

LASCELLES, deMERCADO & CO. LIMITED

FINANCIAL STATEMENTS

SEPTEMBER 30, 2007



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## INDEPENDENT AUDITORS' REPORT

To the Members of  
LASCELLES, deMERCADO & CO. LIMITED

### **Report on the Financial Statements**

We have audited the unconsolidated financial statements of Lascelles, deMercado & Co. Limited ("company"), set out on pages 3 to 24, which comprise the company only balance sheet as at September 30, 2007, statements of income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Jamaican Companies Act. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and consistently applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence relating to the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



INDEPENDENT AUDITORS' REPORT

To the Members of  
LASCELLES, deMERCADO & CO. LIMITED

**Report on the Financial Statements (Cont'd)**

*Opinion*

In our opinion, the unconsolidated financial statements give a true and fair view of the financial position of the company only as at September 30, 2007, and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

**Additional reporting requirements of the Jamaican Companies Act**

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner so required.

*KPMG*

November 28, 2007

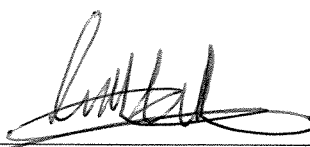
LASCELLES, deMERCADO & CO. LIMITED

Balance Sheet  
September 30, 2007

	<u>Notes</u>	<u>2007</u> \$'000s	<u>2006</u> \$'000s
<b>Current assets</b>			
Cash and cash equivalents		7,973	3,524
Accounts receivable	3	229	312
Taxation recoverable		753	746
Due from subsidiaries	4(a)	<u>11,897</u>	<u>20,738</u>
		<u>20,852</u>	<u>25,320</u>
<b>Current liabilities</b>			
Due to subsidiaries	4(b)	1,769	93
Accounts payable	5	<u>68,874</u>	<u>125,585</u>
		<u>70,643</u>	<u>125,678</u>
<b>Net current liabilities</b>		( <u>49,791</u> )	( <u>100,358</u> )
<b>Non-current assets</b>			
Employee benefits assets	6	2,405,900	2,150,700
Investments	7	4,866,756	3,495,153
Interest in subsidiaries shares, at cost		164,546	164,546
Due from subsidiaries	4(c)	3,316,323	3,294,757
Property, plant & equipment	8	<u>87,368</u>	<u>4,502</u>
		<u>10,840,893</u>	<u>9,109,658</u>
		<u>10,791,102</u>	<u>9,009,300</u>
Financed by:			
<b>Stockholders' equity</b>			
Share capital	9	20,400	20,400
Capital reserve	10	1,943,961	1,839,880
Employee benefits reserve	11	1,603,933	1,433,800
Equity revaluation reserve		4,815,997	3,468,658
Unappropriated profits		<u>1,604,797</u>	<u>1,529,619</u>
		9,989,088	8,292,357
<b>Non-current liability</b>			
Deferred tax liability	12	<u>802,014</u>	<u>716,943</u>
		<u>10,791,102</u>	<u>9,009,300</u>

The financial statements, on pages 3 to 24, were approved for issue by the Board of Directors on November 28, 2007, and signed on its behalf by:

  
\_\_\_\_\_  
William A. McConnell, Director

  
\_\_\_\_\_  
Anthony J. Bell, Director

The accompanying notes form an integral part of the financial statements.

LASCELLES, deMERCADO & CO. LIMITEDIncome Statement  
Year ended September 30, 2007

	<u>Notes</u>	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Investment income and capital gains	13	<u>472,682</u>	<u>640,606</u>
Finance costs		( 106)	( 23)
Finance income		<u>148</u>	<u>101</u>
Net finance income	14	<u>42</u>	<u>78</u>
		472,724	640,684
Administration expenses, net of credits		<u>249,901</u>	<u>725,478</u>
<b>Profit before taxation</b>	15	722,625	1,366,162
Taxation	16	( 85,071)	( 245,861)
<b>Net profit attributable to members</b>		<u>637,554</u>	<u>1,120,301</u>

The accompanying notes form an integral part of the financial statements.

