

**Seprod Limited**

**Financial Statements  
31 December 2008**

# **Seprod Limited**

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**31 December 2008**

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## Independent Auditors' Report

To the Members of  
Seprod Limited

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Seprod Limited and its subsidiaries, and the accompanying financial statements of Seprod Limited standing alone set out on pages 1 to 58, which comprise the consolidated and company balance sheets as of 31 December 2008 and the consolidated and company profit and loss accounts, statements of changes in equity and cash flow statements for the year then ended, and 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 these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity'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 entity'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.

Members of Seprod Limited  
Independent Auditors' Report  
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**Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the group and the company as of 31 December 2008 and of financial performance and cash flows of the group and the company for the year then ended, so far as concerns the members of the company, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

**Report on Additional Requirements of the Jamaican Companies Act**

As required by 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 kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Act, in the manner so required.

*Price Waterhouse Coopers*

Chartered Accountants

9 March 2009  
Kingston, Jamaica

# Seprod Limited

## Consolidated Profit and Loss Account

Year ended 31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 \$'000	2007 \$'000
<b>Revenue</b>		9,257,660	8,189,984
Direct expenses		(7,158,157)	(4,752,099)
<b>Gross Profit</b>		2,099,503	1,437,885
Finance and other operating income	6	520,064	409,072
Selling expenses		(243,547)	(196,770)
Administration expenses		(874,836)	(679,864)
Other operating expenses		(36,926)	(37,318)
<b>Operating Profit</b>		1,464,258	933,005
Finance costs	9	(28,796)	(38,596)
Negative goodwill	30	-	138,048
Share of results of associates	17(c)	-	202,612
<b>Profit before Taxation</b>		1,435,462	1,235,069
Taxation	10	(497,259)	(222,060)
<b>NET PROFIT ATTRIBUTABLE TO STOCKHOLDERS</b>	11	938,203	1,013,009
<b>EARNINGS PER STOCK UNIT</b>	12	\$1.82	\$1.96

**Seprod Limited****Consolidated Balance Sheet****31 December 2008**

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 \$'000	2007 \$'000
<b>Non-current Assets</b>			
Fixed assets	14	2,128,771	1,866,885
Intangible assets	15	52,019	59,360
Available-for-sale	16	684,840	741,271
Long term receivables	18	1,116,357	1,211,579
Retirement benefit asset	19	15,900	24,100
Biological assets	20	129,565	95,630
Deferred tax assets	28	606	649
		<u>4,128,058</u>	<u>3,999,474</u>
<b>Current Assets</b>			
Inventories	21	1,333,459	794,994
Receivables	22	981,999	813,551
Available-for-sale investments	16	403,599	172,637
Current portion of long term receivables	18	264,185	245,715
Taxation recoverable		16,351	16,351
Cash and bank balances	23	380,186	489,793
		<u>3,379,779</u>	<u>2,533,041</u>
<b>Current Liabilities</b>			
Payables	24	515,926	426,754
Current portion of long term liabilities	27	106,231	91,618
Taxation payable		249,333	81,167
		<u>871,490</u>	<u>599,539</u>
<b>Net Current Assets</b>		<u>2,508,289</u>	<u>1,933,502</u>
		<u>6,636,347</u>	<u>5,932,976</u>
<b>Equity</b>			
Share capital	25	561,287	561,287
Capital reserve	26	764,021	849,264
Retained earnings		4,550,042	3,844,996
		<u>5,875,350</u>	<u>5,255,547</u>
<b>Non-current Liabilities</b>			
Long term liabilities	27	366,302	410,094
Deferred tax liabilities	28	335,295	212,735
Retirement benefit obligations	19	59,400	54,600
		<u>760,997</u>	<u>677,429</u>
		<u>6,636,347</u>	<u>5,932,976</u>

Approved for issue by the Board of Directors on 9 March 2009 and signed on its behalf by:

Paul Scott

Director

Richard Jones

Director

**Seprod Limited****Consolidated Statement of Changes in Equity****Year ended 31 December 2008****(expressed in Jamaican dollars unless otherwise indicated)**

	Number of Shares '000	Share Capital \$'000	Capital Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance as at 1 January 2007	516,398	561,287	854,409	3,008,030	4,423,726
Total recognised income for 2007					
Net profit	-	-	-	1,013,009	1,013,009
Fair value gains on available-for-sale securities	-	-	92	-	92
Realised fair value gains on sale of investments	-	-	(541)	-	(541)
	-	-	(449)	1,013,009	1,012,560
Transfer to capital reserve – loss on sale of investments	-	-	(4,696)	4,696	-
Dividends paid (Note 13)	-	-	-	(180,739)	(180,739)
<b>Balance at 31 December 2007</b>	<b>516,398</b>	<b>561,287</b>	<b>849,264</b>	<b>3,844,996</b>	<b>5,255,547</b>
Total recognised income for 2008					
Net profit	-	-	-	938,203	938,203
Fair value losses on available-for-sale securities	-	-	(86,206)	-	(86,206)
Realised fair value losses on sale of investments	-	-	185	-	185
	-	-	(86,021)	938,203	852,182
Transfer from capital reserve – gain on sale of investments	-	-	778	(778)	-
Dividends paid (Note 13)	-	-	-	(232,379)	(232,379)
<b>Balance at 31 December 2008</b>	<b>516,398</b>	<b>561,287</b>	<b>764,021</b>	<b>4,550,042</b>	<b>5,875,350</b>

**Seprod Limited****Consolidated Statement of Cash Flows****Year ended 31 December 2008****(expressed in Jamaican dollars unless otherwise indicated)**

	Note	2008 \$'000	2007 \$'000
<b>CASH RESOURCES WERE PROVIDED BY/(USED IN):</b>			
<b>Operating Activities</b>			
Cash provided by operating activities	29	321,110	378,555
<b>Investing Activities</b>			
Purchase of fixed assets		(438,740)	(208,076)
Proceeds on disposal of fixed assets		1,210	3,657
Purchase of available-for-sale investments		(528,818)	(623,540)
Proceeds from disposal of available-for-sale investments		280,783	598,458
Loans repaid by related party		-	344,397
Proceeds from disposal of associates		-	489,244
Long term receivable		280,461	33,226
Acquisition of group assets		-	(212,415)
Interest received		269,741	149,437
Dividends received		-	93
Cash (used in)/provided by investing activities		(135,363)	574,481
<b>Financing Activities</b>			
Long term loans received		55,008	-
Long term loans repaid		(89,187)	(233,463)
Dividends paid		(232,379)	(180,739)
Interest paid		(28,796)	(38,596)
Cash used in financing activities		(295,354)	(452,798)
(Decrease)/increase in cash and cash equivalents		(109,607)	500,238
Cash and cash equivalents at beginning of year		489,793	(10,445)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	23	<b>380,186</b>	<b>489,793</b>



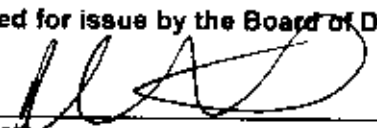
**Seprod Limited****Profit and Loss Account****Year ended 31 December 2008****(expressed in Jamaican dollars unless otherwise indicated)**

	<b>Note</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
<b>Revenue</b>		351,374	-
Direct expenses – purchases from subsidiaries for export		(351,374)	-
<b>Gross Profit</b>		-	-
Group costs recovered from subsidiaries		400,099	300,811
Finance and other operating income	6	520,506	1,631,778
Administration expenses		(423,028)	(329,627)
<b>Operating Profit</b>		497,577	1,602,962
Finance costs	9	(21,081)	(27,908)
<b>Profit before Taxation</b>		476,496	1,575,054
Taxation	10	(155,880)	(37,337)
<b>NET PROFIT</b>	11	320,616	1,537,717

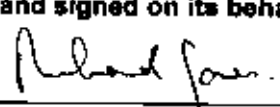
**Seprod Limited****Balance Sheet****31 December 2008****(expressed in Jamaican dollars unless otherwise indicated)**

