

Seprod Limited

**Consolidated Financial Statements
31 December 2005**

Seprod Limited

Index

31 December 2005

| | Page |
|--|-------------|
| Auditors' Report to the Members | |
| Statutory Financial Statements | |
| Group profit and loss account | 1 |
| Group balance sheet | 2 |
| Group statement of changes in equity | 3 |
| Group statement of cash flows | 4 |
| Company balance sheet | 5 |
| Notes to the financial statements | 6 – 42 |

3 July 2006

To the Members of
Seprod Limited

Auditors' Report

We have audited the accompanying consolidated balance sheet of Seprod Limited, its subsidiaries and its associates ("the group") as at 31 December 2005 and the related consolidated profit and loss account, statements of changes in shareholders' equity and cash flows for the year then ended, and the accompanying balance sheet of Seprod Limited standing alone as at 31 December 2005. We have received all the information and explanations which we considered necessary. These financial statements set out on pages 1 to 42 are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the accompanying financial statements, which are in agreement therewith, give a true and fair view of the financial position of the group and the company as at 31 December 2005, and of the results of operations, changes in equity and cash flows of the group for the year then ended, so far as concerns the members of the company, in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

Seprod Limited

Group Profit and Loss Account

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2005 \$'000 | 2004 \$'000 |
|--|-------|----------------|----------------|
| Revenue | | 3,953,775 | 3,346,651 |
| Direct expenses | | (2,998,840) | (2,647,243) |
| Gross Profit | | 954,935 | 699,408 |
| Finance and other operating income | 6 | 221,242 | 216,638 |
| Selling expenses | | (174,622) | (129,003) |
| Administration expenses | | (415,988) | (309,672) |
| Other operating expenses | | (23,598) | (65,396) |
| Operating Profit | | 561,969 | 411,975 |
| Finance costs | 9 | (34,650) | (3,491) |
| Negative goodwill on acquisition of subsidiaries | 29 | 247,396 | - |
| Share of results of associates | 17(e) | 147,704 | 257,428 |
| Profit before Taxation | | 922,419 | 665,912 |
| Taxation | 10 | (172,239) | (118,195) |
| NET PROFIT ATTRIBUTABLE TO STOCKHOLDERS | 11 | 750,180 | 547,717 |
| EARNINGS PER STOCK UNIT | 12 | \$1.45 | \$1.06 |

Seprod Limited

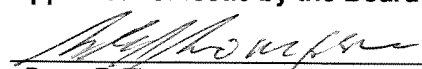
Group Balance Sheet

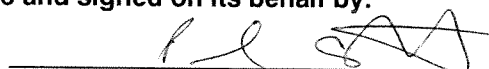
31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2005 \$'000 | 2004 \$'000 |
|--|------|------------------|------------------|
| Non-Current Assets | | | |
| Fixed assets | 14 | 1,208,221 | 617,899 |
| Intangible assets | 15 | 44,400 | - |
| Available-for-sale investments | 16 | 993,481 | 849,109 |
| Investment in associates | 17 | 1,502,058 | 1,418,213 |
| Retirement benefit asset | 18 | 100,900 | 92,540 |
| Biological assets | 19 | 60,294 | - |
| Deferred tax assets | 27 | 93,560 | 21,263 |
| | | <u>4,002,914</u> | <u>2,999,024</u> |
| Current Assets | | | |
| Inventories | 20 | 562,955 | 462,602 |
| Receivables | 21 | 493,908 | 320,029 |
| Available-for-sale investments | 16 | 151,006 | 448,135 |
| Taxation recoverable | | 871 | 4,557 |
| Cash and bank balances | 22 | 135,112 | 89,943 |
| | | <u>1,343,852</u> | <u>1,325,266</u> |
| Current Liabilities | | | |
| Payables | 23 | 406,752 | 245,856 |
| Current portion of long term liabilities | 26 | 78,552 | 163,214 |
| Taxation payable | | 36,552 | 15,009 |
| | | <u>521,856</u> | <u>424,079</u> |
| Net Current Assets | | | |
| | | <u>821,996</u> | <u>901,187</u> |
| | | <u>4,824,910</u> | <u>3,900,211</u> |
| Equity | | | |
| Share capital | 24 | 516,398 | 516,398 |
| Share premium | | 44,889 | 44,889 |
| Capital reserve | 25 | 836,631 | 823,736 |
| Retained earnings | | 2,715,685 | 2,114,750 |
| | | <u>4,113,603</u> | <u>3,499,773</u> |
| Non-Current Liabilities | | | |
| Long term liabilities | 26 | 467,434 | 206,358 |
| Deferred tax liabilities | 27 | 199,773 | 156,180 |
| Retirement benefit obligations | 18 | 44,100 | 37,900 |
| | | <u>711,307</u> | <u>400,438</u> |
| | | <u>4,824,910</u> | <u>3,900,211</u> |

Approved for issue by the Board of Directors on 3 July 2006 and signed on its behalf by:


 Byron E. Thompson Director


 Paul B. Scott Director

Seprod Limited

Group Statement of Changes in Equity

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

| | Number of Shares | Share Capital | Share Premium | Capital Reserve | Retained Earnings | Total |
|---|---------------------|------------------|------------------|--------------------|----------------------|------------------|
| Note | '000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance as at 1 January 2004 | 516,398 | 516,398 | 44,889 | 798,481 | 1,674,033 | 3,033,801 |
| Total recognised income for 2004 | | | | | | |
| Net profit | - | - | - | - | 547,717 | 547,717 |
| Fair value gain on available-for-sale securities | - | - | - | 26,334 | - | 26,334 |
| Realised fair value gain on sale of investments | - | - | - | (4,799) | - | (4,799) |
| | - | - | - | 21,535 | 547,717 | 569,252 |
| Transfer to capital reserve – gain on sale of investments | - | - | - | 3,720 | (3,720) | - |
| Dividends paid | - | - | - | - | (103,280) | (103,280) |
| 13 | | | | | | |
| Balance at 31 December 2004 | 516,398 | 516,398 | 44,889 | 823,736 | 2,114,750 | 3,499,773 |
| Total recognised income for 2005 | | | | | | |
| Net profit | - | - | - | - | 750,180 | 750,180 |
| Fair value gain on available-for-sale securities | - | - | - | 20,185 | - | 20,185 |
| Realised fair value gain on sale of investments | - | - | - | (14,526) | - | (14,526) |
| | - | - | - | 5,659 | 750,180 | 755,839 |
| Transfer to capital reserve – gain on sale of investments | - | - | - | 7,236 | (7,236) | - |
| Dividends paid | - | - | - | - | (142,009) | (142,009) |
| 13 | | | | | | |
| Balance at 31 December 2005 | 516,398 | 516,398 | 44,889 | 836,631 | 2,715,685 | 4,113,603 |

Seprod Limited

Group Statement of Cash Flows

Year ended 31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2005 \$'000 | 2004 \$'000 |
|--|------|----------------|----------------|
| CASH RESOURCES WERE PROVIDED BY/(USED IN): | | | |
| Operating Activities | | | |
| Cash provided by operating activities | 28 | 237,631 | 352,119 |
| Investing Activities | | | |
| Purchase of fixed assets | | (209,399) | (119,037) |
| Proceeds on disposal of fixed assets | | 18,337 | 2,515 |
| Purchase of available-for-sale investments | | (454,850) | (817,858) |
| Proceeds from disposal of available-for-sale investments | | 640,629 | 556,589 |
| Acquisition of associates | | - | (143,253) |
| Disposal of associate | | (3,736) | - |
| Loans repaid by associate | | 15,385 | - |
| Acquisition of subsidiary | | (83,416) | - |
| Interest received | | 133,023 | 164,624 |
| Dividends received | | 952 | 826 |
| Cash provided by/(used in) investing activities | | 56,925 | (355,594) |
| Financing Activities | | | |
| Long term loans received | | 119,114 | 76,386 |
| Long term loans repaid | | (191,842) | (15,458) |
| Dividends paid | | (142,009) | (103,280) |
| Interest paid | | (34,650) | (3,491) |
| Cash used in financing activities | | (249,387) | (45,843) |
| Increase/(decrease) in cash and cash equivalents | | 45,169 | (49,318) |
| Cash and cash equivalents at beginning of year | | 89,943 | 139,261 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 22 | 135,112 | 89,943 |