LASCELLES, deMERCADO & CO. LIMITEDStatement of Changes in Stockholders' Equity  
Year ended September 30, 2007

	<u>Share capital</u> (note 9) \$'000s	<u>Capital reserve</u> (note 10) \$'000s	<u>Employee benefits reserve</u> (note 11) \$'000s	<u>Equity revaluation reserve</u> \$'000s	<u>Unappropriated profits</u> \$'000s	<u>Total</u> \$'000s
Balances at September 30, 2005	20,400	1,572,533	-	2,412,758	2,302,627	6,308,318
Net profit attributable to members	-	-	-	-	1,120,301	1,120,301*
Appreciation in fair value of investments	-	-	-	1,055,900	-	1,055,900*
Transfer, net	-	267,347	1,433,800	-	(1,701,147)	-
Dividends and distributions (note 17)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 192,162)</u>	<u>( 192,162)</u>
Balances at September 30, 2006	20,400	1,839,880	1,433,800	3,468,658	1,529,619	8,292,357
Net profit attributable to members	-	-	-	-	637,554	637,554*
Appreciation in fair value of investments	-	-	-	1,347,339	-	1,347,339*
Transfer, net	-	104,081	170,133	-	( 274,214)	-
Dividends and distributions (note 17)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 288,162)</u>	<u>( 288,162)</u>
Balances at September 30, 2007	<u>20,400</u>	<u>1,943,961</u>	<u>1,603,933</u>	<u>4,815,997</u>	<u>1,604,797</u>	<u>9,989,088</u>

\*Total recognized gains for the year aggregated \$1,984,893,000 (2006: \$2,176,201,000).  
The accompanying notes form an integral part of the financial statements.

LASCELLES, deMERCADO & CO. LIMITEDStatement of Cash Flows  
Year ended September 30, 2007

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Cash flows from operating activities		
Net profit attributable to members	637,554	1,120,301
Adjustments to reconcile net profit to net cash provided by operating activities:		
Employee benefits	( 255,200)	( 727,000)
Depreciation	42	42
Gain on disposal of property, plant & equipment	-	( 441)
Interest income	( 27)	( 23)
Income tax expense	<u>85,071</u>	<u>245,861</u>
Operating profit before changes in working capital	467,440	638,740
Change in working capital:		
Accounts receivable	83	74,200
Due from subsidiaries	8,841	( 333)
Due to subsidiaries	1,676	93
Accounts payable	<u>( 56,711)</u>	<u>105,616</u>
Cash provided by operating activities	421,329	818,316
Interest received	27	23
Tax deducted at source	<u>( 7)</u>	<u>( 6)</u>
Net cash provided by operating activities	<u>421,349</u>	<u>818,333</u>
Cash flows from investing activities		
Additions to investments	( 24,264)	( 23,480)
Additions to property, plant & equipment	( 82,908)	-
Proceeds from sale of property, plant & equipment	<u>-</u>	<u>441</u>
Net cash used by investing activities	<u>( 107,172)</u>	<u>( 23,039)</u>
Cash flows from financing activities		
Due from subsidiaries	<u>( 21,566)</u>	<u>( 600,985)</u>
Cash provided before dividends and distributions	292,611	194,309
Dividends and distributions paid	<u>( 288,162)</u>	<u>( 192,162)</u>
Net increase in cash and cash equivalents	4,449	2,147
Cash and cash equivalents at beginning of year	<u>3,524</u>	<u>1,377</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>7,973</u></u>	<u><u>3,524</u></u>

The accompanying notes form an integral part of the financial statements.

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements  
September 30, 2007

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**1. The company**

The company is incorporated in Jamaica under the Companies Act and is domiciled in Jamaica. Its ordinary and preference stock units are listed on the Jamaica Stock Exchange. Certain members of the Board of Directors control 50.76% of the voting rights in the company. The registered office of the company is situated at 23 Dominica Drive, Kingston 5, Jamaica, West Indies.