	<b>Note</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
<b>Non-current Assets</b>			
Fixed assets	14	139,486	118,609
Available-for-sale investments	16	684,840	741,271
Investment in subsidiaries		873,945	873,945
Long term receivables	18	1,116,357	1,211,579
Retirement benefit asset	19	15,900	24,100
		<u>2,830,528</u>	<u>2,969,504</u>
<b>Current Assets</b>			
Receivables	22	193,886	152,358
Available-for-sale investments	16	403,599	172,637
Current portion of long term receivables	18	264,185	245,715
Cash and bank balances	23	229,281	374,316
		<u>1,090,951</u>	<u>945,026</u>
<b>Current Liabilities</b>			
Payables	24	156,544	104,325
Due to subsidiaries		509,437	620,472
Current portion of long term liabilities	27	25,833	25,833
Taxation payable		31,099	13,949
		<u>722,913</u>	<u>764,579</u>
<b>Net Current Assets</b>		<u>368,038</u>	<u>180,447</u>
		<u>3,198,566</u>	<u>3,149,951</u>
<b>Equity</b>			
Share capital	25	561,287	561,287
Capital reserve	26	182,532	267,775
Retained earnings		1,981,656	1,894,197
		<u>2,725,475</u>	<u>2,723,259</u>
<b>Non-current Liabilities</b>			
Long term liabilities	27	330,417	356,250
Deferred tax liabilities	28	83,274	15,842
Retirement benefit obligations	19	59,400	54,600
		<u>473,091</u>	<u>426,692</u>
		<u>3,198,566</u>	<u>3,149,951</u>

Approved for issue by the Board of Directors on 9 March 2009 and signed on its behalf by:

  
 Paul Scott

Director

  
 Richard Jones

Director

# Seprod Limited

## Statement of Changes in Equity

Year ended 31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Number of Shares	Share Capital	Capital Reserve	Retained Earnings	Total
	'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January 2007	516,398	561,287	272,920	532,523	1,366,730
Total recognised income for 2007					
Net profit	-	-	-	1,537,717	1,537,717
Fair value gains on available-for-sale securities	-	-	92	-	92
Realised fair value gains on sale of investments	-	-	(541)	-	(541)
	-	-	(449)	1,537,717	1,537,268
Transfer from capital reserve – loss on sale of investments	-	-	(4,696)	4,696	-
Dividends paid (Note 13)	-	-	-	(180,739)	(180,739)
Balance at 31 December 2007	516,398	561,287	267,775	1,894,197	2,723,259
Total recognised income for 2008					
Net profit	-	-	-	320,616	320,616
Fair value losses on available-for-sale securities	-	-	(86,206)	-	(86,206)
Realised fair value losses on sale of investments	-	-	185	-	185
	-	-	(86,021)	320,616	398,351
Transfer to capital reserve – gain on sale of investments	-	-	778	(778)	-
Dividends paid (Note 13)	-	-	-	(232,379)	(232,379)
Balance at 31 December 2008	516,398	561,287	182,532	1,981,656	2,725,475

**Seprod Limited****Statement of Cash Flows****Year ended 31 December 2008****(expressed in Jamaican dollars unless otherwise indicated)**

	<b>Note</b>	<b>2007 \$'000</b>	<b>2006 \$'000</b>
<b>CASH RESOURCES WERE PROVIDED BY/(USED IN):</b>			
<b>Operating Activities</b>			
Cash (used in)/provided by operating activities	29	(126,828)	215,008
<b>Investing Activities</b>			
Purchase of fixed assets		(40,287)	(3,091)
Proceeds on disposal of fixed assets		150	300
Purchase of available-for-sale investments		(528,818)	(623,540)
Proceeds from disposal of available-for-sale investments		280,783	598,458
Proceeds from disposal of associates		-	489,244
Cash outflow on incorporation of subsidiary		-	(301,785)
Loans repaid by related party		-	344,397
Long term receivable		280,461	33,226
Interest received		268,797	146,606
Dividends received		-	93
Cash provided by investing activities		261,086	683,908
<b>Financing Activities</b>			
Long term loans repaid		(25,833)	(206,508)
Dividends paid		(232,379)	(180,739)
Interest paid		(21,081)	(27,908)
Cash used in financing activities		(279,293)	(415,155)
(Decrease)/increase in cash and cash equivalents		(145,035)	483,761
Cash and cash equivalents at beginning of year		374,316	(109,445)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	23	<b>229,281</b>	<b>374,316</b>

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(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 and its subsidiaries 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:

<b>Name of company</b>	<b>Principal activities</b>
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 Grain and Cereals Limited	Manufacture and sale of corn products and cereals
Industrial Sales Limited	Sale of consumer products
International Biscuits Limited	Manufacture of biscuit products
Belvedere Limited	Agriculture
Jamaica Edible Oils and Fats Company Limited	Dormant
Jamaica Detergents Limited	Dormant
Jamaica Feeds Limited	Dormant

International Biscuits Limited was incorporated during prior year (Note 30).

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(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 2008***

Certain 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 amendments and has not adopted the following, which is relevant to its operations:

- IAS 39 (Amendment), Financial instruments: Recognition and measurement and IFRS 7 (Amendment), Financial instruments: Disclosures, allows the reclassification of certain financial assets previously classified as 'held for trading' or 'available for sale' to another category under limited circumstances. The IASB also requires certain disclosures where a reclassification has been made. Any reclassification made on or after 1 November 2008 takes effect from the date of reclassification. However, any reclassification before 1 November 2008 can take effect from 1 July 2008 or a subsequent date. As the Group did not opt to reclassify any financial assets, the amendment did not affect the financial statements.

#### ***Standards, interpretations and amendments to published standards effective in 2008 but not relevant to the Group's operations.***

The group has concluded that the following interpretations which are published and effective in current year, are not relevant to its operations:

- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12, Service Concession Arrangements

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.
- IAS 1 Presentation of Financial Statements (Revised) (effective for annual periods beginning on or after 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in stockholders' equity' to be presented separately from owner changes in equity. All non-owner changes in stockholders' equity (i.e. comprehensive income) will be required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income will not be permitted to be presented in the statement of changes in stockholders' equity. Management is currently assessing the impact of these changes. The Group will apply IAS 1 (Revised) from 1 January 2009.
- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit and loss account. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB'S annual improvement project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

- IAS 38 (Amended) Intangible Assets (effective for annual periods beginning on or after 1 January 2009). The revised standard states that an asset may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. It also deletes wording that states that there is 'rarely, if ever' a method that results in a lower rate of amortisation than the use of the straight line method. Management is currently assessing the impact of these changes.
- IAS 41 (Amendment) Agriculture (effective for annual periods beginning on 1 January 2009). The amendment requires the use of a market based discount rate where fair value calculations are based on discounted cash flows. It also removes the prohibition on taking into account biological transformation when calculating fair value.

#### (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.

Loans to subsidiaries that are intended to provide subsidiaries with a long-term source of additional capital are considered additions to the company's investment. Accordingly, these loans are included in Investment in Subsidiaries on the company's balance sheet.



# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(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. 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.

#### (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.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (f) Fixed assets

Buildings, plant and equipment are recorded at cost or deemed cost, less accumulated depreciation and impairment losses. 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 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.

#### (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.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (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 risks 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.

#### (j) Long term receivables

Long term receivables are initially measured at cost, and are subsequently measured at amortised cost using the effective interest rate method.

#### (k) 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.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (l) 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.

#### (m) 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.

#### (n) 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.

#### (o) Payables

Payables are recorded at cost.

#### (p) 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.

#### (q) 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 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (r) 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 retirement benefits*

The Group provides post-employment 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 qualified independent actuaries.

##### *Profit share scheme*

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's equity holders after certain adjustments.

#### (s) Leases

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

#### (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.

**Seprod Limited****Notes to the Financial Statements****31 December 2008**

(expressed in Jamaican dollars unless otherwise indicated)

**3. Financial Risk Management**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. 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.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Board has established committees/departments for managing and monitoring risks, as follows:

***Central treasury department***

The central treasury department is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

***Audit Committee***

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee.