Seprod Limited


Company Balance Sheet

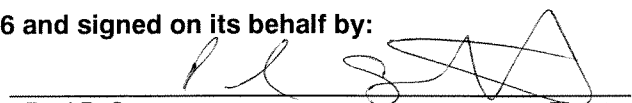
31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2005 \$'000 | 2004 \$'000 |
|--|------|------------------|------------------|
| Non-Current Assets | | | |
| Fixed assets | 14 | 148,976 | 131,649 |
| Available-for-sale investments | 16 | 993,481 | 849,109 |
| Investment in associates | 17 | 532,016 | 572,401 |
| Investment in subsidiaries | | 440,779 | 182,364 |
| Retirement benefit asset | 18 | 100,900 | 92,540 |
| | | <u>2,216,152</u> | <u>1,828,063</u> |
| Current Assets | | | |
| Receivables | 21 | 78,776 | 43,590 |
| Available-for-sale investments | 16 | 151,006 | 448,135 |
| Taxation recoverable | | - | 1,385 |
| Cash and bank balances | 22 | 21,986 | 10,172 |
| | | 251,768 | 503,282 |
| Current Liabilities | | | |
| Payables | 23 | 66,302 | 69,403 |
| Due to subsidiaries | | 415,677 | 425,852 |
| Taxation payable | | 12,714 | - |
| Current portion of long term liabilities | 26 | 30,389 | 145,937 |
| | | 525,082 | 641,192 |
| Net Current Liabilities | | <u>(273,314)</u> | <u>(137,910)</u> |
| | | <u>1,942,838</u> | <u>1,690,153</u> |
| Equity | | | |
| Share capital | 24 | 516,398 | 516,398 |
| Share premium | | 44,889 | 44,889 |
| Capital reserve | 25 | 255,142 | 242,247 |
| Retained earnings | | 598,081 | 634,026 |
| | | 1,414,510 | 1,437,560 |
| Non-Current Liabilities | | | |
| Long term liabilities | 26 | 426,190 | 172,707 |
| Deferred tax liabilities | 27 | 58,038 | 41,986 |
| Retirement benefit obligations | 18 | 44,100 | 37,900 |
| | | 528,328 | 252,593 |
| | | <u>1,942,838</u> | <u>1,690,153</u> |

Approved for issue by the Board of Directors on 3 July 2006 and signed on its behalf by:


 Byron E. Thompson Director


 Paul B. Scott Director

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

1. Principal Activities and Operations

Seprod Limited ("the company") is incorporated and domiciled in Jamaica. The company is publicly listed on the Jamaica Stock Exchange, and has its registered office at 3 Felix Fox Boulevard, Kingston.

The company, its subsidiaries and its associates are collectively referred to as "the Group".

Subsidiaries

The company's subsidiaries, which are all wholly owned and incorporated and domiciled in Jamaica, and their principal activities are as follows:

| Name of company | Principal activities |
|--|---|
| Caribbean Products Company Limited | Manufacture and sale of oils and fats |
| Serge Island Farms Limited | Dairy farming |
| Serge Island Dairies Limited | Manufacture and sale of milk products and juices |
| Jamaica Edible Oils and Fats Company Limited | Sale of oils and fats |
| Jamaica Grain and Cereals Limited | Manufacture and sale of corn products and cereals |
| Industrial Sales Limited | Sale of consumer products |
| Jamaica Detergents Limited | Dormant |
| Jamaica Feeds Limited | Dormant |
| Coper Limited | Dormant |
| Jamaica Household Products Limited | Dormant |

The interest in Serge Island Farms Limited and Serge Island Dairies Limited were acquired during the year (Note 29). There were no disposals of subsidiaries during the year.

Associates

The company's associates, their principal activities and the percentage ownership at each year end are as follows:

| Name of company | Principal activities | Percentage ownership | |
|---------------------------------------|--|-----------------------------|-------------|
| | | 2005 | 2004 |
| Facey Commodity Company Limited | Sale of industrial, pharmaceutical, consumer and telecommunications products | Nil | 48.8% |
| Gatcombe Investments Limited | Sale of industrial, pharmaceutical, consumer and telecommunications products | 50% | Nil |
| CBM Limited | Provision of document management services | 50% | 50% |
| Productive Business Solutions Limited | Provision of document management services | 50% | 50% |
| North Coast Milling Limited | Dormant | Nil | 50% |

All associates are incorporated and domiciled in St. Lucia, with the exception of Facey Commodity Company Limited and North Coast Milling Limited, which are incorporated and domiciled in Jamaica.

In January 2005, Seprod Limited and Musson Jamaica Limited, each 48.8% shareholders of Facey Commodity Company Limited (Facey), transferred their entire shareholding in Facey to Gatcombe Investments Limited (Note 17(b)). Gatcombe Investments Limited is owned 50% each by Seprod Limited and Musson Jamaica Limited.

On 31 July 2005, the Seprod Limited's 50% shareholding in North Coast Milling Limited was cancelled following the winding up of that entity (Note 17(a)).

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Although these estimates are based on managements' best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Standards, interpretations and amendments to published standards effective in 2005

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following, which are relevant to its operations. The 2004 comparative figures have been amended as required, in accordance with the relevant requirements.

| | |
|----------------------------|---|
| IAS 1 (revised 2003) | Presentation of Financial Statements |
| IAS 2 (revised 2003) | Inventories |
| IAS 8 (revised 2003) | Accounting Policies, Changes in Accounting Estimates and Errors |
| IAS 10 (revised 2003) | Events after the Balance Sheet Date |
| IAS 16 (revised 2003) | Property, Plant and Equipment |
| IAS 24 (revised 2003) | Related Party Disclosures |
| IAS 27 (revised 2003) | Consolidated and Separate Financial Statements |
| IAS 28 (revised 2003) | Investments in Associates |
| IAS 32 (revised 2003) | Financial Instruments: Disclosure and Presentation |
| IAS 33 (revised 2003) | Earnings per Share |
| IAS 36 (revised 2004) | Impairment of Assets |
| IAS 38 (revised 2004) | Intangible Assets |
| IAS 39 (revised 2003/2004) | Financial Instruments: Recognition and Measurement |
| IFRS 3 (issued 2004) | Business Combinations |

The adoption of the new standards, amendments and interpretations to existing standards did not result in substantial changes to the Group's accounting policies and have not impacted the amounts reported for the current or prior years. However, the adoption of the new standards, amendments and interpretations to existing standards have impacted the format and extent of disclosures presented in the accounts.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All new standards, amendments and interpretations adopted by the Group require retrospective application. There was no impact on opening retained earnings at 1 January 2004 from the adoption of any of the above-mentioned standards.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not yet effective, and which the Group has not early adopted. The Group has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

- **IAS 19 (Amendment), Employee Benefits** (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning 1 January 2006.
- **IAS 39 (Amendment), The Fair Value Option** (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.
- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation

Subsidiaries

Subsidiaries are those entities in which the Group has power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls an entity. 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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are all entities over which the Group has significant influence but not control. Investments in associated companies are accounted for by the equity method of accounting. Under this method, the Group's share of post-acquisition profit or losses of the associated companies is recognised in the profit and loss account and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

The Group's investment in associates includes goodwill on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of General Consumption Tax, returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

Sales of goods – wholesale

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured. Some products are often sold with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

Sales of goods – retail

Sales of goods are recognised when a group entity sells a product to the customer. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in distribution costs. It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates, referred to as the functional currency. The functional currency of each entity is the same as its presentation currency. The consolidated financial statements are presented in Jamaican dollars, which is the company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from such transactions and from the translation of foreign currency monetary assets and liabilities at the year end exchange rates are recognised in the profit and loss account.

Translation differences resulting from changes in the amortised cost of foreign currency monetary assets classified as available-for-sale are recognised in the profit and loss account. Other changes in the fair value of these assets are recognised in equity. Translation differences on non-monetary financial assets classified as available-for-sale are reported as a component of the fair value gain or loss in equity.

(f) Fixed assets

Buildings, plant and equipment are recorded at deemed cost, less accumulated depreciation. All other fixed assets are carried at historical cost less accumulated depreciation, except land, which is not depreciated.