The principal activities of the company are the provision of management services to its subsidiary companies and the holding of investments.

At September 30, 2007, the company did not directly employ any person.

**2. Statement of compliance, basis of preparation and significant accounting policies****(a) Statement of compliance:**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board (IASB), and taken along with the group financial statements, approved by the directors on November 28, 2007, comply with the provisions of the Jamaican Companies Act.

During the year under review, certain new standards, interpretations and amendments to the existing standards became effective. Management has assessed that IAS 19 Amendment, *Actuarial Gains and Losses, Group Plans and Disclosures* and IAS 39 Amendment, *The Fair Value Option* (Revised), were the only relevant standards. Appropriate additional disclosures and restatements, together with comparatives, are incorporated in these financial statements. The adoption of these standards did not result in any change to accounting policies.

At the date of approval of the financial statements, there were certain standards and interpretations which were in issue but were not yet effective. Those which are considered relevant to the company are as follows and are effective for the accounting periods beginning on or after the indicated dates:

- *IFRS 7 Financial Instruments: Disclosures and the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures* (effective from January 1, 2007) require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the company's 2008 financial statements, will require additional disclosures with respect to the company's financial instruments and share capital.
- *Revised IAS 1 – Presentation of Financial Statements* (effective from January 1, 2009) requires presentation of all non-owner changes in equity in one or two statements either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Revised IAS 1 also requires that a statement of financial position to be presented at the beginning of the comparative period when the entity restates the comparatives, a disclosure for reclassification adjustments and disclosure of dividends and related per share amounts to be disclosed on the face of the statement of changes in equity or in the notes.



LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements  
September 30, 2007

**2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)****(a) Statement of compliance (cont'd):**

- *IAS 23, Revised – Borrowing Costs* (effective from January 1, 2009) allows the removal of the option of immediately recognising all borrowing costs as an expense. The standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. This may have an impact on the company's financial statements when the revised standard becomes effective.

**(b) Basis of preparation:**

The financial statements are presented in Jamaica dollars (\$), which is the company's functional currency.

The financial statements are prepared under the historical cost convention, modified for the inclusion of available-for-sale investments at fair value.

**(c) Use of estimates and judgement:**

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, contingent assets and contingent liabilities at the balance sheet date, and the income and expense for the year then ended. Actual amounts could differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

**Pension and other post retirement benefits:**

The amounts recognised in the balance sheet and income statement for pension and other post-retirement benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits. The expected return on plan assets considers the long-term returns, asset allocation and future estimates of long-term investment returns; the discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the company's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors. Any changes in the foregoing assumptions will affect the amounts recorded in the financial statements for these obligations.

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements  
September 30, 2007

**2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)**

(c) Use of estimates and judgement (cont'd):

It is possible, based on existing knowledge, that outcomes that are different from these assumptions could require a material adjustment to the carrying amount reflected in future financial statements.

(d) Cash and cash equivalents:

This comprises cash and bank balances.

(e) Accounts receivable:

Trade and other receivables are stated at amortised cost less impairment losses.

(f) Accounts payable:

Trade and other payables are stated at amortised cost.

(g) Provisions:

A provision is recognised in the balance sheet when the company has a legal and constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

(h) Related parties:

A party is related to the company, if:

- (i) directly, or indirectly through one or more intermediaries, the party:
  - (a) is controlled by, or is under common control with, the company;
  - (b) has an interest in the company that gives it significant influence over the entity; or
  - (c) has joint control over the company;
- (ii) the party is an associate of the company;
- (iii) the party is a joint venture in which the company is a venturer;
- (iv) the party is a member of the key management personnel of the company;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the company.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
September 30, 2007

**2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)****(i) Employee benefits:**

The company and certain subsidiaries are participating employers in a trustee pension scheme, the assets of which are held separately from those of the company, and remain under the full control of the appointed trustees.

