long term loans	22,412	27,121
	27,715	38,676

(a) The Group does not have a bank overdraft facility. The prior year balance was due to unpresented cheques.

(b) Short term loans represented advances for insurance premium financing. The weighted average interest rate on short term loans was 6%.

(c) Long term loans

	Group and Company	
	2004	2003
	$'000	$'000
Jamaican Redevelopment Foundation, Inc. -		
US$450,554 - 1999/04	-	2,602
Capitalised interest	27,715	34,362
	27,715	36,964
Less: Current portion	(5,303)	(9,843)
	22,412	27,121

During 1998, the Financial Sector Adjustment Company Limited (FINSAC) took over the non-performing loan portfolio of National Commercial Bank Jamaica Limited. The terms and conditions of the loan were renegotiated, resulting in the loan being repayable within a maximum of 10 years at 12%.

In February 2002, the loan was sold, and servicing rights transferred to Jamaican Redevelopment Foundation, Inc.

The loans were secured by a mortgage over land and buildings and a debenture over the fixed and floating assets of the company.

Based on the conditions of the loan restructuring agreement in October 1999 with Joslin Jamaica Limited, all accumulated unpaid interest was capitalised and a moratorium on interest payments was granted until full principal repayments have been completed. On repayment of the principal balances, outstanding interest will be repaid on a monthly basis ending in 2009. No interest is charged on the unpaid interest amounts.

11. Fixed Assets

The Group

	Freehold Land $'000	Freehold Buildings $'000	Machinery, Equipment, Vehicles $'000	Total $'000
At Cost -				
At 1 October 2003	10,000	33,178	80,750	123,928
Additions	-	-	7,437	7,437
At 30 September 2004	10,000	33,178	88,187	131,365
Depreciation -				
At 1 October 2003	-	4,164	62,210	66,374
Charge for the year	-	2,158	6,142	8,300
At 30 September 2004	-	6,322	68,352	74,674
Net Book Value -				
30 September 2004	10,000	26,856	19,835	56,691
30 September 2003	10,000	29,014	18,540	57,554

The Company

	Freehold Land $'000	Freehold Buildings $'000	Machinery, Equipment, Vehicles $'000	Total $'000
At Cost -				
At 1 October 2003	6,144	15,613	80,750	102,507
Additions	-	-	7,437	7,437
At 30 September 2004	6,144	15,613	88,187	109,944
Depreciation -				
At 1 October 2003	-	1,994	62,210	64,204
Charge for the year	-	1,072	6,142	7,214
At 30 September 2004	-	3,066	68,352	71,418
Net Book Value -				
30 September 2004	6,144	12,547	19,835	38,526

30 September 2003	6,144	13,619	18,540	38,303

Freehold land and buildings were professionally valued on a fair market value basis by Stoppi Cairney Bloomfield in September 2001. These values have been incorporated into the financial statements as deemed cost as at date of transition to IFRS (1 October 2001). The surpluses arising from these adjustments were credited to capital reserves (Note 9).

12. Related Party Transactions and Balances

(a) During the year, the Group had no significant related party transactions.

(b) Investment in subsidiaries by the company at year-end comprises:

	2004 $'000	2003 $'000
Shares at cost:		
Coffee Company of Jamaica Limited	790	790
Shirriff's (Jamaica) Limited	91	91
	881	881
Amounts due (to)/from subsidiaries:		
Coffee Company of Jamaica Limited	(143)	(166)
Shirriff's (Jamaica) Limited	170	137
	27	(29)
	908	852

13. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33 1/3%.

The movement on the deferred income tax account is as follows:

	Group and Company	
	2004	2003
	$'000	$'000
At beginning of year	4,516	3,054
(Charge)/credit to profit and loss account (Note 6)	(3,541)	1,462
At end of the year	975	4,516

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities are attributable to the following items, prior to offsetting of balances:

	Group and Company	
	2004	2003
	$'000	$'000
Deferred tax assets -		
Interest payable on FINSAC loans	9,238	11,454
Accrued charges	672	900
Unrealised foreign exchange losses	-	326
	9,910	12,680
Deferred tax liabilities -		
Retirement benefit asset	(7,507)	(6,618)
Excess of capital allowances over depreciation	(813)	(1,546)
Unrealised foreign exchange gains	(615)	-
	(8,935)	(8,164)
	975	4,516

The amounts include the following:

	Group and Company	
	2004	2003
	$'000	$'000
Deferred tax assets to be recovered after more than 12 months	7,471	9,040
Deferred tax liabilities to be settled after more than 12 months	(7,892)	(7,042)

Deferred tax assets have not been recognised in the accounts of the subsidiaries as it is not probable that future taxable profit will be available against which the temporary differences can be utilised.

14. Retirement Benefit Asset

The Group operates a pension plan which provides retirement and death benefits to its employees. The plan is administered by trustees and is managed by Guardian Life Limited. Contributions to the plan are made by the company and employees based on a percentage of the employees' pensionable earnings. Retirement benefits are based on the average of the final three years' salary.