The most important types of risk are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and other price risk.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (a) Credit risk

The Group takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the Group's receivables from customers and treasury activities. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and industry segments.

#### *Investments*

The Group limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

#### *Trade receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The executive committee has established a credit policy under which each customer is analysed individually for creditworthiness prior to the Group offering them a credit facility. Credit limits are assigned to each customer, which represents the maximum credit allowable without approval from the Board. The Group has procedures in place to restrict customer orders if the order will exceed their credit limits. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Customer credit risk is monitored according to their credit characteristics such as whether it is an individual or company, industry, aging profile, and previous financial difficulties. Trade receivables relate mainly to the Group's wholesale customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The Group's average credit period on the sale of goods is 30 days. Trade receivables between 60 and 90 days are provided for based on an estimate of amounts that would be irrecoverable, determined by taking into consideration past default experience, current economic conditions and expected receipts and recoveries once impaired.

#### *Cash and bank balances*

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.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (a) Credit risk (continued)

##### *Worst case scenario of credit risk exposure*

The worst case scenario of the Group's and the company's exposure to credit risk is as follows:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Available-for-sale investments	1,063,792	913,908	1,088,439	913,908
Long term receivables	1,380,542	1,457,294	1,380,542	1,457,294
Trade receivables	708,183	598,149	59,927	-
Cash and bank balances	380,186	489,793	229,281	374,316
	<u>3,532,703</u>	<u>3,459,144</u>	<u>2,758,189</u>	<u>2,745,518</u>

##### *Ageing analysis of trade receivables that are past due but not impaired*

Trade receivables that are less than 30 days past due are not considered impaired. The ageing analysis of trade receivables that are past due but not considered impaired is as follows:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
30 – 60 days	372,397	289,644	31,458	-
60 – 90 days	69,494	25,074	5,500	-
greater than 90 days	114,907	114,435	7,260	-
	<u>556,798</u>	<u>429,153</u>	<u>44,218</u>	<u>-</u>

##### *Ageing analysis of trade receivables that are past due and considered impaired*

Trade receivables of \$77,878,000 (2007 - \$65,721,000) for the Group were considered impaired and were fully provided for. The individually impaired receivables mainly relate to wholesalers who are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
30 – 60 days	-	-	-	-
60 – 90 days	-	-	-	-
greater than 90 days	77,878	65,721	-	-
	<u>77,878</u>	<u>65,721</u>	<u>-</u>	<u>-</u>



# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (a) Credit risk (continued)

##### *Movement in the provision for impairment of trade receivables*

The movement in the provision for impairment of trade receivables are as follows:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
At start of year	65,721	66,498	-	-
Provided during the year	31,010	6,104	-	-
Written off during the year	(768)	(2,726)	-	-
Unused amounts reversed	(18,085)	(3,155)	-	-
At end of year	77,878	65,721	-	-

The creation and release of provision for impaired receivables have been included in expenses in the profit and loss account. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There are no financial assets other than trade receivables that were individually impaired.

##### *Trade receivables by customer sector*

The following table summarises the credit exposure for trade receivables at their carrying amounts, as categorised by the customer sector:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Supermarket chains	24,155	49,437	-	-
Wholesalers	475,397	437,463	-	-
Retailers	127,947	59,490	-	-
Manufacturers	11,445	27,350	-	-
Other	147,117	90,130	59,927	-
	786,061	663,870	59,927	-
Less: Provision for impairment	(77,878)	(65,721)	-	-
	708,183	598,149	59,927	-

The company's trade receivables are due from overseas customers. The majority of trade receivables are receivable from customers in Jamaica.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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### 3. Financial Risk Management (Continued)

#### (b) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due. 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.

#### *Liquidity risk management process*

The Group's liquidity management process, as carried out within the Group and monitored by the central treasury department, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining committed lines of credit;
- (iv) Optimising cash returns on investment;
- (v) Managing the concentration and profile of debt maturities.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (b) Liquidity risk (continued)

##### *Undiscounted contractual cash flows of financial liabilities*

The tables below summarise the maturity profile of financial liabilities based on contractual undiscounted payments:

	The Group					Total \$'000
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	
	<b>2008</b>					
Long term liabilities	2,729	43,991	70,388	145,495	240,000	502,603
Trade payables	185,473	-	-	-	-	185,473
	<b>188,202</b>	<b>43,991</b>	<b>70,388</b>	<b>145,495</b>	<b>240,000</b>	<b>688,076</b>
	<b>2007</b>					
Long term liabilities	122	40,371	59,547	187,696	240,000	527,736
Trade payables	187,969	-	-	-	-	187,969
	<b>188,091</b>	<b>40,371</b>	<b>59,547</b>	<b>187,696</b>	<b>240,000</b>	<b>715,706</b>
	<b>The Company</b>					
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
	<b>2008</b>					
Long term liabilities	1,086	9,459	26,773	108,236	240,000	385,554
	<b>2007</b>					
Long term liabilities	-	7,168	21,506	129,038	240,000	397,712

Assets available to meet all of the liabilities and to cover financial liabilities include cash and investments.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (c) Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the group treasury department which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

#### Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Group manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The Group further manages this risk by maximising foreign currency earnings and holding foreign currency balances.

The following table indicates the effect on net profit and equity arising from changes in the US dollar exchange rate. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 4% (2007 - 2%) change in foreign currency rates, which represents management's assessment of the possible change in foreign exchange rates. The sensitivity was primarily as a result of foreign exchange gains and losses on translation of US dollar-denominated trade receivables, investment securities classified as available-for-sale and borrowings. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Effect on net profit	86,985	34,591	89,318	36,635
Effect on equity	86,985	34,591	89,318	36,635

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### *Currency risk (continued)*

The tables below summarise the total exposure to foreign currency exchange rate risk:

	The Group			
	Jamaican\$ J\$'000	US\$ J\$'000	Other J\$'000	Total J\$'000
	2008			
<b>Financial Assets</b>				
Available-for-sale investments	499,031	335,237	254,171	1,088,439
Long term receivables	-	1,380,542	-	1,380,542
Trade receivables	726,134	59,927	-	786,061
Cash and bank	177,105	203,081	-	380,186
	1,402,270	1,978,787	254,171	3,635,228
<b>Financial Liabilities</b>				
Long term liabilities	414,192	58,341	-	472,533
Trade payables	185,473	-	-	185,473
	599,665	58,341	-	658,006
<b>Net financial position</b>	802,605	1,920,446	254,171	2,977,22
	2007			
<b>Financial Assets</b>				
Available-for-sale investments	582,003	331,905	-	913,908
Long term receivables	-	1,457,294	-	1,457,294
Trade receivables	663,870	-	-	663,870
Cash and bank	248,659	241,134	-	489,793
	1,494,532	2,030,333	-	3,524,865
<b>Financial Liabilities</b>				
Long term liabilities	399,313	102,399	-	501,712
Trade payables	187,969	-	-	187,969
	587,282	102,399	-	689,681
<b>Net financial position</b>	907,250	1,927,934	-	2,835,184

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### *Currency risk (continued)*

	The Company			
	Jamaican\$ J\$'000	US\$ J\$'000	Other J\$'000	Total J\$'000
	<b>2008</b>			
<b>Financial Assets</b>				
Available-for-sale investments	499,031	335,237	254,171	1,088,439
Long term receivables	-	1,380,542	-	1,380,542
Trade receivables	-	59,927	-	59,927
Cash and bank	26,200	203,081	-	229,281
	525,231	1,978,787	254,171	2,758,189
<b>Financial Liabilities</b>				
Long term liabilities	356,250	-	-	356,250
<b>Net financial position</b>	168,981	1,978,787	254,171	2,401,939
	<b>2007</b>			
<b>Financial Assets</b>				
Available-for-sale investments	582,003	331,906	-	913,908
Long term receivables	-	1,457,294	-	1,457,294
Cash and bank	133,207	241,109	-	374,316
	715,210	2,030,308	-	2,745,518
<b>Financial Liabilities</b>				
Long term liabilities	382,083	-	-	382,083
<b>Net financial position</b>	333,127	2,030,308	-	2,363,435

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### *Interest rate risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial bearing liabilities.