Depreciation is calculated on the straight line basis at such rates as will write off the carrying value of the assets over the period of their expected useful lives. The expected useful lives are as follows:

| | |
|--------------------------------|---------------|
| Buildings | 40 – 50 years |
| Plant, equipment and furniture | 5 – 40 years |
| Motor vehicles | 3 years |

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

Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit.

Repairs and maintenance expenditure is charged to the profit and loss account during the financial period in which it is incurred.

(g) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Separately recognised goodwill is tested annually for impairment, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Brands

Brands obtained by the Group on acquisition of subsidiaries are deemed to have a finite useful life, and are carried at fair market value less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the carrying value of brands over their estimated useful lives.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment 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 asset exceeds its recoverable amount, which is the greater of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Investments

The Group classifies its investments (other than investments in subsidiaries and associates) as available-for-sale, due to the purposes for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates such designation at each reporting date.

Investments classified as available-for-sale are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates. These investments are included in non-current assets unless management has the express intention of holding the investment for less than twelve months from the balance sheet date, in which case they are included in current assets.

Purchases and sales of investments are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Available-for-sale investments are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Investments are derecognised when the right to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risk and rewards of ownership.

Changes in the fair value of monetary available-for-sale investments denominated in foreign currencies are analysed between translation differences resulting in changes in amortised cost of the security and other changes. The translation differences are recognised in the profit and loss account and other changes in the carrying amount are recognised in equity. Changes in the fair value of other monetary available-for-sale investments and non-monetary available-for-sale investments are recognised in equity.

When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale investments calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale investments are recognised in the profit and loss account when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If there is no active market for investments, the Group establishes fair value by using valuation techniques, such as reference to recent arms length transactions, reference to other instruments that are substantially the same or amounts derived from discounted cash flow models, making maximum use of market inputs.

At each balance sheet date, the Group assesses whether there is objective evidence that an investment or group of investments is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss previously recognised in the profit and loss account, is removed from equity and recognised in the profit and loss account. Impairment losses on equity instruments recognised in the profit and loss account are not reversed through the profit and loss account.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(j) Biological assets

Biological assets are measured at their fair value, less estimated point of sale costs. Fair value is determined based on market prices of livestock of similar age, breed and genetic merit.

(k) Inventories

Inventories are stated at the lower of cost or net realisable value. The cost of finished goods and work in progress includes cost of raw materials used, direct labour and an appropriate proportion of overhead expenses. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of selling expenses.

(l) Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. 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 for similar borrowings. Bad debts are written off during the year in which they are identified.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand.

(n) Payables

Payables are recorded at cost.

(o) Borrowings

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

(p) Income taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates in force at the balance sheet date, and any adjustment to tax payable and tax losses in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities and the corresponding tax bases. 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 to 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.

Current and deferred tax assets and liabilities are offset when they arise within the same taxable entity, relate to the same tax authority and when the legal right of offset exists.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(q) Employee benefits

Pension obligations

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 less 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.

Other post-retirement obligations

The Group provides post-retirement health benefits to its retirees. The entitlements to these benefits are usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

(r) Provisions

Provisions are recognised when the Group has a present 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.

(s) Leases

Leases of fixed assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of the finance balance outstanding. The interest element of the finance cost is charged to the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The fixed assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

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.

(t) Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

(u) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to reflect the requirements of new IFRS, as well as amendments to and interpretations of existing IFRS.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. Risk management is carried out by a central treasury function under policies approved by the Board of Directors. The central treasury function identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Market risk

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 foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from transactions for purchases, recognised assets and liabilities and net investments in foreign operations. The balance sheet at 31 December 2005 includes aggregate net foreign assets of approximately US\$4,907,000 (2004 – US\$13,585,000), in respect of such transactions. The central treasury function sets limits on the level of exposure by currency and in total based on guidelines from the Board of Directors.

Price risk

Price 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 instrument or its issuer or factors affecting all instruments traded in the market.

The Group is exposed to equity securities price risk because of available-for-sale investments held by the Group. The Group manages its exposure to such risks by actively monitoring price movements of financial assets on the local and international market.

The Group is also exposed to price risks from changes in the price of milk and milk products. The Group does not anticipate that milk prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the decline in the price of milk and milk products. The Group reviews its outlook for the price of milk and milk products regularly in considering the need for active financial risk management.

(ii) 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 Group 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. Sales to retail customers are made in cash or via major credit cards. Cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

(iii) 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 marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the central treasury function aims to maintain flexibility in funding by keeping committed credit lines available.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iv) Cash flow and fair value 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 Group is exposed to such risks primarily through its holding of available-for-sale investments. The Group manages its exposure to interest rate risks by actively monitoring interest rate fluctuations of financial assets on the local and international market, and by diversifying its portfolio through its holding of non-interest bearing investments.

(b) Fair value estimation

The fair value of financial instruments traded in active markets, such as available-for-sale investments, is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair values of these financial instruments are determined as follows:

- (i) 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 include cash and bank balances and trade receivables and payables.
- (ii) The fair values of investments in associates have been estimated as the company's investment plus its share of post acquisition reserves, as there is no active market for the shares held in the associated companies.
- (iii) The carrying values of long term loans approximate their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.
- (iv) The fair values of the loans from associates could not be reliably determined as these instruments were granted under special terms and are not likely to be traded in a fair market exchange.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Retirement benefit obligations

The cost of these benefits and the present value of the future obligations depend on a number of factors that are determined by actuaries using a number of assumptions. The assumptions used in determining the net periodic cost or income for retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate, and, in the case of health benefits, the expected rate of increase in health costs. Any changes in these assumptions will impact the net periodic cost or income recorded for retirement benefits and may affect planned funding of the pension plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity approximating the terms of the related obligations. The expected rate of increase of health costs has been determined by comparing the historical relationship of the actual health cost increases with the rate of inflation. Other key assumptions for the retirement benefits are based on current market conditions.

Negative goodwill on acquisition of subsidiaries

Negative goodwill recognised on the acquisition of subsidiaries during the year was primarily attributable to the recognition of deferred tax assets on certain tax losses carried forward, the recognition of intangible assets and the excess of the fair market value of the acquired fixed assets over their carrying values (Note 29).

Deferred tax assets were recognised based on improvements in trading conditions and profitability of the acquirees since the acquisition date, and management's expectation that it will be able to take advantage of tax losses carried forward. The extent of the recognition was based on profit forecasts done by management, as well as anticipated changes in tax laws with respect to the number of years that tax losses may be carried forward.

Several brands were recognised on the acquisition of the subsidiaries. The fair values of these intangible assets were determined by independent valuers. On the instructions of management, the valuers have used an income approach to determine fair market value. This approach uses the principle of expectation, whereby fair value is determined based on the present value of the expected economic income to be generated by the intangible asset. It requires estimates of future income to be generated directly from the asset, appropriate discount rates, projected earnings decline rates, and the Group's rate of return on investment.

The fair market value of fixed assets was determined by professional valuers. On the instructions of management, the valuers have used a direct sales comparison approach to determine fair market value. This approach is based on the principle of substitution, whereby there is a purchaser with perfect knowledge of the market who would pay no more for the assets than the cost of acquiring existing comparable assets, assuming no cost delay in making the substitution. This approach thus requires a comparison of the assets with others of similar design and utility which were sold in the recent past. In instances where there is no exact comparable asset, the valuers make adjustments to reflect differences. Consequently, the determination of fair market value of the assets requires that the valuers analyse the differences in relation to age and physical condition, time of sale, and, specifically relating to property, land to building ratio, the advantages and disadvantages of the location and other functional gains to be derived from the property, and make necessary adjustments.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

5. Business Segments

The Group is organised into two main business segments:

- a) Manufacturing - This incorporates the operations for manufacturing and sale of oils and fats, corn products and cereals, and milk products and juices.
- b) Distribution - The merchandising of consumer goods.