The company's net obligation in respect of defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any scheme assets is deducted. To the extent that the obligation is less than the fair value of scheme assets, the asset recognised is restricted to the discounted value of future benefits available to the company. The discount rate applied is the yield at balance sheet date on long-term government instruments that have maturity dates approximating the terms of the company's obligation [note (c)(ii)]. The calculation is performed using the projected unit credit method.

To the extent that any cumulative unrecognised gains or losses exceeds 10% of both the present value of the benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees affected; otherwise, the actuarial gains or losses are not recognised.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred.

**(j) Investments:****(i) Available-for-sale:**

Available-for-sale investments are initially measured at cost and subsequently at fair value, with unrealised gains or losses arising from changes in fair value recognised directly in equity revaluation reserve, except for impairment losses. Where fair values cannot be reliably determined, they are stated at cost.

When these investments are disposed of or impaired, the related unrealised gains or losses are recognised in the income statement.

The fair value of available-for-sale investments is based on their quoted market bid price at the balance sheet date. Where a quoted market price is not available, fair value is estimated using discounted cash flow techniques.

Available-for-sale investments are recognised or derecognised by the company and its subsidiaries on the date they commit to purchase or sell the investments.

**(ii) Loans and receivables:**

Investment with fixed or determinable payments and which are not quoted in an active market are classified as loans and receivables and are initially measured at cost and subsequently at amortised cost, using the effective interest rate method less impairment losses.

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
 September 30, 2007

**2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)**

(k) Interest in subsidiaries:

The company's interest in its subsidiaries is carried at cost less impairment losses.

(l) Property, plant & equipment:

(i) Owned assets:

Items of property, plant & equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and related costs to put the asset into service.

(ii) Depreciation:

Depreciation is computed on the straight-line basis at annual rates estimated to write off the property, plant & equipment over their expected useful lives.

No depreciation is charged on freehold land or construction in progress.

Depreciation rates are as follows:

Freehold buildings	-	2½%
Machinery, equipment and vehicles	-	5-33⅓%
Computer equipment and related software	-	100% except for major computerisation projects depreciated at 33⅓%.

Depreciation rates applied to leased assets are consistent with similar owned assets, except where there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term; in which case the asset is depreciated at the shorter of the lease term or its useful life.

Depreciation methods, useful lives and residual values are reassessed annually.

(m) Impairment:

The carrying amounts of the company's assets, other than deferred tax assets [see note 2(q)] are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
September 30, 2007

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**2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)****(m) Impairment (cont'd):****(i) Calculation of recoverable amount:**

The recoverable amount of the company's receivables carried at amortised cost is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and fair value less cost to sell. In assessing fair value less cost to sell, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(ii) Reversals of impairment:**

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. For all other assets, an impairment loss is reversed if there is an indicator that the impairment loss no longer exists and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognised in the income statement.

**(n) Share capital:**

Preference share capital is classified as equity in accordance with the Jamaican Companies Act. The relevant stock units are non-redeemable and have a right to a fixed dividend but have preferential voting rights and are considered to be compound financial instruments with a substantial component being in equity.

**(o) Revenue recognition:**

Dividend income is recognised in the income statement on the date of declaration.

Notes to the Financial Statements (Continued)  
September 30, 2007

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**2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)**

(p) Foreign currencies:

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Jamaica dollars at rates of exchange ruling on that date. Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Gains and losses arising from fluctuations in exchange rates are recognised in the income statement. For the purpose of the statement of cash flows, all foreign currency gains and losses recognised in the income statement are treated as cash items and are included in cash flows from operating and financing activities along with movements in the principal balances.

(q) Income taxes:

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the income statement, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred tax is computed using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, except to the extent that the company and its subsidiaries are able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Net finance costs:

Net finance costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, material bank charges and foreign exchange gains and losses recognised in the income statement.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
September 30, 2007

**2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)**

## (s) Financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents, accounts receivable, related party receivables and investments. Similarly, financial liabilities include accounts payable, and related party payables.