The Group's interest rate risk arises from long term borrowing. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on floating rate borrowing. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale investments for the effects of the assumed changes in interest rates. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

The following table indicates the sensitivity to a reasonable possible change in interest rates of 4% (2007 - 2%), with all other variables held constant, on the net profit and equity.

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Effect on net profit	4,756	2,179	4,756	2,179
Effect on equity	3,024	2,636	3,024	2,636

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### *Interest rate risk (continued)*

The following tables summarise the exposure to interest rate risk. It includes the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	The Group						Total
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- Interest Bearing	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2008</b>							
<b>Financial assets</b>							
Available-for-sale investments	55,531	156,897	230,000	552,112	93,899	-	1,088,439
Long term receivables	22,016	44,031	198,139	1,116,357	-	-	1,380,542
Trade receivables	786,061	-	-	-	-	-	786,061
Cash and bank	380,186	-	-	-	-	-	380,186
	1,243,793	200,928	428,139	1,668,469	93,899	-	3,635,228
<b>Financial liabilities</b>							
Long term liabilities	30,784	38,857	33,587	127,416	-	240,000	470,644
Trade payables	185,473	-	-	-	-	-	185,473
	216,257	38,857	33,587	127,416	-	240,000	656,117
<b>Total interest repricing gap</b>	1,027,536	162,071	394,552	1,541,053	93,899	(240,000)	2,979,111
<b>2007</b>							
<b>Financial assets</b>							
Available-for-sale investments	13,335	52,489	277,387	337,950	232,747	-	913,908
Long term receivables	20,476	40,953	184,286	1,211,579	-	-	1,457,294
Trade receivables	663,870	-	-	-	-	-	663,870
Cash and bank	489,793	-	-	-	-	-	489,793
	1,187,474	93,442	461,673	1,549,529	232,747	-	3,524,865
<b>Financial liabilities</b>							
Long term liabilities	122	39,470	56,843	165,277	-	240,000	501,712
Trade payables	187,969	-	-	-	-	-	187,969
	188,091	39,470	56,843	165,277	-	240,000	689,681
<b>Total interest repricing gap</b>	999,383	53,972	404,830	1,384,252	232,747	(240,000)	2,835,184



# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### Interest rate risk (continued)

	The Company						Total
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- Interest Bearing	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	<b>2008</b>						
<b>Financial assets</b>							
Available-for-sale investments	55,531	156,897	230,000	552,112	93,899	-	1,088,439
Long term receivables	22,015	44,031	198,139	1,116,357	-	-	1,380,542
Trade receivables	59,927	-	-	-	-	-	59,927
Cash and bank	229,281	-	-	-	-	-	229,281
	366,754	200,928	428,139	1,668,469	93,899	-	2,578,189
<b>Financial liabilities</b>							
Long term liabilities	-	6,458	19,375	90,417	-	240,000	356,250
	-	6,458	19,375	90,417	-	240,000	356,250
<b>Total interest repricing gap</b>	366,754	194,470	408,764	1,578,052	93,899	(240,000)	2,401,939
	<b>2007</b>						
<b>Financial assets</b>							
Available-for-sale investments	13,335	52,489	277,387	337,950	232,747	-	913,908
Long term receivables	20,476	40,953	184,286	1,211,579	-	-	1,457,294
Cash and bank	374,316	-	-	-	-	-	374,316
	408,127	93,442	461,673	1,549,529	232,747	-	2,745,518
<b>Financial liabilities</b>							
Long term loans	-	6,458	19,375	116,250	-	240,000	382,083
	-	6,458	19,375	116,250	-	240,000	382,083
<b>Total interest repricing gap</b>	408,127	86,984	442,298	1,433,279	232,747	(240,000)	2,363,435

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (d) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on capital, which the Group defines as net operating income, excluding non-recurring items, divided by total stockholders' equity. The Board of Directors also monitors the level of dividends to stockholders.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Debt is calculated as total long term liabilities less related party loans. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus debt. The gearing ratios at year end based on these calculations were as follows:

	2008	2007
	\$'000	\$'000
Total long term liabilities	472,533	501,712
Less: related party loans	(240,000)	(240,000)
Debt	<u>232,533</u>	<u>261,712</u>
Equity	5,875,350	5,255,547
Total capital	<u>6,107,883</u>	<u>5,517,259</u>
Gearing ratio	<u>3.81%</u>	<u>4.74%</u>

There were no changes to the Group's approach to capital management during the year.

**Seprod Limited****Notes to the Financial Statements****31 December 2008**

(expressed in Jamaican dollars unless otherwise indicated)

**3. Financial Risk Management (Continued)****(e) 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 value of long term receivables has been estimated at \$1,399,107,000 (2007 - \$1,443,518,000). This was derived by discounting the contractual cash flows using the market rate of interest. The carrying value of these receivables is \$1,380,542,000 (2007 - \$1,457,294,000).
- (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 related parties 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 2008

(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 assets by a newly incorporated subsidiary during the prior year*

Negative goodwill recognised on the acquisition of assets by a subsidiary during the prior year was primarily attributable to the recognition of fixed and intangible assets at their fair market value (Note 30).

The fair 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.

The fair value of the intangible assets was 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 principles of expectation, whereby fair value is determined based on 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.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(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, cereals, milk products, juices and biscuits.
- b) **Distribution** - The merchandising of consumer goods.

	2008			Group
	Manufacturing	Distribution	Eliminations	
	\$'000	\$'000	\$'000	\$'000
External revenue	5,537,283	3,720,377	-	9,257,660
Inter-segment revenue	2,126,761	-	(2,126,761)	-
<b>Total revenue</b>	<b>7,664,044</b>	<b>3,720,377</b>	<b>(2,126,761)</b>	<b>9,257,660</b>
Segment result	770,289	195,285	-	965,574
Unallocated corporate income				498,684
<b>Operating profit</b>				<b>1,464,258</b>
Segment assets	2,325,541	2,073,405	-	4,398,946
Unallocated corporate assets				3,108,891
<b>Total consolidated assets</b>				<b>7,507,837</b>
Segment liabilities	798,290	124,266	-	922,556
Unallocated corporate liabilities				709,931
<b>Total consolidated liabilities</b>				<b>1,632,487</b>
Other segment items –				
Capital expenditure	397,287	1,166	-	398,454
Unallocated capital expenditure				40,287
<b>Total capital expenditure</b>				<b>438,740</b>
Depreciation	154,524	2,060	-	156,584
Unallocated depreciation				19,410
<b>Total depreciation</b>				<b>175,994</b>

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 5. Business Segments (Continued)

	2007			Group
	Manufacturing	Distribution	Eliminations	
	\$'000	\$'000	\$'000	\$'000
External revenue	3,413,619	2,776,365	-	6,189,984
Inter-segment revenue	1,657,353	-	(1,657,353)	-
<b>Total revenue</b>	<b>5,070,972</b>	<b>2,776,365</b>	<b>(1,657,353)</b>	<b>6,189,984</b>
Segment result	497,196	102,288	-	599,484
Unallocated corporate income				333,521
<b>Operating profit</b>				<b>933,005</b>
Segment assets	2,438,700	1,053,310	-	3,492,010
Unallocated corporate assets				3,040,505
<b>Total consolidated assets</b>				<b>6,532,515</b>
Segment liabilities	538,050	84,058	-	622,108
Unallocated corporate liabilities				654,860
<b>Total consolidated liabilities</b>				<b>1,276,968</b>
Other segment items –				
Capital expenditure	202,573	2,412	-	204,985
Unallocated capital expenditure				3,091
<b>Total capital expenditure</b>				<b>208,076</b>
Depreciation	128,725	2,153	-	130,878
Unallocated depreciation				22,661
<b>Total depreciation</b>				<b>153,539</b>