| | 2005 | | | Group |
|---------------------------------------|------------------|------------------|--------------------|------------------|
| | Manufacturing | Distribution | Eliminations | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| External revenue | 1,783,585 | 2,170,190 | - | 3,953,775 |
| Inter-segment revenue | 1,164,374 | - | (1,164,374) | - |
| Total revenue | 2,947,959 | 2,170,190 | (1,164,374) | 3,953,775 |
| Segment result | 268,323 | 105,446 | - | 373,769 |
| Unallocated corporate income | | | | 188,200 |
| Operating profit | | | | 561,969 |
| Segment assets | 1,765,153 | 384,011 | - | 2,149,164 |
| Investment in associates | | | | 1,502,058 |
| Unallocated corporate assets | | | | 1,695,544 |
| Total consolidated assets | | | | 5,346,766 |
| Segment liabilities | 296,637 | 67,283 | - | 363,920 |
| Unallocated corporate liabilities | | | | 869,243 |
| Total consolidated liabilities | | | | 1,233,163 |
| Other segment items – | | | | |
| Capital expenditure | 173,607 | 6,020 | - | 179,627 |
| Unallocated capital expenditure | | | | 29,772 |
| Total capital expenditure | | | | 209,399 |
| Depreciation | 76,286 | 2,660 | - | 78,946 |
| Unallocated depreciation | | | | 18,360 |
| Total depreciation | | | | 97,306 |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

5. Business Segments (Continued)

| | 2004 | | | Group |
|---------------------------------------|------------------|------------------|--------------------|------------------|
| | Manufacturing | Distribution | Eliminations | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| External revenue | 1,204,938 | 2,141,713 | - | 3,346,651 |
| Inter-segment revenue | 1,074,790 | - | (1,074,790) | - |
| Total revenue | 2,279,728 | 2,141,713 | (1,074,790) | 3,346,651 |
| Segment result | 101,139 | 142,658 | - | 243,797 |
| Unallocated corporate income | | | | 168,178 |
| Operating profit | | | | 411,975 |
| Segment assets | 1,524,152 | 467,990 | - | 1,992,142 |
| Investment in associates | | | | 1,418,213 |
| Unallocated corporate assets | | | | 913,935 |
| Total consolidated assets | | | | 4,324,290 |
| Segment liabilities | (304,998) | (288,329) | - | 593,327 |
| Unallocated corporate liabilities | | | | 231,190 |
| Total consolidated liabilities | | | | 824,517 |
| Other segment items – | | | | |
| Capital expenditure | 105,903 | 1,274 | - | 107,177 |
| Unallocated capital expenditure | | | | 11,860 |
| Total capital expenditure | | | | 119,037 |
| Depreciation | 46,276 | 14,757 | - | 61,033 |
| Unallocated depreciation | | | | 9,356 |
| Total depreciation | | | | 70,389 |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

6. Finance and Other Operating Income

| | 2005 | 2004 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Interest income | 130,231 | 150,499 |
| Dividend income | 952 | 826 |
| Net foreign exchange gains | 34,246 | 30,088 |
| Gain on sale of available-for-sale investments | 7,236 | 3,720 |
| Gain on disposal of fixed assets | 3,466 | 89 |
| Other | 45,111 | 31,416 |
| | <u>221,242</u> | <u>216,638</u> |

7. Expenses by Nature

Total direct, selling, administration and other operating expenses:

| | 2005 | 2004 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| Advertising and promotion | 33,105 | 17,233 |
| Amortisation of intangible assets | 3,600 | - |
| Auditors' remuneration | 7,489 | 5,459 |
| Bad debt expense | 6,461 | 2,820 |
| Cost of inventories recognised as an expense | 2,399,777 | 2,273,419 |
| Depreciation | 97,306 | 70,389 |
| Impairment loss on fixed assets (Note 14) | - | 46,384 |
| Insurance | 76,024 | 53,140 |
| Loss on disposal of investment in associate (Note 17(a)) | 3,696 | - |
| Repairs and maintenance | 103,913 | 65,169 |
| Security | 21,917 | 14,766 |
| Staff costs (Note 8) | 419,353 | 289,850 |
| Utilities | 162,375 | 114,823 |
| Other | 278,032 | 197,862 |
| | <u>3,613,048</u> | <u>3,151,314</u> |

8. Staff Costs

| | 2005 | 2004 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Wages and salaries | 304,133 | 222,442 |
| Statutory contributions | 31,358 | 21,435 |
| Pension (Note 18) | (6,200) | 400 |
| Other post-retirement obligations (Note 18) | 10,800 | 11,600 |
| Other | 79,262 | 33,973 |
| | <u>419,353</u> | <u>289,850</u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

9. Finance Costs

| | 2005 \$'000 | 2004 \$'000 |
|--------------------|----------------|----------------|
| Interest expense – | | |
| Long term loans | 26,949 | 2,372 |
| Other | 7,701 | 1,119 |
| | <u>34,650</u> | <u>3,491</u> |

10. Taxation Expense

Taxation is based on the profit for the year adjusted for tax purposes and comprises income tax at 33 $\frac{1}{3}$ %:

| | 2005 \$'000 | 2004 \$'000 |
|------------------------------------|----------------|----------------|
| Current taxation | 108,473 | 108,650 |
| Adjustment to prior year provision | 4,866 | - |
| | <u>113,339</u> | <u>108,650</u> |
| Deferred taxation (Note 27) | 58,900 | 9,545 |
| | <u>172,239</u> | <u>118,195</u> |

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

| | 2005 \$'000 | 2004 \$'000 |
|---|----------------|----------------|
| Profit before taxation | <u>922,419</u> | <u>665,912</u> |
| Tax calculated at a tax rate of 33 $\frac{1}{3}$ % | 307,473 | 221,971 |
| Adjusted for the effect of: | | |
| Negative goodwill on acquisition of subsidiaries | (82,465) | - |
| Share of profit of associates shown net of tax | (49,235) | (78,461) |
| Investment income not subject to tax | (18,971) | (19,748) |
| Group's share of reserves on disposal of investment in associate | 7,825 | - |
| Additional depreciation charge on recognition of fixed assets of acquired subsidiaries at fair market value | 1,972 | - |
| Amortisation of intangible assets | 1,200 | - |
| Adjustment to prior year provision | 4,866 | - |
| Other allowances | (426) | (5,567) |
| | <u>172,239</u> | <u>118,195</u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

11. Net Profit Attributable to Stockholders

Dealt with as follows in the financial statements:

| | 2005 | 2004 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| The company | 113,300 | 132,594 |
| Subsidiaries | 241,780 | 157,695 |
| Negative goodwill on acquisition of subsidiaries (Note 29) | 247,396 | - |
| Associates (Note 17) | 147,704 | 257,428 |
| | <u>750,180</u> | <u>547,717</u> |

12. Earnings per Stock Unit

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue.

| | 2005 | 2004 |
|--|-------------|-------------|
| Net profit attributable to stockholders (\$'000) | 750,180 | 547,717 |
| Weighted average number of ordinary stock units ('000) | 516,398 | 516,398 |
| Basic earnings per stock unit (\$) | <u>1.45</u> | <u>1.06</u> |

The company has no dilutive potential ordinary shares.

13. Dividends

| | 2005 | 2004 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Interim dividend – \$0.275 (2004 – \$0.20) per stock unit | <u>142,009</u> | <u>103,280</u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

14. Fixed Assets

| | The Group | | | | | |
|-----------------------------|---|-----------|------------------------------------|-------------------|---------------------|-----------|
| | Freehold Land & Site Improvements | Buildings | Plant, Equipment & Furniture | Motor Vehicles | Work in Progress | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | 2005 | | | | | |
| Cost - | | | | | | |
| At 1 January 2005 | 34,958 | 544,851 | 1,023,527 | 14,767 | 102,712 | 1,720,815 |
| Acquisition of subsidiaries | 119,730 | 160,270 | 205,000 | 5,480 | 2,620 | 493,100 |
| Additions | - | 150 | 29,898 | 7,032 | 172,319 | 209,399 |
| Disposals | - | - | (20,363) | (8,514) | - | (28,877) |
| Transfers | - | 37,140 | 144,643 | 3,000 | (184,783) | - |
| At 31 December 2005 | 154,688 | 742,411 | 1,382,705 | 21,765 | 92,868 | 2,394,437 |
| Accumulated Depreciation - | | | | | | |
| At 1 January 2005 | - | 403,600 | 687,861 | 11,455 | - | 1,102,916 |
| Charge for the year | - | 13,825 | 80,296 | 3,185 | - | 97,306 |
| On disposals | - | - | (6,718) | (7,288) | - | (14,006) |
| At 31 December 2005 | - | 417,425 | 761,439 | 7,352 | - | 1,186,216 |
| Net Book Value - | | | | | | |
| At 31 December 2005 | 154,688 | 324,986 | 621,266 | 14,413 | 92,868 | 1,208,221 |
| | 2004 | | | | | |
| Cost - | | | | | | |
| At 1 January 2004 | 34,958 | 542,142 | 1,120,740 | 10,710 | 30,844 | 1,739,394 |
| Additions | - | - | 5,078 | 4,633 | 109,326 | 119,037 |
| Disposals | - | - | (6,704) | (576) | - | (7,280) |
| Transfers | - | 2,709 | 34,749 | - | (37,458) | - |
| Impairment charge | - | - | (130,336) | - | - | (130,336) |
| At 31 December 2004 | 34,958 | 544,851 | 1,023,527 | 14,767 | 102,712 | 1,720,815 |
| Accumulated Depreciation - | | | | | | |
| At 1 January 2004 | - | 391,181 | 720,336 | 9,816 | - | 1,121,333 |
| Charge for the year | - | 12,419 | 55,806 | 2,164 | - | 70,389 |
| On disposals | - | - | (4,329) | (525) | - | (4,854) |
| Impairment charge | - | - | (83,952) | - | - | (83,952) |
| At 31 December 2004 | - | 403,600 | 687,861 | 11,455 | - | 1,102,916 |
| Net Book Value - | | | | | | |
| At 31 December 2004 | 34,958 | 141,251 | 335,666 | 3,312 | 102,712 | 617,899 |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