## (t) Fair value disclosures:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Some financial instruments lack an available trading market. These instruments have been valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

**3. Accounts receivable**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Trade accounts receivable	473	473
Other receivables	<u>229</u>	<u>312</u>
	702	785
Less: Allowance for impairment losses	<u>(473)</u>	<u>(473)</u>
	<u>229</u>	<u>312</u>

**4. Due from subsidiaries**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
(a) Due from subsidiaries within twelve months:		
Ajas Limited	10,934	10,934
C.P. Stephenson Limited	199	187
Lascelles Merchandise Limited	-	8,604
Tradewell Limited	642	615
Turks Island Importers Limited	22	22
Wray & Nephew Group Limited	100	100
Kingston Industrial Garage Limited	<u>-</u>	<u>276</u>
	<u>11,897</u>	<u>20,738</u>

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
September 30, 2007

**4. Due from subsidiaries**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
(b) Due to subsidiaries within twelve months:		
Lascelles Limited	1,670	-
Wray & Nephew Global Brands Limited	<u>99</u>	<u>93</u>
	<u>1,769</u>	<u>93</u>
(c) Due from subsidiaries after twelve months:		
Globe Holdings Limited	429,210	429,210
J. Wray & Nephew Limited	<u>2,887,113</u>	<u>2,865,547</u>
	<u>3,316,323</u>	<u>3,294,757</u>

**5. Accounts payable**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Trade payables	150	150
Other payables	<u>68,724</u>	<u>125,435</u>
	<u>68,874</u>	<u>125,585</u>

**6. Employee benefits assets**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Present value of funded obligations	(3,130,300)	(2,702,300)
Fair value of plan assets	7,727,200	6,697,300
Unrecognised actuarial gains	(1,986,100)	(1,735,900)
Unrecognised amount due to limitation	( 207,200)	( 111,500)
Unrecognised past service costs	<u>2,300</u>	<u>3,100</u>
Recognised pension asset	<u>2,405,900</u>	<u>2,150,700</u>

- (i) Plan assets include ordinary shares issued by the company with a fair value of \$647,096,000 (2006: \$572,651,000). Plan assets also include investments in assets leased under operating lease arrangements with the company and its subsidiaries, with a fair value of \$241,475,000 (2006: \$256,635,000).



LASCELLES, deMERCADO & CO. LIMITEDNotes to the Financial Statements (Continued)  
September 30, 2007**6. Employee benefits assets (cont'd)**

## (ii) Movements in funded obligations:

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Balance at beginning of year	(2,702,300)	(2,172,400)
Benefit paid	147,700	124,800
Current service and interest costs	( 504,600)	( 417,100)
Loss on curtailment	-	( 10,500)
Actuarial gain	( 71,100)	( 227,100)
Balance at end of year	<u>(3,130,300)</u>	<u>(2,702,300)</u>

## (iii) Movement in plan assets:

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Fair value of plan assets at beginning of year	6,697,300	5,820,900
Contributions paid	125,000	110,500
Expected return on plan assets	668,600	581,400
Benefits paid	( 147,700)	( 124,800)
Actuarial gain	<u>384,000</u>	<u>309,300</u>
Fair value of plan assets at end of year	<u>7,727,200</u>	<u>6,697,300</u>
Plan assets consist of the following:		
Equities	1,935,300	1,650,200
Fixed income securities	5,563,000	4,846,900
Real estate	<u>228,900</u>	<u>200,200</u>
	<u>7,727,200</u>	<u>6,697,300</u>

## (iv) Movements in the net asset recognised in the balance sheet:

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Balance at beginning of year	2,150,700	1,423,700
Contributions paid	25,300	22,400
Credit recognised in the income statement	<u>229,900</u>	<u>704,600</u>
Balance at end of year	<u>2,405,900</u>	<u>2,150,700</u>