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 6. Finance and Other Operating Income

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Interest income	263,746	161,123	262,802	158,292
Dividend income	-	93	-	93
Net foreign exchange gains	233,752	6,736	241,513	13,682
Gain/(loss) on sale of available-for-sale investments	778	(4,696)	778	(4,696)
Gain on disposal of investment in associates	-	204,208	-	1,449,589
Gain on disposal of fixed assets	350	707	150	300
Other	21,438	40,901	15,263	14,518
	<u>520,064</u>	<u>409,072</u>	<u>520,506</u>	<u>1,631,778</u>

### 7. Expenses by Nature

Total direct, selling, administration and other operating expenses:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Advertising and promotion	42,065	33,007	3,799	1,945
Amortisation of intangible assets	7,341	5,647	-	-
Auditors' remuneration	11,815	10,956	3,404	2,860
Bad debt expense, net of recoveries	11,287	547	-	-
Cost of inventories recognised as an expense	5,810,611	3,806,427	351,374	-
Depreciation	175,994	153,540	19,410	22,661
Insurance	121,985	100,180	14,791	10,080
Professional services	44,193	24,677	30,473	24,677
Repairs and maintenance	224,123	160,178	27,263	20,504
Security	76,729	51,610	11,057	9,655
Staff costs (Note 8)	775,317	615,997	257,762	198,457
Utilities	423,235	288,062	16,691	13,289
Other	588,771	415,224	38,378	25,499
	<u>8,313,466</u>	<u>5,666,051</u>	<u>774,402</u>	<u>329,627</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 8. Staff Costs

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Wages and salaries	562,043	442,072	173,929	129,971
Statutory contributions	50,717	43,238	20,040	18,056
Pension (Note 19)	11,200	4,100	11,200	4,100
Other retirement benefits (Note 19)	9,400	9,000	9,400	9,000
Other	141,957	117,587	43,193	37,330
	<u>775,317</u>	<u>615,997</u>	<u>257,762</u>	<u>198,457</u>

### 9. Finance Costs

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Interest expense –				
Long term loans	27,737	33,655	20,034	27,059
Other	1,059	4,941	1,047	849
	<u>28,796</u>	<u>38,596</u>	<u>21,081</u>	<u>27,908</u>



# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 10. Taxation Expense

Taxation is based on the profit for the year adjusted for tax purposes and comprises income tax at 33⅓%:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Current taxation	371,155	166,023	91,781	49,979
Adjustment to prior year provision	3,499	(8,098)	(3,333)	(4,552)
	374,654	159,925	88,448	45,427
Deferred taxation (Note 28)	122,605	62,136	67,432	(8,090)
	497,259	222,060	155,880	37,337

The tax on the Group's and the company's profit differs from the theoretical amount that would arise using the applicable tax rate of 33⅓%, as follows:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Profit before taxation	1,435,462	1,235,069	476,496	1,575,054
Tax calculated at a tax rate of 33⅓%	478,487	411,690	158,832	525,018
Adjusted for the effect of:				
Negative goodwill on acquisition of subsidiaries	-	(46,016)	-	-
Share of profit of associates shown net of tax	-	(67,537)	-	-
Investment income not subject to tax	(6,574)	(4,193)	(6,574)	(4,193)
Disposal of investment in associate	-	(68,069)	-	(483,196)
Additional depreciation charge on recognition of fixed assets of acquired subsidiaries at fair market value	2,629	2,629	-	-
Amortisation of intangible assets	1,882	1,882	-	-
Adjustment to prior year provision	3,499	(8,098)	(3,333)	(4,552)
Other allowances	(17,336)	(2,228)	(6,955)	4,260
	497,259	222,060	155,880	37,337

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 11. Net Profit Attributable to Stockholders

Dealt with as follows in the financial statements:

	2008	2007
	\$'000	\$'000
The company	320,616	1,537,717
Post acquisition earnings of associates sold during the year	-	(1,245,381)
Subsidiaries	617,587	380,013
Negative goodwill (Note 30)	-	138,048
Associates (Note 17)	-	202,612
	<u>938,203</u>	<u>1,013,009</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.

	2008	2007
Net profit attributable to stockholders (\$'000)	938,203	1,013,009
Weighted average number of ordinary stock units ('000)	516,398	516,398
Basic earnings per stock unit (\$)	<u>1.82</u>	<u>1.96</u>

The company has no dilutive potential ordinary shares.

### 13. Dividends

	2008	2007
	\$'000	\$'000
Interim dividend – 45 cents (2007 – 35 cents) per stock unit	<u>232,379</u>	<u>180,739</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 14. Fixed Assets

	The Group					
	Freehold Land & Site Improvements \$'000	Buildings \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicles \$'000	Work In Progress \$'000	Total \$'000
	2008					
Cost -						
At 1 January 2008	295,071	892,104	1,905,822	30,539	105,377	3,228,913
Additions	-	4,100	79,883	5,809	348,948	438,740
Disposals	-	-	(28,445)	(3,623)	-	(33,068)
Transfers	-	29,656	261,535	4,487	(295,658)	-
At 31 December 2008	295,071	925,860	2,217,775	37,212	158,667	3,634,585
Accumulated Depreciation -						
At 1 January 2008	-	450,614	897,321	14,093	-	1,362,028
Charge for the year	-	19,318	147,908	8,788	-	175,994
On disposals	-	-	(28,585)	(3,623)	-	(32,208)
At 31 December 2008	-	469,932	1,016,644	19,238	-	1,505,814
Net Book Value -						
At 31 December 2008	295,071	455,928	1,201,131	17,974	158,667	2,128,771
	2007					
Cost -						
At 1 January 2007	252,788	788,556	1,462,428	27,333	177,074	2,708,179
Acquisition of subsidiaries	42,283	78,557	202,527	-	-	323,367
Additions	-	1,798	15,501	5,540	185,237	208,076
Disposals	-	-	(5,358)	(5,353)	-	(10,709)
Transfers	-	23,193	230,722	3,019	(256,934)	-
At 31 December 2007	295,071	892,104	1,905,822	30,539	105,377	3,228,913
Accumulated Depreciation -						
At 1 January 2007	-	432,741	775,556	8,658	-	1,216,955
Charge for the year	-	17,873	125,557	10,109	-	153,539
On disposals	-	-	(3,792)	(4,674)	-	(8,466)
At 31 December 2007	-	450,614	897,321	14,093	-	1,362,028
Net Book Value -						
At 31 December 2007	295,071	441,490	1,008,501	16,446	105,377	1,866,885

# **Seprod Limited**

## **Notes to the Financial Statements**

**31 December 2008**

(expressed in Jamaican dollars unless otherwise indicated)

**14. Fixed Assets (Continued)**

	The Company					
	Freehold Land & Site Improvements \$'000	Buildings \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicles \$'000	Work in Progress \$'000	Total \$'000
	2008					
Cost -						
At 1 January 2008	20,218	294,038	144,364	16,399	377	475,396
Additions	-	1,537	555	-	38,195	40,287
Disposals	-	-	-	(230)	-	(230)
Transfers	-	-	12,711	-	(12,711)	-
At 31 December 2008	20,218	295,575	157,630	16,169	25,861	515,453
Accumulated Depreciation -	-	-	-	-	-	-
At 1 January 2008	-	218,707	125,462	12,618	-	356,787
Charge for the year	-	5,102	11,711	2,597	-	19,410
Relieved on disposals	-	-	-	(230)	-	(230)
At 31 December 2008	-	223,809	137,173	14,985	-	375,967
Net Book Value -						
At 31 December 2008	20,218	71,766	20,457	1,184	25,861	139,486
	2007					
Cost -						
At 1 January 2007	20,218	292,454	142,295	17,794	939	473,700
Additions	-	1,584	494	-	1,013	3,091
Disposals	-	-	-	(1,395)	-	(1,395)
Transfers	-	-	1,575	-	(1,575)	-
At 31 December 2007	20,218	294,038	144,364	16,399	377	475,396
Accumulated Depreciation -						
At 1 January 2007	-	213,999	111,323	10,199	-	335,521
Charge for the year	-	4,708	14,139	3,814	-	22,661
Relieved on disposals	-	-	-	(1,395)	-	(1,395)
At 31 December 2007	-	218,707	125,462	12,618	-	356,787
Net Book Value -						
At 31 December 2007	20,218	75,331	18,902	3,781	377	118,609