14. Fixed Assets (Continued)

| | The Company | | | | | |
|----------------------------|---|-----------|------------------------------------|-------------------|---------------------|---------|
| | Freehold Land & Site Improvements | Buildings | Plant, Equipment & Furniture | Motor Vehicles | Work in Progress | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | 2005 | | | | | |
| Cost - | | | | | | |
| At 1 January 2005 | 20,218 | 291,889 | 105,356 | 13,810 | 9,654 | 440,927 |
| Additions | - | - | 218 | 4,217 | 25,337 | 29,772 |
| Disposals | - | - | - | (1,914) | - | (1,914) |
| Transfers | - | - | 31,459 | - | (31,459) | - |
| At 31 December 2005 | 20,218 | 291,889 | 137,033 | 16,113 | 3,532 | 468,785 |
| Accumulated Depreciation - | | | | | | |
| At 1 January 2005 | - | 204,240 | 94,542 | 10,496 | - | 309,278 |
| Charge for the year | - | 5,257 | 5,199 | 1,989 | - | 12,445 |
| Relieved on disposals | - | - | - | (1,914) | - | (1,914) |
| At 31 December 2005 | - | 209,497 | 99,741 | 10,571 | - | 319,809 |
| Net Book Value - | | | | | | |
| At 31 December 2005 | 20,218 | 82,392 | 37,292 | 5,542 | 3,532 | 148,976 |
| | 2004 | | | | | |
| Cost - | | | | | | |
| At 1 January 2004 | 20,218 | 291,889 | 104,939 | 9,349 | 2,844 | 429,239 |
| Additions | - | - | 417 | 4,633 | 6,810 | 11,860 |
| Disposals | - | - | - | (172) | - | (172) |
| Transfers | - | - | - | - | - | - |
| At 31 December 2004 | 20,218 | 291,889 | 105,356 | 13,810 | 9,654 | 440,927 |
| Accumulated Depreciation - | | | | | | |
| At 1 January 2004 | - | 196,131 | 95,459 | 8,504 | - | 300,094 |
| Charge for the year | - | 8,109 | (917) | 2,164 | - | 9,356 |
| Relieved on disposals | - | - | - | (172) | - | (172) |
| At 31 December 2004 | - | 204,240 | 94,542 | 10,496 | - | 309,278 |
| Net Book Value - | | | | | | |
| At 31 December 2004 | 20,218 | 87,649 | 10,814 | 3,314 | 9,654 | 131,649 |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

14. Fixed Assets (Continued)

Included in the tables above are amounts totalling \$830,622,000 for the Group and \$188,841,000 for the company representing the previous Jamaican GAAP revalued amounts of buildings and plant and equipment which have been used as the deemed cost of these assets on transition to IFRS on 1 January 2002.

A subsidiary ceased manufacturing operations; accordingly, certain items of plant, equipment and furniture with a net book value of \$46,384,000 were deemed to be irrecoverable and fully impaired during the year ended 31 December 2004.

15. Intangible Assets

Intangible assets comprise brands obtained by the Group on acquisition of subsidiaries (Note 29), and are amortised over their estimated useful lives of 10 years.

The carrying value of intangible assets was determined as follows:

| | The Group | |
|--------------------------------|------------------|---------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Fair value of brands acquired | 48,000 | - |
| Less: Accumulated amortisation | (3,600) | - |
| | 44,400 | - |
| | 44,400 | - |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

16. Available-for-sale Investments

Available-for-sale investments comprise the following:

| | The Group & The Company | |
|--|--|-----------------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Quoted equity securities | - | 41,290 |
| Amounts held in US\$ mutual funds | 398,095 | 339,930 |
| Government of Jamaica securities | 746,392 | 916,724 |
| | <u>1,144,487</u> | <u>1,297,244</u> |
| Less: Government of Jamaica securities maturing within 12 months | (151,006) | (448,135) |
| | <u><u>993,481</u></u> | <u><u>849,109</u></u> |

The weighted average effective interest rate on Government of Jamaica securities was 16% (2004 – 14%). At 31 December 2005, Government of Jamaica securities include interest receivable of \$17,195,000 (2004 – \$19,987,000).

The weighted average yield on amounts held in US\$ mutual funds was 8% (2004 – 8%).

The movement in available-for-sale investments during the year was as follows:

| | The Group & The Company | |
|---|--|-------------------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Balance at start of year | 1,297,244 | 994,100 |
| Additions | 452,058 | 803,733 |
| Disposals | (633,393) | (552,869) |
| Net revaluation surplus transferred to equity | 5,659 | 21,535 |
| Effect of changes in foreign exchange rates | 22,919 | 30,745 |
| Balance at end of year | <u><u>1,144,487</u></u> | <u><u>1,297,244</u></u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

17. Investment in Associates

Investment in associates comprises the following:

| | The Group | | The Company | |
|--|------------------|------------------|----------------|----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| North Coast Milling Limited | - | 48,474 | - | 25,000 |
| Gatcombe Investments Limited/ Facey Commodity Company Limited | 1,121,177 | 1,030,547 | 229,018 | 229,018 |
| CBM Limited | 238,094 | 216,558 | 205,038 | 205,038 |
| Productive Business Solutions Limited | 142,787 | 122,634 | 97,960 | 113,345 |
| | <u>1,502,058</u> | <u>1,418,213</u> | <u>532,016</u> | <u>572,401</u> |

- (a) On 31 July 2005, Seprod Limited's 50% shareholding in North Coast Milling Limited was cancelled following the winding up of that entity. Loans amounting to \$48,514,000 (Note 26(b)) were discharged and the Group's investment of \$48,474,000 was written-off. The resulting loss of \$3,696,000, after transfer taxes and other deductions amounting to \$3,736,000, was charged to the profit and loss account (Note 7).
- (b) In January 2005, Seprod Limited and Musson Jamaica Limited, each 48.8% shareholders of Facey Commodity Company Limited (Facey), transferred their entire shareholding in Facey to Gatcombe Investments Limited (Gatcombe). Gatcombe is owned 50% each by Seprod Limited and Musson Jamaica Limited.

A loan due from Facey, which had a carrying value of \$1 and a face value of \$826,086,000, was assigned to Gatcombe on the transfer of shares in Facey.

Included in the Gatcombe balance is an amount of \$1, which represents the cost of a loan which has a face value of US\$13,651,604.84. The loan attracts interest at 12% (which was forgiven in 2005). Future repayments by Gatcombe will be charged against the carrying value of the Group's investment.