The amounts recognised in the balance sheet are determined as follows:

	Group and Company	
	2004	2003
	$'000	$'000
Fair value of plan assets	76,152	53,037
Present value of funded obligations	(27,416)	(18,562)
	48,736	34,475
Unrecognised actuarial gains	(15,198)	(4,444)
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	(11,018)	(10,176)
	22,520	19,855

The movement in the asset recognised in the balance sheet is as follows:

	Group and Company	
	2004	2003
	$'000	$'000
At beginning of year	19,855	19,288
Amounts recognised in the profit and loss account	1,369	(1,854)
Contributions paid	1,296	2,421
At the end of the year	22,520	19,855

The amounts recognised in the profit and loss account in staff costs are as follows:

	Group and Company	
	2004	2003
	$'000	$'000
Current service cost	134	(115)
Interest cost	(3,123)	2,000
Expected return on plan assets	5,200	4,149
Change in surplus not eligible for recognition due to limitation	(842)	(3,888)
	1,369	1,854

The actual return on the plan assets was $19,715,000 (2003 - $9,061,000).
The principal actuarial assumptions used were as follows:

	Group and Company	
	2004	2003
	$'000	$'000
Discount rate	12.5%	15.0%
Expected return on plan assets	9.5%	10.5%
Future salary increases	9.5%	10.0%
Future pension increases	2.5%	2.5%
Inflation rate	8.0%	8.0%

15. Inventories

	Group and Company	
	2004	2003
	$'000	$'000
Raw and packaging materials	25,459	15,327
Finished goods	6,174	16,407
Work-in-progress	165	3,557
Goods in transit	1,440	1,246
Stores	6,539	5,202
	39,777	41,739
Less: Provision for impairment	(1,957)	-
	37,820	41,739

16. Receivables

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Trade receivables	30,702	20,271	30,702	20,271
Less: Provision for impairment	(6,953)	(6,976)	(6,953)	(6,976)
	23,749	13,295	23,749	13,295
Prepayments	4,425	7,590	4,425	7,590
Other	11,651	6,762	11,651	6,705
	39,825	27,647	39,825	27,590

17. Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise:

	Group and Company	
	2004	2003
	$'000	$'000
Cash in hand and at bank	3,875	424
Short term deposits	77,546	69,837
	81,421	70,261
Bank overdraft (Note 10(a))	-	(661)

Short term loans (Note 10(b))	-	(1,051)
	81,421	68,549

The weighted average effective interest rate on short term deposits denominated in Jamaican dollars was 13.8% (2003 - 23.8%) and on short term deposits denominated in United States dollars was 5.8% (2003 - 7.8%), and these deposits mature within 90 days.

18. Payables

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Trade payables	25,288	14,397	25,288	14,397
Accruals	9,939	11,181	9,939	11,157
Other	6,277	4,739	6,277	4,739
	41,504	30,317	41,504	30,293

19. Operating Lease Commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2004	2003
	$'000	$'000
Payable in the financial year ending -		
2004	-	606
2005	353	353
	353	959

The leases are for three years initially. Renewal of the leases for a further 120 months is available subject to punctual performance of all related covenants, conditions, stipulations and obligations of the agreement.

20. Financial Risk Management

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. Management seeks to minimise potential adverse effects on the financial performance of the Group by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

(a) Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is primarily exposed to such risks arising from its US Dollar transactions for purchases. The balance sheet at 30 September 2004 includes aggregate net foreign assets of approximately US$486,000 (2003 - US$299,000), in respect of such transactions.

(b) 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. At 30 June 2004, the Group's operating cash flows are substantially independent of changes in market interest rates. However, the Group has interest-bearing assets as disclosed in Note 17 and interest-bearing liabilities as disclosed in Note 10.

(c) 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. At 30 September 2004, the Group had no significant exposure to such risks.

(d) Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant concentrations of credit risk as the company has a large and diverse customer base, with no significant balances arising from any single economic or business sector, or any single entity or group of entities. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Cash transactions are limited to high credit quality financial institutions.

(e) Liquidity risk
Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and short term deposits, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying

business, management aims at maintaining flexibility in funding by keeping committed credit lines available.

(f) 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 manages this risk by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

21. Fair Values of Financial Instruments

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. The estimated fair values have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts that the Group would realise in a current market exchange.

The face value, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These financial assets and liabilities are cash and bank balances, short term deposits, trade receivables and payables, bank overdraft and short term loans.

The estimated fair values of the long term loans could not be reasonably determined as these liabilities were negotiated under special contracts, do not incur interest, and are not likely to be traded in a fair market exchange.

22. Restatement

The financial statements for the year ended 30 September 2003 were restated to reflect the effect of deferred taxation on retirement benefits.

The balances carried for retained earnings and deferred tax assets as at 30 September 2003 were reduced by $6,618,000 (2002 - $6,429,000), representing the tax effect of the balance carried for retirement benefits of $19,855,000 (2002 - $19,288,000), using the applicable tax rate of 33 1/3%.

The deferred tax credited for the year ended 30 September 2003 was reduced by $189,000, being the tax effect of $567,000 charged to the profit and loss account in respect of retirement benefits

for that year, using the applicable tax rate of 33 1/3%. Accordingly, the earnings per share for the year ended 30 September 2003 reduced by two cents.