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
September 30, 2007

**6. Employee benefits assets (cont'd)**

(v) Credit recognised in the income statement:

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Current service costs	89,500	65,300
Interest on obligations	315,400	263,800
Actuarial gains recognised	( 62,700)	( 67,000)
Expected return on plan assets	( 668,600)	( 581,400)
Change in disallowed assets	95,700	( 396,600)
Past service costs – non-vested benefits	800	800
Losses on curtailment settlements	<u>-</u>	<u>10,500</u>
	<u>( 229,900)</u>	<u>( 704,600)</u>
Actual return on plan assets	<u>1,052,600</u>	<u>890,700</u>

(vi) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	<u>2007</u>	<u>2006</u>
Discount rate	12.5%	12.0%
Expected return on plan assets	10%	10%
Future salary increases	8.5%	8%
Future pension increases	<u>0-6%</u>	<u>0-6%</u>

Assumptions regarding future mortality are based on PA(90) Tables for Pensioners (British mortality tables). The expected long-term rate is based on assumed long-term rate of inflation.

(vii) Historical information:

(a) Defined benefit pension plan:

	<u>2007</u> \$'000s	<u>2006</u> \$'000s	<u>2005</u> \$'000s	<u>2004</u> \$'000s	<u>2003</u> \$'000s
Present value of the defined benefit obligations	(3,130,300)	(2,702,300)	(2,172,400)	(1,772,500)	(1,307,900)
Fair value of plan assets	7,727,200	6,697,300	5,820,900	4,977,900	3,414,000
Experience adjustments arising on plan liabilities	( 179,300)	( 71,600)	( 129,500)	( 12,800)	( 40,500)
Experience adjustments arising on plan assets	<u>384,000</u>	<u>309,300</u>	<u>328,400</u>	<u>1,162,100</u>	<u>430,200</u>

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
 September 30, 2007

**7. Investments**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Available-for-sale:		
Quoted	4,866,642	3,495,039
Unquoted, at cost, less impairment loss	<u>114</u>	<u>114</u>
	<u>4,866,756</u>	<u>3,495,153</u>

**8. Property, plant & equipment**

	<u>Freehold land</u> \$'000s	<u>Freehold buildings</u> \$'000s	<u>Office fixtures, furniture and motor vehicles</u> \$'000s	<u>Total</u> \$'000s
At cost or deemed cost:				
September 30, 2005	4,213	1,985	3,638	9,836
Disposals	<u>-</u>	<u>-</u>	<u>(3,035)</u>	<u>( 3,035)</u>
September 30, 2006	4,213	1,985	603	6,801
Additions	<u>82,908</u>	<u>-</u>	<u>-</u>	<u>82,908</u>
September 30, 2007	<u>87,121</u>	<u>1,985</u>	<u>603</u>	<u>89,709</u>
Depreciation:				
September 30, 2005	-	1,654	3,638	5,292
Charge for the year	-	42	-	42
Eliminated on disposal	<u>-</u>	<u>-</u>	<u>(3,035)</u>	<u>( 3,035)</u>
September 30, 2006	-	1,696	603	2,299
Charge for the year	<u>-</u>	<u>42</u>	<u>-</u>	<u>42</u>
September 30, 2007	<u>-</u>	<u>1,738</u>	<u>603</u>	<u>2,341</u>
Net book values:				
September 30, 2007	<u>87,121</u>	<u>247</u>	<u>-</u>	<u>87,368</u>
September 30, 2006	<u>4,213</u>	<u>289</u>	<u>-</u>	<u>4,502</u>

Certain items of property, plant and equipment had been revalued to fair value on or prior to October 1, 2001 (IFRS transition date). Revaluation surpluses are reflected in capital reserve (note 10).