- (c) Included in the CBM Limited balance is a loan receivable of \$205,038,000 (2004 – \$95,229,000). This loan attracts interest at a rate of 12%, and is to be repaid no later than 31 October 2015, or such later date as may be agreed between the parties.
- (d) Included in the Productive Business Solutions Limited balance is a loan receivable of \$68,767,000 (2004 – \$48,024,000). This loan attracts interest at a rate of 20%, and has no set repayment date. During the year, Productive Business Solutions Limited made repayments amounting to \$15,385,000.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

17. Investment in Associates (Continued)

(e) The movement in investment in associates during the year was as follows:

| | The Group | | The Company | |
|--------------------------|-----------|-----------|-------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at start of year | 1,418,213 | 842,402 | 572,401 | 254,018 |
| Acquisitions | - | 318,383 | - | 318,383 |
| Disposals | (48,474) | - | (25,000) | - |
| Share of profits | 147,704 | 257,428 | - | - |
| Loan repayments | (15,385) | - | (15,385) | - |
| Balance at end of year | 1,502,058 | 1,418,213 | 532,016 | 572,401 |

(f) The aggregate amounts of assets, liabilities, revenue and results of associates are summarised as follows:

| | Assets | Liabilities | Revenue | Net profit/ (loss) |
|---------------------------------------|-------------|-------------|------------|-----------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| | 2005 | | | |
| Gatcombe Investments Limited | 9,215,314 | 8,323,908 | 24,295,700 | 181,261 |
| CBM Limited | 797,226 | 729,883 | 920,579 | 43,071 |
| Productive Business Solutions Limited | 400,705 | 385,576 | 626,295 | 71,076 |
| | 2004 | | | |
| North Coast Milling Limited | 96,968 | 25 | - | (25) |
| Facey Commodity Company Limited | 6,519,048 | 5,980,054 | 23,619,689 | 484,901 |
| CBM Limited | 633,899 | 610,801 | 497,574 | 23,039 |
| Productive Business Solutions Limited | 296,669 | 307,781 | 68,794 | 18,578 |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

18. Retirement Benefits

Assets/(liabilities) recognised in the balance sheet are as follows:

| | The Group & The Company | |
|--------------------------------|--|---------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Pension scheme | 100,900 | 92,540 |
| Other post-retirement benefits | (44,100) | (37,900) |

Pension scheme

The Group participates in a defined benefit scheme, which is open to all permanent employees and administered by West Indies Trust Company Limited. The plan provides benefits to members based on average earnings for the final 2 years of service (formerly 3 years), with the Group and employees each contributing 5% of pensionable salaries. The defined benefit scheme is valued by independent actuaries annually using the projected unit credit method. The latest actuarial valuation was carried out as at 31 August 2005.

A funding actuarial valuation carried out as at 31 August 2005 revealed that the scheme was adequately funded.

The defined benefit asset recognised in the balance sheet was determined as follows:

| | The Group & The Company | |
|---|--|---------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Fair value of plan assets | 545,200 | 425,240 |
| Present value of obligations | (322,100) | (221,500) |
| | 223,100 | 203,740 |
| Unrecognised actuarial gains | (122,800) | (101,000) |
| Unrecognised past service cost | 600 | - |
| Limitation due to uncertainty in obtaining future economic benefits | - | (10,200) |
| | 100,900 | 92,540 |

Pension plan assets include investment in ordinary stock units of the company with a fair value of \$26,348,000 (2004 - \$45,548,000).

The movement in the defined benefit asset during the year is as follows:

| | The Group & The Company | |
|---|--|---------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| At beginning of year | 92,540 | 155,300 |
| Amounts recognised in the profit and loss account | 6,200 | (400) |
| Contributions paid | 2,160 | 1,900 |
| Amounts refunded to the company | - | (64,260) |
| At end of year | 100,900 | 92,540 |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

18. Retirement Benefits (Continued)

Pension scheme (Continued)

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

| | The Group & The Company | |
|---|--|----------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Current service cost | (3,400) | (3,000) |
| Interest cost | (29,500) | (28,800) |
| Past service cost | (23,200) | - |
| Expected return on plan assets | 47,800 | 41,600 |
| Net actuarial gain recognised during the year | 4,300 | - |
| Change in asset limitation | 10,200 | (10,200) |
| Total included in staff costs (Note 8) | <u>6,200</u> | <u>(400)</u> |
| Actual return on plan assets | <u>133,300</u> | <u>162,500</u> |

The principal actuarial assumptions used were as follows:

| | The Group & The Company | |
|--------------------------------|--|-------------|
| | 2005 | 2004 |
| Discount rate | 12.5% | 12.5% |
| Expected return on plan assets | 11.0% | 11.0% |
| Future salary increases | 9.0% | 9.0% |
| Future pension increases | <u>5.0%</u> | <u>5.0%</u> |

The average expected remaining service life of the employees is 12 years (2004 – 12 years).

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

18. Retirement Benefits (Continued)

Other post-retirement benefits

In addition to pension benefits, the Group offers retirees medical benefits. Funds are not built up to cover the obligations under these retirement benefit schemes. The method of accounting and frequency of valuations are similar to those used for the defined benefit pension scheme. In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long term increase in health costs of 11% per year (2004 - 11%).

The liability recognised in the balance sheet was determined as follows:

| | The Group & The Company | |
|-------------------------------|--|-----------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Present value of obligations | (67,500) | (68,300) |
| Unrecognised actuarial losses | 23,400 | 30,400 |
| | <u>(44,100)</u> | <u>(37,900)</u> |

The movement in the liability during the year is as follows:

| | The Group & The Company | |
|---|--|-----------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| At beginning of year | (37,900) | (31,200) |
| Amounts recognised in the profit and loss account | (10,800) | (11,600) |
| Benefits paid | 4,600 | 4,900 |
| At end of year | <u>(44,100)</u> | <u>(37,900)</u> |

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

| | The Group & The Company | |
|---|--|-----------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Current service cost | (600) | (500) |
| Interest cost | (8,200) | (9,100) |
| Net actuarial losses recognised during the year | <u>(2,000)</u> | <u>(2,000)</u> |
| Total included in staff costs (Note 8) | <u>(10,800)</u> | <u>(11,600)</u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

19. Biological Assets

| | The Group | |
|--|------------------|---------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Dairy Livestock – | | |
| 1,490 Cows able to produce milk | 40,630 | - |
| 843 Heifers being raised to produce milk in the future | 18,042 | - |
| Other Livestock – | | |
| 28 Bulls raised for sale and reproduction | 1,120 | - |
| 59 Calves raised for sale and for future reproduction | 502 | - |
| | <u>60,294</u> | <u>-</u> |

3,243,914 litres of milk with a fair value less estimated point-of-sale costs of \$80,412,000 were produced during the period.

The movement in biological assets during the year was as follows:

| | The Group | |
|--|------------------|---------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Balance at start of year | - | - |
| Acquisition of subsidiary | 55,978 | - |
| Purchases | 708 | - |
| Sales | (6,281) | - |
| Changes in fair value less estimated point-of-sale costs | 9,889 | - |
| Balance at end of year | <u>60,294</u> | <u>-</u> |

The changes in fair value less estimated point-of-sale costs were attributable to:

| | The Group | |
|------------------|------------------|---------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Physical changes | 9,824 | - |
| Price changes | 65 | - |
| | <u>9,889</u> | <u>-</u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

20. Inventories

| | The Group | |
|-----------------------------|------------------|----------------|
| | 2005 | 2004 |
| | \$'000 | \$'000 |
| Raw and packaging materials | 320,542 | 328,584 |
| Work in progress | 11,759 | 12,599 |
| Finished goods | 230,654 | 121,419 |
| | <u>562,955</u> | <u>462,602</u> |

21. Receivables

| | The Group | | The Company | |
|--------------------------------|------------------|----------------|--------------------|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade receivables | 440,886 | 318,245 | - | - |
| Less: Provision for impairment | (73,716) | (62,738) | - | - |
| | <u>367,170</u> | <u>255,507</u> | <u>-</u> | <u>-</u> |
| Advances and prepayments | 35,413 | 40,220 | 56,918 | 28,027 |
| Other | 91,325 | 24,302 | 21,858 | 15,563 |
| | <u>493,908</u> | <u>320,029</u> | <u>78,776</u> | <u>43,590</u> |

22. Cash and Cash Equivalents

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

| | The Group | | The Company | |
|--------------------------|------------------|---------------|--------------------|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash at bank and in hand | 135,112 | 89,943 | 21,986 | 10,172 |
| | <u>135,112</u> | <u>89,943</u> | <u>21,986</u> | <u>10,172</u> |