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 15. Intangible Assets

Intangible assets comprise brands acquired by the Group, and are amortised over their estimated useful lives of 10 years. The carrying value of intangible assets was determined as follows:

	The Group	
	2008	2007
	\$'000	\$'000
Fair value of brands acquired	73,407	73,407
Less: Accumulated amortisation	(21,388)	(14,047)
	<u>52,019</u>	<u>59,360</u>

### 16. Available-for-sale investments

	The Group & The Company	
	2008	2007
	\$'000	\$'000
Quoted equities	24,647	-
Corporate bonds	150,000	-
Amounts held in US\$ mutual funds	146,139	162,019
Government of Jamaica securities	767,653	751,889
	<u>1,088,439</u>	<u>913,908</u>
Less: securities maturing within 12 months	(403,599)	(172,637)
	<u>684,840</u>	<u>741,271</u>

Government of Jamaica securities and corporate bonds include interest receivable of \$16,702,000 (2007 – \$22,697,000). The weighted average effective interest rate on these securities was 14% (2007 – 13%).

The weighted average yield on amounts held in US\$ mutual funds was 8% (2007 – 7%).

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

	The Group & The Company	
	2008	2007
	\$'000	\$'000
Balance at start of year	913,908	863,607
Additions	528,818	623,540
Disposals	(286,000)	(591,468)
Net fair value losses transferred to equity	(86,021)	(449)
Effect of changes in foreign exchange rates	17,734	18,878
Balance at end of year	<u>1,088,439</u>	<u>913,908</u>

# **Seprod Limited**

## **Notes to the Financial Statements**

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(expressed in Jamaican dollars unless otherwise indicated)

### **17. Investment in Associates**

- (a) In January 2005, Seprod Limited and Musson Jamaica Limited, then each 48.8% shareholders of Facey Commodity Company Limited (Facey), transferred their entire shareholding in Facey to Gatcombe Investments Limited (Gatcombe). Gatcombe was owned 50% each by Seprod Limited and Musson Jamaica Limited.

On 2 October 2007, Seprod Limited sold its 50% shareholding in Gatcombe to Musson Jamaica Limited for a purchase consideration of US\$20,319,000. The resulting profit of \$1,191,182,000 for the company and \$159,346,000 for the Group was credited to the profit and loss account.

- (b) On 21 December 2007, in a combined transaction, Seprod Limited sold its 50% shareholdings in CBM Limited and Productive Business Solutions Limited to Wight Properties Limited, a subsidiary of Facey, for a purchase consideration of US\$8,000,000. The resulting profit of \$258,407,000 for the company and \$44,862,000 for the Group was credited to the profit and loss account.

- (c) The movement in investment in associates during prior year was as follows:

	<b>The Group</b>	<b>The Company</b>
	<b>2007</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at start of year	1,574,785	532,016
Share of profits	202,612	-
Disposals	(1,777,397)	(532,016)
Balance at end of year	-	-

# Seprod Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 18. Long Term Receivables

	The Group & The Company	
	2008	2007
	\$'000	\$'000
(a) Musson Jamaica Limited	981,620	1,041,698
(b) Wight Properties Limited	398,922	415,596
	1,380,542	1,457,294
Less: Current portion	(264,185)	(245,715)
	<u>1,116,357</u>	<u>1,211,579</u>

- (a) This represents the balance receivable on an original amount of US\$15,239,250 for the purchase of Seprod Limited's 50% shareholding in Gatcombe (Note 17(a)). US\$7,112,000 is scheduled to be received in equal monthly installments for 3 years from the inception date at a weighted average interest rate of 10.67%, with the balance receivable in full at the end of the third year.
- (b) This represents the balance receivable on an original amount of US\$6,000,000 for the purchase of Seprod Limited's 50% shareholding in CBM Limited and Productive Business Solutions Limited (Note 17(b)). US\$2,800,000 is scheduled to be received in equal monthly installments for 3 years from the inception date at a weighted average interest rate of 10.67%, with the balance receivable in full at the end of the third year.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 19. Retirement Benefits

	The Group & The Company	
	2008	2007
	\$'000	\$'000
Assets/(liabilities) recognised in the balance sheet –		
Pension scheme	15,900	24,100
Medical benefits	(59,400)	(54,600)
Amounts recognised in the profit and loss account –		
Pension scheme	(11,200)	(4,100)
Medical benefits	(9,400)	(9,000)

#### Pension scheme

The Group participates in a defined benefit scheme, which is open to all permanent employees and administered by NCB Insurance Company Limited. The plan provides benefits to members based on average earnings for the final year of service (formerly 2 years), with the Group and employees each contributing 5% of pensionable salaries. The plan is valued by independent actuaries annually using the projected unit credit method; the latest such valuation being as at 31 August 2008. Additionally, the plan is valued by independent actuaries triennially to determine the adequacy of funding; the latest such valuation being as at 31 August 2007 revealed that the scheme was adequately funded.

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

	The Group & The Company	
	2008	2007
	\$'000	\$'000
Fair value of plan assets	645,000	591,500
Present value of obligations	(526,000)	(443,300)
	119,000	148,200
Unrecognised actuarial gains	(104,900)	(126,100)
Unrecognised past service cost	1,800	2,000
	15,900	24,100

The distribution of plan assets was as follows:

	2008		2007	
	\$'000	%	\$'000	%
Quoted equities	180,449	28	162,968	27
Real estate	149,168	23	180,102	30
Government of Jamaica securities	157,905	24	163,050	28
Repurchase agreements	101,426	16	26,715	5
Leases	20,840	3	40,844	7
Other	35,212	6	17,821	3
	645,000	100	591,500	100



# Seprod Limited

## Notes to the Financial Statements

31 December 2008

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### 19. Retirement Benefits (Continued)

#### *Pension scheme (continued)*

Plan assets include the company's ordinary stock units with a fair value of \$31,288,000 (2007 - \$24,701,000).

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The movements in the fair value of plan assets during the year were as follows:

	<b>The Group &amp; The Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	591,500	525,400
Expected return on plan assets	63,600	55,700
Employer contributions	3,000	2,700
Employee contributions	4,700	4,200
Benefits paid	(34,200)	(29,800)
Amounts refunded to the company	-	(7,600)
Actuarial gains on plan assets	16,400	40,900
At end of year	<u>645,000</u>	<u>591,500</u>

The movements in the present value of obligations during the year were as follows:

	<b>The Group &amp; The Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	(443,300)	(438,500)
Current service cost	(16,300)	(17,200)
Interest cost	(56,800)	(50,900)
Past service cost -		
Non-vested benefits	(400)	-
Vested benefits	(17,200)	-
Employee contributions	4,700	4,200
Benefits paid	34,200	29,800
Actuarial (losses)/gains on obligations	(30,900)	29,300
At end of year	<u>(526,000)</u>	<u>(443,300)</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 19. Retirement Benefits (Continued)

#### *Pension scheme (continued)*

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

	The Group & The Company	
	2008 \$'000	2007 \$'000
Current service cost, net of employee contributions	(6,900)	(8,800)
Interest cost	(56,800)	(50,800)
Past service cost -		
Non-vested benefits	(600)	(500)
Vested benefits	17,200	-
Expected return on plan assets	63,600	55,700
Net actuarial gains recognised during the year	6,700	300
Total included in staff costs (Note 8)	(11,200)	(4,100)

The actual return on plan assets was \$80,000,000 (2007 – \$96,600,000).