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
September 30, 2007

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**9. Share capital**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Authorised in shares, stated, issued and fully paid stock units of no par value:		
96,000,000 Ordinary units	19,200	19,200
10,000 6% Non-redeemable cumulative preference units	200	200
50,000 15% Non-redeemable cumulative preference units	<u>1,000</u>	<u>1,000</u>
	<u>20,400</u>	<u>20,400</u>

Ordinary stockholders are entitled to one vote for every 1,600 ordinary units, and one vote for each preference unit. The holders of ordinary units are entitled to receive dividends as declared from time to time and the holders of non-redeemable cumulative preference units receive a cumulative dividend on their stockholdings.

**10. Capital reserve**

This mainly comprises capital dividends received and revaluation surplus (note 8) and is available for distribution after deduction of transfer tax of 7½%.

**11. Employee benefits reserve**

This represents accumulated unrealised pension credits, which represents the excess of fair value of scheme assets over the obligation, restricted to the discounted value of future benefits, net of deferred tax.

**12. Deferred tax liability**

Deferred tax liability is attributable to temporary differences arising in respect of the following:

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Property, plant & equipment	32	43
Foreign exchange gain	15	-
Employee benefits	<u>801,967</u>	<u>716,900</u>
	<u>802,014</u>	<u>716,943</u>

All movement in temporary differences were recognised in the income statement in both years.

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
 September 30, 2007

**12. Deferred tax liability (cont'd)**

At September 30, 2007, a deferred tax liability of \$2,520 million (2006: \$1,991 million) relating to investment in certain subsidiaries and associated companies has not been recognised, as the company controls, or significantly controls, whether the liability will be incurred and management is satisfied that it will not be incurred in the foreseeable future.

**13. Investment income and capital gains**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Quoted investment income	368,601	373,259
Capital distribution	<u>104,081</u>	<u>267,347</u>
	<u>472,682</u>	<u>640,606</u>

**14. Net finance income**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Bank charges	90	23
Bank overdraft interest	<u>16</u>	<u>-</u>
Finance costs	<u>106</u>	<u>23</u>
Bank interest	( 26)	( 23)
Gain on foreign exchange	( 122)	( 78)
Finance income	( 148)	( 101)
	<u>( 42)</u>	<u>( 78)</u>

**15. Disclosure of expenses and related party transactions**

Profit before taxation is stated after charging the following:

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Directors' emoluments:		
Fees	3,001	1
Management remuneration	Nil	Nil
Audit fees	Nil	Nil
Staff costs, excluding unrealised pension credits	Nil	Nil
Depreciation	<u>42</u>	<u>42</u>

All corporate expenses are borne by a principal operating subsidiary, J. Wray & Nephew Limited.

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
 September 30, 2007

**16. Taxation**

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Deferred taxation:		
Origination and reversal of temporary differences, net	<u>85,071</u>	<u>245,861</u>
Reconciliation of effective tax rate:		
	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Profit before taxation	<u>722,625</u>	<u>1,366,162</u>
Computed "expected" taxation expense @ 33½%	240,875	455,387
Difference between profit for financial statements and tax reporting purposes on:		
Tax-free dividend income	( 121,113)	( 124,417)
Foreign exchange gain	3	-
Tax-free capital gain	( 34,694)	( 85,109)
Actual taxation expense	<u>85,071</u>	<u>245,861</u>

**17. Dividends and distributions**

Dividends and distributions paid, gross, are as follows:

	<u>2007</u> \$'000s	<u>2006</u> \$'000s
Ordinary stock units @ \$3.00(2006: \$2.00) per stock unit	288,000	192,000
6% Non-redeemable cumulative preference stock units	12	12
15% Non-redeemable cumulative preference stock units	<u>150</u>	<u>150</u>
	<u>288,162</u>	<u>192,162</u>

At a meeting of the Board of Directors, held on January 5, 2007, an interim dividend of \$1.00 per ordinary stock unit was declared. This dividend was paid on January 26, 2007 to ordinary stockholders on record as at the close of business on January 12, 2007.

At a meeting of the Board of Directors, held on May 18, 2007, an interim dividend of \$1.00 per ordinary stock unit was declared. This dividend was paid on June 15, 2007 to ordinary stockholders on record as at the close of business on May 28, 2007.