23. Payables

| | The Group | | The Company | |
|----------------|------------------|----------------|--------------------|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade payables | 251,976 | 131,275 | - | - |
| Accruals | 129,004 | 91,175 | 59,183 | 61,654 |
| Other | 25,772 | 23,406 | 7,119 | 7,749 |
| | <u>406,752</u> | <u>245,856</u> | <u>66,302</u> | <u>69,403</u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

24. Share Capital

| | 2005 | 2004 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Authorised - | | |
| 530,000,000 Ordinary shares of no par value | <u>530,000</u> | <u>530,000</u> |
| Issued and fully paid - | | |
| 516,398,000 Ordinary stock units | <u>516,398</u> | <u>516,398</u> |

25. Capital Reserve

This comprises:

| | The Group | | The Company | |
|--|----------------|----------------|----------------|----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Revaluation surplus on assets carried at deemed cost | 346,551 | 346,551 | 105,340 | 105,340 |
| Fair value gains on available-for-sale investments | 44,800 | 39,141 | 44,800 | 39,141 |
| Profits of subsidiaries capitalised | 336,537 | 336,537 | - | - |
| Redemption reserve | 1,800 | 1,800 | - | - |
| Gain on sale of shares in Seprod Wharf & Storage Limited | 10,829 | 10,829 | 10,829 | 10,829 |
| Gain on sale of available-for-sale investments | 65,649 | 58,413 | 65,649 | 58,413 |
| Gain on sale of units in Unit Trusts | 8,235 | 8,235 | 8,235 | 8,235 |
| Other realised surplus | 22,230 | 22,230 | 20,289 | 20,289 |
| | <u>836,631</u> | <u>823,736</u> | <u>255,142</u> | <u>242,247</u> |

26. Borrowings

| | The Group | | The Company | |
|-----------------------|----------------|----------------|----------------|----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Long term loans | 305,986 | 226,058 | 216,579 | 175,130 |
| Less: Current portion | (78,552) | (163,214) | (30,389) | (145,937) |
| | <u>227,434</u> | <u>62,844</u> | <u>186,190</u> | <u>29,193</u> |
| Loans from associates | 240,000 | 143,514 | 240,000 | 143,514 |
| | <u>467,434</u> | <u>206,358</u> | <u>426,190</u> | <u>172,707</u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

26. Borrowings (Continued)

(a) Long term loans

| | The Group | | The Company | |
|--|-----------------|------------------|-----------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| (i) 7% Development Bank of Jamaica Limited | 10,000 | 20,000 | - | - |
| (ii) 10.5% Development Bank of Jamaica Limited | 23,651 | 30,928 | - | - |
| (iii) 13% Development Bank of Jamaica Limited | 31,309 | - | - | - |
| (iv) 13% Bank of Nova Scotia Jamaica Limited | 24,447 | - | - | - |
| (v) Xerox Corporation | 30,389 | 175,130 | 30,389 | 175,130 |
| (vi) 7% Pan Caribbean Merchant Bank Limited | 186,190 | - | 186,190 | - |
| | <u>305,986</u> | <u>226,058</u> | <u>216,579</u> | <u>175,130</u> |
| Less: Current portion | <u>(78,552)</u> | <u>(163,214)</u> | <u>(30,389)</u> | <u>(145,937)</u> |
| | <u>227,434</u> | <u>62,844</u> | <u>186,190</u> | <u>29,193</u> |

- (i) This loan is repayable by equal quarterly instalments ending in 2006. The loan is secured by a Deed of Charge over Government of Jamaica Indexed Bond.
- (ii) This loan is repayable by equal quarterly instalments ending in 2009. The loan is secured by a Deed of Charge over Government of Jamaica Indexed Bond.
- (iii) This loan is repayable by equal quarterly instalments ending in 2009. The loan is secured by an unlimited guarantee; a demand debenture constituting a first charge over the fixed and floating assets; and a supplemental bill of sale over certain fixed assets of Serge Island Dairies Limited and Serge Island Farms Limited.
- (iv) This loan is repayable by equal monthly instalments ending in 2007. The loan is secured by an unlimited guarantee; a demand debenture constituting a first charge over the fixed and floating assets; and a supplemental bill of sale over certain fixed assets of Serge Island Dairies Limited and Serge Island Farms Limited.
- (v) This represents US\$ loans due to Xerox Corporation for the acquisition of certain companies within the Caribbean region. These companies are wholly owned by associated companies CBM Limited and Productive Business Solutions Limited. The loan is unsecured, interest free and is scheduled to be repaid in 2006.
- (vi) This represents a US\$ promissory note due to Pan Caribbean Merchant Bank Limited. The note was originally due to ICD Group Limited and formed a part of the purchase consideration for the acquisition of Serge Island Dairies Limited and Serge Island Farms Limited (Note 29). Subsequent to the acquisition, Pan Caribbean Merchant Bank Limited purchased the note from ICD Group Limited. The note is scheduled to be repaid in 2007.

(b) Loans from associates

This is comprised of a loan from Facey Commodity Company Limited of \$240,000,000 (2004 – \$95,000,000) and from North Coast Milling Limited of \$Nil (2004 – \$48,514,000). The loans are interest free and have no fixed terms of repayment. The loan from North Coast Milling Limited was discharged following the winding up of that entity during the year.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

27. Deferred Taxation

Deferred income taxes are calculated in full on temporary differences under the liability method using a tax rate of 33½%.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The amounts determined after appropriate offsetting are as follows:

| | The Group | | The Company | |
|--------------------------|------------------|------------------|--------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Deferred tax assets | 93,560 | 21,263 | - | - |
| Deferred tax liabilities | (199,773) | (156,180) | (58,038) | (41,986) |
| | <u>(106,213)</u> | <u>(134,917)</u> | <u>(58,038)</u> | <u>(41,986)</u> |

The movement in deferred taxation is as follows:

| | The Group | | The Company | |
|--|------------------|------------------|--------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at start of year | (134,917) | (125,372) | (41,986) | (74,840) |
| On acquisition of subsidiaries | 87,604 | - | - | - |
| (Charge)/credit to profit and loss account (Note 10) | (58,900) | (9,545) | (16,052) | 32,854 |
| Balance at end of year | <u>(106,213)</u> | <u>(134,917)</u> | <u>(58,038)</u> | <u>(41,986)</u> |

The deferred tax charged in the Group's profit and loss account comprises the following temporary differences:

| | 2005 | 2004 |
|------------------------------|-----------------|----------------|
| | \$'000 | \$'000 |
| Accelerated tax depreciation | (61,869) | 1,182 |
| Retirement benefits | (719) | 23,153 |
| Tax losses carried forward | 5,098 | (37,494) |
| Other items | (1,410) | 3,614 |
| | <u>(58,900)</u> | <u>(9,545)</u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

27. Deferred Taxation (Continued)

The deferred tax assets/(liabilities) in the balance sheet comprises the following temporary differences:

| | The Group | | The Company | |
|------------------------------|------------------|------------------|-----------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Accelerated tax depreciation | (236,052) | (135,852) | (34,166) | (19,608) |
| Retirement benefits | (18,933) | (18,214) | (18,933) | (18,214) |
| Tax losses carried forward | 153,749 | 21,900 | - | - |
| Other items | (4,977) | (2,751) | (4,939) | (4,164) |
| | <u>(106,213)</u> | <u>(134,917)</u> | <u>(58,038)</u> | <u>(41,986)</u> |

The deferred tax assets/(liabilities) in the balance sheet include:

| | The Group | | The Company | |
|---|-----------|---------|-------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Deferred tax assets to be recovered within 12 months | 19,000 | 21,900 | - | - |
| Deferred tax liabilities to be settled within 12 months | (4,977) | (2,751) | (4,939) | (4,164) |

Subject to agreement with the Taxpayer Audit and Assessment Department, losses available for offset against future profits of certain subsidiaries amount to \$613,349,000 (2004 – \$65,700,000).

Deferred tax assets of approximately \$51,000,000 have not been recognised in respect of tax losses of a certain subsidiary which was acquired during the year. At 31 December 2005, tax losses carried forward for which no deferred tax assets have been recognised amounted to approximately \$153,000,000.