Expected employer contributions to the plan for the year ended 31 December 2009 amount to \$3,505,000.

The five-year trend for the fair value of plan assets, the defined benefit obligation, the surplus in the plan, and experience adjustments for plan assets and liabilities are as follows:

	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Fair value of plan assets	645,000	591,500	525,400	545,200	425,240
Defined benefit obligation	(526,000)	(443,300)	(438,500)	(322,100)	(221,500)
Surplus	119,000	148,200	86,900	223,100	203,740
Experience adjustments –					
Fair value of plan assets	(16,400)	(40,900)	9,300	(85,500)	(120,900)
Defined benefit obligation	5,500	(6,800)	22,600	59,400	(19,600)

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 19. Retirement Benefits (Continued)

#### Medical benefits

In addition to pension benefits, the Group offers retirees medical benefits. Funds are not built up to cover the obligations under the medical benefit scheme. The method of accounting and frequency of valuations are similar to those used for the pension scheme. The liability recognised in the balance sheet was determined as follows:

	<b>The Group &amp; The Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Present value of obligations	(78,500)	(67,300)
Unrecognised actuarial losses	19,100	12,700
	<b>(59,400)</b>	<b>(54,600)</b>

The movements in the present value of obligations during the year were as follows:

	<b>The Group &amp; The Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	(67,300)	(64,400)
Current service cost	(600)	(700)
Interest cost	(8,200)	(7,400)
Benefits paid	4,600	4,200
Actuarial (losses)/gains	(7,000)	1,000
At end of year	<b>(78,500)</b>	<b>(67,300)</b>

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

	<b>The Group &amp; The Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Current service cost	(600)	(700)
Interest cost	(8,200)	(7,500)
Net actuarial losses recognised during the year	(600)	(800)
Total included in staff costs (Note 8)	<b>(9,400)</b>	<b>(9,000)</b>

A 1% increase/(decrease) in the in the assumed medical cost trend rate would result in an increase/(decrease) in the aggregate current service cost and interest cost of \$900,000/(\$800,000), and an increase/(decrease) in the defined benefit obligation of \$8,700,000/(\$7,300,000).

The five-year trend for the defined benefit obligation and experience adjustments are as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Defined benefit obligation	(78,500)	(67,300)	(64,400)	(67,500)	(68,300)
Experience adjustments	3,200	2,400	(12,200)	(5,000)	(2,700)

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 19. Retirement Benefits (Continued)

#### *Principal actuarial assumptions used in valuing retirement benefits*

The principal actuarial assumptions used in valuing retirement benefits were as follows:

	2008	2007
Discount rate	13.0%	12.5%
Expected return on plan assets	12.0%	11.0%
Future salary increases	9.0%	9.0%
Future pension increases	6.0%	5.0%
Long term increase in health costs	12.0%	11.0%
Average expected remaining service life of the employees (years)	10	10

At normal retirement age, 92.8% of males and 74.2% of females are married.

The age difference between husband and wife is 3 years.

Post-retirement mortality for active members and mortality for pensioners and deferred pensioners is based on the PA (90) Tables for Pensioners (British mortality tables) with ages rated down by 6 years.

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

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### 20. Biological Assets

	The Group	
	2008	2007
	\$'000	\$'000
Dairy Livestock –		
1,955 (2007 – 1,814) Cows able to produce milk	72,288	65,299
1,951 (2007 – 1,594) Heifers being raised to produce milk in the future	53,716	28,562
Other Livestock –		
297 (2007 – 83) Bulls raised for sale and reproduction	3,562	1,769
	<u>129,565</u>	<u>95,630</u>

5,411,239 (2007 – 5,193,967) litres of milk with a "fair value less estimated point-of-sale costs" of \$221,943,000 (2007 – \$148,691,000) were produced during the period.

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

	The Group	
	2008	2007
	\$'000	\$'000
Balance at start of year	95,630	90,566
Purchases	7,619	4,908
Sales	(14,499)	(15,872)
Changes in fair value less estimated point-of-sale costs	40,815	18,028
Balance at end of year	<u>129,565</u>	<u>95,630</u>

### 21. Inventories

	The Group	
	2008	2007
	\$'000	\$'000
Raw and packaging materials	936,248	598,894
Work in progress	19,246	27,920
Finished goods	377,965	168,180
	<u>1,333,459</u>	<u>794,994</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

### 22. Receivables

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Trade receivables	786,061	663,870	59,927	-
Less: Provision for impairment	(77,878)	(65,721)	-	-
	708,183	598,149	59,927	-
Advances to related party	-	55,603	-	55,603
Other advances and prepayments	128,871	99,020	82,097	64,981
Other	144,945	60,779	51,862	31,774
	981,999	813,551	193,886	152,358

### 23. Cash and Cash Equivalents

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

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	380,186	489,793	229,281	374,316

### 24. Payables

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Trade payables	185,473	187,969	-	-
Accruals	219,314	169,383	107,993	68,113
Other	111,139	69,422	48,551	36,212
	515,926	426,754	156,544	104,325

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

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### 25. Share Capital

	2008 \$'000	2007 \$'000
Authorised -		
530,000,000 Ordinary shares		
Issued and fully paid -		
516,398,000 Ordinary stock units at no par value	561,287	561,287

### 26. Capital Reserve

This comprises:

	The Group		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revaluation surplus on assets carried at deemed cost	346,551	346,551	105,340	105,340
Fair value (losses)/gains on available-for-sale investments	(37,619)	48,402	(37,619)	48,402
Profits of subsidiaries capitalised	336,537	336,537	-	-
Redemption reserve	1,800	1,800	-	-
Realised gains on sale of investments	94,522	93,744	94,522	93,744
Other realised surplus	22,230	22,230	20,289	20,289
	764,021	849,264	182,532	267,775

### 27. Borrowings

	The Group		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Long term loans	232,533	261,712	116,250	142,083
Less: Current portion	(106,231)	(91,618)	(25,833)	(25,833)
	126,302	170,094	90,417	116,250
Loans from related party	240,000	240,000	240,000	240,000
	366,302	410,094	330,417	356,250

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

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### 27. Borrowings (Continued)

#### Long term loans

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
(i) 10.5% Development Bank of Jamaica Limited	1,820	9,097	-	-
(ii) 13% Development Bank of Jamaica Limited	-	6,208	-	-
(iii) 8% Elopak Inc.	1,114	1,925	-	-
(iv) 11% First Global Bank Limited	116,250	142,083	116,250	142,083
(v) 8.5% Kraft Foods (Jamaica) Limited	58,341	102,399	-	-
(vi) LIBOR + 2% Tetra Pak	55,008	-	-	-
	<b>232,533</b>	<b>261,712</b>	<b>116,250</b>	<b>142,083</b>

- (i) 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.
- (ii) This loan was repayable by equal quarterly instalments ending in 2008. The loan was 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.
- (iii) This represents a US\$ financing agreement from a supplier for the purchase of raw materials and is repayable in 36 monthly instalments commencing in October 2006.
- (iv) This loan is repayable by equal quarterly instalments ending in 2013. There was a moratorium on the principal payments until September 2007. The loan is secured by Government of Jamaica investment securities.
- (v) This represents a US\$ loan from Kraft Foods (Jamaica) Limited which formed a part of the purchase consideration for the acquisition of operating assets (Note 30). The loan is scheduled to be repaid in four semi-annual instalments commencing 28 February 2008.
- (vi) This represents a US\$ financing agreement from a supplier and is repayable in twelve quarterly instalments commencing 1 February 2009. It is secured by fixed assets acquired under the loan agreement.

#### Loans from related party

This is comprised of loans from Facey Commodity Company Limited which are interest free and have no fixed terms of repayment.