At a meeting of the Board of Directors, held on August 28, 2007, an interim dividend of \$1.00 per ordinary stock unit was declared. This dividend was paid on September 21, 2007 to ordinary stockholders on record as at the close of business on September 5, 2007.

Half-yearly dividends were paid to the 6% and 15% Non-redeemable cumulative preference stockholders on March 31, 2007 and September 30, 2007.

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
September 30, 2007

**18. Contingencies and commitments**

- (a) The company has entered into contracts to lease certain lots of land to a related party, at a nominal rental, until 2012.
- (b) The company has given an undertaking to support the operations of certain loss-making subsidiaries for the foreseeable future.
- (c) The company guarantees the bank loans, overdrafts and long-term liabilities of all its subsidiaries. At September 30, 2007, the indebtedness covered by these guarantees aggregated approximately \$260 million (2006: \$315 million).

**19. Financial instruments**

- (a) Financial instrument risk:

Exposure to various types of financial instrument risk arises in the ordinary course of the company's business. Derivative financial instruments are not presently used to reduce exposure to fluctuations in interest and foreign exchange rates.

- (i) Credit risk:

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

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

- (ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The company materially contracts financial assets at fixed interest rates for the duration of the term.

At September 30, 2007, financial assets subject to interest aggregated \$2,125,000 (2006: \$1,977,000).

- (iii) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The company incurs foreign currency risk primarily on transactions that are denominated in a currency other than the Jamaica dollar. Such exposures comprise the monetary assets and liabilities of the company that are not denominated in the functional currency of the company. The principal foreign currency risks of the company are denominated in United States dollars (US\$).

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
September 30, 2007

**19. Financial instruments (cont'd)**

## (a) Financial instrument risk (cont'd):

## (iii) Foreign currency risk (cont'd):

At September 30, 2007, net foreign currency assets aggregated US\$30,000 (2006: US\$30,000).

The exchange rates for the US dollar, in terms of Jamaica dollars, were as follows:

At September 30, 2006:	\$66.05
At September 30, 2007:	\$70.41
At November 28, 2007:	\$71.08

In accordance with accounting policies applied consistently, exchange gains and losses are included in the income statement when incurred [see note 2(p)].

## (iv) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The company's significant exposure to market risk relates to the holding of quoted investments which are reflected in the financial statements at fair value. Changes in market value of these investments are recognised in equity revaluation reserve. These investments are monitored as part of the aggregate investment portfolio of the company and its subsidiaries, and risks are sought to be mitigated through geographic and industry diversification.

## (v) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. The company manages liquidity risk by maintaining adequate liquid financial assets with appropriate terms and currencies, together with committed financing to meet all contractual obligations and other recurring payments.

## (vi) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The company manages this risk through budgetary measures, ensuring, as far as possible, that fluctuations in cash flows relating to monetary financial assets and liabilities are matched, to mitigate any significant adverse cash flows.



LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)  
September 30, 2007

**19. Financial instruments (cont'd)****(b) Fair value disclosure:**

The fair values of cash and cash equivalents, accounts receivable, accounts payable, and related party balances are assumed to approximate to their carrying value, due to their short-term nature. Investments are stated at fair value in note 7. Amounts due to subsidiaries are considered to approximate their carrying value as they represent an ability to set off liabilities arising with those companies in future in the amounts disclosed.

**20. Subsequent event**

On November 23, 2007, the Board of directors received notice from Angostura Limited, a subsidiary of Angostura Holdings Limited, a company incorporated in Trinidad and Tobago and listed on the Trinidad and Tobago Stock Exchange, that it proposes to make a bid to acquire shares, which in aggregate, constitute 49.24% of the voting rights in the company. The bid commences on November 30, 2007 and closes on January 14, 2008. The offer contemplates a partial cash payment 14 days after closing, with the balance due on or before January 15, 2011.