Deferred tax liabilities have not been provided for on the withholding and other taxes that would be payable on the undistributed earnings of certain subsidiaries and associated companies, to the extent that such earnings are expected to be permanently reinvested. At the year end, such undistributed earnings totalled \$402,544,000 (2004 - \$738,072,000) for subsidiaries and \$970,042,000 (2004 - \$845,812,000) for associates.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

28. Cash Generated from Operations

| | 2005 \$'000 | 2004 \$'000 |
|--|-----------------------|-----------------------|
| Net profit | 750,180 | 547,717 |
| Items not affecting cash resources: | | |
| Amortisation of intangible assets | 3,600 | - |
| Depreciation | 97,306 | 70,389 |
| Impairment loss | - | 46,384 |
| Unrealised foreign exchange gain | (10,533) | (30,745) |
| Gain on sale of available-for-sale investments | (7,236) | (3,720) |
| Loss on disposal of investment in associate | 3,696 | - |
| Gain on sale of fixed assets | (3,466) | (89) |
| Negative goodwill on acquisition of subsidiaries | (247,396) | - |
| Share of results of associated companies | (147,704) | (375,119) |
| Interest income | (130,231) | (150,499) |
| Interest expense | 34,650 | 3,491 |
| Dividend income | (952) | (826) |
| Taxation | 172,239 | 235,886 |
| | <u>514,153</u> | <u>342,869</u> |
| Changes in operating assets and liabilities: | | |
| Inventories | (4,161) | (156,721) |
| Accounts receivable | (69,618) | 15,404 |
| Biological assets | (4,316) | - |
| Retirement benefits | (2,160) | 69,460 |
| Accounts payable | (108,157) | 129,655 |
| | <u>325,741</u> | <u>400,667</u> |
| Taxation paid | (88,110) | (48,548) |
| Cash provided by operating activities | <u><u>237,631</u></u> | <u><u>352,119</u></u> |

The principal non-cash transaction during the year was the issue of a promissory note which formed a part of the purchase consideration for Serge Island Dairies Limited and Serge Island Farms Limited (Note 29).

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

29. Acquisition of Subsidiaries

Effective 1 April 2005, the Group acquired the entire share capital of Serge Island Farms Limited and Serge Island Dairies Limited, companies operating a dairy farm and producing milk products and juices. The acquired businesses contributed revenues of \$672,958,000 and net profits of \$40,529,000 for the 9 months ended 31 December 2005.

If the acquisition had occurred on 1 January 2005, Group revenue and net profit attributable to stockholders would have amounted to \$4,173,860,000 and \$696,451,000, respectively. These amounts were calculated using the Group's accounting policies and by adjusting the results of the acquirees to reflect biological assets at fair value and to charge costs in relation to spares and supplies to the profit and loss account as incurred instead of carrying them as inventory.

The negative goodwill on acquisition was arrived at as follows:

| | \$'000 |
|-----------------------------------|---------------|
| Fair value of net assets acquired | 505,812 |
| Purchase consideration – | |
| Cash paid | 83,416 |
| Promissory note issued | 175,000 |
| | 258,416 |
| Negative goodwill on acquisition | 247,396 |

The negative goodwill was primarily attributable to the recognition of deferred tax assets on certain tax losses carried forward, the recognition of intangible assets and the excess of the fair market value of the acquired fixed assets over their carrying values.

Deferred tax assets were recognised based on improvements in trading conditions and profitability of the acquirees since the acquisition date, and management's expectation that it will be able to take advantage of tax losses carried forward. The extent of the recognition was based on profit forecasts done by management, as well as anticipated changes in tax laws with respect to the number of years that tax losses may be carried forward.

The fair values of fixed and intangible assets were determined by professional valuers. The valuers of the acquired intangible assets and the plant and equipment are independent of the Group. The valuers of the acquired land and buildings is The CD Alexander Company Realty Limited, a member of the Musson Group of companies.

No cash and cash equivalents were acquired in the transaction. The cash outflow on acquisition comprises only the cash paid that formed a part of the purchase consideration.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

29. Acquisition of Subsidiaries (Continued)

The assets and liabilities arising from the acquisition are as follows:

| | Acquirees' Carrying Amounts \$'000 | Fair Values \$'000 |
|--|---|-----------------------------------|
| Non-Current Assets | | |
| Fixed assets | 432,233 | 493,100 |
| Intangible assets | - | 48,000 |
| Biological assets | 68,274 | 55,978 |
| Deferred tax assets | - | 113,689 |
| | <u>500,507</u> | <u>710,767</u> |
| Current Assets | | |
| Inventories | 121,078 | 96,192 |
| Receivables | 104,261 | 104,261 |
| | 225,339 | 200,453 |
| Current Liabilities | | |
| Payables | 269,053 | 269,053 |
| Current portion of long term liabilities | 30,886 | 30,886 |
| | <u>299,939</u> | <u>299,939</u> |
| Net Current Liabilities | <u>(74,600)</u> | <u>(99,486)</u> |
| | 425,907 | 611,281 |
| Non-Current Liabilities | | |
| Long term liabilities | 79,384 | 79,384 |
| Deferred tax liabilities | 26,085 | 26,085 |
| | <u>105,469</u> | <u>105,469</u> |
| Net Assets | <u>320,438</u> | <u>505,812</u> |

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

30. Related Party Transactions

The following transactions were carried out with related parties:

(a) Sales and purchases of goods

Sales of \$630,976,000 (2004 – \$233,228,000) to and purchases of \$59,328,000 (2004 – \$56,999,000) from Musson Jamaica Limited, T.Geddes Grant (Distributors) Limited and Facey Commodity Company Limited. The Chairman of the company's Board of Directors is a major shareholder and Chairman of the Board of Directors of these entities. Goods are sold/bought on the basis of the price lists in force with non-related parties.

A subsidiary paid cess of \$4,880,000 (2004 - \$4,583,000) based on the importation of copra-based and substitute products, to Coconut Industry Board, a major shareholder of the company.

(b) Key management compensation

| | 2005 \$'000 | 2004 \$'000 |
|--|----------------|----------------|
| Wages and salaries | 64,014 | 42,965 |
| Statutory contributions | 5,947 | 4,644 |
| Other | 3,624 | 1,320 |
| | <u>73,585</u> | <u>48,929</u> |
| Directors' emoluments – | | |
| Fees | 4,773 | 3,173 |
| Management remuneration (included above) | 14,514 | 11,119 |
| | <u>14,514</u> | <u>11,119</u> |

(c) Advances and loans to related parties

Profit share advances to key management were as follows:

| | 2005 \$'000 | 2004 \$'000 |
|--------------------------------|----------------|----------------|
| Group Managing Director | 4,725 | 4,860 |
| Other key management personnel | 17,775 | 11,270 |
| | <u>22,500</u> | <u>16,130</u> |

Loans to associates are included in investment in associates and disclosed in Note 17. Loans from associates are disclosed in Note 26.

(d) Guarantees and Letters of Comfort on behalf of related parties

- (i) Seprod Limited has signed a guarantee in favour of Kraft Foods Jamaica Limited for 50% of all debts owed by Facey Commodity Company Limited.
- (ii) Seprod Limited has signed a Letter of Comfort in favour of RBTT Bank Jamaica Limited for certain facilities offered to Facey Commodity Company Limited amounting to US\$20 million.

Seprod Limited

Notes to the Financial Statements

31 December 2005

(expressed in Jamaican dollars unless otherwise indicated)

31. Contingencies and Commitments

- (a) Amounts due by Serge Island Dairies Limited to a supplier, Tetra Pak Limited, but not accrued at year end amounted to US\$654,000. These amounts were previously written-off by Tetra Pak Limited prior to 31 March 2005, but were recharged during the current period following Seprod Limited's acquisition of Serge Island Dairies Limited. Under the agreement for the purchase of shares in Serge Island Dairies Limited, all amounts due but not accrued at 31 March 2005 are payable by ICD Group Limited.
- (b) Minimum annual lease payments required under operating lease arrangements in relation to factory rental by a subsidiary is \$5,577,000, and these arrangements are set to expire in 2011.
- (c) At 31 December 2005, management had approved approximately \$142 million (2004 - \$30 million) for capital expenditure in respect of certain subsidiaries.

32. Events After the Balance Sheet Date

Following an acquisition by Facey Commodity Company Limited (Facey), Seprod Limited has signed a management letter of undertaking dated 23 February 2006 to recommend that the Board of Directors take appropriate corporate action to provide joint and several guarantee in the amount of €10,000,000 to the Bank of Nova Scotia in the event that the securities offered for a loan to Facey to fund the acquisition are not perfected.