# Seprod Limited

## Notes to the Financial Statements

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### 28. Deferred Taxation

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

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:

	<b>The Group</b>		<b>The Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Deferred tax assets	606	649	-	-
Deferred tax liabilities	(335,295)	(212,736)	(83,274)	(15,842)
	<u>(334,689)</u>	<u>(212,084)</u>	<u>(83,274)</u>	<u>(15,842)</u>

The movement in deferred taxation is as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at start of year	(212,084)	(149,949)	(15,842)	(23,932)
(Charge)/credit to profit and loss account (Note 10)	(122,605)	(62,135)	(67,432)	8,090
Balance at end of year	<u>(334,689)</u>	<u>(212,084)</u>	<u>(83,274)</u>	<u>(15,842)</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2008

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### 28. Deferred Taxation (Continued)

The deferred tax (charged)/credited to the profit and loss account comprises the following temporary differences:

	The Group		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Accelerated tax depreciation	(35,244)	(16,526)	(5,429)	8,722
Retirement benefits	4,333	4,600	4,333	4,600
Tax losses carried forward	(15,158)	(42,796)	-	-
Unrealised exchange gains	(70,932)	-	(70,932)	-
Other	(5,604)	(7,413)	4,596	(5,232)
	<u>(122,605)</u>	<u>(62,135)</u>	<u>(67,432)</u>	<u>8,090</u>

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

	The Group		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Accelerated tax depreciation	(272,869)	(237,625)	(23,872)	(18,443)
Retirement benefits	14,500	10,167	14,500	10,167
Tax losses carried forward	17,148	32,306	-	-
Unrealised exchange gains	(70,932)	-	(70,932)	-
Other	(22,536)	(16,932)	(2,970)	(7,566)
	<u>(334,689)</u>	<u>(212,084)</u>	<u>(83,274)</u>	<u>(15,842)</u>

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

	The Group		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Deferred tax assets to be recovered within 12 months	15,158	42,796	-	-
Deferred tax liabilities to be settled within 12 months	(22,536)	(16,932)	(2,970)	(7,566)

Subject to agreement with the Taxpayer Audit and Assessment Department, losses available for offset against future profits of certain subsidiaries amount to \$121,954,000 (2007 – \$96,918,000).

Deferred tax assets of approximately \$23,504,000 (2007 – \$21,797,000) have not been recognised in respect of tax losses of certain subsidiaries. At 31 December 2008, tax losses carried forward for which no deferred tax assets have been recognised amounted to approximately \$70,512,000 (2007 – \$65,391,000).

Deferred tax liabilities have not been provided for on the withholding and other taxes that would be payable on the undistributed earnings of subsidiaries to the extent that such earnings are expected to be permanently reinvested. At the year end, such undistributed earnings totalled \$1,842,330,000 (2007 – \$1,210,058,000).

# Seprod Limited

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### 29. Cash Generated from Operations

	The Group		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Net profit	938,203	1,013,009	320,616	1,537,717
Items not affecting cash resources:				
Amortisation of intangible assets	7,341	5,647	-	-
Depreciation	175,994	153,539	19,410	22,661
Unrealised foreign exchange gains	(216,443)	(16,038)	(221,443)	(16,837)
Loss on sale of available-for-sale investments	(778)	4,696	(778)	4,696
Gain on disposal of investment in associates	-	(204,208)	-	(1,449,589)
Gain on sale of fixed assets	(350)	(1,414)	(150)	(300)
Negative goodwill on acquisition of subsidiaries	-	(138,048)	-	-
Share of results of associated companies	-	(202,612)	-	-
Interest income	(263,746)	(161,123)	(262,802)	(158,292)
Interest expense	28,796	38,596	21,081	27,908
Dividend income	-	(93)	-	(93)
Taxation	497,259	222,060	155,880	37,337
	1,166,276	714,011	31,814	5,208
Changes in operating assets and liabilities:				
Inventories	(538,465)	(62,867)	-	-
Receivables	(168,448)	(209,441)	(41,528)	(8,410)
Biological assets	(33,935)	(5,064)	-	-
Due to subsidiaries	-	-	(111,035)	238,316
Retirement benefits	13,000	13,800	13,000	13,800
Accounts payable	89,172	97,690	52,219	22,567
	527,600	548,129	(55,530)	271,481
Taxation paid	(206,490)	(169,574)	(71,298)	(56,473)
Cash provided by/(used in) operating activities	321,110	378,556	(126,828)	215,008

The principal non-cash transaction was the issue of a loan by Kraft Foods (Jamaica) Limited which formed a part of the purchase consideration for assets acquired by International Biscuits Limited in the prior year (Note 30).

# Seprod Limited

## Notes to the Financial Statements

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### 30. Business Combinations

#### *Acquisition in the prior year*

Effective 1 September 2007, International Biscuits Limited (a newly incorporated subsidiary) acquired the fixed assets, certain brands and inventory of Kraft Foods (Jamaica) Limited (Kraft). The subsidiary contributed revenues of \$226,477,000 and net profit of \$150,347,000 (inclusive of the negative goodwill of \$138,048,000 below) for the 4 months ended 31 December 2007.

The negative goodwill on acquisition was arrived at as follows:

	2008 \$'000
Fair value of assets acquired –	
Fixed assets	323,367
Intangible assets – brands	25,407
Inventory	103,289
	452,063
Purchase consideration –	
Cash paid	212,415
Long term loan from Kraft	101,600
	314,015
Negative goodwill on acquisition	138,048

The negative goodwill was primarily attributed to the excess of the fair market value of the acquired fixed and intangible assets over their carrying values. The fair values of the fixed and intangible assets were determined by independent professional valuers.

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

# Seprod Limited

## Notes to the Financial Statements

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### 31. Related Party Transactions

The following transactions were carried out with or on behalf of related parties:

#### (a) Sales and purchases of goods and services

Sales of \$1,238,409,000 (2007 – \$1,398,672,000) to and purchases of \$9,163,000 (2007 – \$5,607,000) 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. Trade receivables and payables include \$204,704,000 and \$11,534,000 (2007 – \$150,323,000 and \$420,000), respectively in respect of these transactions.

A subsidiary paid cess of \$5,177,000 (2007 – \$4,923,000) based on the importation of copra-based and substitute products, to Coconut Industry Board, a major shareholder of the company.

#### (b) Key management compensation

	2008 \$'000	2007 \$'000
Wages and salaries	103,260	96,753
Statutory contributions	10,068	8,765
Other	1,311	1,864
	<u>114,639</u>	<u>107,382</u>
Directors' emoluments –		
Fees	8,010	6,875
Medical insurance premiums	13,840	13,791
Management remuneration (included above)	<u>22,969</u>	<u>25,815</u>

#### (c) Advances and loans

Profit share advances to key management were as follows:

	2008 \$'000	2007 \$'000
Group Managing Director	18,550	12,455
Other key management personnel	53,493	25,412
	<u>72,043</u>	<u>37,867</u>

Included in receivables (Note 22) are advances of \$Nil (2007 – \$55,603,000) to Facey Commodity Company Limited. These advances attract interest at a weighted average rate of 19% and are repayable at call. Interest earned on the advances during the year amounted to \$928,000 (2007 – \$45,958,000).

Loans to other related parties are disclosed in Note 18. Interest earned on these loans during the year amounted to US\$1,846,000 (2007 – US\$387,000).

Loans from other related parties are disclosed in Note 27. No interest was paid on these loans.

**Seprod Limited****Notes to the Financial Statements****31 December 2008**(expressed in Jamaican dollars unless otherwise indicated)

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**32. Contingencies and Commitments**

- (a) Minimum annual lease payments required under operating lease arrangements in relation to factory rental by a subsidiary is US\$130,000, and these arrangements are set to expire in 2011.
- (b) At 31 December 2008, management had approved approximately \$269 million (2007 – \$257 million) for capital expenditure in respect of certain subsidiaries.

**33. Litigation, Claims and Assessments**

The Group is subject to various claims, disputes and legal proceedings, as part of the normal course of business. Provision is made for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which, according to the principles outlined above, have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Group which is immaterial to both the financial position and results of operations.